

<p>Explain the concept: general equilibrium theory.</p>	<p>The analysis of markets as a part of a web of connections, as part of a system; all markets are part of a simultaneous system, consists of factor and product markets (pareto optimal)</p>
<p>Explain the concept: simultaneous system.</p>	<p>A system in which all elements function as part of a larger whole, like an ecosystem.</p>
<p>Identify and describe four trends that weave markets into the web of a general system.</p>	<p>1) Through cross-price elasticities: Product markets are connected to one another; through cross price elasticities because all products have substitutes or complements. Factor markets are connected to one another; through elasticities of input substitution because most inputs have substitution possibilities</p> <p>Product and factor markets are connected:</p> <p>2) Through the product supply line because it is cost structures in production and thus factor prices and technology determine the shape and level of product supply</p> <p>3) Through product demand line, because money with which people demand goods and services in the product markets comes from the incomes they make by selling their resources in factor markets</p> <p>4) Through the factor demand line, because that demand is derived from product market sales</p>
<p>Identify the givens in the general equilibrium theory.</p>	<p>-society's current resource endowment -the distribution of the shares of the social endowment among individuals -the individual's tastes -the current technology</p> <p>From these givens the prices and quantities in all the factor and product markets are determined (in order for this to happen, the entire system must resolve itself)</p>
<p>Explain why general equilibrium theory is essential for representing economists' vision of the market system.</p>	<p>An economy, like an ecosystem, is integrated in nature and all elements are interacting with one another; if one market is adjusting, they are all adjusting. The general equilibrium theory conveys this idea</p>

<p>Define: partial equilibrium analysis. Contrast the role of partial equilibrium analysis with general equilibrium theory in modern economics.</p>	<p>Partial equilibrium analysis: examines equilibrium conditions in, and the dynamics of, individual markets, this is because the web of the general system is far too complex to deal with in any detail; allows us to study markets independently while general looks at markets together, as a web of connections; general also allows a systematic analysis of the market system while partial is a good tool for policy analysis</p>
<p>Describe the efficiency of a general competitive equilibrium. Explain.</p>	<p>Perfect competition, under the nice assumptions, drives everyone to be the most efficient if they want to survive, and it encourages creative innovation that makes the system even more efficient; creates pareto optimal (perfect efficiency, no slack)</p>
<p>Describe the equity or justice of a general competitive equilibrium. Explain.</p>	<p>Since markets are amoral, there is no way to tell if they are fair or not; there is nothing inherent in the market process that makes distribution of the product among individuals necessarily fair or just</p>
<p>Explain the statement: If any individual market is still adjusting toward equilibrium, then all markets must still be adjusting. Or, so long as anything is changing, everything is changing.</p>	<p>All markets affect each other in the web of connections, therefore if one is changing, the rest will change because the markets are interconnected.</p>
<p>Given our nice assumptions hold, describe the relationship between the distributive outcome of the market process and the distribution of society's endowments among individual.</p>	<p>The distributive outcome of the market process will directly reflect the distribution of society's endowments of natural resources, labor, and capital among resources. Social endowment and social product are the same size. The social product pie will be as large as it can be because the system is most efficient (pareto optimal); it ensures that you will do as well as possible given your share of endowment</p>
<p>Identify and explain the standard by which economists measure the efficiency of any general equilibrium.</p>	<p>Pareto optimality; there is ultimate efficiency in which there is no slack left over, the social pie is as large as it can be and you cannot give to someone without taking from someone else</p>

<p>Explain the concept of equity. Explain why there is no scientific basis for setting a standard of an optimal equity condition. Comment on the following: Equity is/is not an economic issue, but economics can inform the discussion on equity.</p>	<p>Equity is fairness or equality for all individuals; it differs for every person; someone who is succeeding right now may believe the conditions are equitable, whereas someone doing poorly may believe it is inequitable, it is a question of value and cannot be calculated by someone else. Markets under perfect competition will make sure each person gets the most out of their share of the social endowment, which helps inform the discussion on whether the situation is fair or not</p>
<p>Explain Kenneth Arrow's statement that "even under assumptions most favorable to decentralization of decision making, there is an irreducible need for a social or collective choice on distribution." Identify the nature of this social choice.</p>	<p>Our nice assumptions lead to the most efficient allocation of society's resources. If people are unhappy with the outcome of markets, Markets are not in the wrong. They are Pareto optimal, therefore should not be tinkered with because they are perfectly efficient. Society should make decisions about the justice of distribution of societies endowment, not how to fix markets.</p>
<p>Identify and explain the role of commutative justice in a market system.</p>	<p>This ensures that there is no market power, that the race is fair. When these rules are absent, people take advantage of others and resources to get power and win without work. When the race is for power the competition becomes destructive rather than constructive</p>