

Introduction to Social Welfare and Efficiency

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What is social welfare?

social welfare: $\sum_{i \in \text{model}} \text{utility}(i)$

goal of policy / government maximize social welfare

What is an efficient allocation?

allocation: description of # of goods in model
+ description of what people are doing

efficient allocation: allocation that maximizes social welfare subject to
tools available in model / structure of the economy.

Why do we care about efficiency / efficient allocation?

It tells us whether there is a role for government intervention & policy -

RBC model: always efficient \rightarrow there is
no role for government intervention \rightarrow there is

no role for monetary policy, fiscal policy.

Matching model: generally inefficient \rightarrow role for government policy.