

We will discuss the remaining exercises from last tutorial. Please prepare in addition the following exercise:

1. Consider the Akerlof framework from the lecture.

Definition 1. A competitive equilibrium in the Akerlof model is a price p^* and a set Θ^* of seller types who trade such that

$$\begin{aligned}\Theta^* &= \{\theta | R(\theta) \leq p^*\} && \text{and} \\ p^* &= \mathbb{E}[\theta | \theta \in \Theta^*].\end{aligned}$$

Suppose the distribution function of θ is

$$F(\theta) = \begin{cases} 0 & \text{for } \theta < 1 \\ \theta - 1 & \text{for } 1 \leq \theta \leq 2 \\ 1 & \text{for } \theta > 2 \end{cases}$$

and $R(\theta) = 0.9 \cdot \theta$.

Describe a competitive equilibrium of this model.