Title of the talk of Nicholas Yannelis

Issues arising in economies with asymmetric information

Abstract: The conceptual difficulties of the Rational Expectations Equilibrium (REE) are pointed out. In particular, it is shown that the REE contacts (trades) need not be incentive compatible need not be Pareto optimal and need not be implementable as a perfect Bayesian equilibrium of an extensive form game tree.
A comparison of the REE with the private core indicates that the private core results in trades that are always incentive compatible, and implememntable as a perfect Bayesian equilibrium of an extensive form game. Furthermore, unlike the REE which in general doesn't exist, the private core does exist once concavity and continuity assumptions are imposed.
The lack of the above properties of the REE, suggests that a new, "proper" REE must be introduced which results in trades that exist, are incentive compatible and are also implementable as a perfect Bayesian equilibrium of an extensive form game tree. But, what is the appropriate new REE concept which has the above properties? How it is possible to obtain incentive compatible and fully Pareto optimal allocations?
Answers are provided to the above questions.