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THE VIRTUE OF COMPETITIVE MARKETS; A CONTRIBUTION TO THE THEORIES OF CONVERGENCE TO COMPETITIVE EQUILIBRIA IN THE PRESENCE OF ASYMMETRIC INFORMATION.

Abstract:

According to received economic theory (neoclassical economic theory), the conditions for markets to achieve competitive equilibrium are very stringent and already proved unrealistic. Experimental Economics produced innumerable evidence that the Complete Knowledge Hypothesis is not necessary for markets, inherently characterized by disperse/private information, to converge to competitive equilibrium. This article, inspired by a recent contribution to Economic Theory, takes this line of investigation on the dynamics of the market process one step further, addressing the special situation of asymmetric information, demonstrating that, in these cases, there is no market failure, as it was sustained by the discipline until now; Nonlinear pricing systems, ubiquitous in the practice of firms in competitive environments, emerge as mechanisms that, and without centralization of information, allow for second-best efficiency.

Keywords:

Competitive equilibrium, Asymmetric information, Nonlinear pricing. Price formation

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