<u>DISTINCTION BETWEEN PARTIAL AND GENERAL EQUILLIBRIUM</u>

In Economics a distinction is made between the partial and general equilibrium analysis.

PARTIAL EQUILIBRIUM

Partial equilibrium analysis is a study of individuals, which involves studying a single good market, a single factor market, a single consumer or a single producer in isolation.

Under partial equilibrium analysis, we explain the determination of equilibrium price and quantity of a product or factor through its demand and supply ignoring the prices of and market conditions for other related goods.

Partial equilibrium is based on the assumption that the price of other products or factors does not change when there is some change in the price of the commodity under consideration.

Therefore, the analysis in which we do not consider the inter-dependence of product and factor markets and the prices of other related commodities and factors is called Partial Equilibrium Analysis.

It is unrealistic.

GENERAL EQUILIBRIUM

On the other hand general equilibrium analysis takes into account the inter-relationship and inter-dependence between different markets and studies the determination of equilibrium simultaneously in all the markets

General equilibrium analysis is a study of simultaneous equilibrium in all the markets and considers all prices as variable.

Under it, an economy is studied as a closed system, with all prices being determined simultaneously.

General equilibrium analysis takes into account the effect of change in price and market conditions in other goods’ markets on the price of the good under consideration.

It is more realistic.