

Contents

1	Introduction	1
1.1	Introduction	1
2	The Origins of Economic Theory	5
2.1	Introduction	5
2.2	Mercantilism	7
2.3	Physiocracy	9
2.3.1	Fundamental Physiocratic Principles	10
2.3.2	The <i>Tableau Economique</i>	11
2.3.3	The <i>Tableau Economique</i> as an Input–Output Model	13
2.3.4	The Single-Tax Scheme	16
2.4	Summary and Conclusions	17
3	Adam Smith’s <i>Wealth of Nations</i>	21
3.1	Introduction	21
3.2	The Theory of Moral Sentiments	21
3.3	The Market Mechanism	23
3.4	The Theory of Value	25
3.5	The Making of Economic Science	29
3.6	Smith’s Model of Economic Growth	33
3.7	The Falling Rate of Profit and the Stationary Economy	37
3.8	The Stationary Economy	39
3.8.1	Productive and Non-Productive Labour	42
3.8.2	General Statements on Taxation	45
3.9	On Public Debt	48
3.10	Summary and Conclusions	49
	Appendix: The Labour Commanded Theory of Value	54

4	David Ricardo's <i>Principles of Political Economy</i>	57
4.1	Introduction	57
4.2	The Theory of (Exchange) Value	58
4.2.1	Modifications due to Unequal Capital–Labour Ratios	61
4.2.2	Modifications due to Changes in Distribution	62
4.2.3	Modifications due to Unequal Turnover Times	63
4.3	The Rate of Profit in the Long Run and the Stationary State	65
4.4	The Principle of Comparative Advantage	69
4.5	On the Question of Machinery	72
4.6	Ricardo's Theory of Taxation	75
4.7	Ricardo on Public Debt	78
4.8	Concluding Remarks	81
5	Karl Marx's <i>Das Kapital</i>	85
5.1	Introduction	85
5.2	Commodity Production and Value	87
5.3	Concrete and Abstract Labour	88
5.4	Socially Necessary Labour Time	89
5.5	The Law of Value in Marx	91
5.6	Money and Price	92
5.7	Surplus Value and Profit	93
5.8	Marx's Theory of Money	95
5.8.1	Convertible Paper Money	98
5.8.2	Non-convertible Paper Money	100
5.9	The Transformation Problem	101
5.9.1	Marx's Solution	103
5.9.2	The Critique of von Bortkiewicz	106
5.9.3	Shaikh's Solution	107
5.10	Marx on Competition	111
5.10.1	Competition Between Industries	112
5.10.2	Competition Within Industries	114
5.10.3	Regulating Capitals	115
5.11	The Falling Tendency of the Rate of Profit	116
5.12	General Rate of Profit and Economic Crisis	118
5.13	Summary and Conclusions	120
	Appendix	127
A1:	The Mathematics of the Falling Rate of Profit	127
A2:	The Incremental Rate of Profit and its Components	128
6	The Structure of Classical Theory	133
6.1	Introduction	133
6.2	The Long Period Method of Analysis	135
6.2.1	Given Output	138
6.2.2	Given Technique	138

6.2.3 Given Real Wage	139
6.3 The Determination of the Level of Output, or Say’s Law of Markets	141
6.4 The Linear Model of Production	142
6.5 The Malthus–Ricardo Controversy on Say’s Law	143
6.6 Summary and Conclusions	147
Appendix A	150
A.1 The Input–Output Analysis	150
A.1.1 Price Determination	152
A.1.2 A Numerical Example	152
A.1.3 The Marxian Theory of Value and Direct Prices	153
A.1.4 Prices of Production	154
7 The Structure of the Neoclassical Theory	157
7.1 Introduction	157
7.2 The Silent Marginal Revolution	158
7.3 Salient Features of the Neoclassical Theory	162
7.4 The Model of Pure Exchange Economy	164
7.4.1 A Formal Presentation	172
7.4.2 Walras Law	173
7.5 From Pure Exchange to Production	175
7.6 Summary and Conclusions	181
8 Theory of Capital and Cambridge Controversies	187
8.1 Introduction	187
8.2 Production with Produced Means of Production	188
8.3 Production with Capital and the First Neoclassical Economists ..	190
8.4 Samuelson’s Surrogate Production Function	196
8.5 From the One-Commodity World to the Real Economy	201
8.6 Wicksell Effects	206
8.7 Summary-Conclusions	207
9 Between Competition and Monopoly	213
9.1 Introduction	213
9.2 Neoclassical Theory and Perfect Competition	214
9.3 Economies of Scale	217
9.4 Cost Curves	219
9.5 Sraffa’s Critique of the Marshallian Theory of the Firm	222
9.6 Model Differentiation: Robinson Vs. Chamberlin	225
9.7 The Rise and Fall of a Revolution	233
9.8 Summary and Conclusions	237
Appendix A	241
Full Cost Pricing of Hall and Hitch	241

