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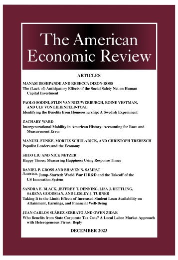

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The Role of Trading Frictions in Real Asset Markets

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Article Information

Abstract

This paper investigates how trading frictions vary with the thickness of the asset market by examining patterns of asset allocations and prices in commercial aircraft markets. The empirical analysis indicates that assets with a thinner market are less liquid — i.e., more difficult to sell. Thus, firms hold on longer to them amid profitability shocks. Hence, when markets for assets are thin, firms' average productivity and capacity utilization are lower, and the dispersions of productivity and of capacity utilization are higher. In turn, prices of assets with a thin market are lower and have a higher dispersion. (JEL A12, L11, L93)

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JEL Classification

A12 Relation of Economics to Other Disciplines

L11 Production, Pricing, and Market Structure; Size Distribution of Firms

L93 Air Transportation