

Lecture 8

Varian, Chs. 21 and 22.1

- 1 **Summary of Lectures 1, 2, and 3: Production theory**
- 2 **Summary of Lectures 4 and 5: Consumption theory**
- 3 **Summary of Lectures 6 and 7: General equilibrium**
- 4 **The core of an exchange economy**

Definition 1 *An allocation x is in the core of an exchange economy if it cannot be improved upon by any coalition.*

Proposition 2 *The Walrasian equilibrium is in the core.*

Proposition 3 *Assume that preferences are strictly convex and strictly monotone, and that there exists a single equilibrium (x^*, p) . Then, there exists some replica r of the economy such that y is not in the r -core.*

5 Uniqueness of equilibrium

Definition 4 *Net substitutes*

Definition 5 *Gross substitutes*

Proposition 6 *If all goods are gross substitutes at all prices, there exists a single equilibrium price vector.*

6 Welfare: the compensation criterion

Definition 7 *The allocation x' is said to be a potential Pareto improvement on x if there is some way to reallocate x' so that everyone prefers the reallocation to x .*