

## [Summary]

## **Pareto Optimality and Grand Utility Possibility Frontier**

Subject:

**Course:** 

Paper No. & Title:

Unit No. & Title:

**Business Economics** 

B. A. (Hons.), 2<sup>nd</sup> Semester, Undergraduate

Paper – 201 Microeconomics-II

Unit – 3 General Equilibrium

Lecture No. & Title:

Lecture – 2 Pareto Optimality and Grand Utility Possibility Frontier

## Summary

Welfare economics, among other things, studies the conditions under which optimal solutions to the general equilibrium model can be achieved. This requires, among other things, an optimal allocation of factors among commodities and an optimal allocation of commodities among consumers.

The achievement of Pareto optimal state in the economy required the fulfillment of some marginal conditions. Although Pareto optimality is necessary but it is not the sufficient condition for the maximization of social welfare. The social welfare function provides a ranking of alternative states in which different individuals enjoy different levels of utilities. Grand possibility utility curve is the envelope of utility possibility frontiers at Pareto optimum points of production and exchange. Social welfare is maximized at the point of tangency of the grand utility possibility with the highest possible social indifference curves.