10	Keynes's General Theory	243
10.1	Introduction	244
10.2	The Principle of Effective Demand	245
10.3	The Income Determination Model	247
10.4	The Marginal Efficiency of Capital	251
10.4.1	The Falling MEC	252
10.5	The Liquidity Preference Theory	256
10.5.1	Money Rate of Interest and Returns on Assets	260
10.6	The Effects of Wage Reduction	263
10.7	Keynes on Economic Policy	264
10.8	Summary and Conclusions	266
11	The Neoclassical Synthesis	271
11.1	Introduction	271
11.2	Hicks's Analysis of IS-LM	272
11.3	Hicks and Keynes	276
11.4	Modigliani's Synthesis	279
11.5	Summary and Conclusions	282
12	Disequilibrium Macroeconomics: From Its Brief Ascent to the Rapid Decline	287
12.1	Introduction	287
12.2	Walrasian Vs. Keynesian Models	288
12.3	Effective Demand and Notional Demand	289
12.4	The Microeconomic Foundations of Disequilibrium Macroeconomics	292
12.5	The Effectiveness of Economic Policy	295
12.5.1	The Critique of Richard Kahn	297
12.6	Summary and Conclusions	297
13	The Rise and Fall of Monetarism	301
13.1	Introduction	301
13.2	The Phillips Curve	302
13.2.1	Short-Run and Long-Run Phillips Curve	303
13.2.2	Expectations-Augmented Phillips Curve	306
13.3	Quantity Theory of Money and Monetarism	307
13.3.1	Friedman's Demand for Money	311
13.4	The Monetarist Approach to the Balance of Payments	313
13.5	Economic Policy Conclusions	315
13.6	Keynesian Responses	317
13.7	Summary and Conclusions	320
14	New Classical Macroeconomics	325
14.1	Introduction	325
14.2	The Rational Expectations Hypothesis	327

14.3	Continuous Market Clearing	329
14.4	The Lucas Supply Curve	330
14.5	The New Classical Economics and the Business Cycle	332
14.6	The Ineffectiveness of Government Intervention	334
14.7	Barro's Ricardian Equivalence Theorem	335
14.8	The Lucas Critique	337
14.9	Concluding Remarks	338
15	The Real Business Cycles Approach	343
15.1	Introduction	343
15.2	Salient Features of the RBC Approach	344
15.3	A Short Historical Excursion	346
15.4	Economic Growth and Cycles	349
15.5	Shocks in Technology	351
15.6	Simulation Models	353
15.7	Economic Policy Implications	354
15.8	Summary and Concluding Remarks	357
16	The Return of (New) Keynesian Economics	363
16.1	Introduction	363
16.2	Nominal Rigidities	364
16.3	Real Rigidities	367
16.3.1	Models of Implicit Contracts	369
16.3.2	The Efficient Wage Hypothesis	370
16.3.3	The Insider–Outsider Hypothesis	371
16.4	Economic Fluctuations	372
16.4.1	Fluctuations Caused by Nominal Rigidities	372
16.4.2	Fluctuations Caused by Uncertainty	374
16.5	New Consensus Macroeconomics	375
16.6	Policy Implications	378
16.7	Summary and Conclusions	379
17	Economic Theory in Historical Perspective	383
17.1	Introduction	383
17.2	Core Characteristics of Competing Economic Theories	384
17.3	Elements for a New Direction	392
	References	395
	Index	413