

Welfare Economics and General Equilibrium

Essay question (up to 1500 words)

What assumptions are required for the two fundamental theorems of welfare economics to hold? Are these so strong that the theorems are devoid of practical relevance?

Exam questions

1. How can a policy-maker determine and achieve the optimal distribution of resources when lump-sum taxation is possible? What can be done when it is not? (new Core Micro specimen paper, Section B)
2. “Any Pareto efficient allocation can be supported as a price equilibrium, given appropriate transfers.” Under what conditions would this statement be true? What would follow if it were? (2008)
3. Explain why a Walrasian equilibrium allocation is Pareto Efficient. How useful is this observation as a guide to policy? (2007)
4. “The First Fundamental Theorem of Welfare Economics should be the guiding principle of economic policy; the Second Theorem is irrelevant.” Do you agree? (2006)
5. What are the implications of the theory of the second best? (2005)