Sunspot equilibria with general demand functions

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Resumo/Abstract:
This paper extends the study of sunspot equilibria to economies where consumers behavior is described by general demand functions that, at variance with the classical case, do not necessarily result from the budget constrained maximization of quasiconcave continuous utility functions. Sunspot equilibria then exist even in the absence of restrictions in market participation. Furthermore, sunspot equilibria also exist at economies defined by sure (i.e., certain) endowments that are themselves equilibrium allocations. The existence of these sunspot equilibria implies that the market process may go through several iterations before stopping at some final sunspot equilibrium allocation. That phenomenon adds an important new form of market instability to the price volatility that is already captured by the concept of sunspot equilibrium. This paper continues by extending the well-known property that sunspot equilibria do not exist in classical economies without restrictions in market participation to the more general case where consumers demand functions only satisfy the weak axiom of revealed preferences or WARP. The property for a demand function of not satisfying WARP can generally be analyzed as the consequence of some form of market failures. The results of this paper combined with that interpretation vindicate the Philadelphia folk theorem on the existence of sunspot equilibria for economies with general demand functions despite the impossibility of defining Pareto efficiency and having a first theorem of welfare economics.