

Equilibrium

Def Consider a pure exchange economy (u, e) . We say that the tuple (x^*, p^*) consisting of an allocation x^* and prices p^* is pure exchange equilibrium if

① each household ^{h} chooses x_h^* , i.e.

$$x_h^* \in \operatorname{argmax}_{x_h \in \mathbb{R}_+^N} u_h(x_h)$$

$$\text{s.t. } p^* \cdot x_h \leq p^* \cdot e_h, \text{ and}$$

② all markets clear

$$\sum_h x_h^* = \sum_h e_h.$$

demand = supply.