The Edgeworth Box



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Lectures in Microeconomics-Charles W. Upton

The Basic Theorem

• The basic theorem in welfare economics:

A market, exchange, economy will achieve efficient resource allocation.

• We intend to show the basics of that proof.



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Some Basic Assumptions

• A simple economy: Harry and Sally.

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Some Basic Assumptions

- A simple economy: Harry and Sally.
- There are two factors of production, capital, K, and labor, L.

$$L = L_H + L_S$$

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Some Basic Assumptions

- · A simple economy: Harry and Sally.
- There are two factors of production, capital, K, and labor, L.

$$L = L_H + L_S$$

 These two factors of production can be used to produce either apples or bananas.

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Three Basic Questions

1. How many apples and how many bananas should be produced?

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Three Basic Questions

- 1. How many apples and how many bananas should be produced?
- 2. How should the apples and bananas be allocated between Harry and Sally?

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Three Basic Questions

- 1. How many apples and how many bananas should be produced?
- 2. How should the apples and bananas be allocated between Harry and Sally?
- 3. How should capital and labor be allocated to the production of apples and bananas?

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