

The Role of Extramarginal Demand and Supply in Markets

The shape of extramarginal demand and supply does not matter in Walrasian tatonnements. However, in double auction markets they do. Prior research has examined how extramarginal traders affect allocational efficiency. In this paper, we extend those insights to understanding how extramarginal traders affect price, quantity, allocation, distribution of surplus, and distribution of profits across individual traders. The key insight is that the extramarginal traders affect the pattern of convergence to equilibrium in a continuous market rather than a single-shot Walrasian tatonnements.