

## Stabilising an *unequal* economy?

Public debt, financial regulation, and income distribution

# The Monetary Theory of Disequilibrium Dynamics

Supplementing the insights of *Macroeconomic methodology: a post-Keynesian perspective*

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Jesper Jespersen (2009),  
*Macroeconomic methodology, a post-Keynesian perspective*

An inquiry about the principles that should underlie  
post-Keynesian macroeconomics

Post-Keynesian macroeconomics  
=  
an alternative to mainstream macroeconomics

Flaws affecting mainstream macroeconomics

Structuring post-Keynesian macroeconomics / flaws = avoided

Jesper Jespersen (2009),  
*Macroeconomic methodology, a post-Keynesian perspective*

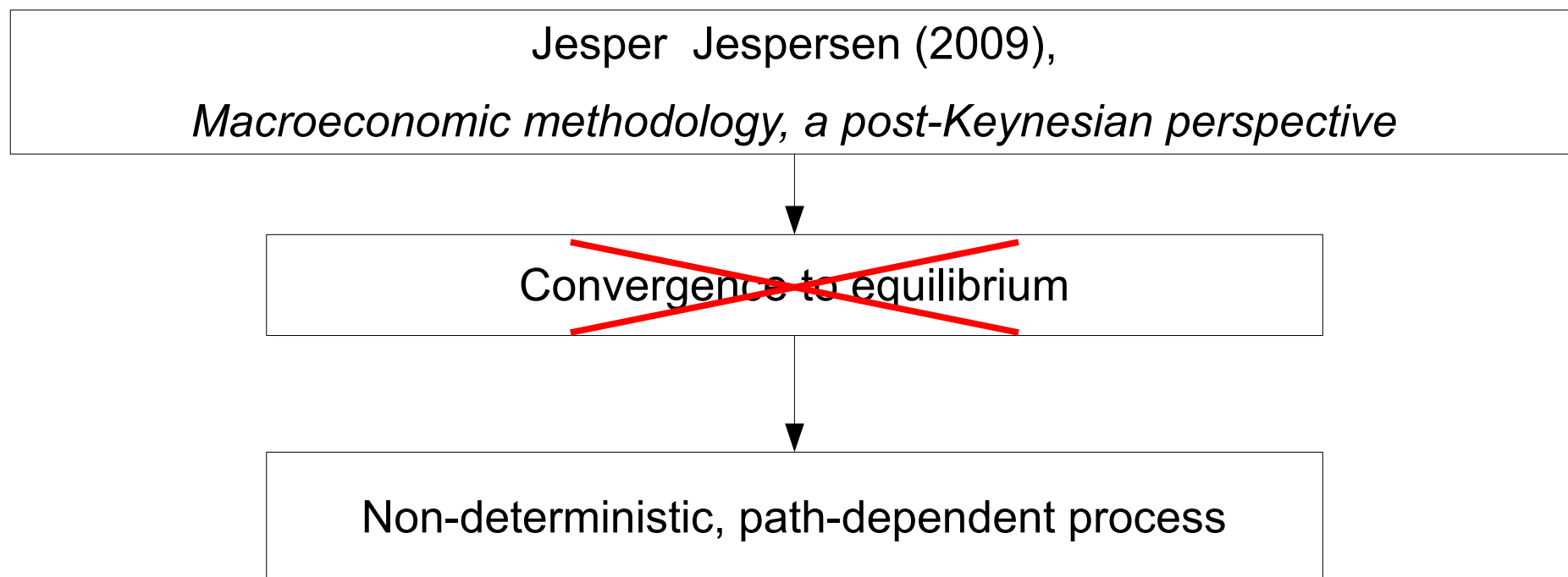
Mainstream macroeconomics

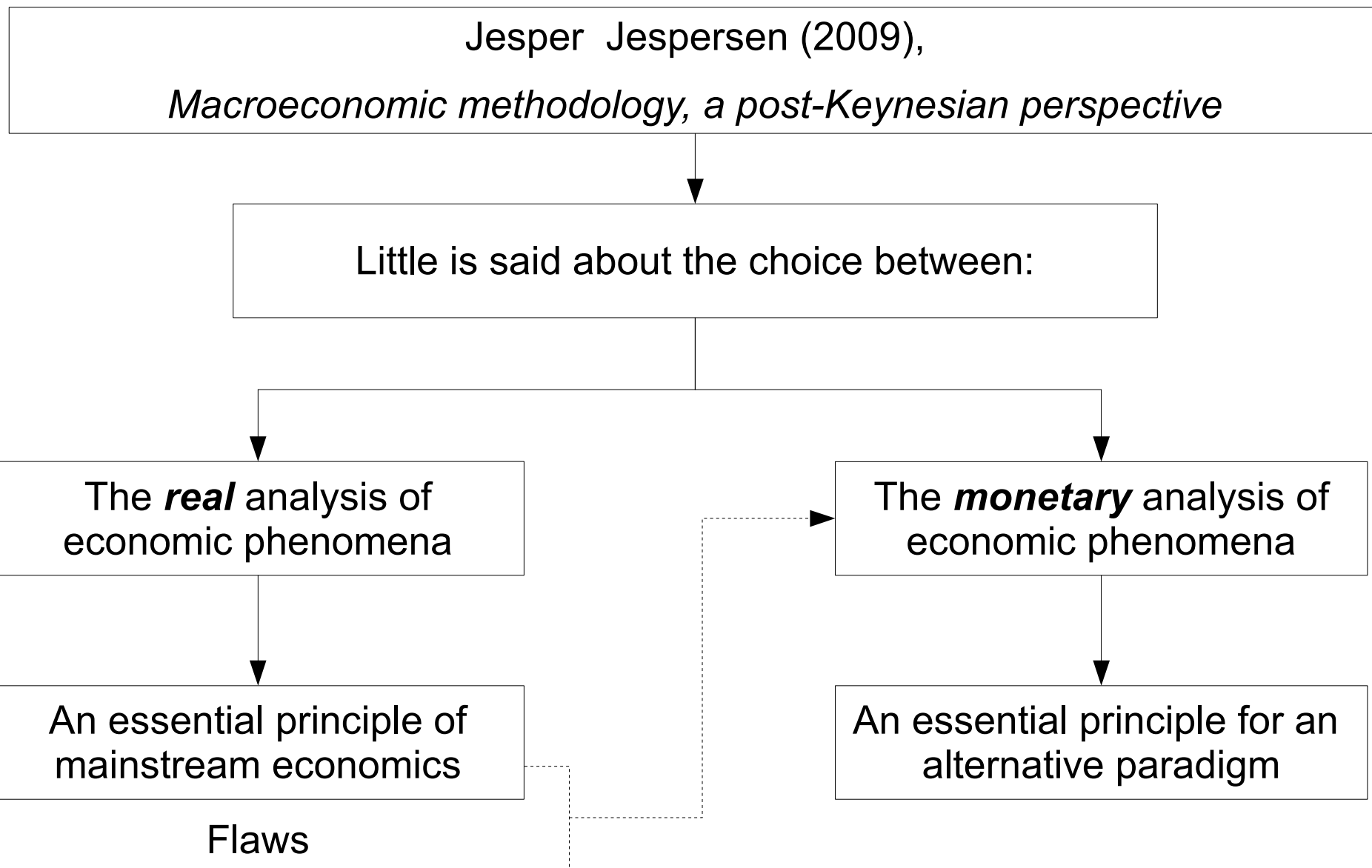
Convergence to equilibrium (market-clearing situation) → rational expectations

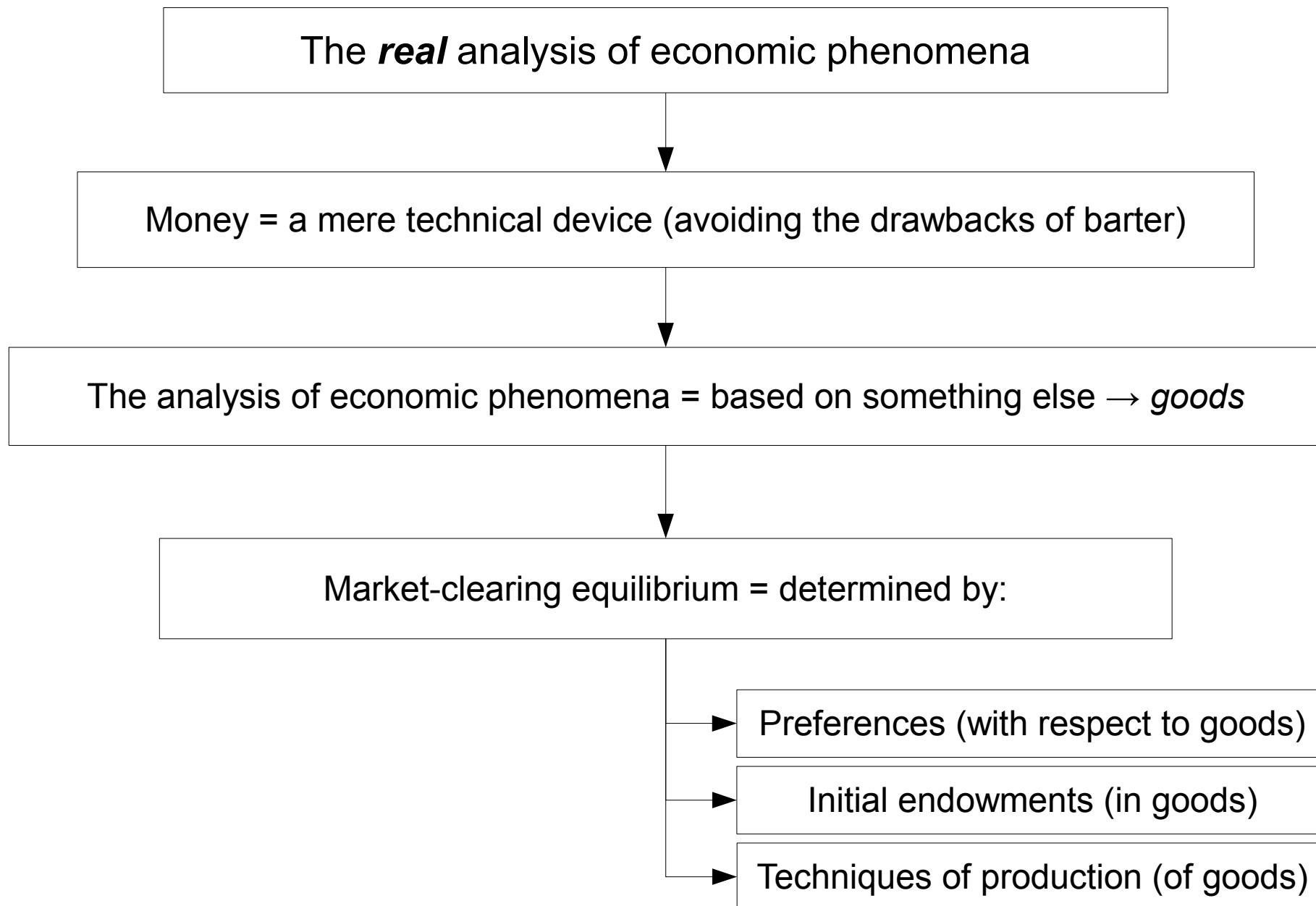
Rational expectations → contradiction with uncertainty

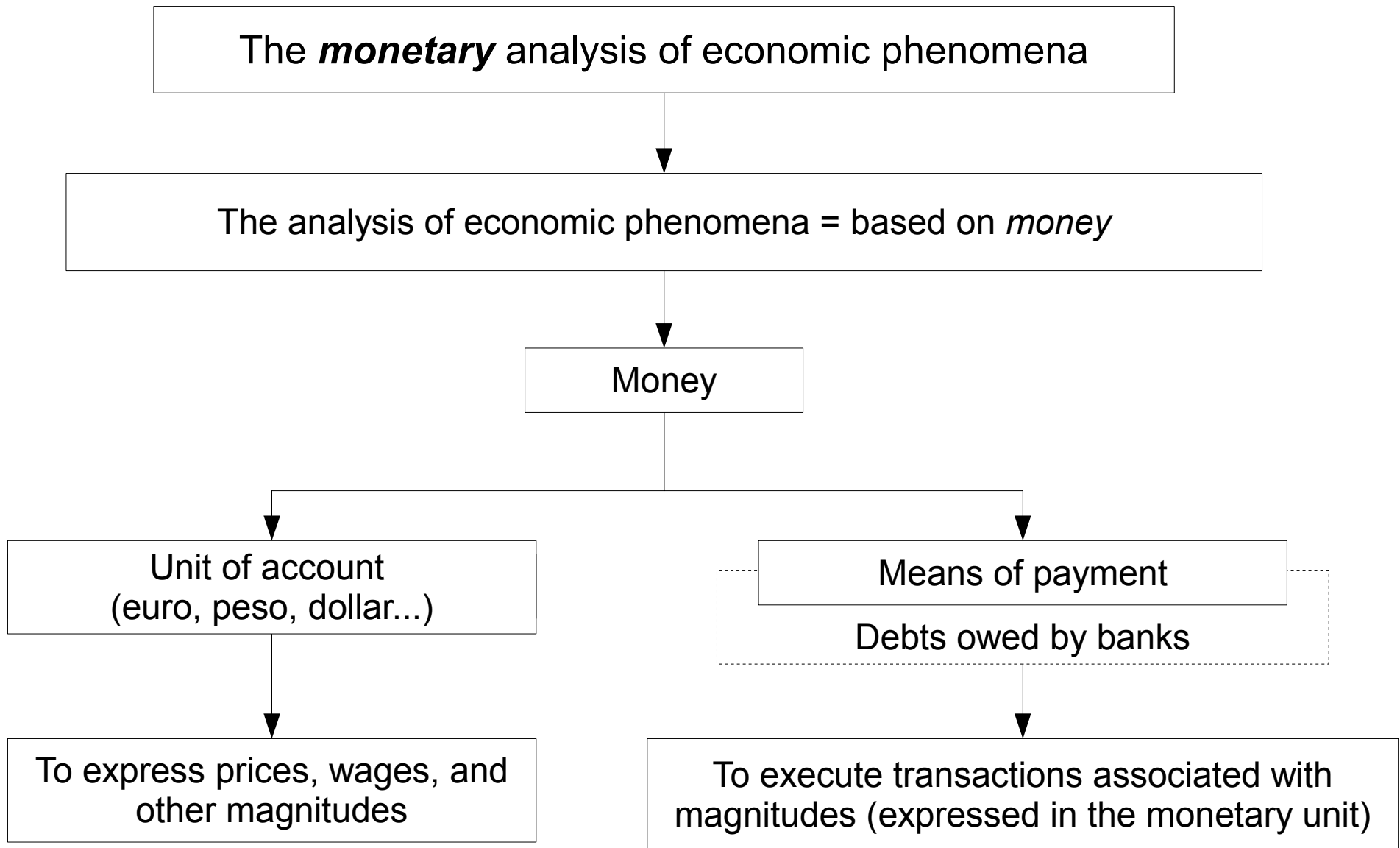
Uncertainty = an essential feature of observable reality

