

Léon Walras (1834 – 1910)

Vincent Chan
Econ 605.02

Background

- Léon Walras was born on December 16 1834.
- Born in Claren, Switzerland.
- Son of the French economist, Auguste Walras.
- When he was young, he was a novelist and art critic in Paris.
- Followed his father's footsteps of being an economist.
- Mathematician economist.



- Referred as one of the three leaders of marginalist revolution.
- 1874, he published *Elements of Pure Economics*.
- Considered as the father of the general equilibrium theory and neoclassical economics.
- Professor at the University of Lausanne, Switzerland.
- Joseph Schumpeter consider him as “the greatest of all economists”.



Influenced By:

- **Auguste Walras** (1801 – 1866), his father influenced him on the views of economic. Convinced him to pursue economics instead of another career.
- **Antoine Augustin Cournot** (1801 – 1877), his father's former schoolmate. He stood up to Institute de France and accused the academicians of injustice towards Cournot.
- **Enrico Barone**, (1859 - 1924), influenced him to incorporate variable production techniques into his theories.



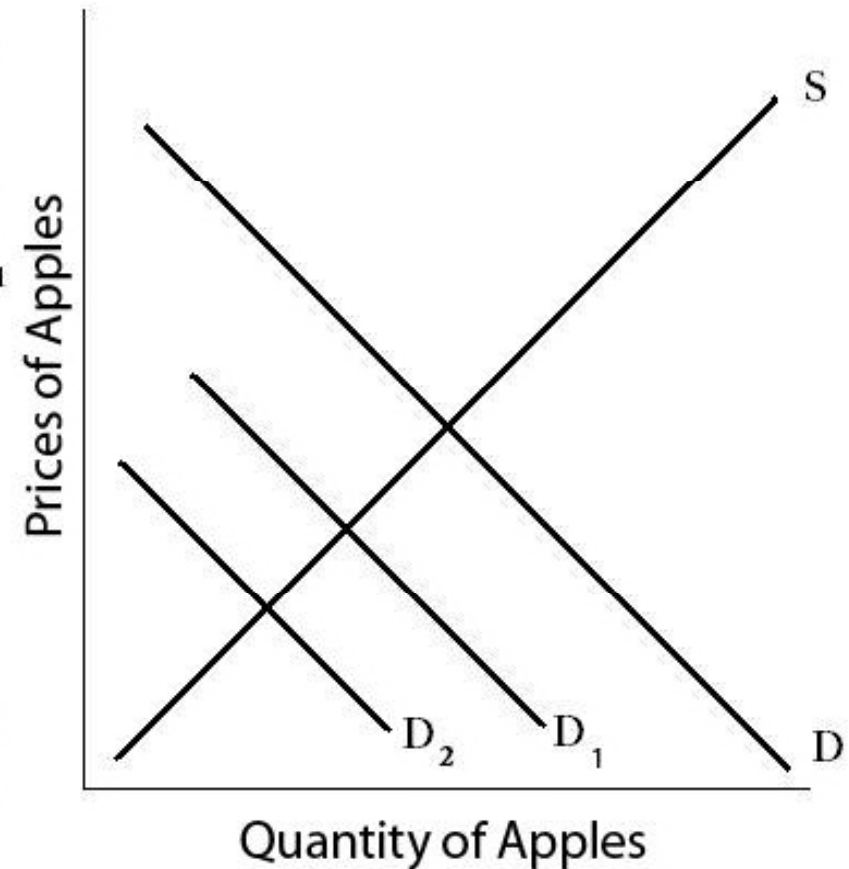
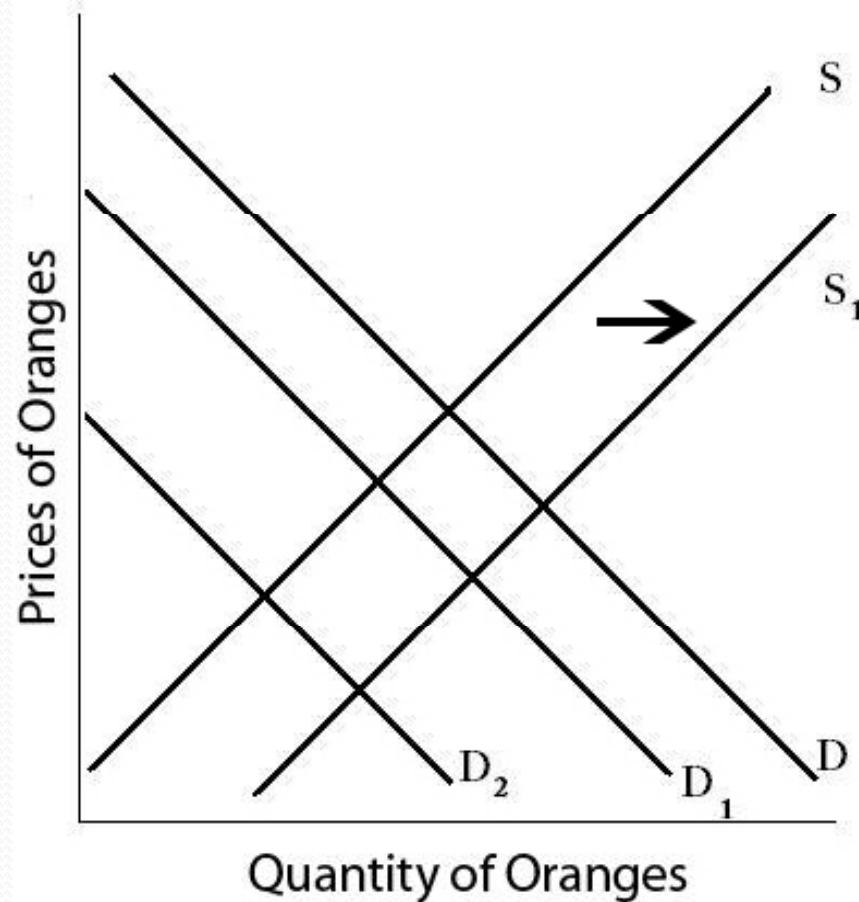
Contributions

