

Simple equilibria in OLG models with boundedly rational agents and collateral constraints

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Resumo/Abstract:

In this paper we analyze overlapping generations (OLG) economies with aggregate uncertainty, incomplete financial markets and a continuum of agents who face uninsurable idiosyncratic shocks. Agents are boundedly rational and only use current prices and a truncated history of exogenous shock to form beliefs over the joint distribution of future prices and shocks. They choose the best forecast from a finite dimensional class of ‘simple’ forecasting functions. We show that for any $\epsilon > 0$ and any compact set of continuous forecasting rules there exists a temporary equilibrium where agents choose forecasts that minimize deviations averaged on the ergodic distributions and make a mistake in choices that is smaller than ϵ . We provide a tractable algorithm to compute these equilibria.

In these equilibria there is strategic as well as accidental default and we give examples of endogenous collateral constraints.