First, I would like to thank the anonymous referee for the comments. Some of the minor comments will improve the exposition of the paper, some correct a few minor inaccuracies. Others however, are fundamentally wrong.

1) The referee’s main worry: s/he seems to think that all in my paper is covered in Balasko 2010. It is not difficult to show that this is certainly not the case. Indeed the two papers discuss fundamentally different problems, despite the similarity in their titles. For that it suffices to ask the following question. What are the short run properties of the production model in Balasko 2010? The answer is crystal clear, none. There is no short run production in his model. This is also true for all the papers mentioned by the referee. The referee does not point out how short run equilibrium properties (period t=1) can be studied if I collapse the time structure into a single period model as is standard in the Arrow-Debreu model (and Balasko 2010). Hence, eliminating the time structure kills the short run, and what remains is the long run with fix production sets. This is the standard Arrow-Debreu model which does not reveal any of the many interesting economic properties associated with the short run activities of the firm. Such a model is therefore of limited interest for the applied researcher interested in economic policy issues related to the short run behavior of the firm.

Alone the question stated above is worth pursuing a detailed equilibrium analysis. It is perhaps also worth mentioning that Balasko 2010 is mainly interested in deriving the equivalent of the no trade equilibrium for a smooth production economy. I’m not interested in defining a coordinate system but devote my studies presented here to more applied questions.

I find it of most practical interest to ask questions about short run equilibrium properties of general equilibrium production models. For example, given that a firm chooses a profit maximizing long run activity, is it possible that nonlinear short run supply functions associated with an arbitrary long run equilibrium can trigger multiple equilibria? The answer is provided by my paper. It is also worth mentioning here that the multiple equilibrium phenomenon in Balasko is solely explained by nonlinear demand functions. Indeed, short run supply functions may be responsible for this phenomenon too. This is another economic insight of the paper which is not provided in Balasko 2010.

The third objection I have is why does Balasko 2010 state in the section ”comments” that it can be shown that the number of equilibria is finite and locally constant if he according to the referee’s comments has already shown it? From
page 14 of Balasko 2010 it is even more clear that he suggests that all what I did in my paper can be done. Hence my paper picks up where Balasko’s paper ends and the results I derived are those expected but not shown from his model. Moreover, from the assumptions of his model it is also clear that he considers a quite different economic scenario. Indeed the aim of his paper is of very different nature than mine.

A final remark on multiple equilibria is related to each state of nature. In Balasko 2010 is it possible to have three short run equilibria if state 1 occurs and one short run equilibrium if state 2 occurs. Clearly not. There is no uncertainty in his model. This is another strong property of my model not previously shown in the literature.

2) It is precisely the sort of questions addressed above which eliminates the second concern of the referee. Is this paper relevant to the practitioner? Obviously multiple equilibria should be of major interest to any regulatory body and applied researcher. A few examples are given in the paper.

CONCLUSION

It is a misleading reported perception of the referee to say that the minor contribution of the paper is to add states of nature. It is even more misleading to say that the equilibrium properties studied in my model are covered in Balasko 2010. Indeed, my paper is motivated by quite practical and real world relevant questions on the organization of production in a general equilibrium set up. While one of the novelties of the paper is the generalization of the natural projection approach, the others are of much more relevance to the applied researcher. Deep economic insights on the organization of production are gained by exploring long/short equilibrium properties (via natural projection approach) by adding more structure to the Arrow-Debreu model. Even if Balasko 2010 would have been interested in multiple equilibria and if these would have been triggered by the supply functions, these would be long run multiple equilibria. This follows from the fact that he considers a long run model with only one period and fixed production sets, and still his model would not reveal anything about the number of equilibria in each state of the world. Hence, my model offers the ideal economic scenario to address short run economic policy questions, a hot topic in applied research!