

# Imperfect Competition, Information Heterogeneity, and Financial Contagion

[Get access >](#)

Paolo Pasquariello

*The Review of Financial Studies*, Volume 20, Issue 2, March 2007, Pages 391–426,  
<https://doi.org/10.1093/rfs/hhl010>

**Published:** 22 June 2006

## Abstract

This study examines how heterogeneity of private information may induce financial contagion. Using a model of multi-asset trading in which the three main channels of contagion through financial linkages in the literature (correlated information, correlated liquidity, and portfolio rebalancing) are ruled out by construction, I show that financial contagion can still be an equilibrium outcome when speculators receive heterogeneous fundamental information. Risk-neutral speculators trade strategically across many assets to mask their information advantage about one asset. Asymmetric sharing of information among them prevents rational market makers from learning about their individual signals and trades with sufficient accuracy. Incorrect cross-inference about terminal payoffs and contagion ensue. When used to analyze the transmission of shocks across countries, my model suggests that the process of generation and disclosure of information in emerging markets may explain their vulnerability to financial contagion (*JEL* D82, G14, G15).

© The Author 2006. Published by Oxford University Press on behalf of The Society for Financial Studies. All rights reserved. For permissions, please email: [journals.permissions@oxfordjournals.org](mailto:journals.permissions@oxfordjournals.org).

**Issue Section:** [Articles](#)

You do not currently have access to this article.

## Personal account

- Sign in with email/username & password
- Get email alerts
- Save searches
- Purchase content
- Activate your purchase/trial code
- Add your ORCID iD

Sign in >

[Register](#)

## Institutional access



Sign in through your institution

[Sign in through your institution](#)

[Sign in with a library card](#)

[Sign in with username/password](#)

[Recommend to your librarian](#)

## Institutional account management

[Sign in as administrator](#)

## Purchase

[Subscription prices and ordering for this journal](#)

[Purchasing options for books and journals across Oxford Academic](#)

## Short-term Access

To purchase short-term access, please sign in to your personal account above.

Don't already have a personal account? [Register](#)

Imperfect Competition, Information Heterogeneity, and Financial Contagion - 24 Hours access

EUR €53.00

GBP £44.00

USD \$58.00

## Rental



This article is also available for rental through DeepDyve.