

University of OEB

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Department of Economic Sciences

Third Year Licence: Quantitative Economics

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Lecture 06: Walras' Economic Thought

Léon Walras, born in 1834 and departing from the world in 1910, was not merely an economist but a visionary whose ideas transcended his time. His primary focus was on unravelling the complexities of economic equilibrium, and his most notable work introduced the concept of a general equilibrium—a state where the forces of supply and demand interact harmoniously to establish prices and quantities across all markets simultaneously.

At the heart of Walras's theory lies the fascinating notion of a hypothetical auctioneer. In his model, this hypothetical figure continuously adjusts prices until equilibrium is reached in all markets. This conceptual auctioneer acts as a catalyst, a force driving the economy toward a state of balance. The interconnectedness of markets is a key feature in Walras's model, illustrating that changes in one market can ripple through the entire economic system, fostering a more holistic understanding of economic dynamics.

In conclusion, the study of Walras's economic thought serves as a gateway to a deeper understanding of economic equilibrium and market dynamics. As aspiring economists, reflect on the interconnected nature of markets and the role of a hypothetical auctioneer in achieving equilibrium.

Reading Comprehension

- Who was Léon Walras, and what were his contributions to economics?
- What is the concept of general equilibrium in Walrasian economics?
- How did Walras envision the role of a hypothetical auctioneer in his economic model?
- What is the significance of the interconnectedness of markets in Walras' economic thought?
- Explain in your own words the Walras' economic Thought.

Vocabulary

Activity One: Match the following terms with their definitions

Equilibrium – Auctioneer – Interconnectedness - Hypothetical

Definitions:

- A. A person who conducts an auction, adjusting prices until a balance is reached.
- B. Existing only as an assumption or a possibility, not as a reality.
- C. The state in which opposing forces or influences are balanced.
- D. The state of being connected or related to each other.

Activity Two: Fill in the blanks with the appropriate terms from the vocabulary list

A. Auctioneer B. Equilibrium C. Contributions D. Interconnectedness E. Hypothetical

- 1- Léon Walras, born in 1834 and died in 1910, was not merely an economist but a visionary whose profound _____ have left an indelible mark on economic theory.
- 2- At the heart of Walras's theory lies the fascinating notion of a _____. In his model, this hypothetical figure continuously adjusts prices until _____ is reached in all markets.
- 3- The _____ of markets is a key feature in Walras's model, illustrating that changes in one market can ripple through the entire economic system, fostering a more holistic understanding of economic dynamics.
- 4- General _____ is a state in which the forces of supply and demand interact to determine prices and quantities in all markets simultaneously, offering a comprehensive view of the economy.