

Mukherji, A. “Stability of a Market Economy with Diverse Economic Agents”

(Abstract)

The appeal of a market economy, which many current economic policies depend on, is based on two implicit presumptions. The first is that the market will arrive at a competitive equilibrium. The second is that, having reached one, the agents will carry out their competitive trades. To ensure that these indeed hold, generally preferences are restricted. For example, the Weak Axiom of Revealed Preference in the aggregate or that market demand maximizes some aggregate utility function is often invoked. However when we encounter situations where the economic agents are highly diverse, such assumptions become inadmissible. Consequently with diverse preferences not only can the equilibrium become unstable but agents may lack the incentives to carry out their equilibrium transactions.

It is suggested that under such a framework we should examine the role of the distribution of initial endowments. Unstable equilibria may be made stable by changing the initial distribution and similarly, the change in initial distribution of endowments may provide the correct incentives to agents to carry out competitive trades. Consequently a proper distribution of endowments may be required to ensure the functioning of the market economy and ought to be the central point of focus.