Microeconomics 2

Section 1. Partial Equilibrium

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1. Introduction

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There are two ways in which economists have studied market economies:

- General equilibrium (Leon Walras): whole economy
- Partial Equilibrium (Alfred Marshall): a single sector in isolation

Here we study **Partial Equilibrium**:

- Clearing of market for a **single** good independently from other markets.
- Prices of substitutes and complements & income levels of consumers taken as given.
- Surplus, welfare, comparative statics: all effects studied in one market in isolation

Partial equilibrium model much simpler than General Equilibrium Models.

But: Does not appropriately model real-world economic phenomena (cross-effects)

Differences to General Equilibrium:

- No trade between consumers
- No trade between firms
- Consumers own "money" which they give to firms in exchange for goods

	Partial Equilibrium	General Equilibrium
Developed by	Alfred Marshall	Léon Walras
Considers	One good vs "everything else"	Whole Economy
Underlying Assumption	Markets for different goods independent	Markets for different goods are interdependent.
Equilibrium	Price based on prices of other goods being constant	Prices of goods are determined simultaneously
Pros	Tractable, welfare analysis and comparative statics feasible	More realistic
Cons	Some interactions are ignored	More difficult