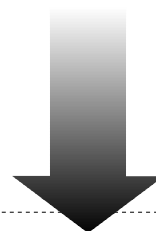
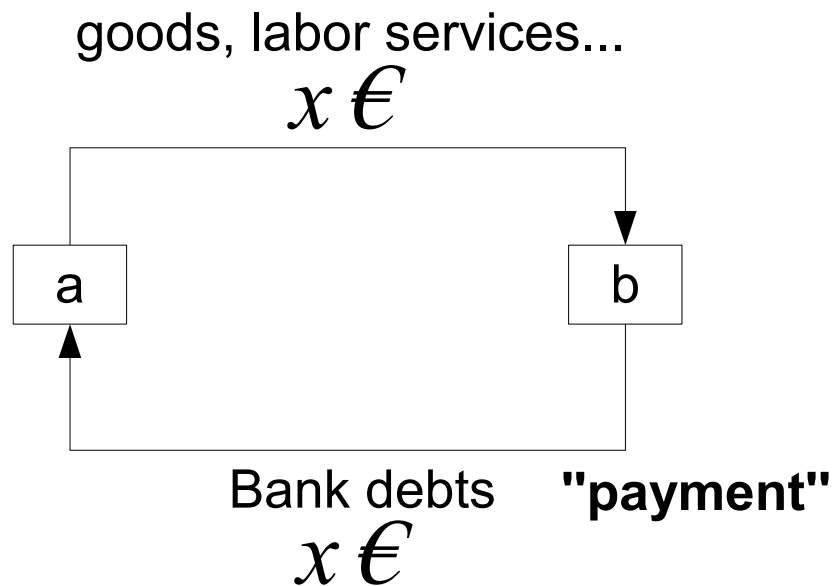
Rejection of rational expectations → ~~convergence to equilibrium~~









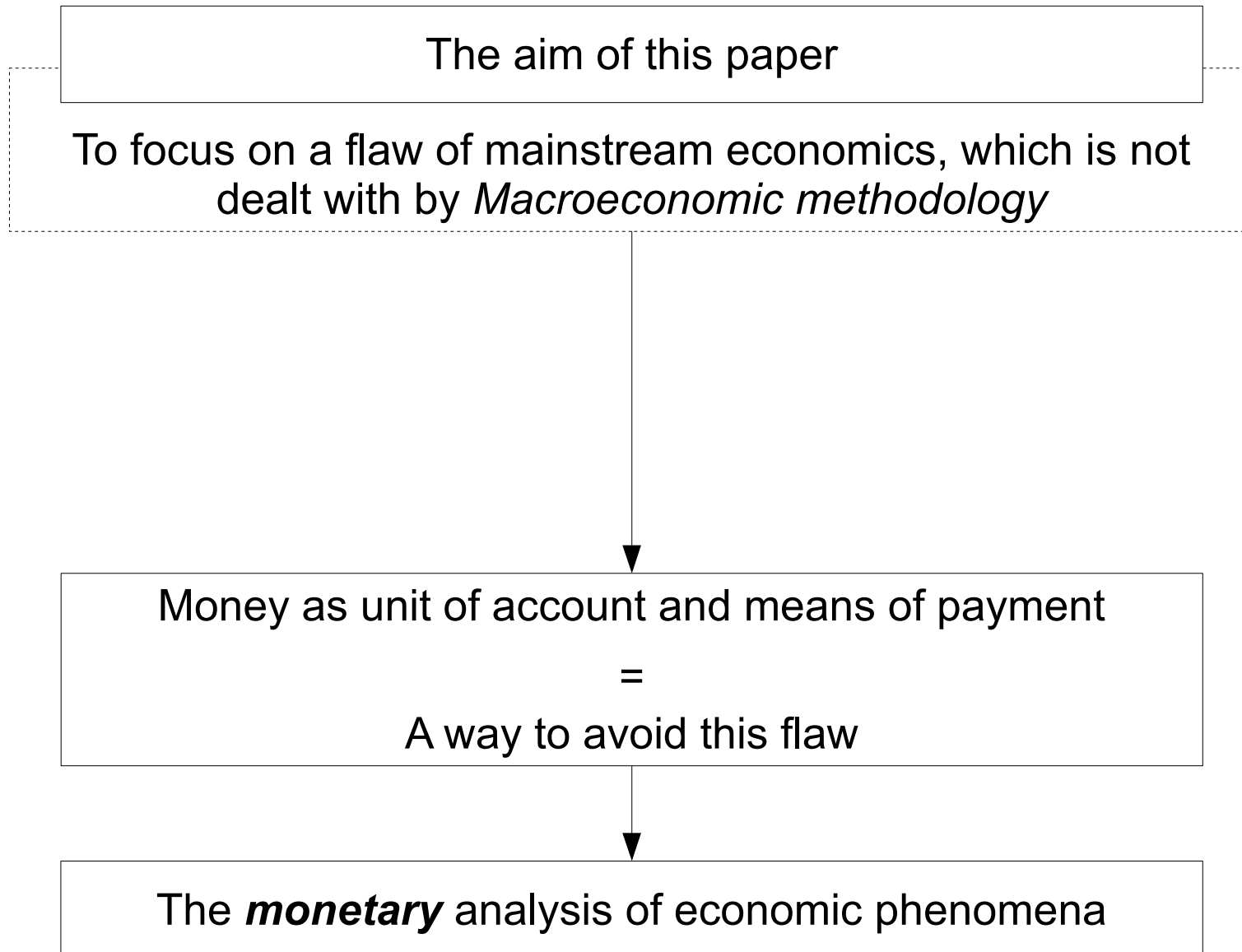


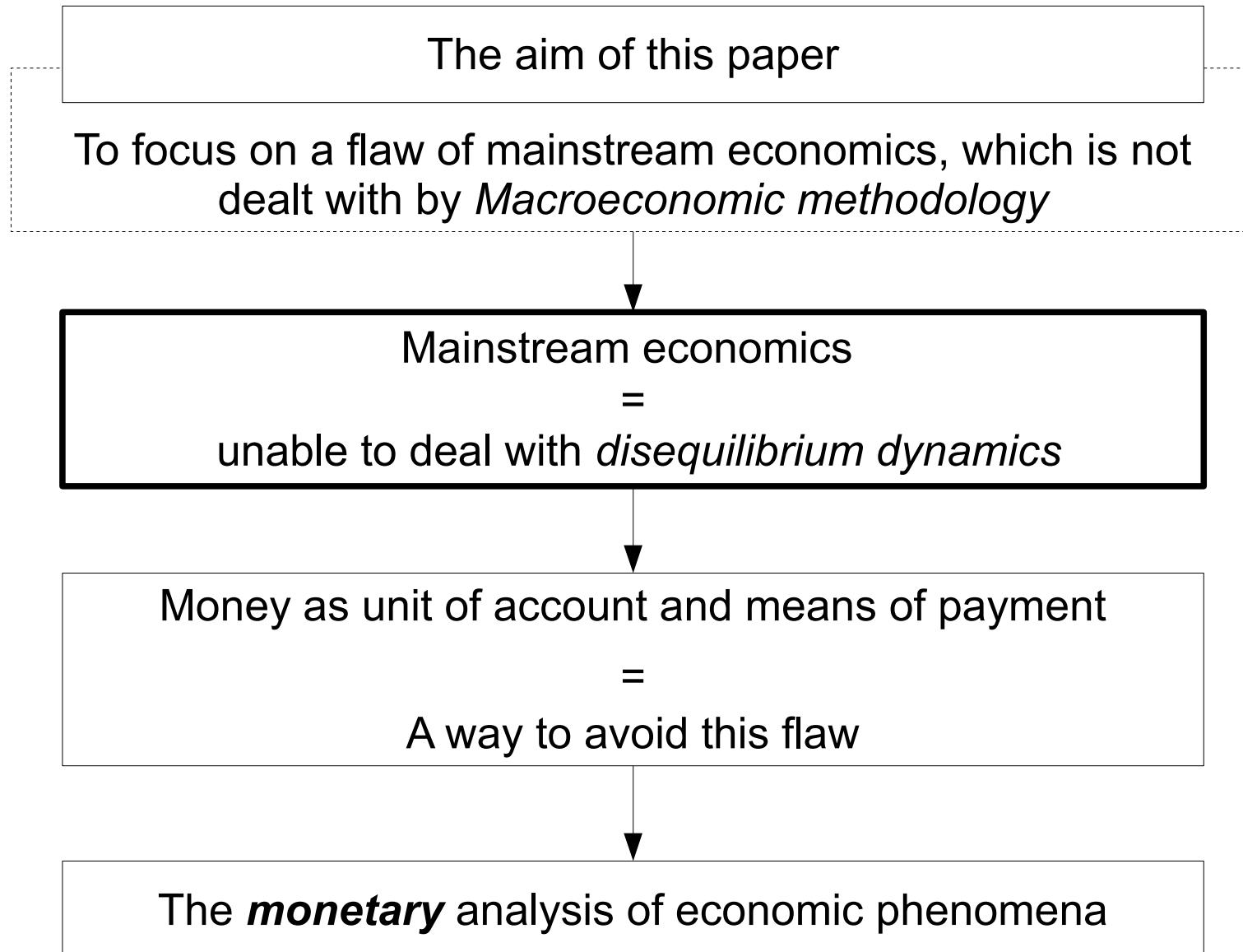
Conditions of creation, circulation and destruction of means of payments  
(i.e. of bank debts)

=

A framework within which economic magnitudes and transactions are set

**Monetary analysis**





Equilibrium

Agents' (economic) decisions are mutually compatible  
(Milgate, 1988; Kirman, 1995)

Market -clearing equilibrium

=

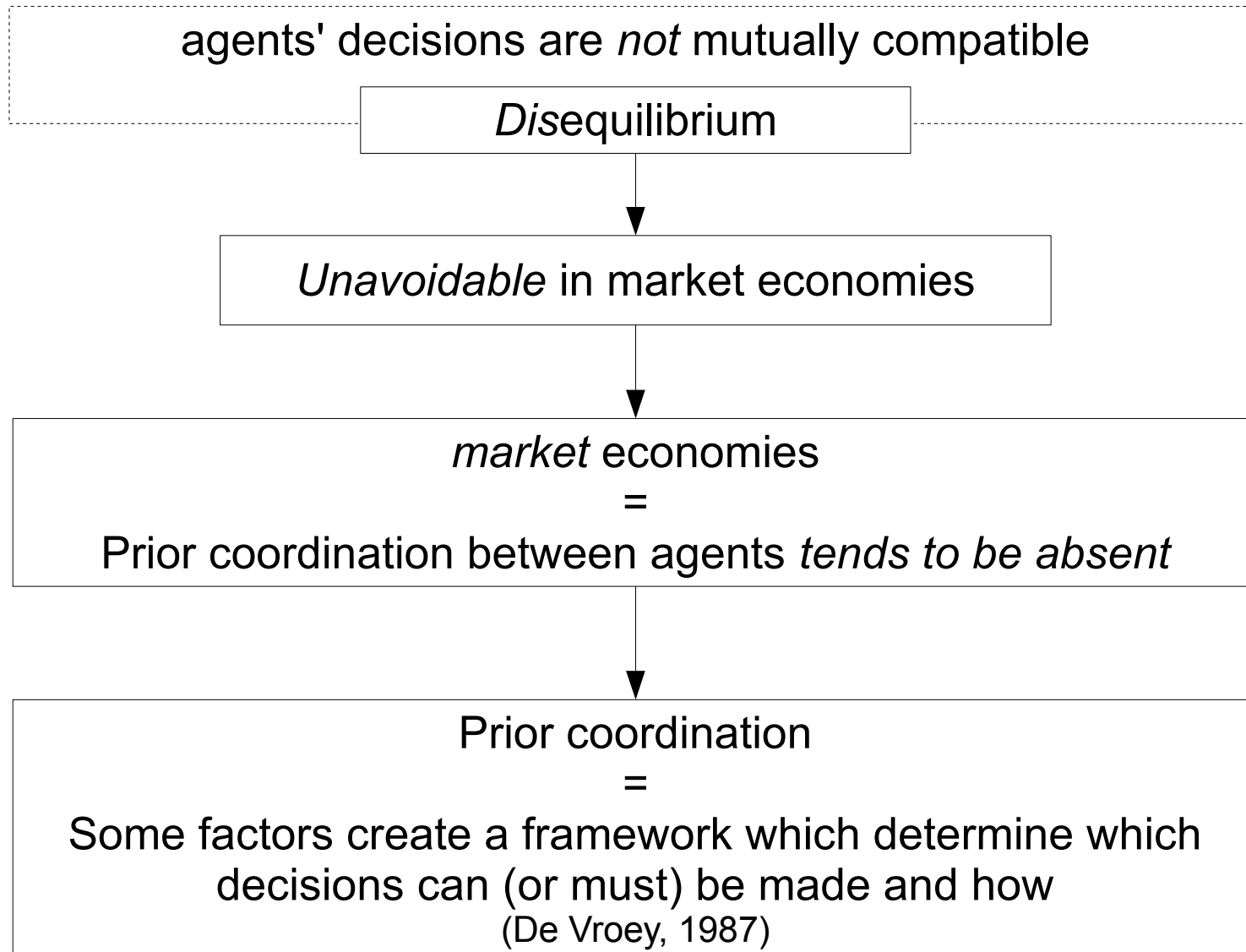
A specification of this mutual compatibility

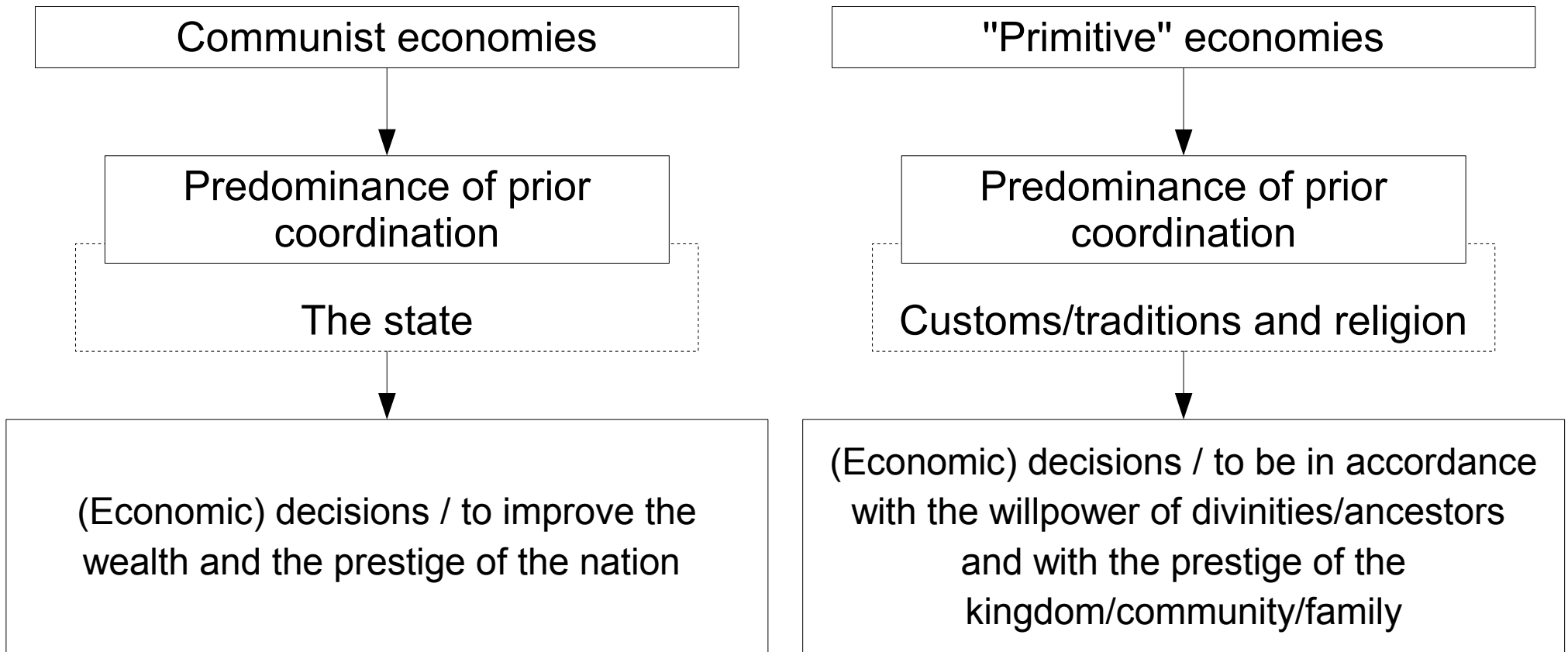
Real analysis

Cleared markets → Aggregate demand = aggregate supply  
(on any market)

