HOMEWORK #3

This homework assignment is due on October 10.

Consider the same economic environment as in part (a) of the first problem on Homework #2 (markets are complete), but let the initial wealth of a type-\(i\) consumer be \(\omega_i\). In addition, let the measure of type-\(i\) consumers be \(\theta\) rather than one-half. Define aggregate (per-capita) wealth \(\bar{\omega} \equiv \theta \omega_1 + (1-\theta) \omega_2\). Under the assumption that utility is homothetic, prove that changes in \(\omega_1\) and \(\omega_2\) that leave \(\bar{\omega}\) unchanged do not affect equilibrium prices or aggregate allocations.