(1) Do you agree, disagree or partially agree (subject to suitable qualifications) with the following statements? Explain your reasoning, and state appropriate qualifications.

(i) In the presence of adverse selection in the credit market, competition among lenders implies there cannot be any cross-subsidies across heterogenous types of borrowers.

(ii) Rising consumption inequality across successive age cohorts constitutes evidence of asymmetric information problems in the credit market.

(iii) If households making occupational choices had access to perfect capital markets, there would be no inequality in the long run.

(iv) The principal results of Galor-Zeira or Banerjee-Newman models of occupational choice with credit constraints would not survive in the absence of indivisibilities in occupational options.

2. Provide a summary of evidence against the Arrow-Debreu model of insurance, in the papers by Townsend, Udry, Ligon and Binswanger-Rosenzweig covered in class. For each of these papers describe their principal findings, and whether they point to alternatives to the Arrow Debreu model in case the latter is rejected.