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**An Alternative Approach to the
Existence of Sunspot Equilibria**

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Abstract

Rational expectations equilibria that are perfectly correlated with extraneous events are called sunspot equilibria. The existence of such equilibria is the subject of this paper. The literature on the existence of sunspot equilibria is comprised of various models that, in general, are not unified. Accordingly, this paper propounds a general approach to the issue of existence of sunspot equilibria. It is shown here that dynamic stability of spot competitive market equilibria is sufficient for the existence of sunspot equilibria. In particular it is shown, by way of a dynamic process compatible with competitive exchange, that the above sufficient condition amounts to the basic requirement that for each individual there should be enough liquidity to carry out all transactions at the prevailing current prices.

Keywords: Sunspot equilibria, extrinsic uncertainty, dynamic stability of competitive equilibria.