LECON2112 Advanced Microeconomics II

– Assignment 7 –

Professor Benoît Decerf

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Deadline: Monday, April 15, 2024 at 5pm.

Instructions: To be submitted via Moodle as a single file (including your name and NOMA).

Exercises[1]

13B2. Suppose that $r(\cdot)$ is a continuous and strictly increasing function and that there exists $\tilde{\theta} \in (\underline{\theta}, \bar{\theta})$ such that $r(\theta) > \theta$ for $\theta > \tilde{\theta}$ and $r(\theta) < \theta$ for $\theta < \tilde{\theta}$. Let the density of workers of type θ be $f(\theta)$, with $f(\theta) > 0$ for all $\theta \in [\underline{\theta}, \bar{\theta}]$. Show that a competitive equilibrium with unobservable worker types involves a Pareto inefficient outcome.

[1]Source: Mas-Colell, Whinston, & Green, 1995. "Microeconomic Theory," Oxford University Press.