

CHAPTER 8

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- 8.1 Recall that wealth in different states are different commodities and that the state in which consumer i alone has an accident is different than that in which only consumer $j \neq i$ does. Verify the hypotheses of the First Welfare Theorem and conclude that the competitive outcome of Section 8.1 is efficient in the sense described there.
- 8.6 For (a), suppose not. Could demand for used cars equal supply?
- 8.11 First show that $\sum_{l=k}^L (\pi_l(0) - \pi_l(1)) > 0$ for all $k > 0$ by writing the sum instead as $\sum_{l=k}^L \left(\frac{\pi_l(0)}{\pi_i(1)} - 1 \right) \pi_l(1)$ and arguing by contradiction. Finally, apply the following identity: $\sum_{l=0}^L a_l b_l \equiv \sum_{k=0}^L \left(\sum_{l=k}^L a_l \right) (b_k - b_{k-1})$ for every pair of real sequences $\{a_l\}_{l=0}^L, \{b_l\}_{l=0}^L$, and where $b_{-1} \equiv 0$.