One-penny Arbitrage: a Free Snack without a Free Lunch

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Abstract

An arbitrage is a serious inefficiency of a financial market, and it is traditionally considered to completely disrupt a price system and to allow agents for growing unlimitedly rich. By means of a simple example, this paper points out that this is only true when dealing with positively homogeneous price systems. In more general financial market models taking into consideration liquidity limitations, arbitrage opportunities might just yield a light effect without overall critical consequences allowing, in particular, to realise just a limited, and possibly very small, gain.