SET IDENTIFICATION IN MODELS WITH MULTIPLE EQUILIBRIA

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Abstract:

We propose a computationally feasible way of deriving the identified set of parameter values in models with multiple equilibria, with particular emphasis on oligopoly entry models. This is achieved through an equivalence result between the existence of an equilibrium selection mechanism compatible with the observed data and a set of inequalities, and through an appeal to efficient linear programming techniques. We also formulate strategies to eliminate redundant inequalities in the characterization of the identified set.