

Comment on LRW

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May 2012

Normative implications when LRW equil has $q < q^*$, where $u'(q^*) = 1$

Can the planner (the central bank, the IMF, Fanny and Freddie?) act like an intermediary and create assets not subject to fraud?

- if yes, then end of story regarding fraud
- but still may not get to q^*

Let's assume that LRW equil $q < q^*$ whether or not fraud has been eliminated

One-date versus longer-horizon

- one-date version: exogenous terminal value of assets
- let's go with infinite horizon and assets that are perpetuities (trees)
- suggestion: manipulate the trading protocol in pairwise meetings to enhance the value of assets high $k(s)$ assets

Hu, Kennan, and Wallace (HKW), Coalition-proof trade and the
Friedman rule in the Lagos-Wright model (*JPE* 2009)

One asset: money and no fraud

Result: If a constant q is IR (no individual defection to autarky), then it is coalition-proof implementable with a fixed stock of money

A special case that fits HKW: zero dividends

The IR condition in this limiting LRW environment is

$$q \leq Ru(q) \text{ with } R = \frac{\beta}{\beta + \frac{1-\beta}{\sigma}} \quad (1)$$

HKW applied to this model:

Conjecture. Let q_{\max} be the unique positive solution to (1) at equality and let $\hat{q} = \min\{q_{\max}, q^*\}$. If there exists $\{q_s\}_{s=1}^S$ such that $\sum_s q_s \geq \hat{q}$ and $k(s) > q_s$, then \hat{q} is coalition-proof implementable.