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SEMINARIO

"Do Short-Run Efficiency and Optimal Capacity Imply Long-Run Efficiency?"

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Abstract:

In a general equilibrium model with production, the long-run is defined by capacity being an endogenous variable. Associated with every long-run equilibrium is a short-run model where capacity is set at its long-run equilibrium value. The long-run equilibrium is then an equilibrium of the short-run model. But the converse is not always true. There exist short-run models that feature multiple (short-run) equilibria. Only one of these equilibria—the restriction of the longrun equilibrium—is long-run efficient. Rate-of-return regulation is a simple way, however, of preventing the market from selecting the long-run inefficient short-run equilibria.