

A Small Correction to “Coalition-Proof Trade and the Friedman Rule in the Lagos-Wright Model”*

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There is a small mistake in the paper. The error appears in Lemmas 1 and 2. None of the main results are affected.¹ The error in lemma 1 is in the second necessary condition. The paper states that condition as “ $g(1, 1) = (y, 1)$ and $\varsigma = z$.” The correct statement should be “ $g(1, 1) = (y, x)$ for some $x \in (0, 1]$ and $\varsigma x = z$.” And the implied changes should be made in the expressions in equation (1). An exactly analogous change should be made in lemma 2. Nothing in any of the propositions or their proofs needs to be amended.

Under *IR* implementation, the change in the lemma-1 condition implies that there is an insignificant indeterminacy regarding the values of money and the amounts traded—insignificant because the indeterminacy does not affect allocations. In particular, the value of the amount of money traded at stage 2 must be z , but this is the only requirement on the price ς . The error in the proof of lemma 1 is the statement that excess money will not be carried from stage 2 at one date to stage 2 at the next date. People cannot overstate money holdings at the first step in the game played at stage 1 and buyers who report having less than 1 unit can be punished as proposed in the proof of proposition 1. That punishment suffices to have everyone leave stage 2 with 1 unit even if they are asked to surrender a smaller amount in stage-1 trade.

Under *CP* implementation, the same indeterminacy arises only if the (y, z) being implemented has $y = y^*$, the first-best level of (stage 1) output. If $y < y^*$ and $g(1, 1) = (y, x)$ with $x < 1$, then there exist larger trades that the buyer in the *CP* game would propose and that the seller would accept. That is not the case if $y = y^*$.

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¹We are indebted to Guillaume Rocheteau for questioning lemma 1.