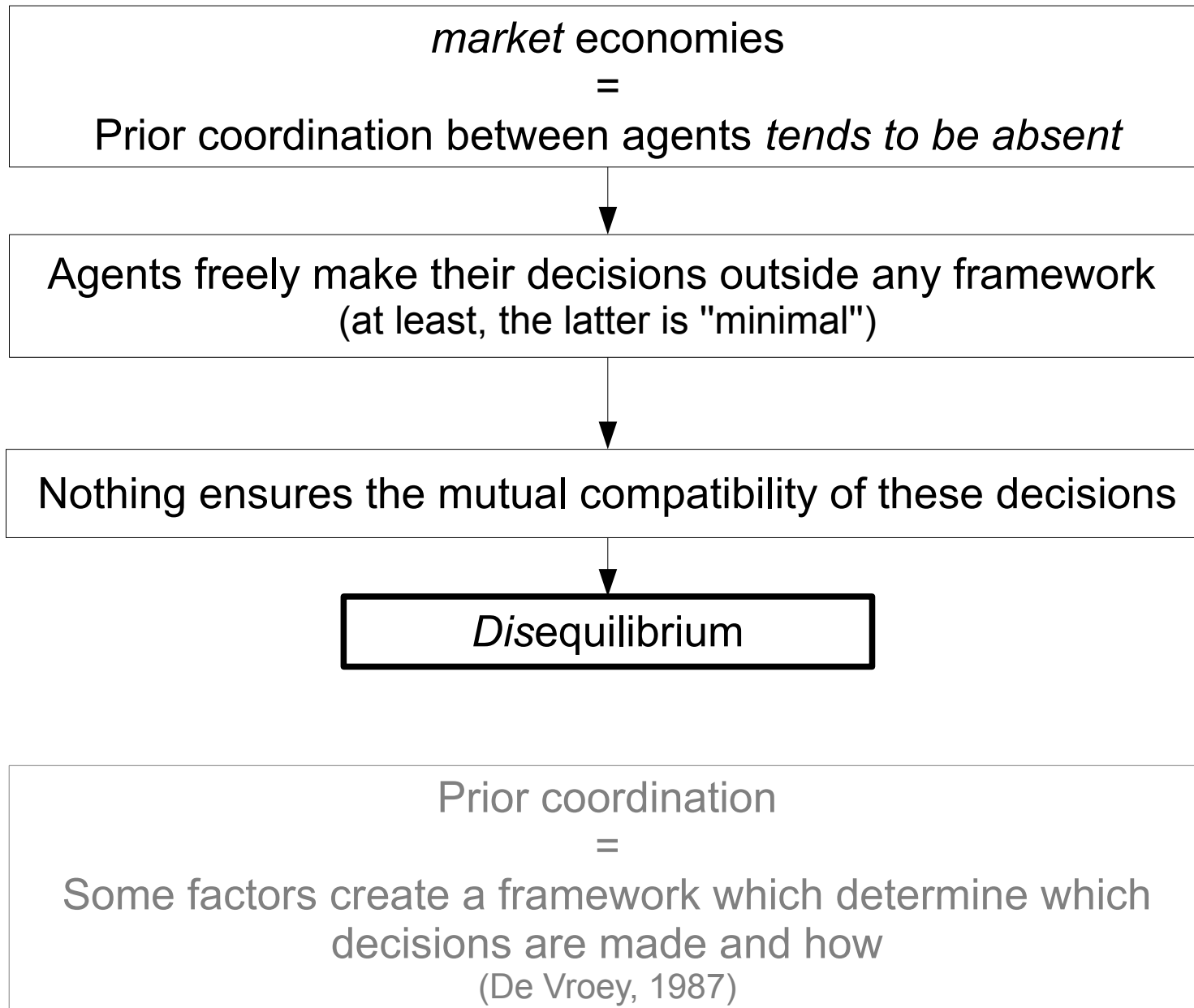
Neither unsold stocks ( $O > D$ ) nor unsatisfied needs ( $O < D$ ) → Mutual compatibility

“Equilibrium is concerned with the compatibility of the decisions of the different firms and households, and therefore we are interested in the difference between the demand for a good and its total supply” (Arrow & Hahn, 1971, p. 19)

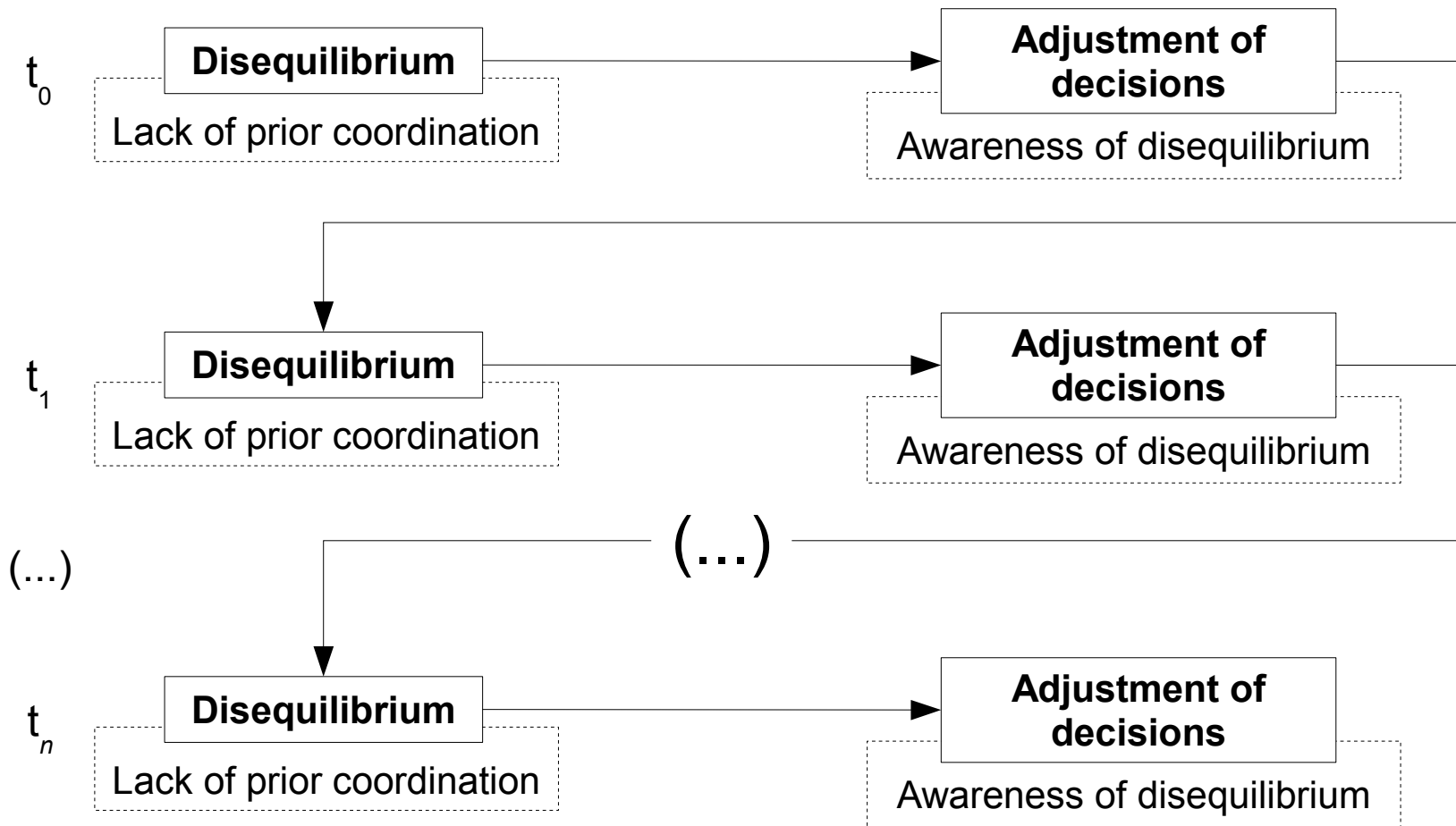




Prior coordination  
=  
Some factors create a framework which determine which decisions are made and how  
(De Vroey, 1987)



### Disequilibrium dynamics



Specific representations of disequilibrium dynamics  
by mainstream economics

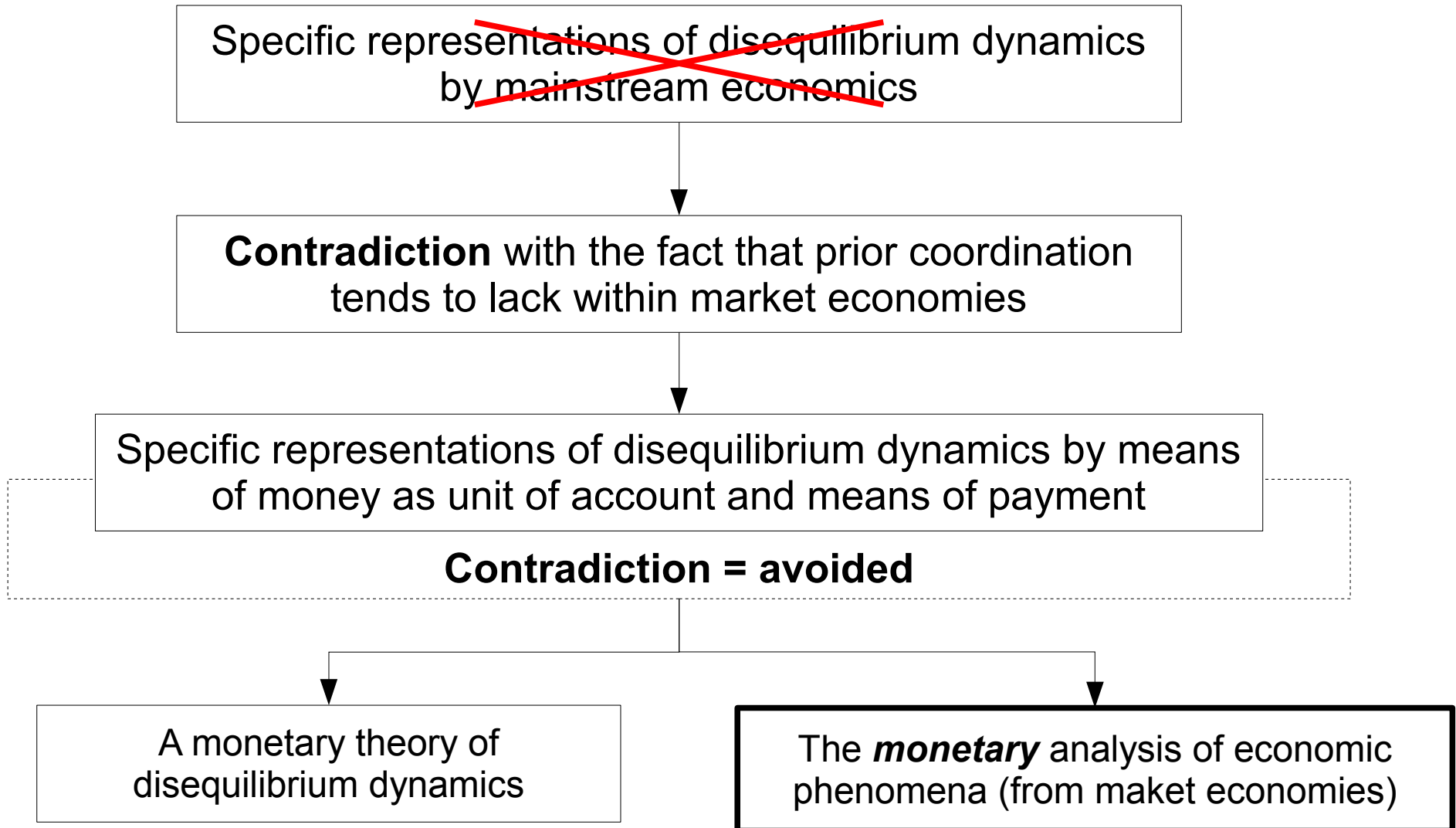
Specifications about the way to assess the incompatibility of decisions, about the  
adjustment of the latter...

The models that (attempt to) demonstrate  
the convergence to equilibrium

Convergence = from disequilibrium  
dynamics

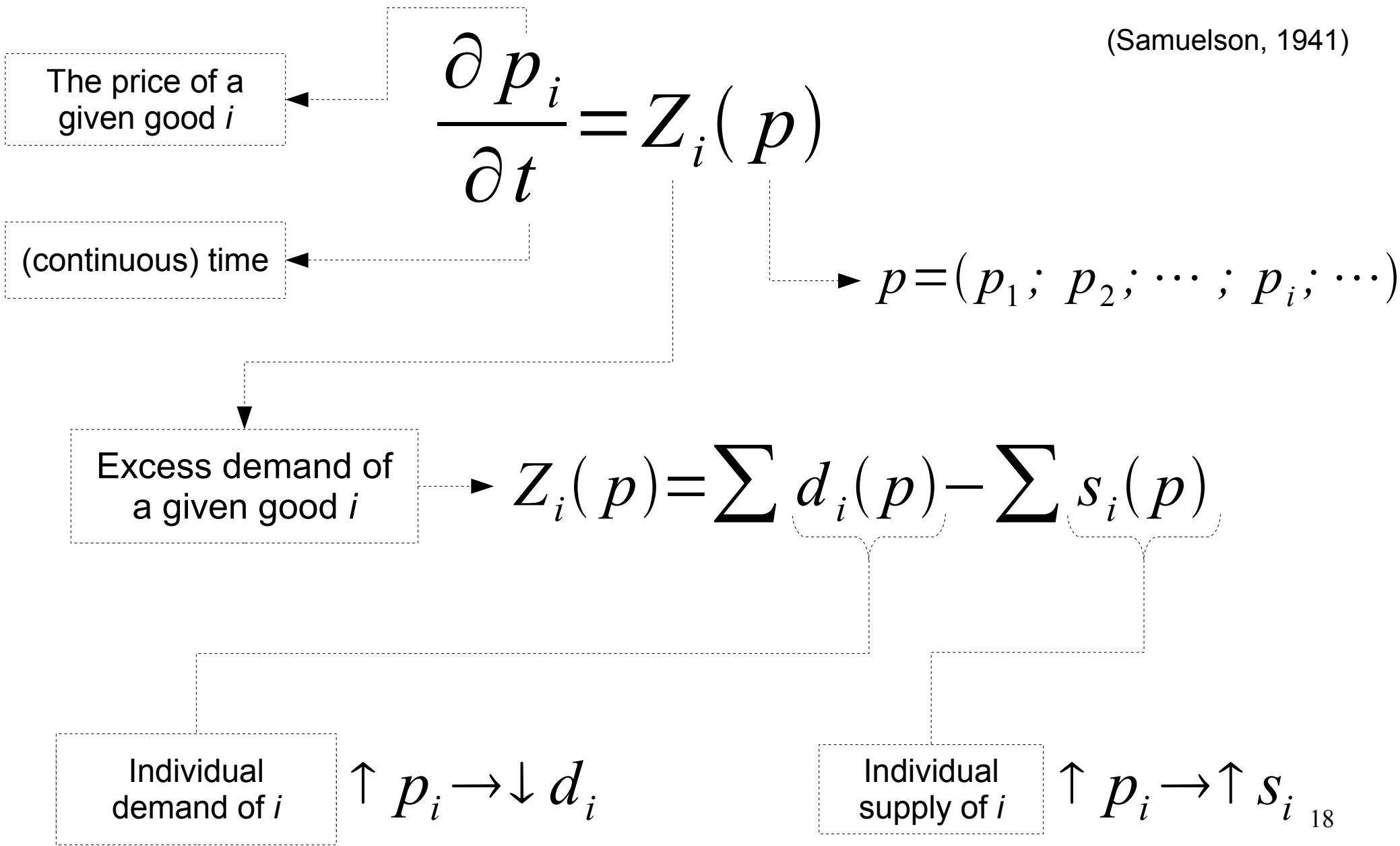
*Invisible hand*

Concepts, definitions and assumptions of the models → Specific representations of  
disequilibrium dynamics

