Unit four : Walras's Economy (Walrasian Economy)

1. **Introduction**

A Walrasian Economy refers to an economic system developed by Léon Walras, where all markets in the economy work together and reach equilibrium at the same time. This is known as General Equilibrium Theory.

2. Key Concepts of Walras's Economy

a. General Equilibrium

- All markets (goods, labor, capital, etc.) are connected.

- Prices adjust until supply equals demand in every market.

b. Walrasian Auctioneer

- A hypothetical figure who calls out prices.

- Adjusts prices when supply and demand do not match.

- No trade happens until all markets clear (tâtonnement process).

c. Perfect Competition Assumptions

- Many buyers and sellers.

- Perfect information.

- Rational behavior.

- No transaction costs.

3. Agents in a Walrasian Economy

Consumers:

- Maximize utility.

- Face budget constraints.

- Decide demand based on prices.

Firms:

- Maximize profit.

- Use production functions.

- Decide supply.

4. Walras's Law

If all markets except one are in equilibrium, the remaining market is also in equilibrium. Excess demand across markets always sums to zero.

5. Importance of Walras's Economy

- Foundation of modern microeconomics.

- Explains price formation.

- Shows how markets interact.

6. Criticisms

- Assumes perfect competition.

- Not realistic adjustment process.

- Ignores institutions and uncertainty.

7. Summary

A Walrasian economy is a system where all markets interact, prices adjust until supply equals demand, and the economy reaches general equilibrium.