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**EFFICIENCY OF COMPETITIVE EQUILIBRIA WITH
HIDDEN ACTION: THE ROLE OF SEPARABLE
PREFERENCES**

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Abstract

In the present paper we study the efficiency properties of competitive equilibria in economies with hidden action and multiple goods. We borrow the description of the economy from Lisboa [3] and we apply a method of proof close in spirit to the one used in the literature on incomplete financial markets economies. We are then able to show that Lisboa's original result of constrained efficiency rests crucially on the assumption of separable preferences and on the structure of uncertainty.

Keywords: hidden action, separable preferences, constrained efficiency.

JEL Classification: D52, D61, D82.

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