Abstract

This paper presents a model of trading in unique durable assets that provide idiosyncratic payoffs, such as art, luxury real estate, and firm subsidiaries. Agents make purchase and sale decisions in an auction market based on their private use value of the asset and on the expected resale revenues. Individuals with a relatively strong taste for the asset are willing to pay a high price and sell only when hit by a liquidity shock. By contrast, those deriving little pleasure from ownership act as profit-seeking speculators if acquiring the asset despite their low bids. As a result, holding periods and financial returns are negatively correlated. Furthermore, speculative activity increases in economic expansions, leading to a positive correlation between prices and voluntary sales volume. The empirical predictions of our model find support in historical art transaction data.

Keywords: auctions; durable goods; endogenous trading; private values; speculation.

JEL Codes: D44; D84; G11; G12; Z11.