PARTIAL AND GENERAL EQUILIBRIUM ANALYSIS

Economics
CC-408
unit-1 General Equilibrium Analysis

Dr. VEENA KUMARI
ASSISTANT PROFESSOR
DEPT. OF ECONOMICS
PATNA WOMEN'S COLLEGE

Partial and General Equilibrium Analysis

Introduction:

- Partial and general equilibrium is a type of economic analysis in economics.
- Equilibrium is a state of balance that occur in a model.
- In regard to pricing under perfect competition, two main approaches have been adopted:
- One approach has been followed by famous english economist Alfred Marshall who adopted the partial equilibrium approach
- Second approach has been adopted by Walras and is called general equilibrium approach.

Partial and General Equilibrium Analysis

- The type of analysis where we do not take into account the interrelationship or interdependence between prices of commodities and factors of production is called partial equilibrium analysis. Partial equilibrium analysis focuses on explaining the determination of price and quantity in a given product or factor market when one market is viewed as independent of other markets.
- However partial equilibrium is not useful and relevant to apply when there is strong relationship between commodities or between factors. Thus when markets for various commodities and factors are interdependent that is when changes in the price of a commodity or a factor has important repercussions on the demand for other commodities or factors, partial equilibrium analysis would not yield correct results.
- In such cases when there is such interrelationships between various markets or that the changes in one market would significantly affect others, we should employ general equilibrium analysis which considers simultaneous equilibrium of all markets taking into account all effects of changes in price in one market over others.

Partial Equilibrium Analysis

- This approach is the determination of the price and quantity in each market by demand and supply curves drawn on the ceterus peribus clause.
- It was introduced by Marshallian Approach.
- It studies the internal outcome of any policy action in a single market only.
- The effects are examines only in the markets which is directly affected not on other markets.
- We refer to partial equilibrium analysis when a single firm or a single firm or a single consumer is in equilibrium other firms may not be in equilibrium.
- It studies the behavior of individual decision making units and the working of individual market in isolation.
- It ignore interdependence and inter-connections among different market.
- It takes into account of Impact effect.

Explanation of Partial equilibrium

- http://www.yourarticlelibrary.com/economics/marshalls-partial-equilibrium-analysis-and-walras-general-equilibrium-analysis/37162

- https://link.springer.com/chapter/10.1057/978-1-137-47529-9_4

General Equilibrium Analysis

https://youtu.be/cuT-x2RqQLM

- It was introduced in 1874 by Leon Walras.
- It attempts to explain the functioning of the macroeconomy as a whole, rather than as collections of individual market phenomena.
- It is a branch of economics that seeks to explain economic phenomena like production, consumption and prices in the economy as a whole.
- General equilibrium analysis deals with explaining simultaneous equilibrium in all markets when prices and quantities of all products and factors are considered as variables.
- According to Walras if there are markets in the economy out of them if N-1 market are in equilibrium then Nth market have to be in equilibrium.
- This equilibrium is established on the basic of linear simultaneous equation.
- It considers inter-dependents and inter-connections among different markets.
- It takes into account Impact effect, spill over effect, ripples effect, repercussion effect.

Assumptions

http://www.yourarticlelibrary.com/economics/general-equilibrium-in-economics-meaning-assumptions-working-and-limitations/28937

- Limitations

http://www.yourarticlelibrary.com/economics/general-equilibrium-in-economics-meaning-assumptions-working-and-limitations/28937

- Working of the General equilibrium analysis

http://www.yourarticlelibrary.com/economics/general-equilibrium-in-economics-meaning-assumptions-working-and-limitations/28937

Differences between partial and general equilibrium

Differences between partial and general equilibrium

General equilibrium theory is distinguished from partial equilibrium theory by the fact that it attempts to look at several markets simultaneously rather than a single market in isolation.

Partial Equilibrium	General Equilibrium
• Developed by Alfred Marshall	• Developed by Léon Walras .
• Related to single variable	• More than one variable or economy as a whole is taken into consideration
• Based on two assumptions: Ceteris paribus Other sectors are not affected due to change in one sector.	• Based on the assumption that various sectors are mutually interdependent. There is an effect on other sectors due to change in one.
• Other things remaining constant, price of a good is determined	•Prices of goods are determined simultaneously and mutually. Hence all product and factor markets are