

Examples and exercises on Pareto efficiency

Example

Consider an economy that contains only one good, which everyone likes.

Example

An economy contains two people and two goods, apples and bananas. Person 1 likes apples and dislikes bananas (the more bananas she has, the worse off she is), and person 2 likes bananas and dislikes apples. There are 100 apples and 100 bananas available.

Example

An economy contains two people and two goods, apples and bananas. Person 1 likes apples and doesn't care one way or the other about bananas (she is indifferent between any bundles (a,b) and (a,b') , where a is some number of apples and b and b' are numbers of bananas). Person 2 likes bananas and doesn't care one way or the other about apples. There are 100 apples and 100 bananas available.

Example

An economy contains two people and two goods, apples and bananas. Both people like both goods, but value them differently. For person 1, 1 apple is exactly equivalent to 2 bananas: she is indifferent between any bundles (a, b) and $(a - n, b + 2n)$, where a is some number of apples, b is some number of bananas, and n is some number. For person 2, 2 apples are exactly equivalent to 1 banana.

Imagine that someone walking along a deserted beach finds a \$20 bill on the sand.

Imagine that two people are walking together along the beach when they find the bill.