

Preface

The book reflects on our collaborative efforts since 1996. We believe that households, their composition, decisions, and behavior within a competitive market economy deserve thorough examination. We entered unknown territory when we began our investigation of general equilibrium models with multi-member households. It turned out that we entered very fertile ground. We became increasingly convinced that general equilibrium analysis can still provide novel and relevant insights into the workings of interdependent economic institutions even though the bulk of economic research has shifted toward other areas. The focus of our analysis lies on the interaction between households (and groups in general) and competitive markets for commodities. We revisit, organize, and reinterpret material from prior publications. But we also include new material and perspectives: Some of the relations to the literature found in Chap. 10 would be difficult to develop in a technical research paper. The suggested policy applications in Chap. 15 collect ideas forwarded in earlier publications but new ones as well. Some of these applications are straightforward in view of our theoretical findings while others require further thought. Two chapters contain entirely new and unpublished material, Chap. 5 that includes production and Chap. 12 that is devoted to the risk-sharing capacities of households versus those of markets. Clearly, Chap. 12 is only a beginning. So is Chap. 14 that merely delineates the confines of a model with public choice of public goods and their funding. Other topics are barely covered as well such as household production and taxation. Obviously, the research agenda remains open-ended.

The chapters of the book are grouped into four parts.

Part I: The Theme. That part contains the general introduction. Thereafter, we elaborate on social groups and, to a lesser degree, social networks. Both are the prevalent concepts to describe social fabric or structure. We then proceed to households, the social groups at the center of our analysis. We develop the formal model of households as economic decision units.

Part II: The Basic Framework. It consists of prototype general equilibrium models with multi-member households. The key concepts are introduced and

discussed, and the major findings are presented. The chapter on cores provides a synopsis of several results that are related to various other chapters.

Part III: Other Forms of Group Formation and Decisions. Models of group formation are not new in microeconomic and game theory. We first relate our approach formally to alternative modeling approaches, in particular in club theory and the theory of two-sided matching. We then elaborate further on the related literature.

Part IV: Extensions and Applications. The basic framework can be extended or specialized depending on the issues and applications at hand. In those final chapters, we work out some of the applications and indicate others.

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Groups and Markets

General Equilibrium with Multi-member Households

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