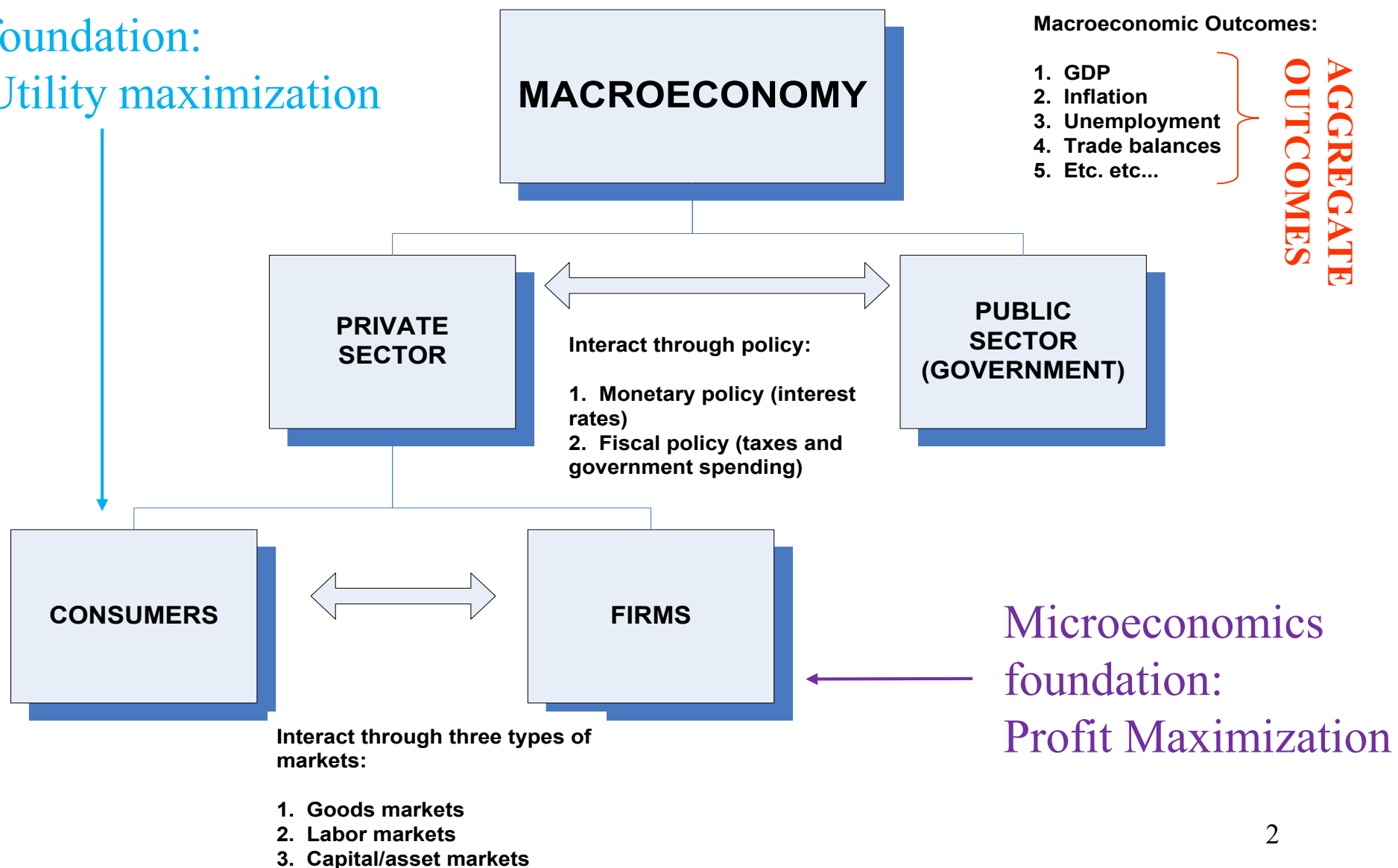


Competitive equilibrium

Microeconomics
foundation:
Utility maximization



- ❑ We have a lot of consumers and a lot of firms. And each consumer and each firm have to accept the prices given in all markets:
 - No allowance of so powerful consumer or saver that can influence the prices of goods market and capital market.
 - Also, we do not allow for a firm so big that it can also influence the prices of the three markets.
- ❑ In other words, each consumer and each firm will have to take the prices as given in order to maximize their benefits.
 - Consumers take the price of goods, wage, and interest rate as given to optimally choose how much labor to provide, how much to consume and how much to save.
 - Firms will take the price of goods, wage and interest rate as given to optimally choose how much labor to employ, how much goods to produce and how much to borrow to invest.