

Bilateral Efficiency for any Price Norm

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↳ lateral efficiency is respected for any price
mism.

- All trades that occur generate a positive joint surplus → model of slack is immune to the
Hao & Reis-RULL (2020) critique
→ unlike New Keynesian model

of slack → surplus from any trade in model
is $T > 0$

$$T = \frac{1}{1+x} \frac{\varepsilon-1}{\varepsilon} \cdot (p/p)^{-1/2} \cdot [1 + \tau(x)]$$

share of surplus
to buyer

share of surplus
to seller

We see that $T > 0$.

So there is positive joint surplus in any trade.

- No potential trades that could generate a positive joint surplus are forgone.
→ model of slack is immune to critique
by Barro (1977)

→ unlike disequilibrium models.

→ any potential trade b/w
buyer and seller must occur through
the matching function (buyer
& seller can not meet outside of
matching function)

→ any potential trade (through matching function) generates a positive joint surplus ($T > 0$)

→ and all potential trade do occur in practice b/c in any potential trade, for any price m , buyer surplus $B > 0$ and seller surplus $S > 0 \Rightarrow$ buyer & seller always happy to proceed w/ trade.

→ any trade that potentially provide a positive joint surplus will occur.

→ Bilateral efficiency is always satisfied, for any price m