Microeconomics
Competitive Equilibrium and Market Failures Licence S3

Stéphane Gauthier

2026-27

Sessions 1 to 6 of the course assume a good command of individual supply (and the notion of production cost) and demand as studied in Licence 1. The notions of equilibrium and optimum are presented in a partial equilibrium framework, as well as two sources of market failure (externalities and public goods). These notions are extended to the general equilibrium framework in sessions 7 to 12, taught by Laurie Bréban. All of these notions are covered in most microeconomics textbooks; Hal Varian's *Introduction to Microeconomics*, De Boeck, is a useful complement to the course. The references below refer to the 1993 edition of Hal Varian's book. A complete recording of the lectures is available on the EPI.

Part 1. Partial Equilibrium Analysis

Chapter 1. Partial Equilibrium – Varian, Sections 14.6 and 14.7

- Aggregate Supply – Varian, Chapters 18 and 21
- Aggregate Demand – Varian, Chapter 15
- Market Equilibrium – Varian, Section 16.2

Chapter 2. Optimality of Equilibrium

- Marshallian Analysis – Consumer Surplus – Varian, Chapter 14
- Pareto Optimum – Varian, Section 16.9
- Welfare Economics Theorems

Chapter 3. Comparative Statics and Incidence – Varian, Sections 16.5 to 16.8

- Harberger's Deadweight Loss
- Distributional Issues

Part 2. Market Failures

Chapter 5. Externalities – Varian, Chapter 30

- Inefficiency of Competitive Equilibrium
- Global Externality: Climate Change
- Pigouvian Taxation
- Local Externality: Pollution
- Bargaining and the Coase Theorem

Chapter 6. Public Goods

- Varian, Chapter 31
- Samuelson Rule
- Private Provision of Public Goods
- Voluntary Contribution Equilibrium
- Groves Mechanism