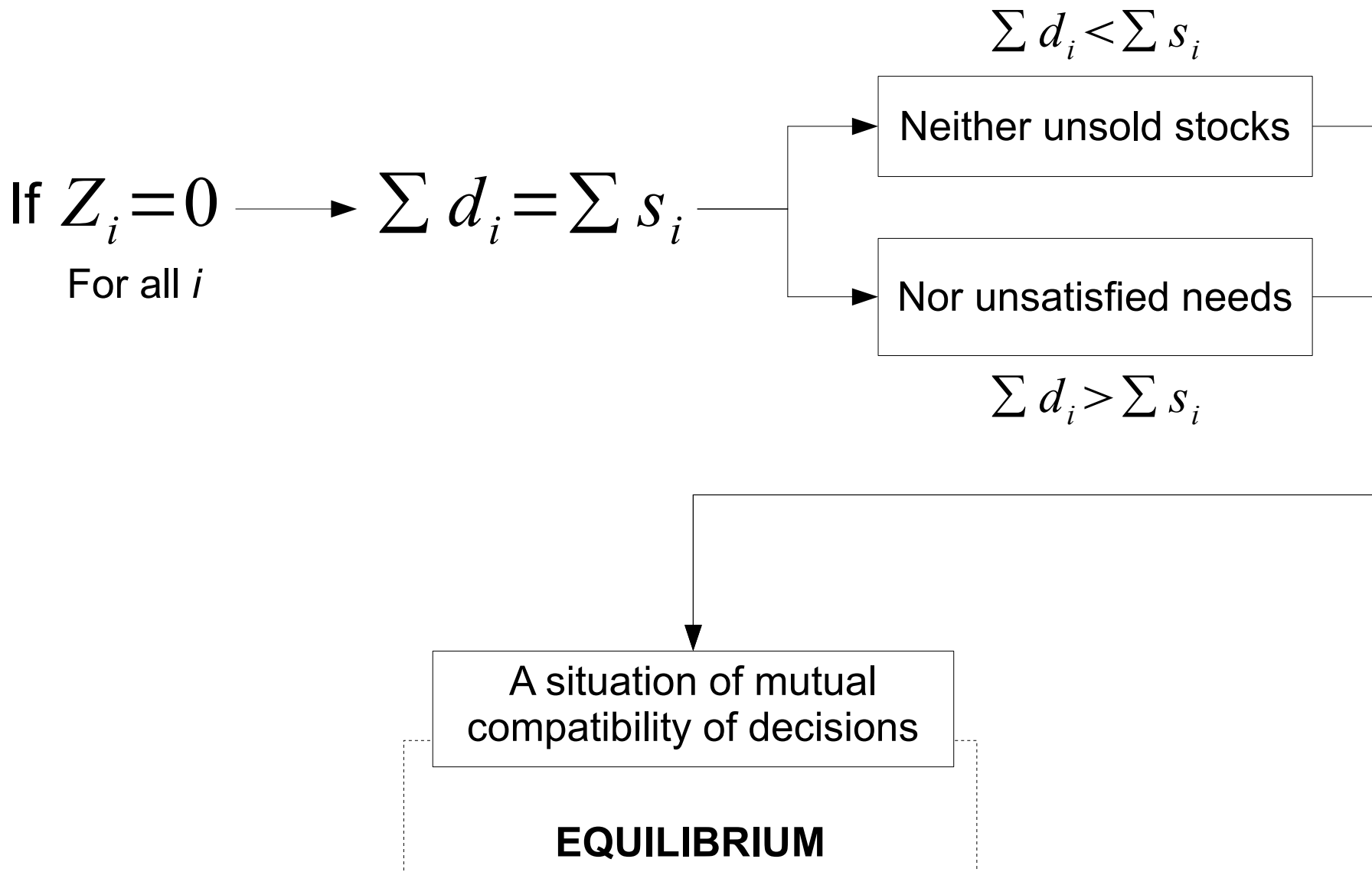


# I. Disequilibrium dynamics and *tâtonnement*

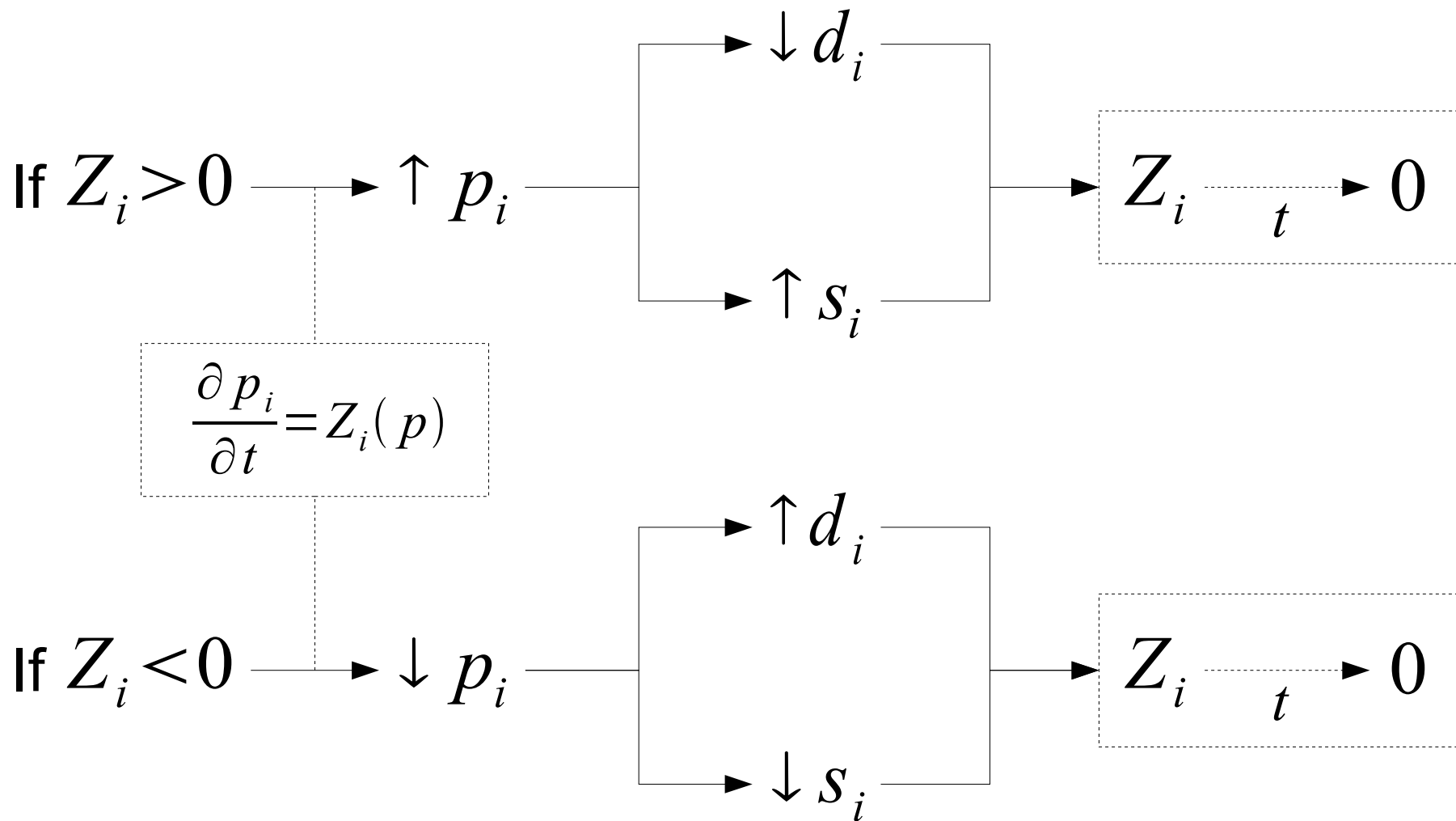
(Samuelson, 1941)



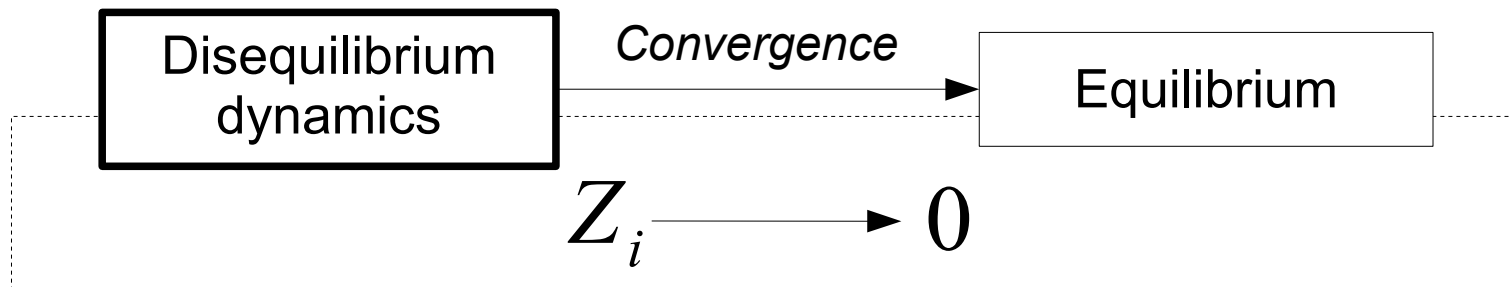
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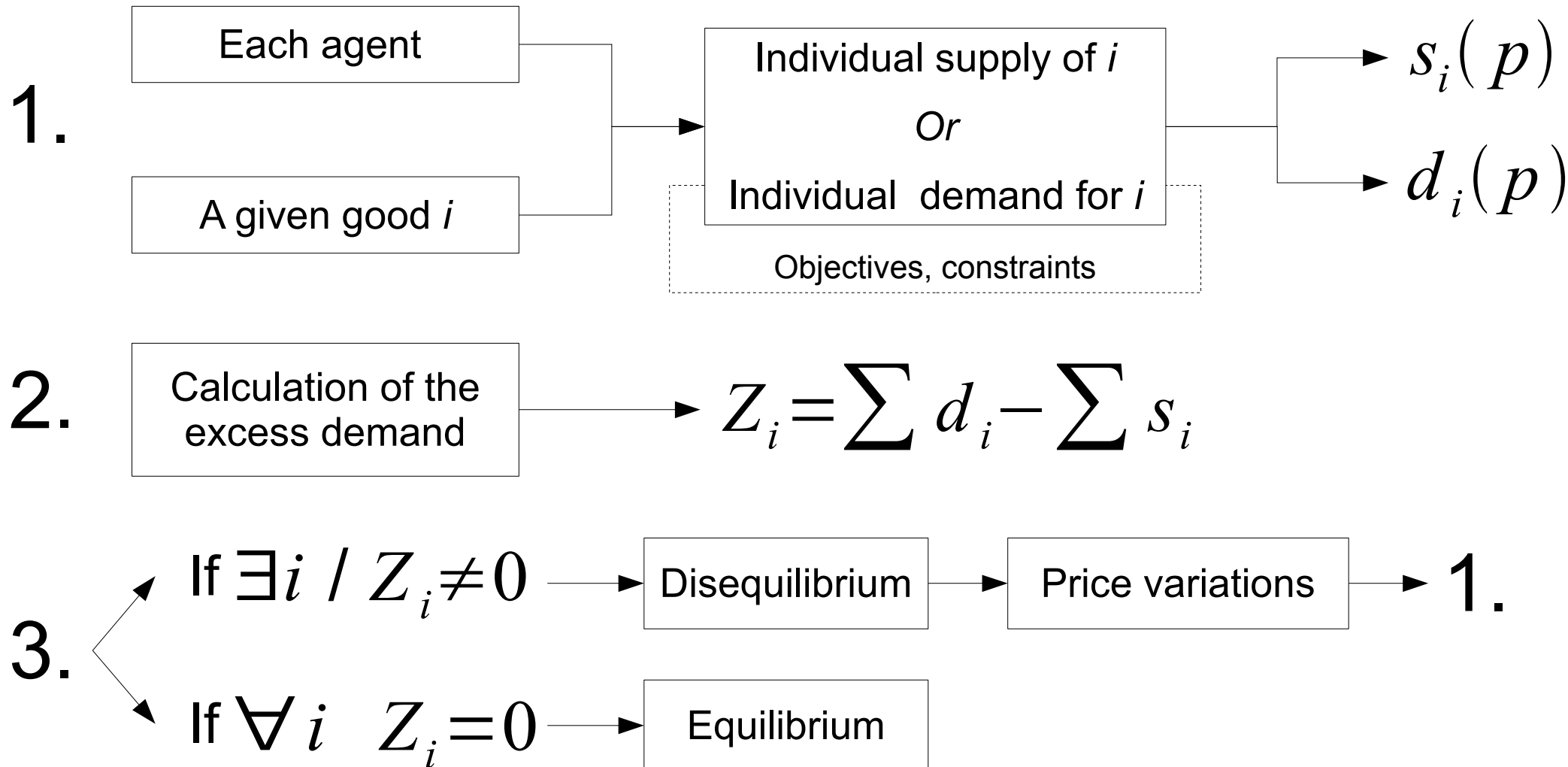


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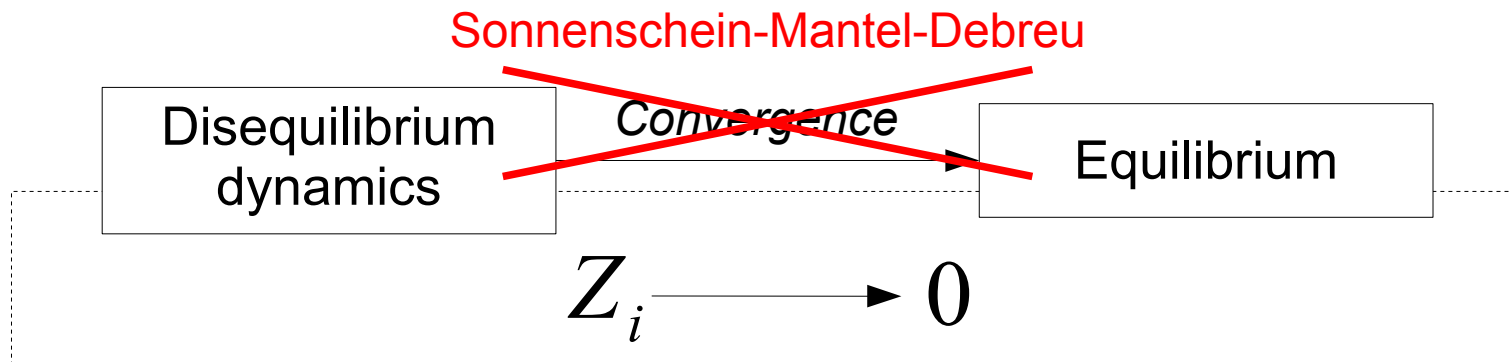


