Abstract:
We develop a model of Ponzi schemes with asymmetric information. A long-lived agent offers to save on behalf of short-lived agents at a higher rate than they can earn themselves.
The long-lived agent may genuinely have a superior savings technology, but may be an imposter trying to maximize the amount they steal from short-lived agents.
The model can give rise to an unsustainable Ponzi scheme that collapses in finite time. A key feature that allows a Ponzi equilibrium is that the long-lived agent builds trust over time,
allowing them to keep raising funds. The model provides a framework to analyze a type of pervasive financial fraud commonplace across time and space