Lecture 11: Marginalists – the Walrasian school

The approach towards economics, and in particular microeconomics (the distinction between micro and macro was of course to come only much later) proposed by Walras and his followers differs considerably from that of the English school as well as from the Austrians (next lecture), the main distinguishing feature being the *general equilibrium* approach to economic analysis. As also mentioned in V&G, this was not fully appreciated (or indeed understood) in Walras' lifetime, its major breakthrough occurring only in the 1950s.

The description of what is meant by a the general equilibrium approach is somewhat longwinded in V&G, but it is a useful introduction for those not having been exposed previously to the theory (which is slowly being filtered out of the mainstream microeconomics textbooks nowadays being considered as too complicated). For our purpose, it is important to notice how Walras saw the workings of the market where demand is to meet supply. Here Walras assumes a single price for each commodity (in accordance with Jevons' "principle of indifference") which is used by buyers and sellers to determine demand and supply (so that the market is one of perfect competition), and only the equilibrium prices will remain.

The detailed mechanism by which the equilibrium prices of all commodities are established (the celebrated tâtonnement process) is of course rather unrealistic and it turned out that it wouldn't solve the problem except in special situations. Behind the technical problems (see Lecture Note 11) there is an even deeper one of whether the Walrasian equilibrium concept focussing on the equilibrium and neglecting disequilibria is sufficient for understanding the function of markets.

Among the early followers of Walras, his successor in Lausanne Vilfredo Pareto is important. He is mentioned in V&G only in a later chapter but fits better here. V&G mentions that the Walrasian school had followers in Italy, actually also in Portugal.

We read: V&G, chapters 21 and 30.