1. General Equilibrium Theory
 - Partial vs. General
2. Walras Law

Partial vs. General Equilibrium

- Focuses on the price of one good while the price of the other goods remain constant.
- Prices will move toward equilibrium.
 - If prices are above equilibrium: there is excess supply, and competition between sellers will drive the prices down.
- Tries to make the General Equilibrium less complex and more manageable.

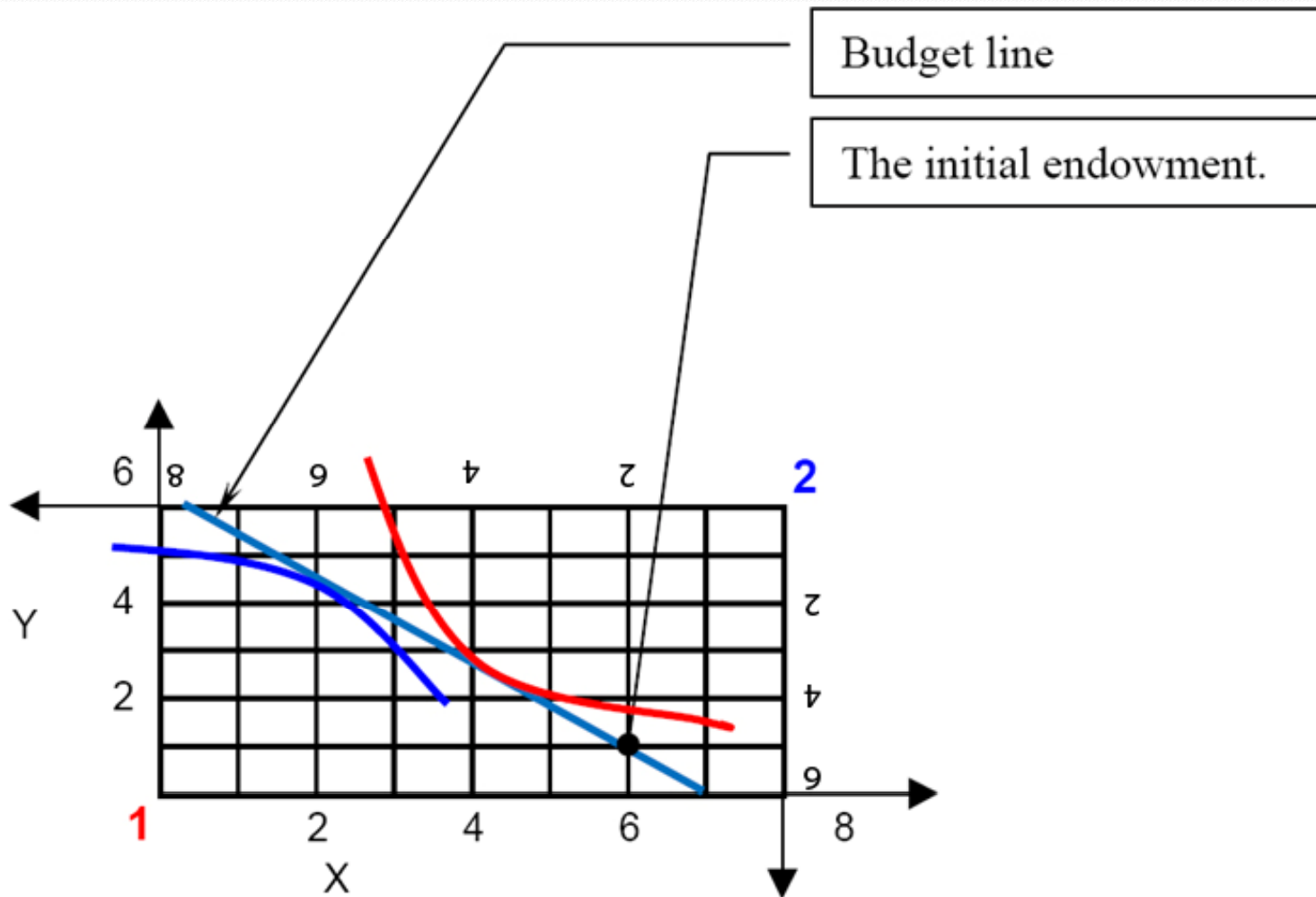
Partial Equilibrium



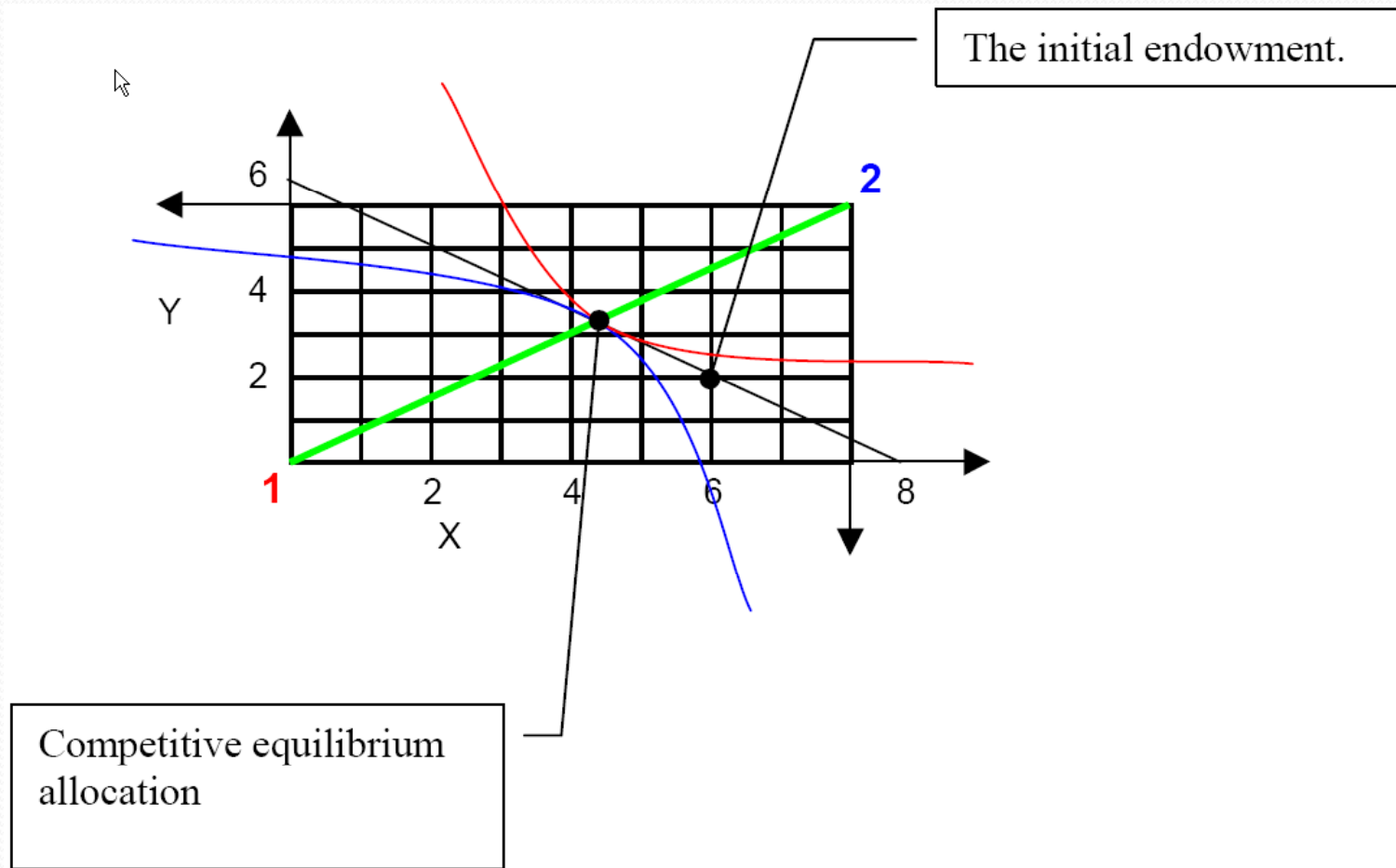
General vs. Partial Equilibrium

- Focuses on the impact of the entire economic system or a multitude of markets.
- Allows more variables to change because it focuses on many markets.

Edgeworth Box (Not Equilibrium)



