

A Market-Based Solution for Fire Sales and Other Pecuniary Externalities*

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Abstract

Pecuniary externalities are removed with market exchanges that internalize agent types influence on prices. Agents choose in the first period one price from among various possible prices they want to prevail in the future. Crucially, the right to trade in each and every exchange is priced. The total amount paid or compensation received is determined by the type specific factors which a type contributes to the chosen price collectively as a group, the units of their known excess demand function at that chosen price evaluated at their observed saving decision, times a common per unit price, which varies across exchanges.

Keywords: price externalities; Walrasian equilibrium; markets for rights to trade; market-based solution; collateral; exogenous incomplete markets; fire sales.

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