

Abstract for David Baqaee's talk:

Aggregate Efficiency with Heterogeneous Agents (joint with Ariel Burstein)

We provide a framework for studying aggregate efficiency with heterogeneous agents. We revive a definition of efficiency from general equilibrium theory (e.g. Debreu, 1951) and show how every result about welfare in representative agent economies can be converted into a result about aggregate efficiency in heterogeneous agent economies. We characterize changes in efficiency in terms of initial expenditure shares, elasticities of substitution, and primitive shocks. We apply our results to study, among other things, the efficiency gains from trade with heterogeneous agents, the efficiency losses caused by markups, misallocation from financial market incompleteness in both closed and open economies, and the effects of productivity shocks in economies with discrete choice and heterogeneous tastes (e.g. in space or occupations).