

# ***The Taxation of Bilateral Trade with Endogenous Information***

***By***

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## **Abstract**

This paper analyzes the effects of taxation on trade in a decentralized market. We consider a setting where an uninformed investor makes a take-it-or-leave-it offer to a sophisticated investor who can produce information about the payoff of the asset. We show that taxation can have direct and indirect effects on the incentives to acquire information. As a consequence, profit taxes can lead to an increase in the probability of trade and less information production while sales taxes lower the probability of trade and lead to more information production. Thus, taxation of profits can be efficiency enhancing when information is endogenous.