General Equilibrium Model for an Asymmetric Information Economy

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Abstract

This paper’s main purpose is to introduce a new concept of the market’s commodity-information structure (a partition of the set of real goods that are treated as one commodity for market exchanges) on which we base our ordinary static general equilibrium arguments and settings to analyze asymmetric information problems. We concentrate on the market viability problem that is concerned with describing such situations as adverse selection under informational asymmetry among agents as an equilibrium in general equilibrium frameworks. The market equilibrium-existence conditions, non-equilibrium-existence examples, and Pareto-optimal equilibrium-properties are studied.

Keywords: General Equilibrium Model, Asymmetric Information, Adverse Selection, Market Unraveling, Market Viability Problem

JEL classification: C62; D51; D82

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