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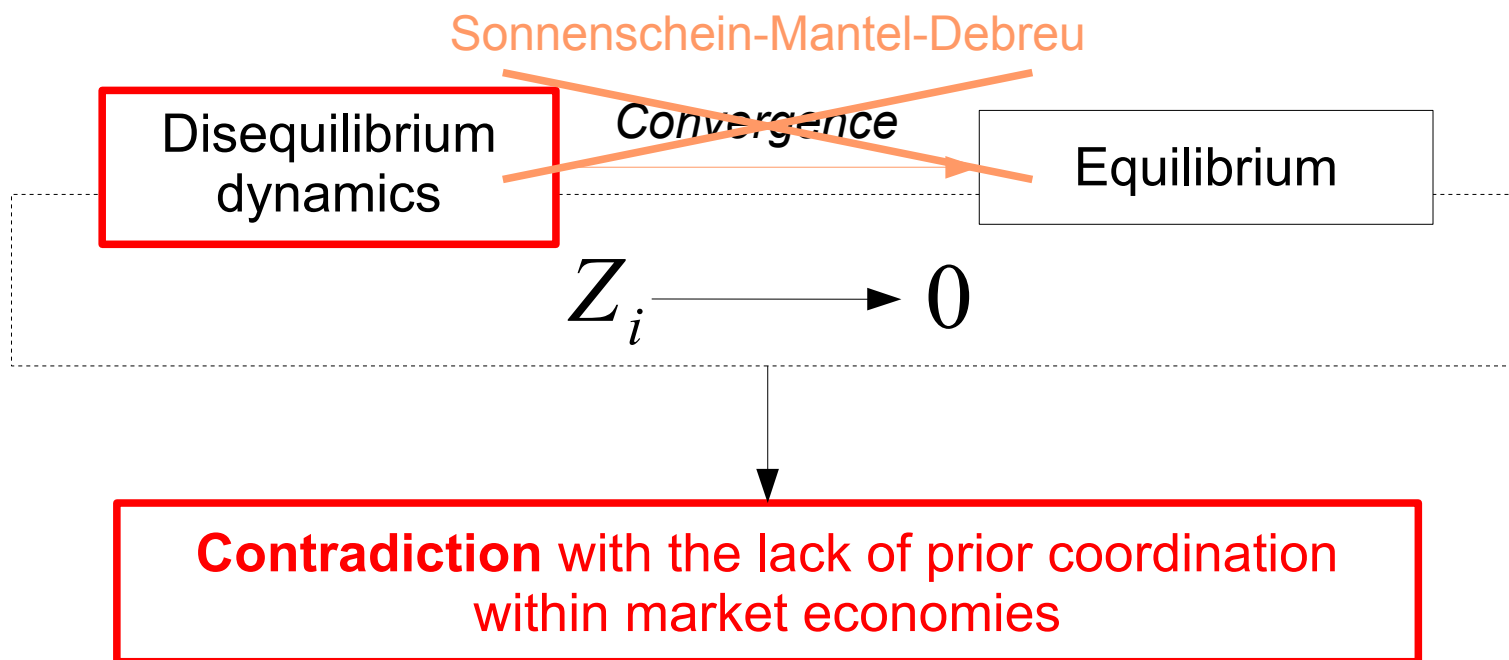
The disequilibrium dynamics induced by *tâtonnement*



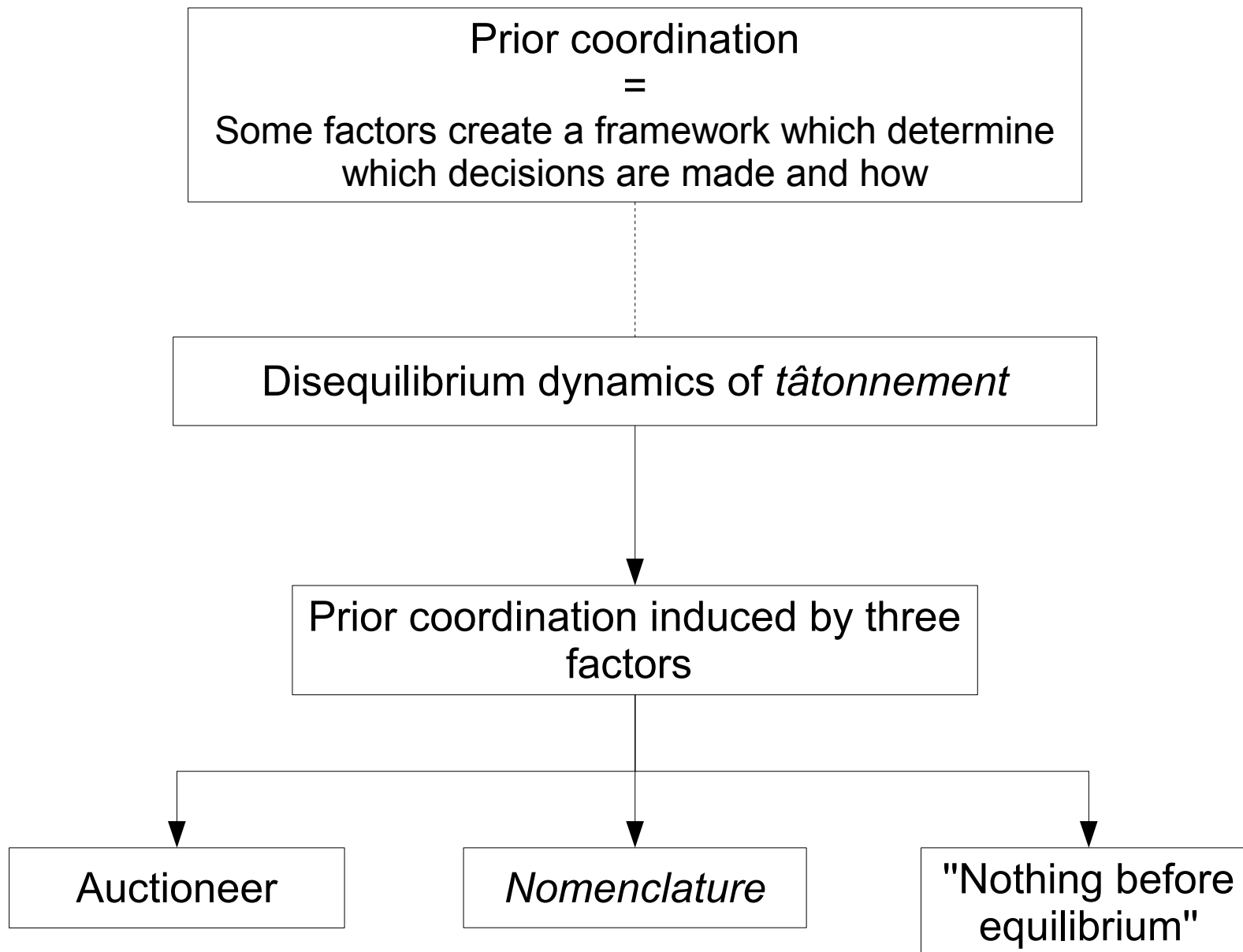
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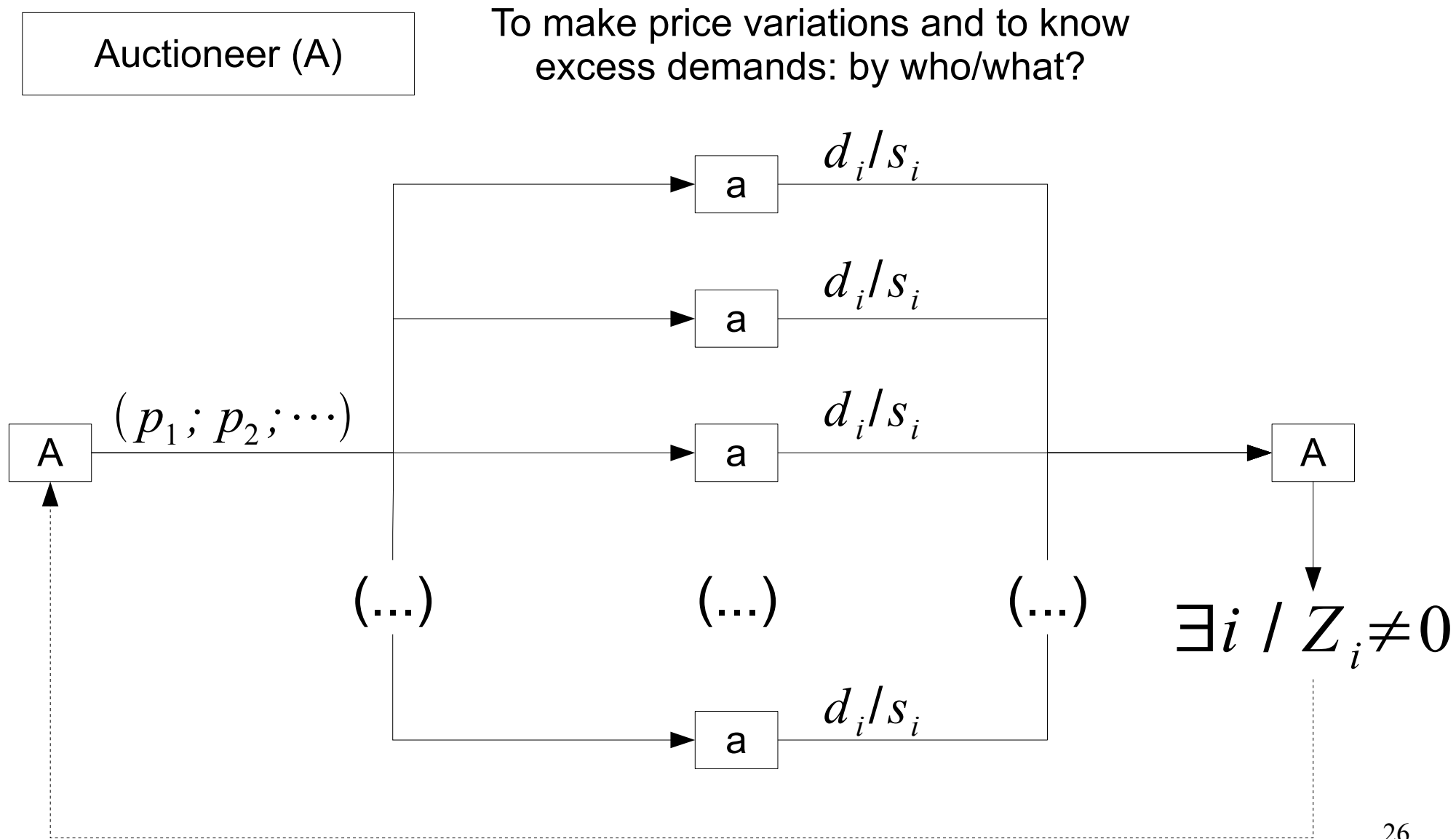
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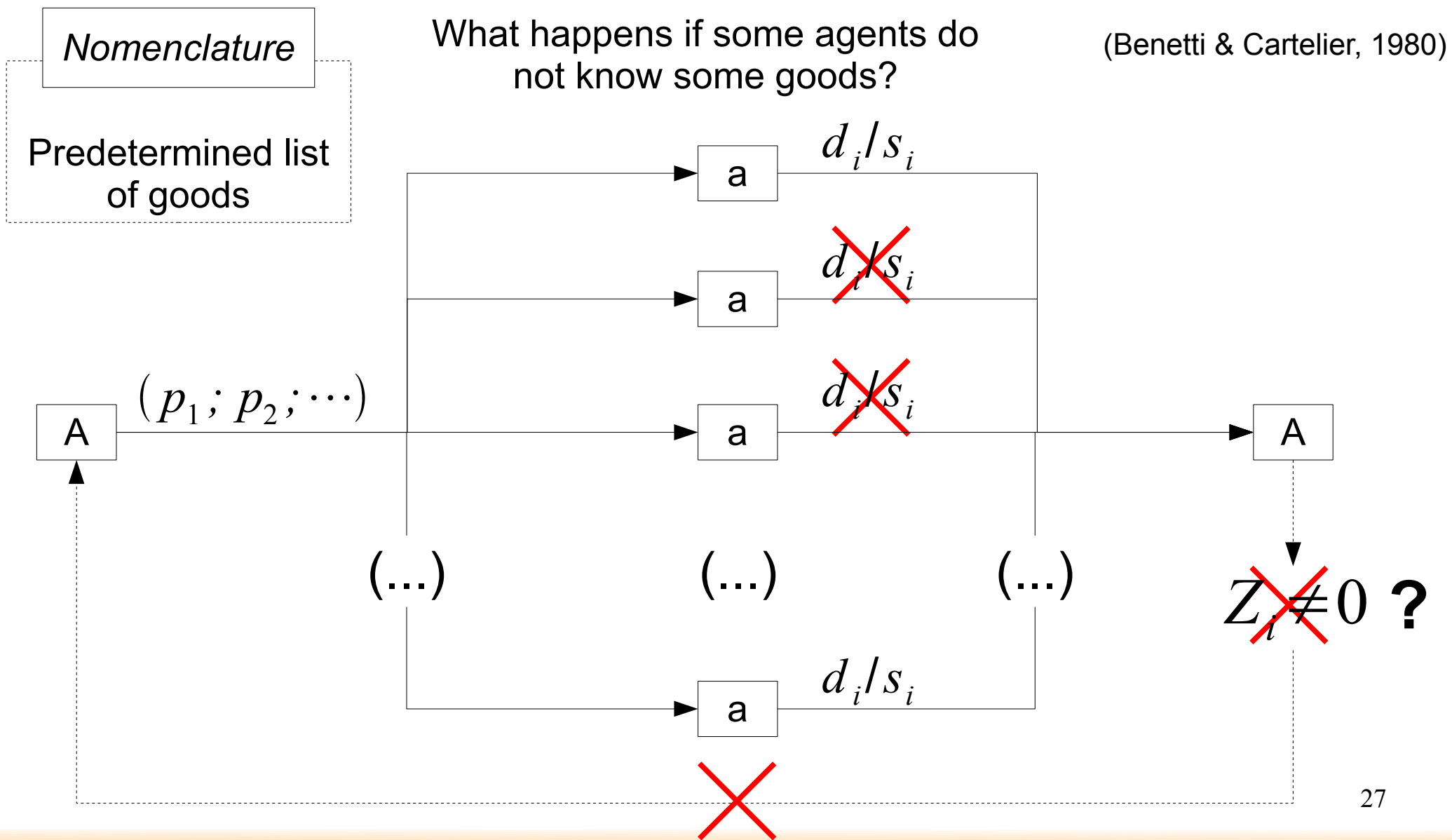
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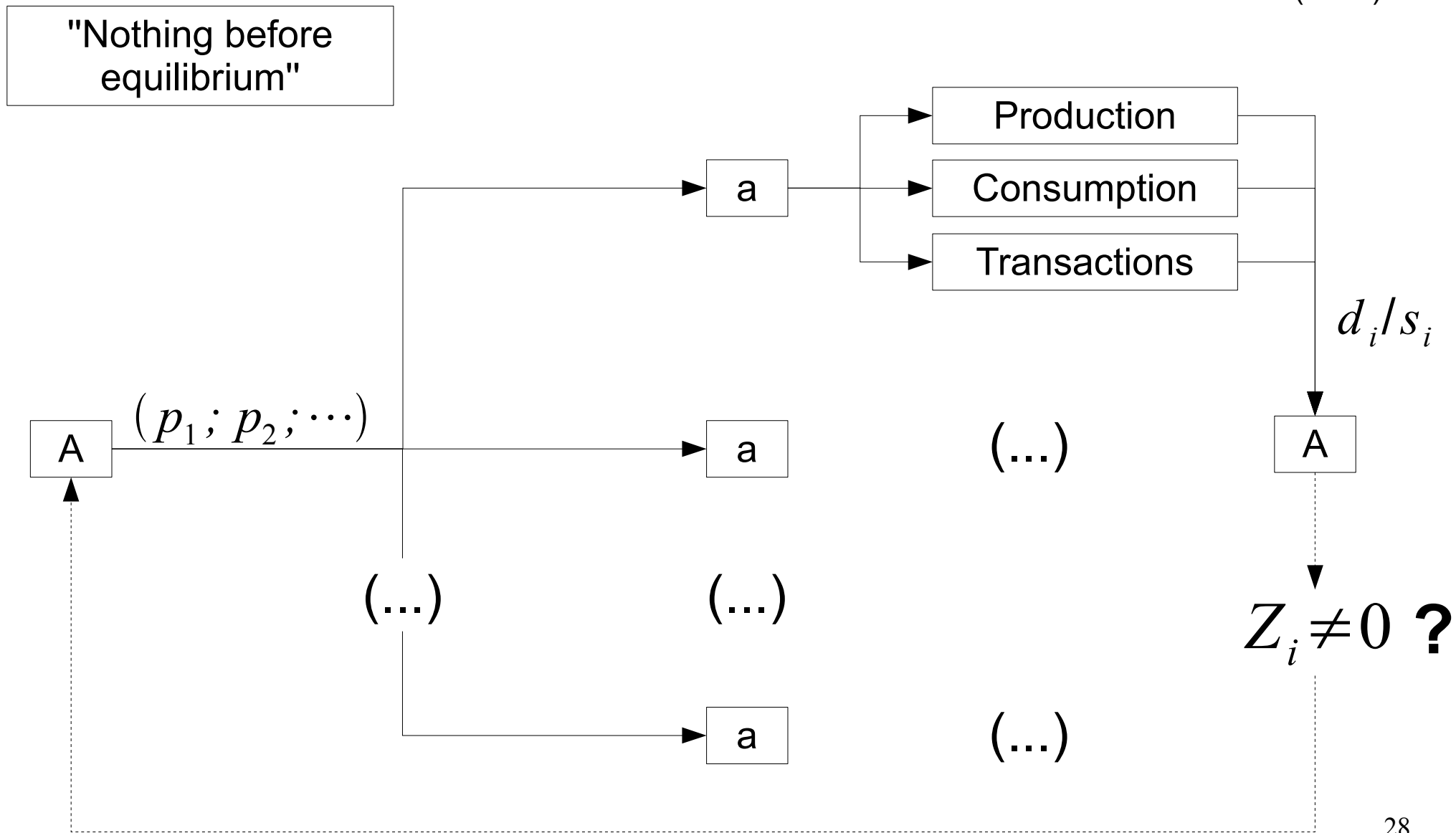


