

Code: ECON-421

Title: General Equilibrium and Welfare Economics

Credit Hours: 03

Prerequisite: Intermediate Microeconomics and Intermediate Macroeconomics

Objectives:

It is a fundamental microeconomics course which studies the interdependency between individual decision making and market clearing price formation. From a methodological viewpoint, the general equilibrium approach views the economy as a closed and interrelated system in which the equilibrium values of all variables are simultaneously determined. Welfare economics deals with the interaction between “positive economics” (i.e. statements of what will happen under different policies) and “normative economics” (statements about what policies should be followed). Welfare economics considers how value judgments involving interpersonal comparisons can be incorporated into the basic framework of positive economics in order to reach normative conclusions.

Course Contents

Concept and History of General Equilibrium Theory

Introduction to General Equilibrium Theory, Partial and General Equilibrium: Development of the field, History of General Equilibrium Theory, Problems with Partial Equilibrium Analysis.

An elementary General Equilibrium Model: The Robinson Crusoe Economy

Centralized Allocation, Decentralized Allocation, Pareto Efficiency of the Competitive Equilibrium Allocation: First Fundamental Theorem of Welfare Economics

The Edgeworth Box

Geometry of the Edgeworth Box, Pareto Efficiency and its constituents, Consumption Efficiency, Production Efficiency, Product Mix Efficiency, Calculating an Efficient Allocation, Competitive Market solution in the Edgeworth Box, Walrasian Equilibrium

Integrating production and multiple consumption decisions: A 2 X 2 X 2 model

A 2 X 2 X 2 model, Technical Efficiency and Pareto Efficiency, First Fundamental Theorem of Welfare Economics: Competitive Equilibrium is Pareto Efficient, Social Justice and the Social Optimum, Prices and Decentralization, Are competitive prices fair? The Theory of the Second Best, The Second Fundamental Theorem, Positive Economics and Normative Economics, Welfare Economics and the Real World

Recommended Books:

- L. S. Stavrianos (1981). Global Rift: The Third World Comes of Age, (New York: William Morrow and Company. Starr, Ross M. (20110). General Equilibrium Theory: An Introduction, 2nd Edition, Cambridge University Press
- Walter Nicholson. (2005). Microeconomic Theory: Basic Principles and Extensions, 9th edition. Thomson South-Western.
- James M. Henderson and Richard E. Quandt. (1971). Microeconomic Theory: A Mathematical Approach, 2nd edition. McGraw Hill Kogakusha Ltd., Tokyo.
- Eugene Silberberg. (1990). The Structure of Economics: A Mathematical Analysis, 2nd edition, New York: McGraw Hill Publishing Co.
- P. R. G. Layard and A. A. Walters. (1978). Microeconomic Theory, McGraw Hill Book Company.
- Jeffrey M. Perloff. (2014). Microeconomics, 7th edition, Prentice Hall
- Allen, Robert C. (2001). Global Economic History: A Very Short Introduction (Oxford, OUP.
- Harriss, John, Janet Hunter, and Colin Lewis. (2009). The new institutional economics and third world development. Routledge.