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Arbitrage and equilibrium in economies with short-selling and ambiguity *

Thai Ha-Huy†, Cuong Le Van‡, Cuong Tran-Viet §

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Abstract

We consider a model with a finite number of states of nature where short sells are allowed. We present a notion of no-arbitrage price weaker than the one of Werner [24] that we call weak no-arbitrage price. We prove that in the case of maximin expected utility functions, the existence of one common weak no-arbitrage price is equivalent to the existence of an equilibrium.

Keywords: asset market equilibrium, individually rational attainable allocations, individually rational utility set, no-arbitrage prices, no-arbitrage condition, maximin expected utility.

JEL Classification: C62, D50, D81, D84, G1.

1 Introduction

Equilibrium conditions on financial markets differ with the ones on good market when short-selling is accepted. This assumption makes useless traditional techniques using fixed point theory. In the finite dimension case, there is a huge

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