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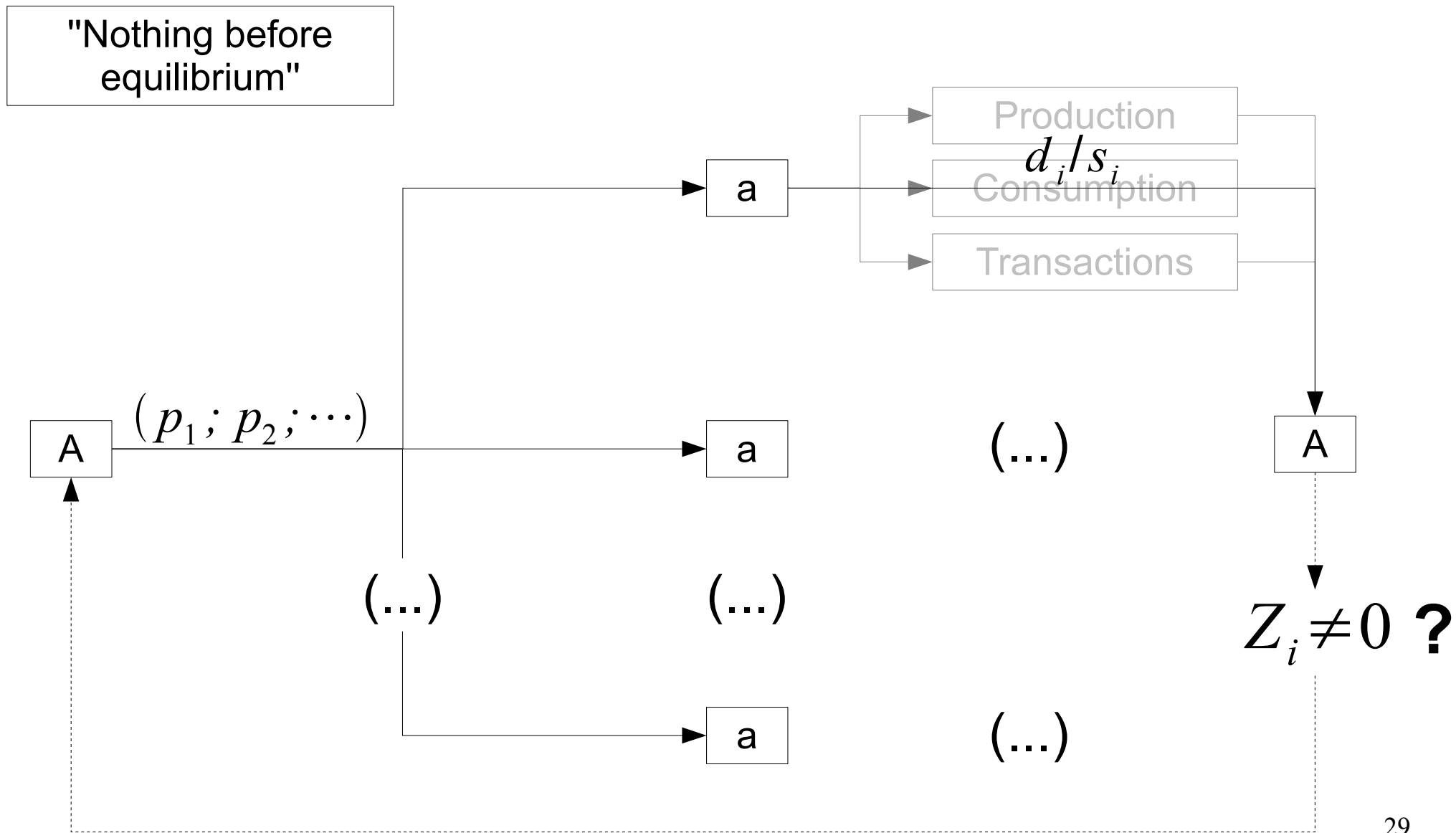


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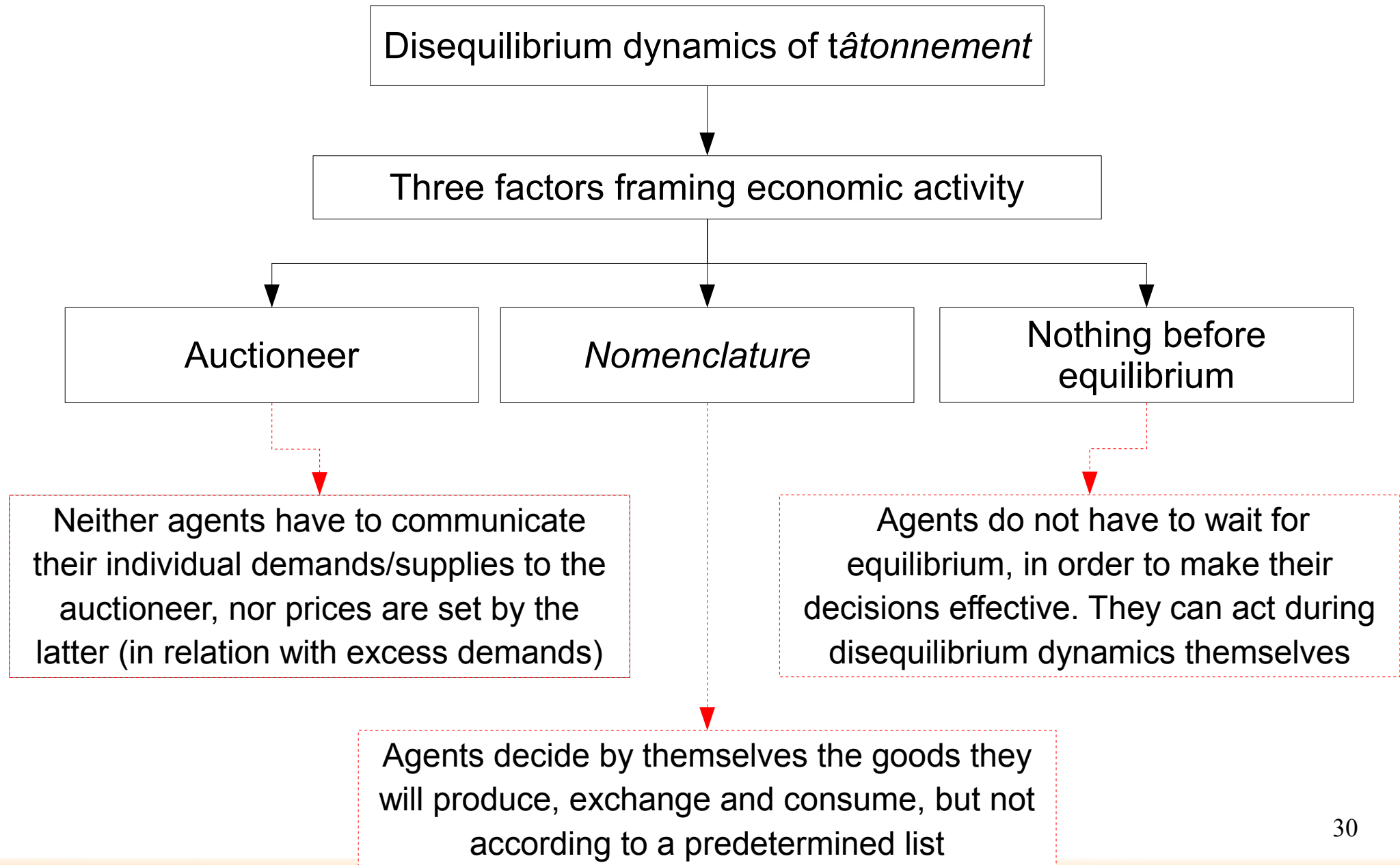
Fisher (1989)



