Capital Accumulation in an Economy with Heterogeneous Agents and Moral Hazard

Radim Boháček*
CERGE-EI, Prague, Czech Republic

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Abstract

This paper studies a closed economy with a continuum of agents and moral hazard. Economic agents in the economy operate a stochastic production technology with capital and labor inputs in which the latter is private information. I characterize efficient allocations of capital, labor, and consumption in a stationary recursive equilibrium for a decentralized economy with component planners. Allocation and accumulation of capital are facilitated by a ‘capital planner’ who serves as a financial intermediary for the component planners. In equilibrium, private information lowers the equilibrium interest rate below agents’ discount rate and I show that contrary to the private-information endowment economies, a moral-hazard productive economy can exhibit both endogenous lower and upper bounds on the stationary distribution of utility entitlements.

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