

Problem Set 8 - ECON4271

1. Read the article “Egalitarian Equivalent Allocations: a New Concept of Economic Equity” by Pazner and Schmeidler (published in the Quarterly Journal of Economics, 1978, vol: 92, pp.671-687) and answer the following questions:
 - (a) What is the article about?
 - (b) What is the advantage of the PEEEA as compared to no-envy related allocation rules?
 - (c) Define formally “no-envy” (seen in class) and “egalitarian-equivalent” (from the paper).
 - (d) Assume 2 commodities. Show that in a two-agents exchange economy, there exists an allocation rule that satisfies Pareto efficiency, no-envy, and egalitarian equivalent. Argue that both agents will be better off than at the equal-split of resources.
 - (e) Represent graphically the above solution in an Edgeworth box.
 - (f) Is this solution equivalent to giving to each individual her best alternative from the same budget set?
 - (g) Bonus question! Assume 2 commodities. Show that the PEEEA solution identifies the first-best allocations of a limit case of a specific fairness-based utilitarian criterion in Piacquadio (2017), where:
 - (i) the opportunity mapping consists of expanding rectangles (with one edge in the origin); and
 - (ii) the concavity of the opportunity-equivalent utility functions goes to infinity. This is related to section 4 of the Pazner and Schmeidler paper.