Hedging Against Risk and the Substitution of Consumer Issued Assets by Producer Issued Assets: The Role of State Specialization of Production Processes

Pedro J. Gutiérrez*
Dpto. de Fundamentos del Análisis Económico
Universidad de Valladolid

Abstract

This paper analyzes the conditions under which consumer issued assets can be substituted by producer issued assets in the risk hedging process where the uncertainty source is technological. Using a General Equilibrium framework, I demonstrate that the generation of state specialized production processes makes consumer issued assets redundant, providing risk cover through investment and eliminating the transaction costs implicit in the consumer issued assets. This mechanism, similar to that of Coase (1937), allows the profit from such state specialization to be calculated, contributing to the development of the firm theory under uncertainty.

JEL classification: D4; D5

Keywords: General Equilibrium, Uncertainty, States of Nature, Consumption-Based Asset Pricing Model

Published in
Global Business and Economics Review, Volume 3, Number 2, December 2001.

*Dpto. de Fundamentos del Análisis Económico. Facultad de Ciencias Económicas y Empresariales. Universidad de Valladolid. Avda. Valle Esgueva, 6, 47011 Valladolid, SPAIN. Tel: + 34 983 423000 ext. 24458. Fax: + 34 983 423299. E-mail: pedrojos@fae.uva.es