

Abstract: This paper investigates trading mechanisms for efficiently (re)allocating a good to agents who face liquidity constraints and have private information about their valuation. I derive a necessary and sufficient condition for the existence of ex post efficient, interim incentive compatible, interim individually rational, ex post budget balanced and ex post liquidity constrained trading mechanisms. The framework notably applies to partnership problems for which I show that the optimal ownership structures are typically asymmetric and that agents with low liquidity resources should initially receive larger shares, and vice versa. I also show that a larger market size tends to increase the agents' minimal liquidity requirements necessary for existence. This is at odds with the standard property that a larger market size facilitates existence in asymmetric information environments. Finally, I propose a liquidity-constrained ex post efficient auction that implements the (re)allocation mechanism.