

# LECON2112 Advanced Microeconomics II

– Assignment 7 –

(SOLUTIONS)

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## Exercises<sup>1</sup>

**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  $\theta$  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.

**SOLUTION.** See solutions from class.

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<sup>1</sup>Source: Mas-Colell, Whinston, & Green, 1995. "Microeconomic Theory," Oxford University Press.