## Contents

	List of Illustrations	xxiii
	Preface and acknowledgments	XXV
	Introduction	1
P/ M	ART I lethodology of the neoclassical macro model	9
1	The demand side of the neoclassical model	11
	1.1 Introduction 11	
	1.2 The circular flow and its aggregates 12	
	1.3 The income-expenditure model (demand side) 15	
2	The neoclassical model with a supply side	22
	2.1 Aggregate one commodity production 22	
	2.2 Constructing the "real" system 25	
	2.3 Equilibrium in the "real" system 30	
	2.4 Clearing away the fog 36	
3	Comparative statics and equilibrium	39
	3.1 Statics, dynamics and general equilibrium 39	
	3.2 Confusions of logical and chronological time 41	
	3.3 Equilibration of markets 43	
	3.4 The homogeneity postulate 49	
4	Money in the neoclassical model	52
	4.1 Introduction 52	

	4.2 Neoclassical money 53	
	4.3 Money and the price level 56	
	4.4 Walras' Law and the quantity theory 59	
	4.5 The money supply further considered 63	
	4.6 Neoclassical monetary and the realism of models 64	
PA	RT II	
Paradigm lost: the basic neoclassical model		65
5	The classical false dichotomy model	67
	5.1 Introduction 67	
	5.2 A false dichotomy model 67	
	5.3 False dichotomy general equilibrium 71	
	5.4 The arbitrariness of the full employment solution 77	
6	Logically consistent money-neutral models	79
	6.1 A real balance effect model 79	
	6.2 Interest-elasticity money market model 84	
	6.3 The "liquidity trap" 92	
7	The "complete" model with a wealth effect	95
	7.1 Inside and outside money 95	
	7.2 Specifying the wealth effect 96	
	7.3 Mechanics of the wealth effect 97	
	7.4 Non-neutrality and the wealth effect 101	
	7.5 Stocks and flows and the wealth effect 102	
	Annex to Part II: Keynes and aggregation	104
PA	ART III	
A	critique of self-adjusting full employment	117
8	Neutrality and full employment	119
	8.1 Logic of the models summarized 119	
	8.2 The significance of neutrality 122	
	8.3 Full employment further investigated 124	

8.4 The "unemployment of capital"? 127

9	Expectations and full employment	132
	9.1 Perfect, static and adaptive expectations 132	
	9.2 The rational expectations hypothesis 133	
	9.3 The New Classical Economics and the REH 136	
	9.4 The New Classical Economics and policy 139	
	9.5 Evaluating the New Classical Economics 141	
10	Full employment and multi-commodity production	143
	10.1 Introduction 143	
	10.2 Switching techniques and the factor price frontier 144	
	10.3 The neo-Keynesian critique 148	
	10.4 Full employment and reswitching 155	
11	Full employment and disequilibrium	159
	11.1 Effective demand and the multiplier 159	
	11.2 General disequilibrium 160	
	11.3 Leijonhufvud on disequilibrium adjustment 163	
D A 1	<b>ρ</b> τ 1λ <i>γ</i>	
So-	-called open economy analysis	167
	enter open coolony analysis	
12	Introduction to "open economies"	169
	12.1 Theoretical problems with "open economies" 169	
	12.2 From theory to policy 170	
	12.3 Fiscal and monetary policy in a closed economy 172	
	Annex to Chapter 12: The open economy in algebra 177	
13	The neoclassical open economy	180
	13.1 Introduction 180	
	13.2 Standard open economy model: the algebra 180	
	13.3 Standard open economy model: the diagrams 184	
	13.4 "Advantages" of flexible exchange rates 192	
14	Reassessing monetary and fiscal policy	195
	14.1 Introduction 195	
	14.2 Effectiveness of monetary policy 197	
	14.3 Effectiveness of fiscal policy 200	
	14.4 Summing up open economy models 205	

PART V Paradigm regained: reclaiming policy		207
15	Neoclassical inflation: keystone of reactionary policies	209
	15.1 Introduction 209	
	15.2 The simple neoclassical inflation model 211	
	15.3 Defining inflation 213	
	15.4 The neoclassical inflation hypothesis decoded 217	
	15.5 Neoclassical full employment 218	
	15.6 The theory that isn't there 224	
	15.7 Why is inflation a problem? 226	
16	De-commissioning policy tools	227
	16.1 Introduction 227	
	16.2 De-commissioning fiscal policy 229	
	16.3 De-commissioning monetary policy 231	
	16.4 Who decides policy? 232	
	16.5 Capitalism fit for human life 232	
17	The critique summarized	236
	17.1 Purpose of this book restated 236	
	17.2 Self-adjusting full employment 237	
	17.3 Open economy models 239	
	17.4 Money and inflation 240	
	17.5 Theory and ideology 240	
	Notes	242
	References	261
	Index	269