Pareto Optimality (Maximum Social Welfare) Encyclopedia Article

Pareto Optimality (Maximum Social Welfare)

The following sections of this BookRags Literature Study Guide is offprint from Gale's For Students Series: Presenting Analysis, Context, and Criticism on Commonly Studied Works: Introduction, Author Biography, Plot Summary, Characters, Themes, Style, Historical Context, Critical Overview, Criticism and Critical Essays, Media Adaptations, Topics for Further Study, Compare & Contrast, What Do I Read Next?, For Further Study, and Sources.

(c)1998-2002; (c)2002 by Gale. Gale is an imprint of The Gale Group, Inc., a division of Thomson Learning, Inc. Gale and Design and Thomson Learning are trademarks used herein under license.

The following sections, if they exist, are offprint from Beacham's Encyclopedia of Popular Fiction: "Social Concerns", "Thematic Overview", "Techniques", "Literary Precedents", "Key Questions", "Related Titles", "Adaptations", "Related Web Sites". (c)1994-2005, by Walton Beacham.

The following sections, if they exist, are offprint from Beacham's Guide to Literature for Young Adults: "About the Author", "Overview", "Setting", "Literary Qualities", "Social Sensitivity", "Topics for Discussion", "Ideas for Reports and Papers". (c)1994-2005, by Walton Beacham.

All other sections in this Literature Study Guide are owned and copyrighted by BookRags, Inc.



Contents

Pareto Optimality (Maximum Social Welfare) Encyclopedia Article.....1

Contents.....2

Pareto Optimality (Maximum Social Welfare).....3

Pareto Optimality (Maximum Social Welfare)

Usually, one thinks of efficiency as not being wasteful or getting the most out of the resources one has available. Economists offer the Pareto optimum—"a situation where no one can be better off without making someone worse off." Derived from the work of the Italian economist and sociologist Vilfredo Pareto, whose late nineteenth-century writings on political economy inspired much thinking about what made an economy efficient, Pareto optimality has come to mean making at least one person better off without making anyone else worse off. For an economy, it means that the allocation of resources is optimal if no other allocation exists wherein a person is better off and everyone is at least as well off. Economic theory holds that these conditions are met if consumers maximize utility, producers maximize profits, competition prevails, and information is adequate for the making of rational decisions. A free market unconstrained by government involvement, it is assumed, will achieve Pareto optimality by an invisible hand, that is, automatically, provided that production and consumption decisions do not entail substantial environmental disamenities. Imperfect market conditions, which include environmental disamenities on a large scale, challenge the assumptions of Pareto optimality and call for remedial measures such as **pollution** taxes or **emission** rights to restore market efficiency.

See Also

Externalities