[Frequently Asked Questions]

Social Welfare Function, Welfare Maximization, Fair Allocation, Envy and Equity, Arrow's Impossibility Theorem

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Paper No. & Title:	Paper – 201 Microeconomics-II
Unit No. & Title:	Unit – 4 Welfare Economics
Lecture No. & Title:	Lecture – 1 Social Welfare Function, Welfare Maximization, Fair Allocation, Envy and Equity, Arrow's Impossibility Theorem

Frequently Asked Questions

Q1. What do you mean by social welfare function?

A1. A social welfare function is a function that ranks different social states as more or less desirable or even indifferent for every pair of social states.

Q2. Which is the highest attainable point of social welfare function?

A2. Point of constrained bliss is the highest attainable point of social welfare function.

Q3. How can we determine point of constrained bliss:

A3. By superimposing the social welfare function on the grand utility- possibility frontier, point of maximum social welfare or point of constrained bliss can be determined.

Q4. Why does concept of Classical welfare function was criticised by modern economists?

A4. The concept of Classical welfare function is criticised by Modern economists because as per them, utility is ordinal concept and cannot be measured cardinally. While, ethical assumption of giving same weightage to all was also not accepted.

Q5. What do you mean by fair allocation?

A5. Fair allocation is that allocation which is both Pareto efficient and Equitable.

Q6. State Arrow's Impossibily Theorem.

A6. Arrow's Impossibility theorem states that, "If we exclude the possibility of interpersonal comparisons of utility, then the only method of passing through individual tastes to social preferences which will be satisfactory and which will be defined for a wide range of sets of individual origin are either imposed or dictatorial".

Q7. State Bergson's- Samuelson's social welfare function.

A7. Bergson's-Samuelson's social welfare function is an ordinal index of society's welfare and is function of the utility level of all individuals in a society.

$W = W(U_1, U_2, U_3, \ldots\ldots, U_n)$

Q8. State Pareto Social welfare function.

A8. According to Pareto Social welfare function, when one individual is made better off with no one else becoming worse off, social welfare increases and vice versa.

Q9. Define a) Equity and b) Efficiency.

A9. a) Equity: Equity can only be possible if every person in the universe feels the same happiness as the other.

b) It is the state of allocation of goods and services produced and the marginal benefit of last unit produced is equal to the marginal cost of that good or service.

Q10. What do you mean by Grand utility Possibility frontier?

A10. The Grand Utility possibility frontier is locus of all those Pareto optimum point of production and exchange where no reorganisation of the production-distribution process can make some one better off without making someone else worse off.