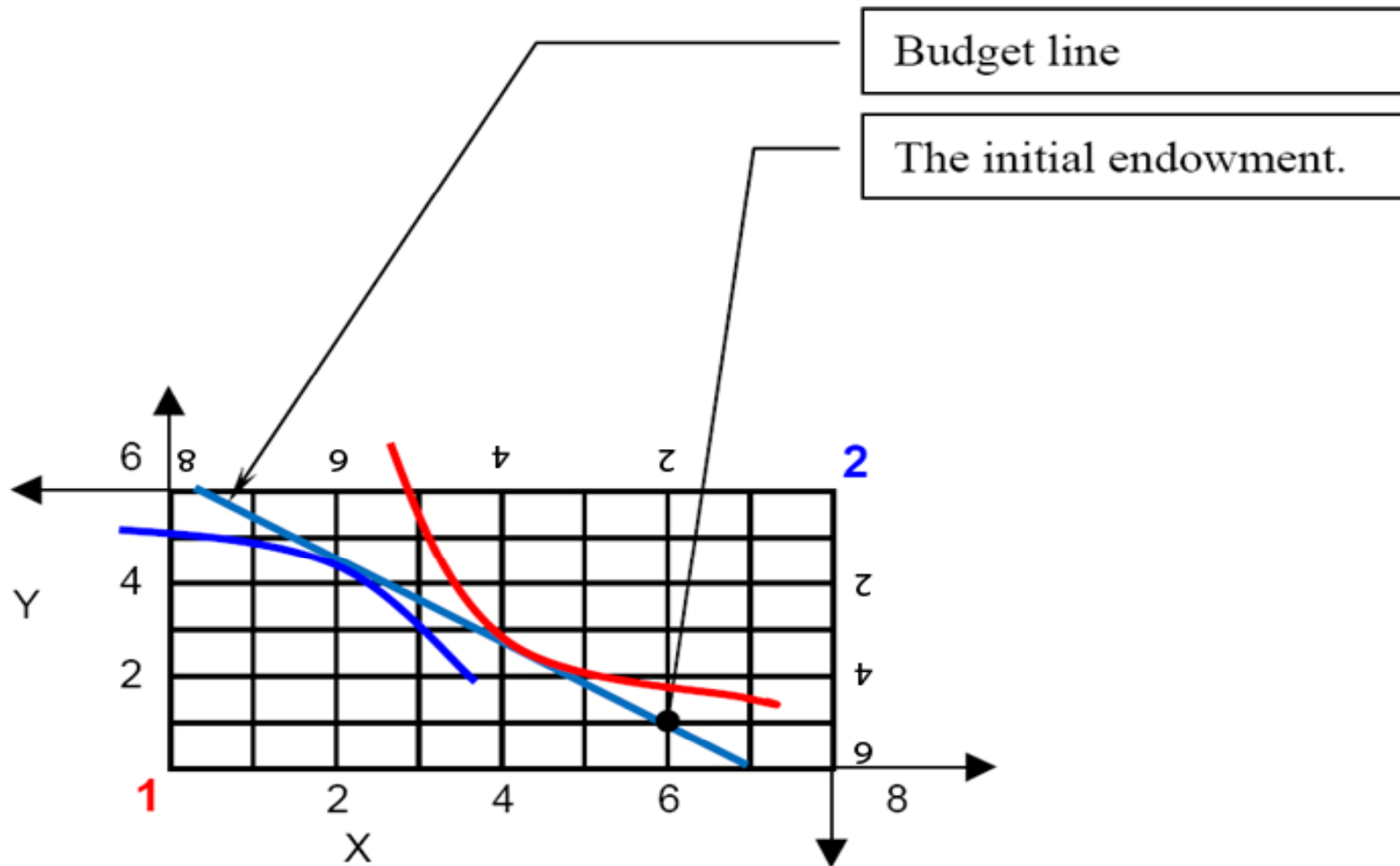
Edgeworth Box (Equilibrium)



