

# Welfare Economics

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Class-M.A.Sem-II

## What Is Welfare Economics?

Welfare economics is the study of how the allocation of resources and goods affects [social welfare](#). This relates directly to the study of economic efficiency and income distribution, as well as how they affect the overall well-being of people in the economy. In practical application, welfare economists seek to provide tools to guide public policy to achieve beneficial social and economic outcomes for all of society. However, welfare economics is a subjective study that depends heavily on chosen assumptions regarding how welfare can be defined, measured, and compared for individuals and society as a whole.

## KEY TAKEAWAYS

- Welfare economics is the study of how the structure of markets and the allocation of economic goods and resources determines the overall well-being of society.

- Welfare economics seeks to evaluate the costs and benefits of changes to the economy and guide public policy toward increasing the total good of society, using tools such as cost-benefit analysis and social welfare functions.
- Welfare economics depends heavily on assumptions regarding the measurability and comparability of human welfare across individuals, and the value of other ethical and philosophical ideas about well-being.

### Understanding Welfare Economics

Welfare economics begins with the application of utility theory in microeconomics. [Utility](#) refers to the perceived value associated with a particular good or service. In mainstream [microeconomic](#) theory, individuals seek to maximize their utility through their actions and consumption choices, and the interactions of buyers and sellers through the laws of [supply and demand](#) in competitive markets yield [consumer](#) and [producer surplus](#).

Microeconomic comparison of consumer and producer surplus in markets under different market structures and conditions constitutes a basic version of welfare economics. The simplest version of welfare economics can be thought of as asking, "which market structures and arrangements of economic resources across individuals and productive processes will maximize the sum total utility received by all individuals or will maximize the total of consumer and producer surplus across all markets?" Welfare economics seeks the economic state that will create the highest overall level of social satisfaction among its members.