Optimality in a Stochastic OLG Model with Ambiguity

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Abstract: It has been known that, in the overlapping generations (OLG) model with the complete market, we can judge optimality of an equilibrium allocation by examining the associated equilibrium price. This article reexamine this observation in a stochastic OLG model with the maxmin expected utility preference. It is shown that, under such preferences, optimality of an equilibrium allocation depends on the set of possible *supporting* prices, not necessarily on the associated equilibrium price itself. Therefore, observations of an equilibrium price does not necessarily tell us optimality of the equilibrium allocation.

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