

Markets and contracts ^{*}

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Abstract

Economies with asymmetric information are encompassed by an extension of the model of general competitive equilibrium that does not require an explicit modeling of private information. Sellers have discretion over deliveries on contracts; this is in common with economies with default, incomplete contracts or price rigidities. Competitive, anonymous markets are viable. For a generic economy, there exist a Pareto improving intervention via linear, anonymous taxes.

Key words: asymmetric information, competitive markets, equilibrium.

JEL classification numbers: D50, D52, D82.

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