

All traders have an interest that the stock markets work. Therefore, no trader wants that the markets are completely destabilized by noisy trading. In conclusion, it is in the interest of all traders that the quality of information on the stock markets is basically good. However, the speculator will act as a free rider with respect to this kind of public good. He will tend to think that the little amount of noise he introduces in the economy in order to collect speculative profits cannot basically undermine the efficiency properties of the market if other traders do not introduce further noise themselves. In other words, every speculator will act in such a way that the loss of efficiency caused by his activities, whose magnitude is however small relative to the size of the market, is charged on the non-speculators, who by their keeping from « polluting » the market with noisy signals guarantee the functioning of the market in the long run and prevent market values from being completely destabilized by noisy trading.

Therefore, regulation and policy interventions on the stock markets should rather draw on the public economics literature than on the misconceptions of the efficient markets paradigm, and more precisely on the literature on negative externalities, on the basis of the analogy between the introduction of noise into the economy and the pollution of a public good, such as a park. It is true that as far as knowledge about the relevant variables on the stock markets is concerned there is an element of indetermination that cannot be wiped out from the market, because of the existence of systematic uncertainty that makes the distinction between relevant and irrelevant information blurred. However, a targeted regulation of information diffusion patterns in the stock markets will be of help in getting rid of that part of the noise that is deliberately introduced into the market for speculative or for other purposes. In other words, in terms of our classical example in the theory of public goods, we can do nothing in order to prevent our park from drying up during an exceptionally hot summer, but we can do something in order to prevent people from littering it.

As it is well known, the market solution is not efficient in the presence of externalities. In particular, market equilibrium will imply a level of negative externality that is higher than the social optimum. This is true in the perfectly competitive case and, *a fortiori*, in the case in which oligopolistic elements are present in the market. As it has been argued in the previous sections, the market for