Information-Forcing Effects of Non-Disclosure Rules

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Contract law traditionally applies different disclosure duties on buyers and sellers. In this paper, we develop a model to study the incentives created by disclosure and nondisclosure rules. We show that when parties can contract around defaults, the choice of alternative disclosure rules (duty to disclose vs. no duty to disclose) makes a difference. Unlike disclosure rules, non-disclosure default rules yield partially separating equilibria that preserve the buyers' incentives to acquire information and fostering trade opportunities between expert buyers and uninformed sellers. Our results add to the existing literature by providing an additional rationale for the different treatment of buyers and sellers in asymmetric information problems.

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ROOM NO - 110, (1ST FLOOR MAIN BUILDING)

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