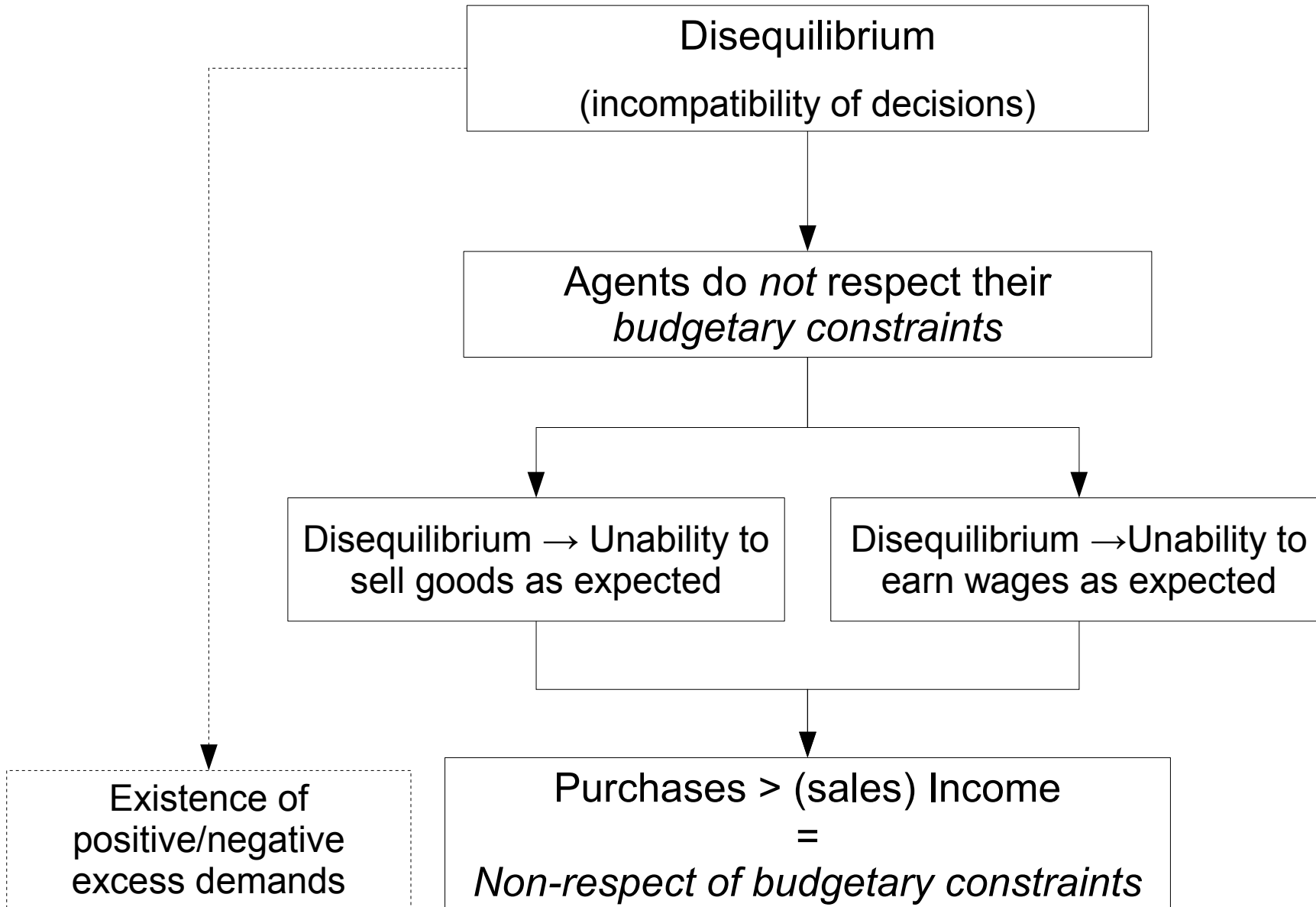
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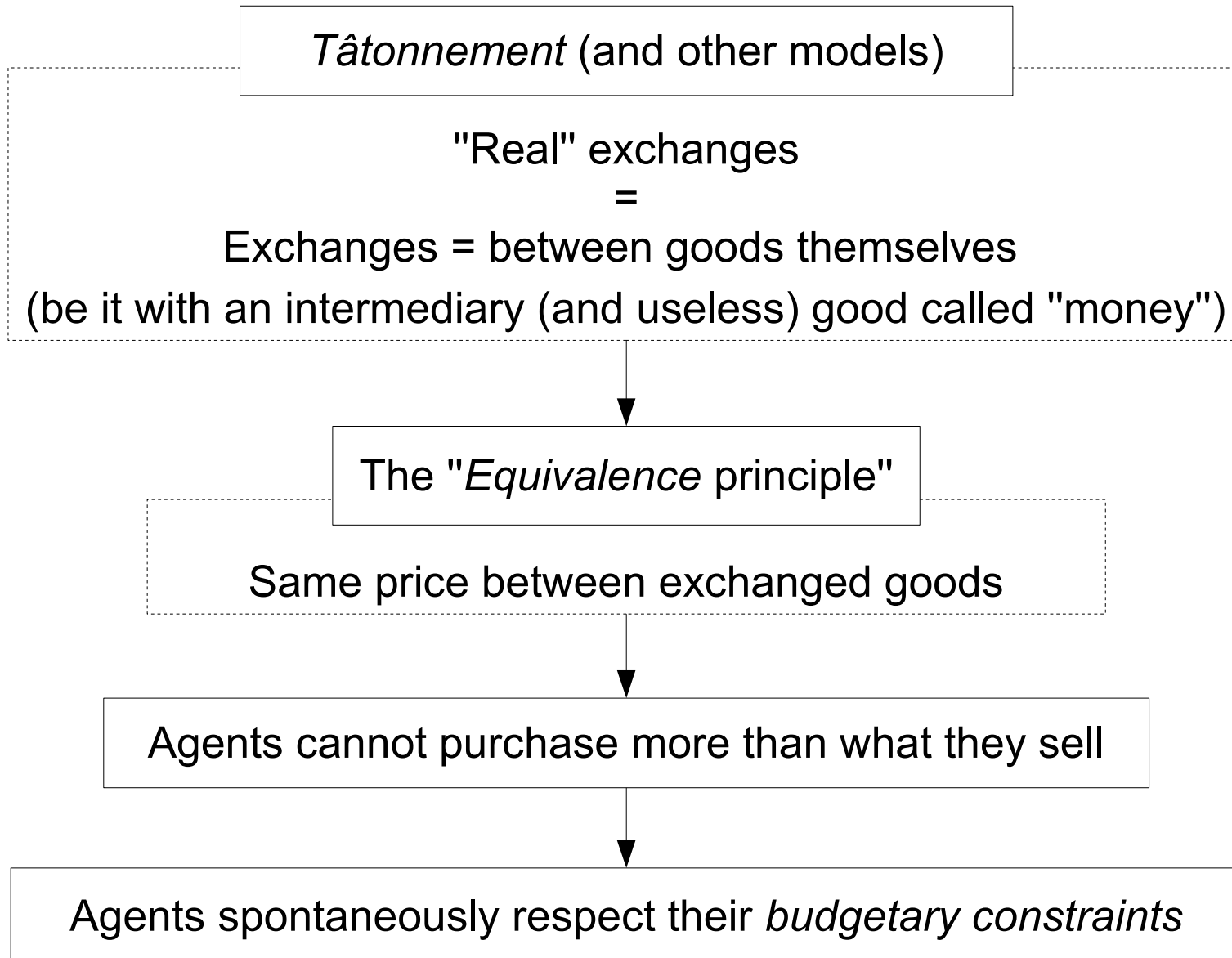
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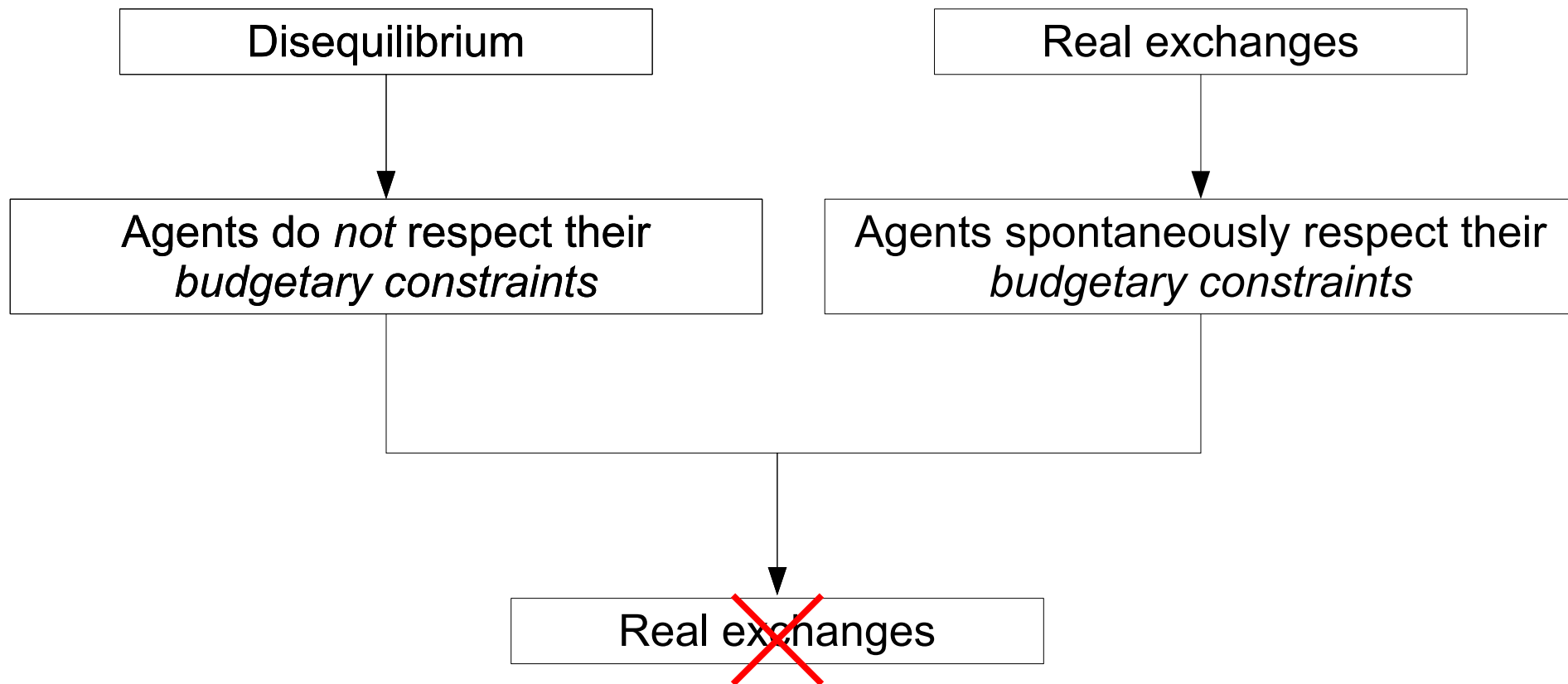
## II. Disequilibrium dynamics and money



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## II. Disequilibrium dynamics and money

Real exchanges → *real* prices

e.g.

**Price** (a given car) = A quantity of iron

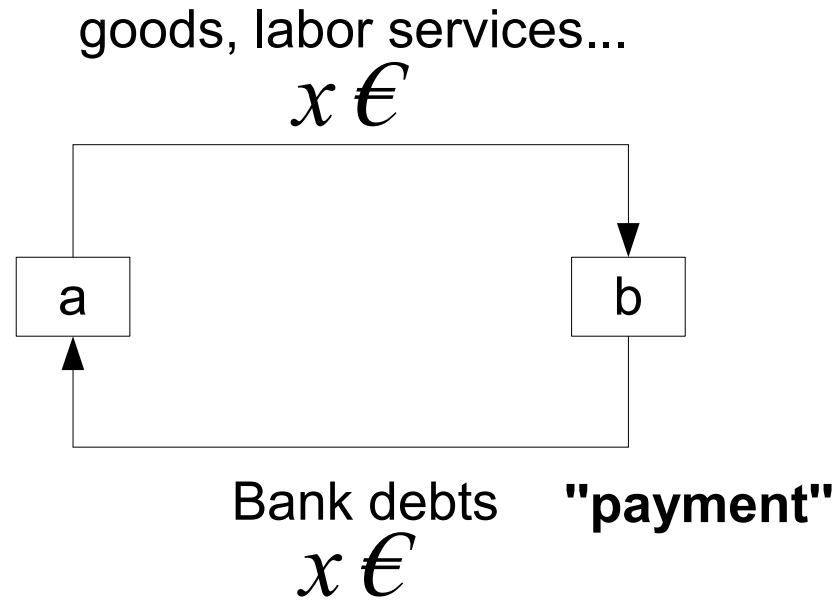
~~Real exchanges → *real* prices~~

~~**Price** (a given car) = A quantity of iron~~

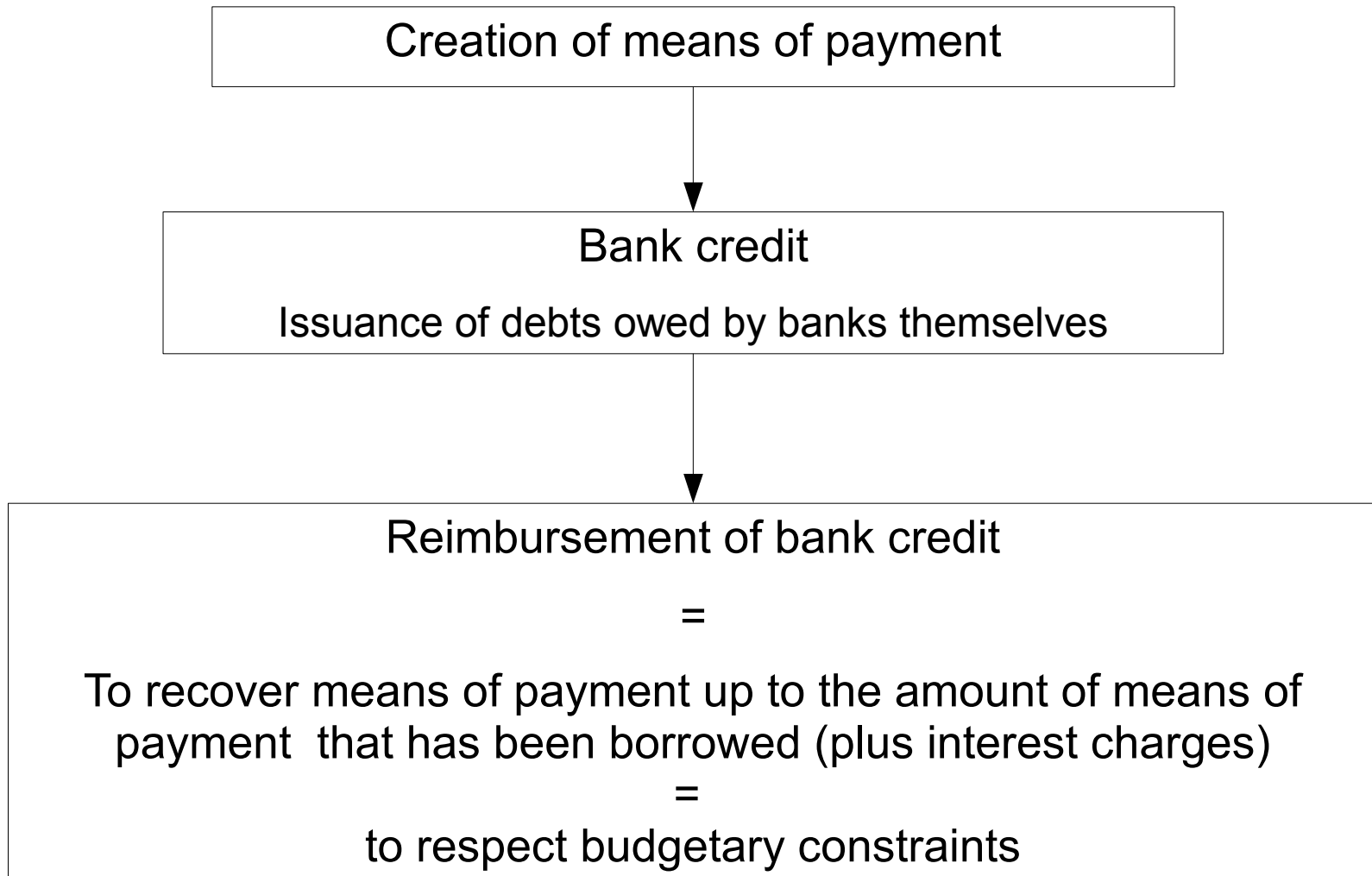
A *monetary* unit

**Price** (—) = Y €

## II. Disequilibrium dynamics and money



## II. Disequilibrium dynamics and money



## II. Disequilibrium dynamics and money

Lack of prior coordination



Non-reimbursement of every credit  
Recovered means of payments  $\neq$  Expectations



Non-respect of budgetary constraints

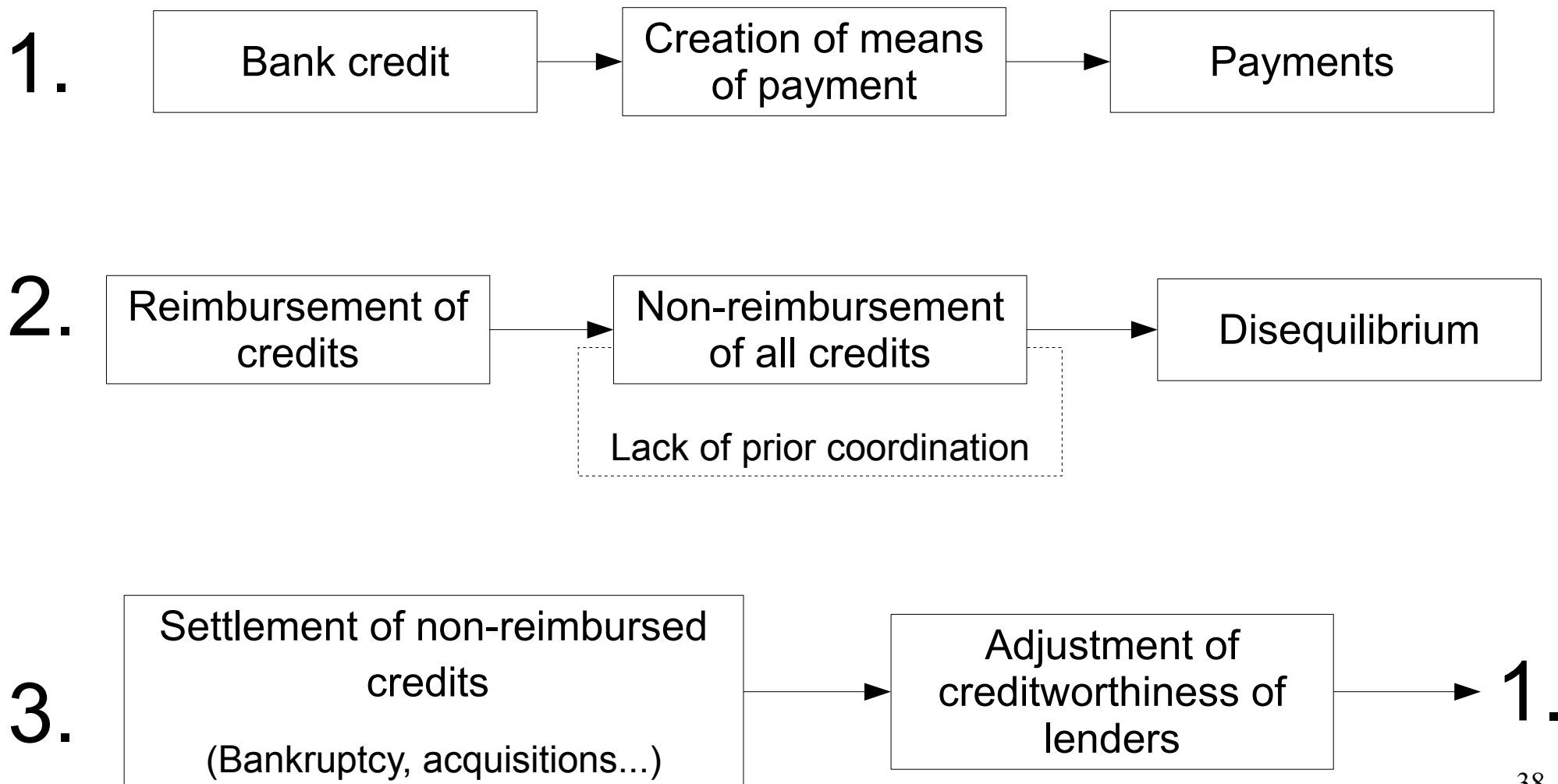
Disequilibrium

=

Non-reimbursement of every credit along with the non-fulfilment of expectations with the means of payment recovered from their circulation

