Abstract

I study how savers allocate funds between boundedly rational firms which follow simple pricing rules. Firms need cash to pay their inputs in advance, and savers-shareholders allocate cash between them so as to maximize their rate of return. When the rate of return on each firm is observed, there are multiple equilibria, and some degree of monopoly power is sustained. However, the economy gets close to the Walrasian equilibrium when the availability of funds goes to infinity.

Multiple equilibria also arise when there are 'entrants' with unobservable rates of return. In an equilibrium where entrants are not funded, savers invest in incumbents because those entrants which will divert customers from incumbents are likely to be excess underpricers.

JEL: D4, D5, Z19

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