

## Quantitative Finance &gt; General Finance

# Diverse Beliefs

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This paper presents a general framework for studying diverse beliefs in dynamic economies. Within this general framework, the characterization of a central-planner general equilibrium turns out to be very easy to derive, and leads to a range of interesting applications. We show how for an economy with log investors holding diverse beliefs, rational overconfidence is to be expected; volume-of-trade effects are effectively modelled; the Keynesian 'beauty contest' can be modelled and analysed; and bubbles and crashes arise naturally. We remark that models where agents receive private information can formally be considered as models of diverse beliefs.

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