Efficiency & Welfare

Economics

The efficiency concepts, and what they leave out.

The concepts.

Efficiency types

Allocative — price equals marginal cost	Productive — lowest cost per unit
Dynamic — innovation over time	Pareto — no one better off without harm

What it omits

Distribution of the gains	Whether the initial position was fair
Preferences shaped by circumstance	Non-market values

A Pareto-efficient outcome can be deeply unequal. Efficiency and equity are separate criteria, and often in tension.