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Game Theory

Coalition Proof Equilibrium in an Adverse Selection Insurance Economy, by Charles M. Kahn (University of Illinois, Urbana-Champaign) and Dilip Mookherjee (Indian Statistical Institute, New Delhi, India)

We extend the notion of Coalition Proof Nash Equilibrium to a class of matching games with private information. This solution concept is applied to an adverse selection insurance economy and is shown to yield a unique allocation: the optimal allocation without cross-subsidy. This contrasts sharply with the outcome in alternative institutional settings for negotiations among players, as modeled for instance by the Incentive Compatible Core. *Journal of Economic Theory,* June 1995, 66(1): 113-138. (Reprinted with permission of the *Journal of Economic Theory.*)

Consumption-Savings Behavior

The Importance of Precautionary Motives in Explaining Individual and Aggregate Saving, by R. G. Hubbard, J. Skinner, and S. P. Zeldes

This paper examines predictions of a life-cycle simulation model—in which individuals face uncertainty regarding their length of life, earnings, and out-of-pocket medical expenditures, and imperfect insurance and lending markets—for individual and aggregate wealth accumulation. Relative to life-cycle or buffer-stock alternatives, the authors' augmented life-cycle model better matches a variety of features of U.S. data, including aggregate wealth, cross-sectional differences in wealth-age and consumption-age profiles by education group, and short-run time-series co-movements of consumption and income. *Carnegie-Rochester Conference Series on Public Policy,* June 1994, 40: 59-125. (Reprinted with permission of the *Journal of Economic Literature.*)