

## **Economics Seminar, Indian Statistical Institute, New Delhi.**

SPEAKER: **Aloisio Araujo**, IMPA, Rio de Janeiro

TITLE: **General Equilibrium, Wariness and Bubbles**

TIME: 3:30 PM - 5:00 PM.

DAY & DATE: Wednesday, 16th November, 2011

PLACE: Conference Room

### Abstract:

We say that a consumer is wary if she overlooks gains but not losses in remote sets of dates or states. We formulate this by requiring preferences to be upper but not lower Mackey semi-continuous and Bewley's result on existence of Arrow-Debreu equilibrium whose prices are not necessarily countably additive holds. We relate wariness to some concepts studied in decision theory like lack of myopia and ambiguity aversion. Wary infinite lived agents are not impatient, have optimality conditions, in the form of weaker transversality conditions, that allow them to be creditors at infinity and bubbles occur for positive net supply assets completing the markets. In a two date economy, with infinite states, wary agents are not myopic and bubbles occur, as asset prices do not have to equal the series of returns weighted by state prices. A large class of efficient allocations can only be implemented with asset bubbles. Pessimistic attitudes lead agents to overvalue assets or durable goods with hedging properties, like gold.

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