

DISSERTATION DEFENSE

Cigdem Gizem Körpeoğlu

"Essays on Microeconomic Theory and Its Applications"

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My thesis is comprised of three chapters. In the first chapter, coauthored with Stephen Spear, we study endogenous shocks driven by collective actions of managers. A good recent example of this is how the collective actions of bank managers engaging in securitization of loans ended up freezing the world financial markets in 2008. Motivated by examples like the 2008 crisis, we analyze how endogenous shocks driven by collective actions of managers impact social welfare by using a dynamic general equilibrium model. We first show that such endogenous shocks render competitive equilibrium allocations inefficient due to externalities. We establish that a socially optimal allocation can only be attained by paying managers the socially optimal wages, and this can be achieved by imposing wage taxes (or subsidies) on managers. Finally, we extend the model by allowing for information asymmetry, and show that it is not possible to attain a socially optimal (i.e., first-best) allocation. We instead examine second-best allocations.

In the second chapter, I study whether coalitions of consumers are beneficial to consumers when producers have market power. I refer to coalitions of consumers as consumer unions and the number of consumers in a union as union size. By constructing an imperfect competition model in a general equilibrium setting, I gauge how union size impacts consumer welfare. I establish, contrary to the literature on coalitions, that consumer welfare decreases with union size when the union size is above a threshold. I also prove that consumer unions discourage producers' investments, which may have repercussions for long-term consumer welfare. Finally, I show that depending on the production technology, having a higher number of producers can be more effective in promoting consumer welfare than consumer unions.

In the third chapter, coauthored with Stephen Spear, we study imperfectly competitive production economies in which technology exhibits arbitrary returns to scale including increasing returns. Increasing returns are well-documented empirically and widely recognized as the driving force of economic growth. Recognizing the significance of increasing returns, the general equilibrium literature has tried to incorporate it into the conventional general equilibrium framework. These attempts have usually been unsuccessful because of fundamental incompatibilities between increasing returns and the competitive paradigm. By using an imperfectly competitive model in a general equilibrium setting - in particular, the market game model, we prove the existence of equilibrium for arbitrary returns to scale in production including increasing returns. Via an extended example, we demonstrate the relationship between the number of increasing-returns firms and other parameters of the model.