Explain Walras concept of General equilibrium

Ans:-----The general equilibrium concept of Walras states that a change in one part of the economy can lead to changes throughout the economic system just as a stone throuwn into a pond causes widening circles of ripples.

Walras divides the entire economy into two great market--a. product market and b.factor market.

In sellers product market,the sellers consists of business firms who produce goods.The buyers are the households who consume the goods.In the factor market, the business firms are the buyers while the households who own land ,labour and other factors of production.

According to Walras,the buyers and sellers go to their respective markets and each is guided by the desire to maximise his utility. Various prices and quantities are offered until general equillibrium is reached.When once general equilibrium is reached, no buyer or seller can increase his utility by any change in his own actions and demand for products and

factors will be exactly equal to supply.

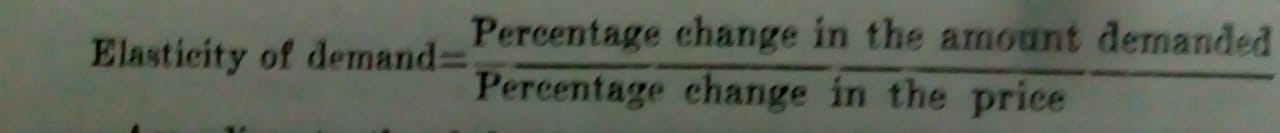
The general equilibrium analysis considers the interrelationships among the many variables in the economy.For instance, when there is a change in the price of a good,it will not affect the demand for that good alone, it will affect demand, price and supply of substitute goods too.This in turn, will cause a shift in employment of factors as well.So the general equilibrium analysis gives us a picture of general system of the interdependence of prices,demand and supply

Q.What are the contributions of Marshall

in the history of economic thought? 10

Ans: Alfred Marshall was the leader of the second generation of the marginal utility school.He made an attempt to bring about a synthesis of the classical theory and the new theory based on marginal utility.Therefore,he is sometimes called as aleading neo-classical economist.The following are the major contributions of Marshall to the history of economic thought.

ELASTICITY OF DEMAND: Marshall has introduced the concept of elasticity of demand to explain the rate of change of demand in response to change in price rate.The law pf demand simply tells us the inverse relationship between change in price and change in quantity demanded.We don't know how much change in demand takes place due to change in price from the law of demand.We have to take the help of the concept of elaticity of demand in order to know the rate of change.So, elasticity of demand is the responsiveness of demand due to the change in price.It can be explained in a simple formula.



CONSUMER'S SURPLUS:

Another contribution of Marshall in the history of economic thought is consumer's surplus.The concept of consumer's surplus is derived from the law of diminishing marginal utility.Marshal defined "The excess of a price which a person is willing to pay for a thing rather than go without the thing over that which he actually does pay is the economic measure of surplus satisfaction. This is consumer's surplus".

THEORY OF VALUE:

Marshall is credited with the long run controversy of the determination of value.He states that neither demand nor supply alone can determine value of goods.He synthesises both Classical theory and the theory of the marginal utility school and introduces a theory of value determination.His theory emphasises equally both demand and supply in the determination of value.His theory is known as dual theory of value due to emphasis on both sides.He stresses on the role of margin in value determination. Value is determined by the forces of demand and supply at the margin.It is marginal utility and marginal cost of production that govern.

On the basis of time element he divides value as----

a.market value or very short period value

b. short period value c.long period value and

d.secular value.

Demand plays a predominant role in the determination of market value as time is too short to change in supply according to demand.

In case of determination of short period value, both demand and supply plays equal role as variable factors can be changed.

Cost of production or supply is the most important deteminant factor of value as all the factors can be varied to tackle demand.

Secular value is determined by changes in population,tastes, capital, organisation and so on.

Marshall's introduction of time element in economic analysis is one of his many significant contributions to the history of economic thought.

REPRESENTATIVE FIRM:

Marshall introduces the concept of representative firm to explain the causes which govern the supply price of a commodity.He thought that supply price of a commodity would depend upon the cost of representative firm.Marshall's representative firm was that type of firm who had had a fairly long life and a fair success, which was managed with normal ability and which had normal access to the economics, internal and external.

QUASI RENT:

Marshall has introduced the concept of quasi rent in the history of economic thought. The concept is used for the surplus earned by man-made appliances whose supply is inelastic in short run. So,by quasi rent , Marshall meant the income derived from machines and other appliances of production made by man

Quasi-rent is a short period concept as excess income can be earned only in short period due to their scarcity in relation to demand. The excess income will disappear in the long run when their supply can be increased according to demand.

These are the significant contributions of Marshall to the history of economic literature.