

SOCIAL Welfare and Pareto Equilibrium

The concept of Pareto optimum or economic efficiency stated above is based on a welfare criterion put forward by Pareto.

Pareto Criterion states that if any organization of economic resources does not harm anybody and makes someone better off, it indicates an increase in social welfare. If any reorganisation or change makes everybody in a society better off, it will undoubtedly mean increase in social welfare.

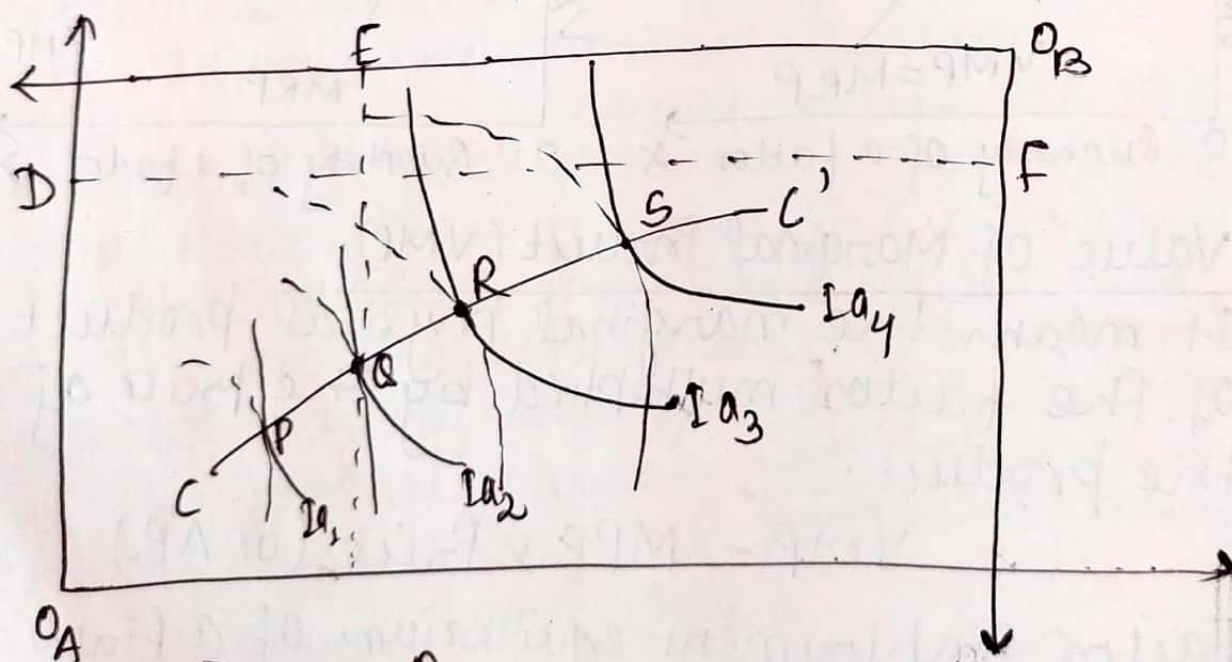
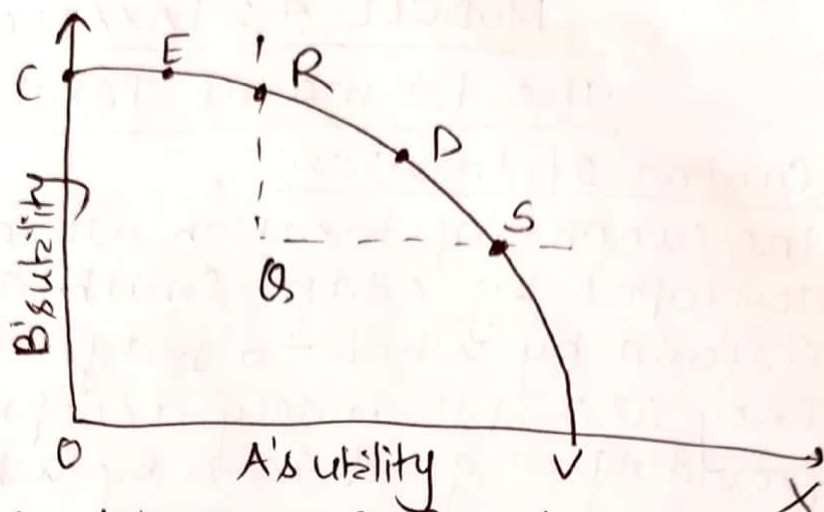


Figure: Pareto Criterion and Pareto Optimality.

Pareto criterion can also be explained with the help of Samuelson's utility possibility curve. Utility possibility curve

is the locus of the various combinations of utilities obtained by two persons from consumption of a particular bundle of goods.



Marginal conditions of Pareto optimum

Pareto concluded from his criterion that competition leads the society to an optimum position. The marginal conditions of Pareto optimum are based on the following important assumptions :-

1. Each individual has his own cardinal utility function and possesses a definite amount of each product and factor.
 2. Production function of every firm and the state of technology is given and remains constant.
 3. Goods are perfectly divisible.
 4. A Producer tries to produce a given output with least-cost combination of factors.
 5. Every individual wants to maximise his satisfaction.
 6. Every individual purchases some quantity of all goods.
 7. All factors of production are perfectly mobile.
- In next class, we will learn about Pareto optimum achievement.