Bilateral Efficiency for any Price Norm

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Bilateral efficiency is expected for any price norm.

- All trades that occur generate a positive joint surplus → model of slack is immune to the Hwo & Rio-Rull (2020) critique
  → unlike New Keynesian model

→ surplus from any trade in model of slack is $T > 0$

share of surplus to buyer

$$T = \frac{1}{1+\chi} \cdot \frac{\varepsilon - 1}{\varepsilon} \cdot (\nu/p)^{-1/\varepsilon} \cdot [1 + \tau(x)]$$

share of surplus to seller

We see that $T > 0$.

So there is positive joint surplus in any trade.

- No potential trades that could generate a positive joint surplus are forgone.
  → model of slack is immune to critique by Barro (1977)
  → unlike disequilibrium models.

→ any potential trade b/w buyer and seller must occur through the matching function (buyer & seller cannot meet outside of matching function)

→ any potential trade (through matching function) generates a positive joint surplus ($T > 0$)

→ and all potential trade do occur in practice b/c in any potential trade, for any price num, buyer surplus $B > 0$ and seller surplus $S > 0$ ⇒ buyer & seller always happy to proceed w/ trade.

→ any trade that potentially provide a positive joint surplus will occur.

→ Bilateral efficiency is always satisfied, for any price num