

# Insider Trading with Activism and Residual Risk

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We consider an extension of the Kyle model in which the insider is risk-averse and does not have complete information about the terminal value of the traded asset. In addition the insider may expend effort at a cost to influence the asset's value in their favour. Both the residual risk component and activism component cause the insider's value function and trading strategy to depend on inventory, with a tendency to partially cancel each other. The efficient pricing rule is also affected by both residual risk and activism, but the effects do not tend to cancel each other out. The change in the insider's strategy requires the market maker to estimate the insider's inventory holdings through time, and this component will lead to non-zero expected net order flow.

This is joint work with Pierre Collin-Dufresne.