Bocconi

Università Commerciale Luigi Bocconi

Economic Theory, Decision Theory and Experimental Economics Seminar

Dynamic Free Riding with Irreversible Investments

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Abstract

We study the Markov equilibria of a model of free riding in which n infinitely lived agents choose between private consumption and irreversible contributions to a durable public good. We show that the set of equilibrium steady states converges to a unique point as depreciation converges to zero. For any level of depreciation, moreover, the steady state of the best Markov equilibrium converges to the efficient level as agents become increasingly patient. These results are in stark contrast to what happens in the more commonly studied case in which investments are reversible, where a continuum of very inefficient equilibrium steady states are possible for any level of depreciation, discount factor and size of population.