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Problem set 6

Exercises lecture 10

10.1 Explain why it is that in the pivotal mechanism, it is a weakly dominant strategy to tell the truth. Write your explanation in such a way that it is convincing for an intelligent person who has not studied game theory.

10.2 Prove the assertion in the text that a Pareto improvement could be achieved by passing the ban and making appropriate side-payments if $\sum V_i > 0$, and could not be achieved if $\sum V_i < 0$.