

Contents

<i>Presentation</i>	viii
<i>Mauro Gallegati</i>	
<i>Preface</i>	xi
<i>Robert Skidelsky</i>	
<i>Acknowledgements</i>	xiv
1 Introduction	1
2 Blanchard's AS-AD model	6
2.1 Structure of the traditional AS-AD model	6
2.2 From the IS-LM model to the aggregate demand	6
2.3 Monetary wage and real wage demanded by workers	10
2.4 Price level and the real wage offered by firms	13
2.5 "Natural" equilibrium in the AS-AD mainstream model	16
2.6 Only the "natural" equilibrium can guarantee price and wage stability	18
2.7 From the labour market to the aggregate supply	19
2.8 AS-AD model	23
2.9 Expansionary policy is not essential in order to overcome a crisis	24
2.10 "Natural" equilibrium and the limits to expansionary policy	27
2.11 Neutrality of money and contractionary policy	29
2.12 Conflicts over wage are useless and harmful	31
2.13 Virtues of wage moderation	33
2.14 Oil, anti-trust, technological unemployment	35
2.15 Conclusions reached by the AS-AD model	38
3 The alternative model	39
3.1 A different view on the economic system	39
3.2 Blanchard's downward sloping AD curve: a critique	39
3.3 Critique of the exogenous nature of μ and z	42
3.4 Complete alternative model	44
3.5 Market forces alone cannot put an end to the crisis	45

3.6	Expansionary policy can have a permanent effect on the equilibrium	47
3.7	Conflict versus wage moderation	49
3.8	The case of the horizontal AS	52
3.9	The case of the upward sloping AD: debt deflation	55
3.10	The alternative model: other examples	57
3.11	Mainstream replicas – and critical economists’ rejoinder	57
3.12	Actual limits of the alternative model and perspectives for further research	61
4	Blanchard’s “new approach”: the IS–LM–PC model	63
4.1	From the AS–AD model to the IS–LM–PC model	63
4.2	Horizontal LM, real interest rate and risk premium	63
4.3	The “extended” IS–LM model	67
4.4	The labour market and the Phillips curve are added to the model	69
4.5	The complete IS–LM–PC model	72
4.6	The economic crisis according to the IS–LM–PC model	74
4.7	From the AS–AD model to the IS–LM–PC model: continuity or break-up?	77
4.8	Critiques of the IS–LM–PC model from the perspective of the alternative approach	79
5	The competing approaches: theory and policy	82
5.1	Comparing the two models: an algebraic representation	82
5.2	Two competing interpretations of the economic crisis	87
5.3	Alternative monetary policy rules	99
5.4	Sustainability of public debt	105
5.5	Hysteresis of unemployment	113
5.6	Wage competition between countries in the framework of an open economy	118
5.7	Alternative theories of growth and income distribution	120
5.8	Labour flexibility, employment and unemployment	125
	Appendix 1 Labour flexibility and unemployment	129
	<i>Domenico Suppa</i>	
	A1.1 Introduction	129

A1.2	Correlation index and simple regression in brief	130
A1.3	The relationship between EPL and unemployment rate	137
Appendix 2 Contractionary fiscal policy and fiscal multipliers		141
<i>Andrea Califano and Fabiana De Cristofaro</i>		
A2.1	Introduction	141
A2.2	Austerity and fiscal multipliers	141
A2.3	Blanchard and Leigh's test	142
A2.4	Debate around the test	146
A2.5	Blanchard and Leigh's test and macroeconomic theory	147
<i>Further reading</i>		149
<i>Index</i>		153