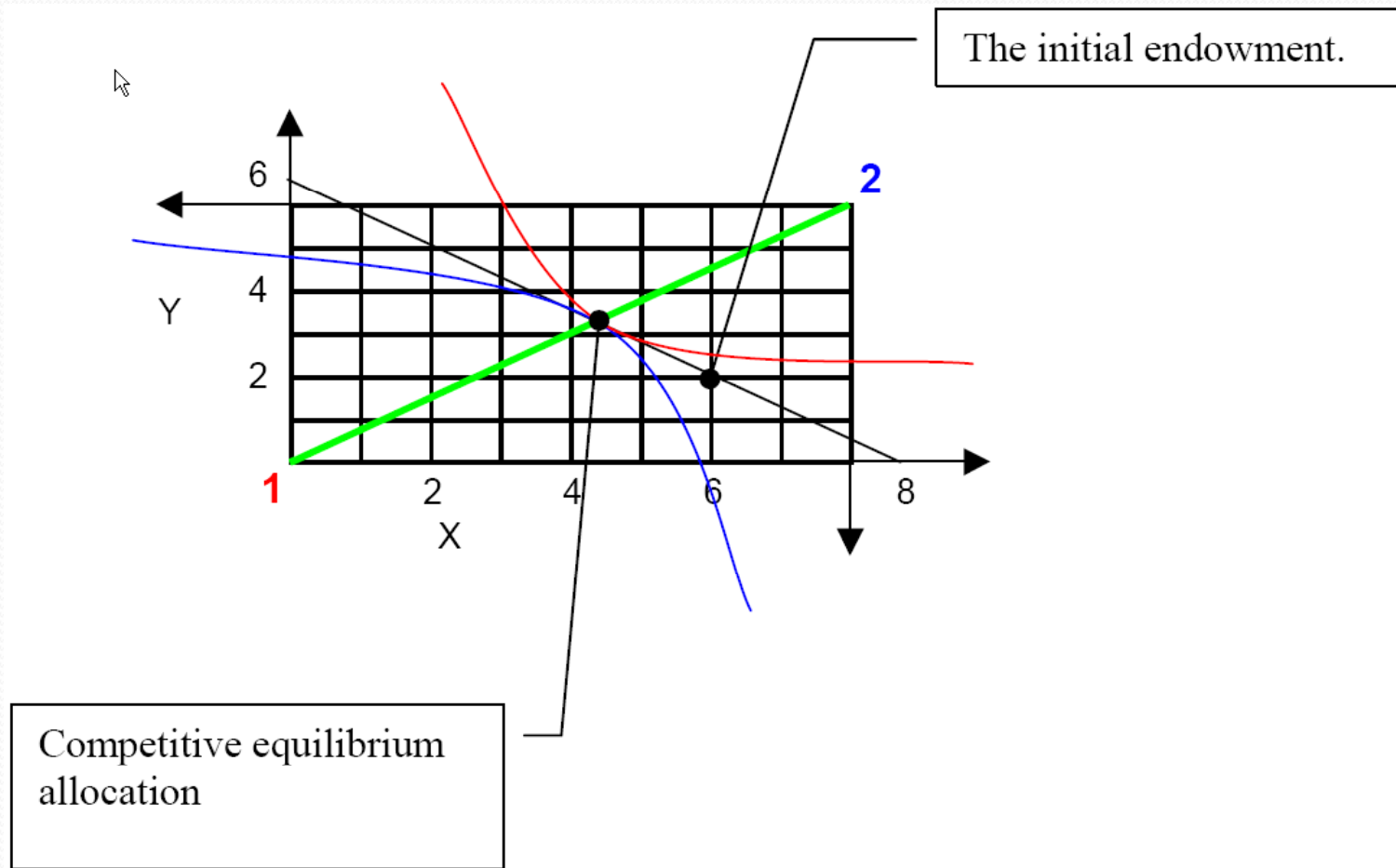
Walras' Law

- *The sum of excess demand across all markets must equal zero.*
- If there are n markets and $n-1$ are in equilibrium, then the remaining market must be in equilibrium.
- If there are n markets, and one of them is not in equilibrium, then there must be at least one more market which is also not in equilibrium.

Edgeworth Box (Not Equilibrium)



Edgeworth Box (Equilibrium)



Impact

- William Jaffé
 - He translated Walras' work from French to English.
 - Help start the development of neoclassical economics.
- Modern general equilibrium
 - Kenneth Arrow, Gerard Debreu, and Lionel W. McKenzie jointly worked together modeled after Walras' general equilibrium.

- Vilfredo Pareto
 - He and Walras formed the Lausanne school.
 - The focus of the school was Walras and Pareto's ideas.
 - Central focus of the school was the general equilibrium theory.
- Modern macroeconomics is applied to the general equilibrium theory.

Critique

- ◆ *Elements of Pure Economics* was considered his only contribution while the two other volumes he wrote were dismissed.
- ◆ He developed his theories of marginalism on independently instead of working with William Stanley Jevons and Carl Menger.
- ◆ General equilibrium analysis is complicated



Questions and Discussion

1. If you want to analyze the impact of high oil prices on the economy, which is the right approach, **partial** equilibrium or **general** equilibrium?
2. What are the advantages of **partial** equilibrium approach over the **general** equilibrium approach?
3. Keynes assumed that all the markets are in equilibrium, except for the labor market. Is this possible according to Walras' law?