

Department of Economics
2024-2025
Seminar Series



Monday, December 2, 2024
12:30 PM-1:50 PM
SBS, Room N603

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Time Inconsistency Vanishes if Agents are Heterogeneous

Abstract: We argue that, in many models, there is no time inconsistency disappears when agents are heterogeneous, in the sense that the continuation of the Ramsey policy after Q is likely to be pareto optimal (PO). Therefore, the Ramsey policy is renegotiation proof or, equivalently, the policy is time consistent in the sense that part of the population will not agree to any reoptimisation. Intuitively, part of the population would lose welfare if the type of reoptimisation that happens to be optimal with homogeneous agents. We show this in detail in the model of Greulich, Laczó and Marcet (2023), where consumers are heterogeneous and the government levies optimal capital and labor taxes. A key element of our approach is that welfare weights are endogenous, only an accessory to finding different pareto optimal allocations. If heterogeneity is sufficiently high there is a positive pareto weight at time Q such that the continuation of the Ramsey policy is optimal, therefore, the continuation is PO. We also relax our concept by requiring a large majority, rather than consensus, i.e., that a fiscal reform has wide support, and find a similar result.

All in-person seminars will be held in the Social and Behavioral Sciences Building, Room N603. For additional information, contact the seminar organizers: Profs. Chang Liu & Eva Carceles-Poveda. Visit our webpage for additional information: stonybrook.edu/economics.

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