

Comparison of Individual Decision Analysis
and
Equilibrium Analysis

Analysis of Individual
Decision-Making (501A)

Analysis of Interaction Among
Multiple Economic Units (501B)

Typical unit:

Household; Firm

Market, industry, economy, firm,
club, organization, society
electorate

Assumption:

Unit's choice is optimal,
according to some objective
function, perhaps subject
to constraint(s)

Unit is in equilibrium

Analytical
characterization:

First-order conditions —
i.e., equations

Equilibrium condition(s)
— i.e., equations

Typical question:

What is effect of an exogenous
change — e.g., in price of
another good, weather, etc.
("comparative statics")

What is effect of exogenous change
— e.g., in expectations,
weather, etc.
("comparative statics")

Method:

IFT applied to FOC

IFT on equilibrium conditions

Other questions:

Existence, optimality, stability.
is it "the right model"?