Competitive Equilibrium of an Industry with Labor Managed Firms and Price Risk

by
Ziv Bar-Shira, Israel Finkelshtain, and Avi Simhon
The Hebrew University

Journal of Rural Cooperation, 34(1), 2006:19-41

Abstract

This paper studies the effect of output-price uncertainty in an industry comprised of labor-managed firms (LMFs) in which the number of LMFs and their membership are determined endogenously. The exit condition for a risk-averse LMF member is formulated and the effect of various economic variables on the equilibrium quantities and prices are examined. We find that the equilibrium in our setting is similar to the one that emerges in a 'capitalistic' economy where firms are owned by profit-maximizing agents. However, the effects of increases in risk and risk aversion differ from those found in a short-run analysis of a single LMF.

Keywords: Labor Managed Firms, Cooperatives, Price Risk, Risk Aversion, Long-Run.