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Safety in Markets: An Impossibility Theorem for Dutch Books



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Abstract

We show that competitive markets protect consumers from many forms of exploitation, even when consumers have non-standard preferences. We analyze a competitive dynamic economy in which consumers have arbitrary time-separable preferences and arbitrary beliefs about their own future behavior. Competition among agents eliminates rents and protects vulnerable consumers, who could have been exploited by a monopolist. In fact, in competitive general equilibrium no consumer participates in a trading sequence that strictly reduces her endowment - there are no Dutch Books. The absence of Dutch Books in and of itself does not distinguish standard and non-standard preferences. However, non-standard preferences do generate qualitatively different equilibrium outcomes than standard preferences. We characterize the testable implications of the standard model with a dynamic generalization of the Strong Axiom of Revealed Preferences.

Other Sources

http://scholar.harvard.edu/files/laibson/files/safety_in_markets_an_impossibility_theorem_for_dutch_books.pdf<http://people.hss.caltech.edu/~lyariv/papers/DutchBooks.pdf>

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When transaction costs exist in the market, Dutch books are plausible only when agents have inaccurate beliefs about their own future behavior. Thus, markets are appropriate filters of non-standard (time-inconsistent) preferences only when sufficient irrational behavioral expectations are allowed. Second, we show that while non-standard preferences may be sustained in competitive markets, they are generically non-identifiable. We analyze conditions facilitating profitable deception in a simple model of a competitive retail market. Firms selling homogenous products set anticipated prices that consumers understand and additional prices that naive consumers ignore unless revealed to them by a firm, where we assume that there is a binding floor on the anticipated prices. Arrow's Impossibility Theorem has been modified, replicated, and applied in a myriad of ways since then. From: International Encyclopedia of the Social & Behavioral Sciences, 2001. Related terms Sen found the essence of this impossibility theorem in some insidious implications of the Pareto principle. For a 25-year-old Dutch male the monetary valuation of a heart disease ranges from 114,000 to 380,000 depending on the welfare level (Groot et al., 2004; Groot and Maassen van den Brink, 2006). Although care is needed because the results depend on the specification of the function $f(\cdot)$ and on the precise measure used for SWB, there is no doubt that the trade-off between income and health shows up clearly in these estimates. 1 Preliminaries (Markets and Prices). Learn vocabulary, terms and more with flashcards, games and other study tools. Therefore, there is a clothing market in, say, Atlanta that is distinct from the clothing market in

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nt #3: Some consumers strongly prefer Pepsi and some strongly prefer Coke.