ECON SEMINAR

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Department of Economics

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Market Power in Capital Markets: Misallocation and Growth

2 December 2025 (Tue)
16:30 - 18:00

WYL314, 3/F, Dorothy Y. L. Wong Building, Lingnan University

Prof. Michael CHOI

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BIOGRAPHY

Michael CHOI is an applied theorist who is interested in markets with frictions — this includes search frictions, information frictions and financial frictions. He studies the roles of frictions in traditional goods markets, online markets and over-the-counter asset markets. Applications of his work include optimal monetary policy in retail markets, pricing in online platforms, prediction of web search behaviors, and optimal information policy in asset markets. The techniques used are based on dynamic programming, optimization theory and the theory of total positivity. He develops new tools and techniques when they are needed.

ABSTRACT

This paper develops a general equilibrium model in which firms are heterogenous and experience idiosyncratic productivity shocks that require capital reallocation through a frictional dealer market. The market power of dealers is endogenous: dealers can enhance their bargaining power by exerting costly effort. We examine the implications for capital misallocation and growth. The model admits multiple balanced-growth paths, each associated with distinct real interest rates, growth rates, and TFP levels. We investigate the role of endogenous bargaining power in the presence of a learning-by-doing externality. We conclude by offering a reinterpretation in terms of information acquisition and price discrimination.

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