

**Economics 614: Macroeconomics**

Spring, 2010

Cornell University

Problem Set #9

Due: Wednesday, April 28, 2010

$$\omega_1 = 9/10, \omega_2 = 1/10, \pi(\alpha) + \pi(\beta) = 1$$

$$v_h = \pi(\alpha)u_h(x_h(\alpha)) + \pi(\beta)u_h(x_h(\beta))$$

$$x_h(s) \in \{0, 1\} \quad h = 1, 2; \quad s = \alpha, \beta$$

$$u(1) = b > u(0) = 0$$

1. Find the SSE allocations, prices and probabilities. Which of these allocations are in the core ?

2. Let  $\pi(s)$  be instead any continuous pdf on the interval  $[a, b]$ ,  $b > a$

Write down the consumer's problem. Motivate the no-arbitrage condition.

Find the SSE allocations, prices and probabilities.