

Conference on Theoretical Economics: December 6 2012

Department of Economics, Room 415A, Snow Hall 1460 Jayhawk boulevard, Lawrence University of Kansas .

A Workshop on Theoretical Economics was held on December 6 with the support with the support of the College of Liberal Arts and Sciences.

Morning Session 9-12:30 Conference Room 415A

9:00 Coffee

9:30-10:30 Don Saari, University of California, Irvine
Cyclic outcomes and empty cores: uniting and extending several theoretical results

10:30- 11:30 Tarun Sabarwal, University of Kansas
Games with strategic heterogeneity

11:30-12:30 Boris Mordukhovich, Wayne State University
Variational analysis in microeconomic modeling

12:30 Lunch

Afternoon session 15:00-18:00 Seminar Room 358

15:00-16:00 Jean-Marc Bonnisseau, Paris School of Economics and Université Paris 1
Existence of equilibria in OLG economies with durable goods

16:00-17:00 Bernard Cornet, University of Kansas and Paris School of Economics
Pricing securities via Choquet non-additive expectation

17:00-18:00 Ehud Kalai, Northwestern University
Compressed equilibrium in large repeated games with incomplete information

18:00 Conference Dinner

Jean-Marc Bonnisseau, Paris School of Economics and Université Paris 1
Existence of equilibria in OLG economies with durable goods

Abstract: We consider a standard pure exchange overlapping generation economy. The demographic structure consists of a new cohort of agents at each period with an economic activity extended over two successive periods. Our model incorporates durable goods that may suffer transformations from one period to a successive period. We first reformulate the consumption sets, and reach a model similar to a model with no durable goods, then we establish the existence of an equilibrium in this reformulated economy, using the notion of Bergstrom-irreducibility and results in Florenzano (1981) on transitive equilibria.

Bernard Cornet, University of Kansas and Paris School of Economics
Pricing securities via Choquet non-additive expectation

Since Harrison-Kreps (1979) we know that in frictionless markets, any no-arbitrage price process has the property that under an appropriate change of measure on the state space each security price can be expressed as the expectation of its future payoffs, with respect to some probability, called risk-neutral. This important result, which is the core of mathematical finance, has been put in its most general framework by Delbaen-Schachermayer (2008). Extensions in models with frictions or transaction costs have been provided by Jouini-Kallal (1995) and others and more recently by Cornet-Riedel (2012) in a model without probability prior. We revisit the above statement of Harrison-Kreps that is the core of asset pricing theory by focusing on the whole set P of risk-neutral probabilities, instead of considering each probability individually as in the standard approach. Our main goal is to show that the set P will be characterized by a single non-



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additive

probability, called risk-neutral capacity, that will then be used for (nonlinear) pricing securities, via Choquet integral (or expectation). We will consider the general case of frictions, with special focus on bid/ask that will be the benchmark example of our study.

Ehud Kalai, Northwestern University

Compressed equilibrium in large repeated games with incomplete information

Boris Mordukhovich, Wayne State University

Variational analysis in microeconomic modeling

Abstract: This paper concerns new developments on first-order necessary conditions in set-valued optimization with applications of the results obtained to deriving refined versions of the so-called second fundamental theorem of welfare economics. It is shown that equilibrium marginal prices at local Pareto type optimal allocations of nonconvex economies are in fact adjoint elements/multipliers in necessary conditions for fully localized minimizers of appropriate constrained set-valued optimization problems. The latter notions are new in multiobjective optimization and reduce to conventional notions of minima for scalar problems. Our approach is based on advanced tools of variational analysis and generalized differentiation.

Don Saari, University of California, Irvine

Cyclic outcomes and empty cores: uniting and extending several theoretical results

Abstract: Cycles, empty cores, inferior group decisions, and other complexities plague group decisions and voting rules. Many approaches have been developed to avoid these problems, but, let's be honest, the results tend to be difficult to understand and leave alone offering any help to see how they might be extended. Thus it is surprising that there is a simple common explanation why these seemingly dissimilar conclusions hold. Even better, there is a way to generalize all of these conclusions into a single common, but very simple statement.

Tarun Sabarwal, University of Kansas

Games with strategic heterogeneity

Abstract: This paper studies games with both strategic substitutes and strategic complements, and more generally, games with strategic heterogeneity (GSH). Such games may behave differently from either games with strategic complements or games with strategic substitutes. Under mild assumptions (on one or two players only), the equilibrium set in a GSH is totally unordered (no two equilibria are comparable in the standard product order). Moreover, under mild assumptions (on one player only), parameterized GSH do not allow decreasing equilibrium selections. In general, this cannot be strengthened to conclude increasing selections. Monotone comparative statics results are presented for games in which some players exhibit strategic substitutes and others exhibit strategic complements. For two-player games with linearly ordered strategy spaces, there is a characterization. More generally, there are sufficient conditions. The conditions apply only to players exhibiting strategic substitutes; no conditions are needed for players with strategic complements. Several examples highlight the results.

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