

Preface	xi
Introduction	xiii

Part 1 Welfare Economics and General Equilibrium

1 Welfare Economics	3
1-1 Society's Economic Problem	4
1-2 Three Conditions for Efficiency	7
1-3 Social Justice and the Social Optimum	17
1-4 Capitalism, Market Failure, and Alternative Economic Systems	19
1-5 Criteria for a Welfare Improvement	29
1-6 The Measurement of Welfare Cost	38
1-7 The Social Welfare Function and the Equity-Efficiency Trade-Off	42
2 General Equilibrium	52
2-1 Consumption without Production (Pure Exchange)	53
2-2 Production without Consumption: One-Sector Model	63
2-3 Production without Consumption: Two-Sector Model	68
2-4 Production and Consumption	78
3 Applications to Public Finance	82
3-1 Three General Principles	84
3-2 A General Tax	90
3-3 A Tax on One Factor	91
3-4 A Tax on One Product (An Excise Tax)	93
3-5 A Tax on One Factor in One Industry	96

3-6	A Factor Tax with Variable Factor Supplies	99
3-7	Interpersonal Redistribution	100
4	Applications to International Trade	103
4-1	One Country's Gains from Trade: World Prices Constant	103
4-2	The Effects of a Tariff: World Prices Constant	105
4-3	The Determination of World Prices	109
4-4	The Optimum Tariff: World Prices Variable	111
4-5	World Income Distribution and World Trade Patterns: The Factor-Price Equalisation and Heckscher-Ohlin Theorems	113

Part 2 Consumer Demand

5	Utility and Consumer Demand	123
5-1	Preference and Choice	124
5-2	The Laws of Demand	133
5-3	Duality and Welfare Change	143
5-4	The Structure of the Utility Function	160
6	Efficient Pricing with Increasing Returns to Scale and Externality	170
6-1	First-Best Pricing and Investment	171
6-2	Second-Best Problems and Efficient Commodity Taxes	180
6-3	Externality, Transactions Costs, and Public Goods	189
6-4	Welfare Effects of Nonprice Allocation and Price Control	197

Part 3 The Product Market

7	Cost, Supply, and Competitive Equilibrium	207
7-1	The Firm's Cost and Supply	208
7-2	Industry Supply	221
7-3	Stability of Market Equilibrium	227
8	Imperfect Competition	235
8-1	Monopoly and Monopsony	236
8-2	Bargaining and Cartels	243
8-3	Oligopoly	248
8-4	Antitrust Policy	252

Part 4 Production and Factor Demand

9	The Derived Demand for Factors	259
9-1	Output Effect and Substitution Effect	260
9-2	Demand with Fixed Factor Proportions: The Output Effect	262
9-3	Demand with Fixed Output: The Substitution Effect	265
9-4	The CES Production Function	272
10	Further Aspects of Production	277
10-1	Programming Analysis of the Firm	277
10-2	<i>Ex-Ante</i> and <i>Ex-Post</i> Substitution	286
10-3	Technical Progress and Growth	289

Part 5 Factor Supply

11	Labour Supply and Wage Structure	303
11-1	The Supply of Hours	304
11-2	The Supply to an Occupation	310
11-3	Wage Structure and Human Capital	313
11-4	The Optimal Income Tax	321
12	Capital and Interest	326
12-1	The Individual: Two-Period Case, Convex Production Set	327
12-2	The Individual: Two-Period Case, Nonconvex Production Set	335
12-3	The Individual: <i>n</i> -Period Case	338
12-4	Capital-Market Equilibrium	341
12-5	Aggregate Capital and the Capital Controversy	342

Part 6 Uncertainty

13	Uncertainty	351
13-1	Individual Behaviour Towards Risk	351
13-2	Market Equilibrium and Welfare Economics	374
13-3	The Economics of Information	382
	Appendixes	391
1	Concavity and Quasi-Concavity	391
2	Welfare Maximisation	396
3	Homogeneous Functions	398

4	The Pareto-Optimality of Competitive Equilibrium	403
5	The Equations of General Equilibrium	405
6	The Size of the Production Run	408
7	The Influence of Random Variation on Cost and Production Functions	410
8	The Elasticity of Substitution	413
	Further Reading	415
	Notation	419
	Answers	421
	Index	487