UNIVERSITY OF CALIFORNIA
DEPARTMENT OF ECONOMICS

Economics 202A
Fall 2018
D. Romer

Problem Set 11
Due in lecture Tuesday, December 4

1. Romer, Problem 10.4.

2. Romer, Problem 10.5.

3. a. Romer, Problem 10.10.
b. For any of conjectures (1), (2), and (3) in part (a) that are wrong: Are there any broader messages from this finding? For example, does it expose some deep problem with the model, or suggest that we should be nervous about some of the model's other implications? Alternatively, does the fact that one or more of the conjectures is wrong offer important insights about financial markets? (Hint: If you have done part (a) correctly, you have found that at least one of the conjectures in that part is wrong.)

(From the Fall 2016 final.) 4. In the model of investment under uncertainty with costly state verification, the equilibrium contract is a debt contract because:

A. The outside investors are risk averse and the entrepreneur is risk neutral.

B. An equity contract would lead to adverse selection among entrepreneurs deciding whether to undertake their projects.

C. A debt contract minimizes agency costs.

D. All of the above.

EXTRA PROBLEMS (NOT TO BE HANDED IN; COMPLETE ANSWERS MAY NOT BE PROVIDED)

5. Romer, Problem 10.3.

6. Romer, Problem 10.6.