General Equilibrium and the Efficiency of Perfect Competition

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General Equilibrium Analysis
Partial Equilibrium Analysis – The condition that exists when an individual market is in equilibrium.
General Equilibrium – The condition that exists when all markets are simultaneously in equilibrium.
Efficiency – The condition in which the economy is producing what people want at least possible cost.

Allocative Efficiency and Competitive Equilibrium
Pareto Efficient – A condition in which no member of society can be made better off without simultaneously making someone else worse off.
Allocative Efficiency – The condition in which consumers get the goods that they want most.
(P=MC)
Productive Efficiency – The condition in which goods are produced at minimum cost. (min AC).

The long-run equilibrium of a perfectly competitive industry is Efficient because it is both allocatively and productively efficient.

Sources of Market Failure
Market failure occurs when a market is not efficient.
1. Imperfect Markets – any industry without perfect competition.
2. Public Goods – goods or services that bestow benefits on more than one individual at a time.
3. Externalities – a cost or benefit from an activity that is bestowed on parties other than those in the transaction.
4. Imperfect Information – absence of full knowledge concerning the product.