

[Frequently Asked Questions]

Edgeworth Box

Subject:

Course:

Paper No. & Title:

Unit No. & Title:

Business Economics

B. A. (Hons.), 2nd Semester, Undergraduate

Paper – 201 Microeconomics-II

Unit – 3 General Equilibrium

Lecture No. & Title:

Lecture – 1 Edgeworth Box

Frequently Asked Questions

Q1. What does the equilibrium point on the contract curve for general equilibrium of exchange and consumption indicate?

A1. Equilibrium point on the contract curve for general equilibrium of exchange and consumption states that the individuals maximize their satisfaction.

Q2. What does the general equilibrium of exchange determine?

A2. The exchange of goods between the two individuals implies that the quantity sold of each good equal the quantity purchased of the good. The general exchange equilibrium also determines the exchange rate i.e. relative prices of the two goods.

Q3. In Edgeworth Box the general equilibrium of exchange of the goods lies on contract curve. Why?

A3. In Edgeworth Box the general equilibrium of exchange of the goods must lie on contract curve otherwise their MRS_{XY} will differ from each other.

Q4. Whether the slopes of the isoquants at different points on the production contract curve differ?

A4. Since the production contract curve is the locus of tangency points of the isoquants of X and Y, the slopes of isoquants are equal to each other at different points on it.

Q5. What does the slope of an isoquant measure on the contract curve?

A5. Since the slope of an isoquant measures the marginal rate of technical substitution between the two factors labour and capital (MRS_{LK}), at various points on the contract curve, the MRTS^X_{LX} = MRTS^Y_{LK}.

Q6. What is the requirement for the general equilibrium of production in two factor markets?

A6. The general equilibrium of production requires the simultaneous equilibrium of the two factor markets that determines the allocation of resources for the production of the two goods.

Q7. In an economy with many goods and many factors, what does the general equilibrium of production require?

A7. For an economy with many goods and many factors, the general equilibrium of production requires that the marginal rate of technical substitution between any pair of factors is the same for all goods and all producers using the same pair of factors.

Q8. In Edgeworth box where will the general equilibrium of production under competitive conditions in the factor markets lie?

A8. The general equilibrium of production under competitive conditions in the factor markets would lie somewhere on this production contract curve in the Edgeworth box.

Q9. What do different points at different places in the Edgeworth box for general equilibrium of production represent?

A9. Various points in the Edgeworth box for general equilibrium of production represent alternative allocations of factors between the two goods.

Q10. Whether the analysis of micro-economic theory determines relative prices or absolute prices?

A10. The analysis of micro-economic theory is concerned with the determination of relative prices and not absolute prices.