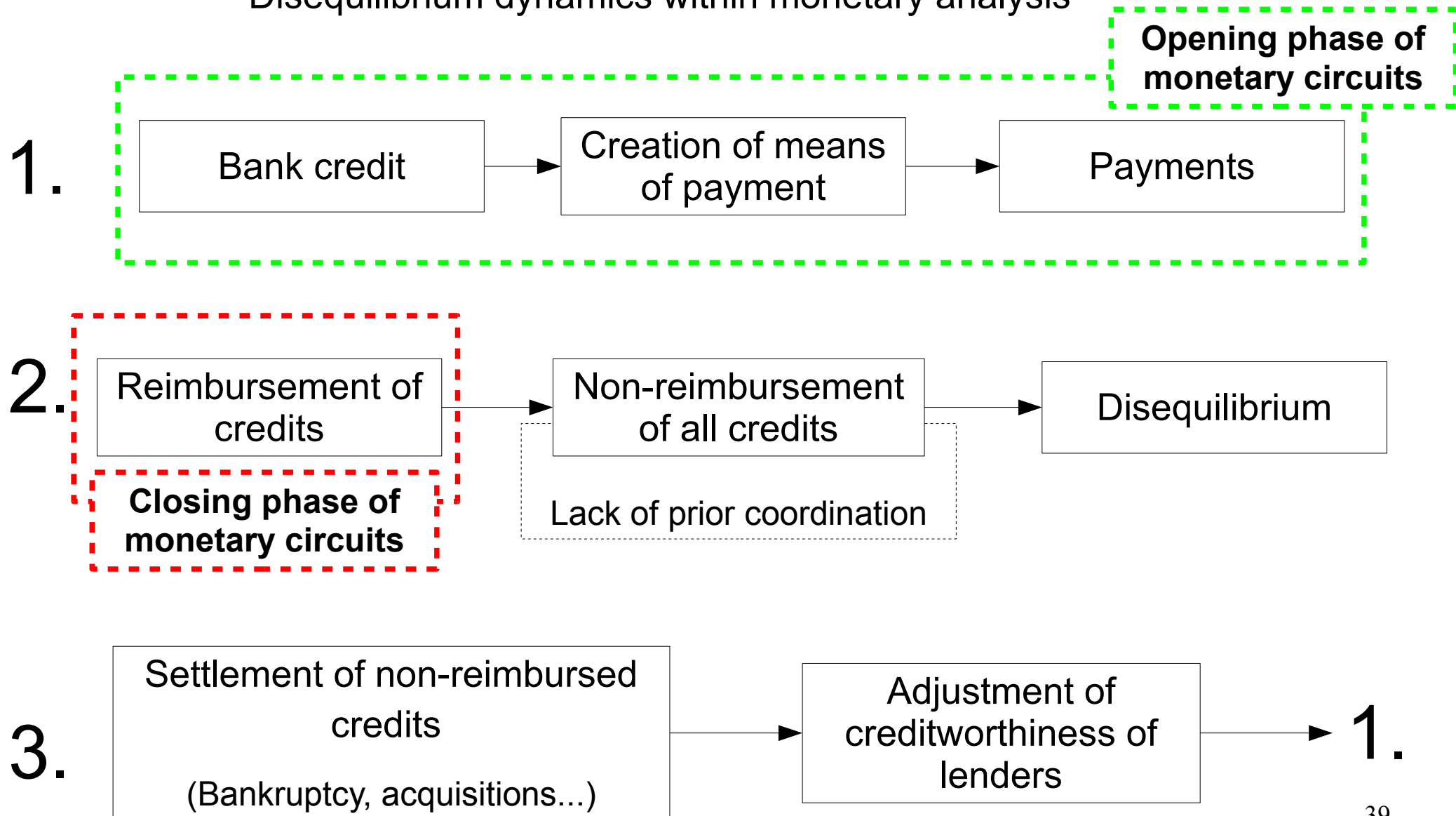
## II. Disequilibrium dynamics and money

Disequilibrium dynamics within monetary analysis



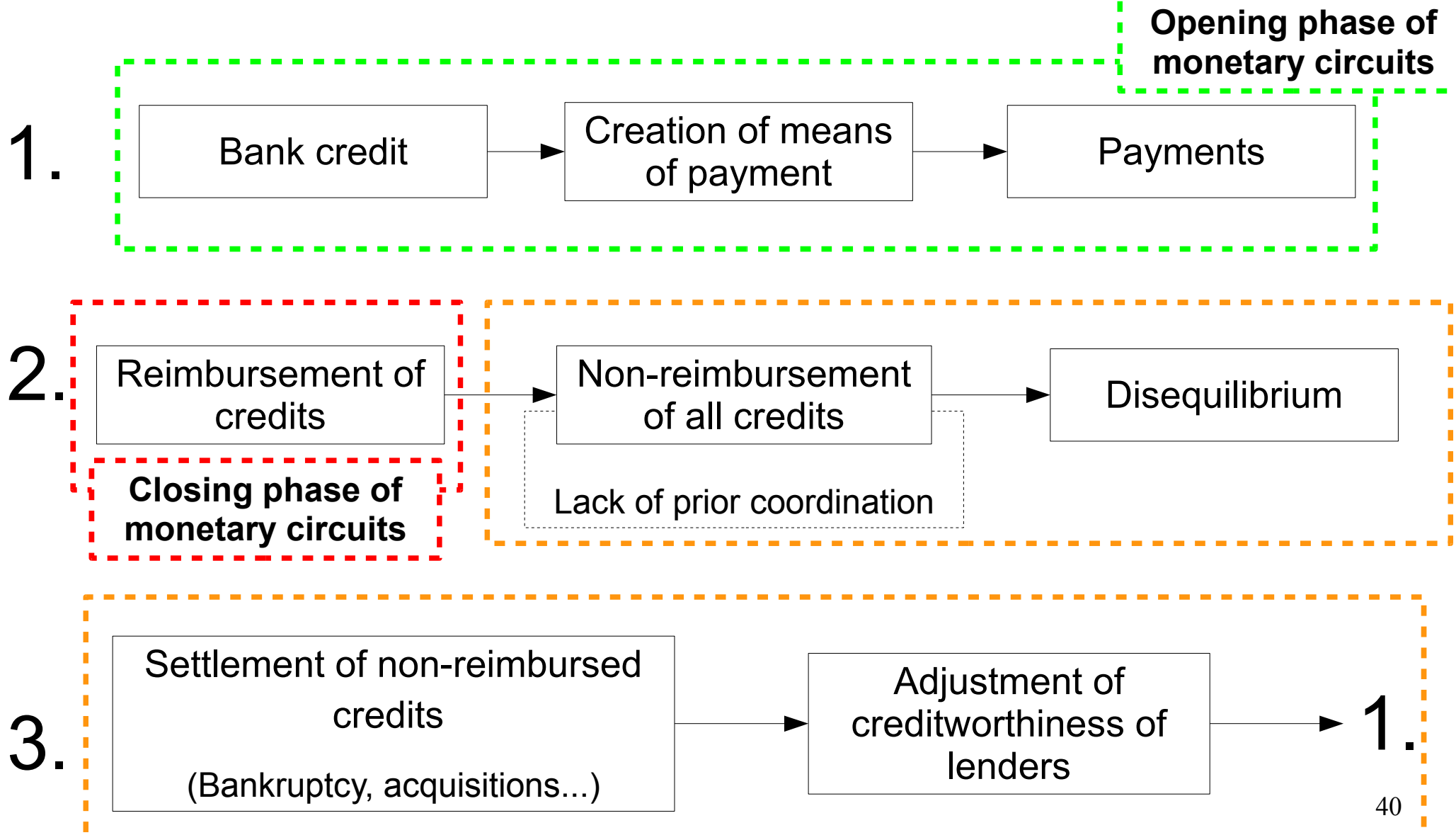
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Disequilibrium dynamics within monetary analysis

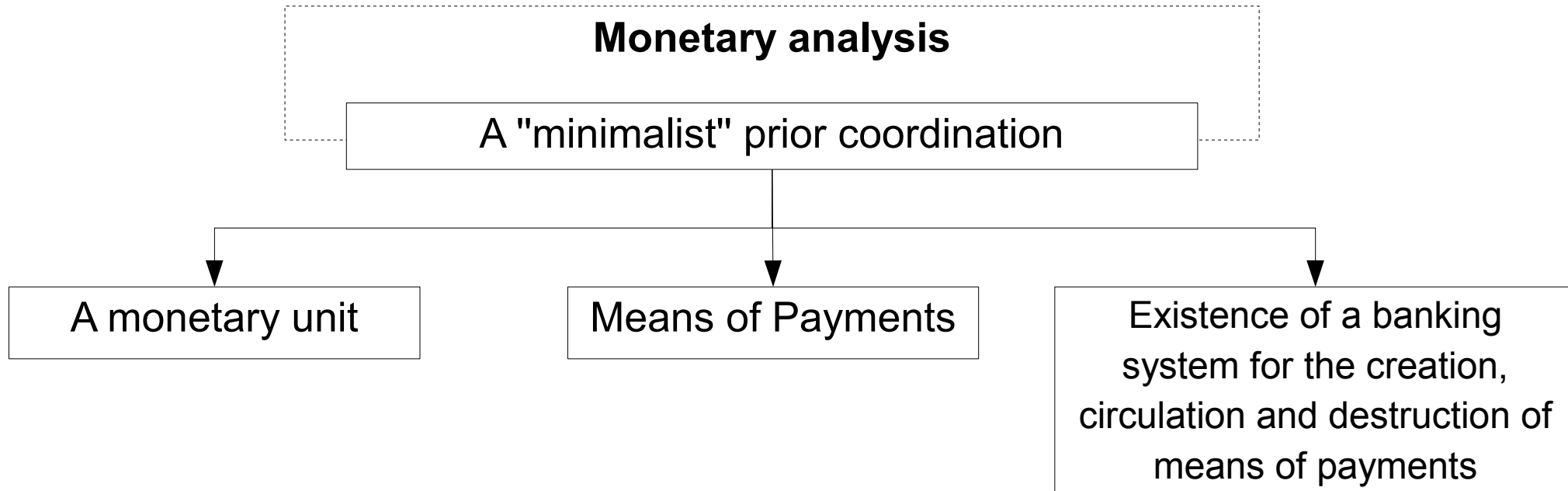


## II. Disequilibrium dynamics and money

Disequilibrium dynamics within monetary analysis



## II. Disequilibrium dynamics and money



## Conclusion

Monetary theory of disequilibrium dynamics  
and convergence to equilibrium?

If not, then are any disequilibrium dynamics  
compatible with economic stability?

Comparative statics

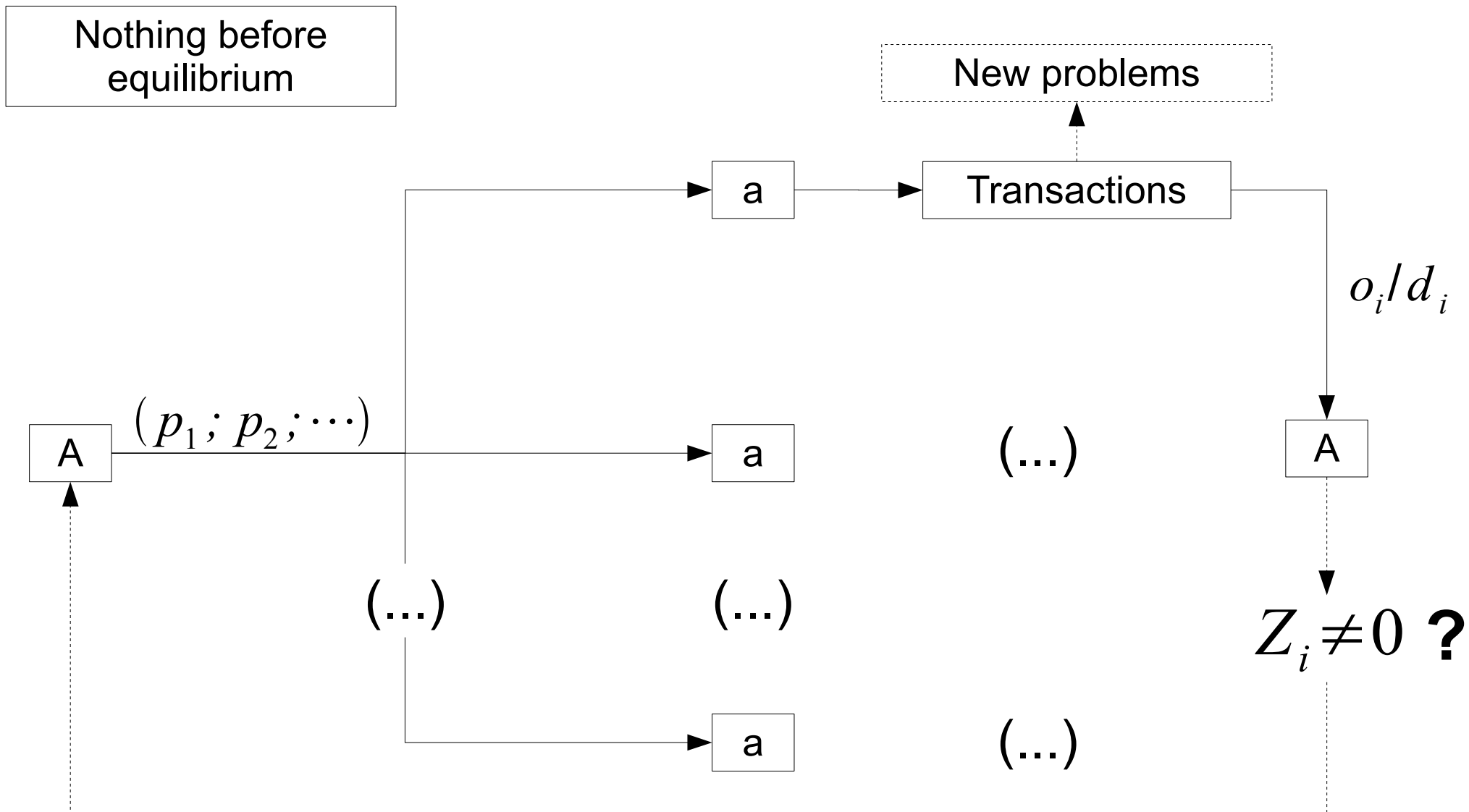
vs.

To assess the consequences of a given  
phenomenon on disequilibrium dynamics,  
and thus on economic stability

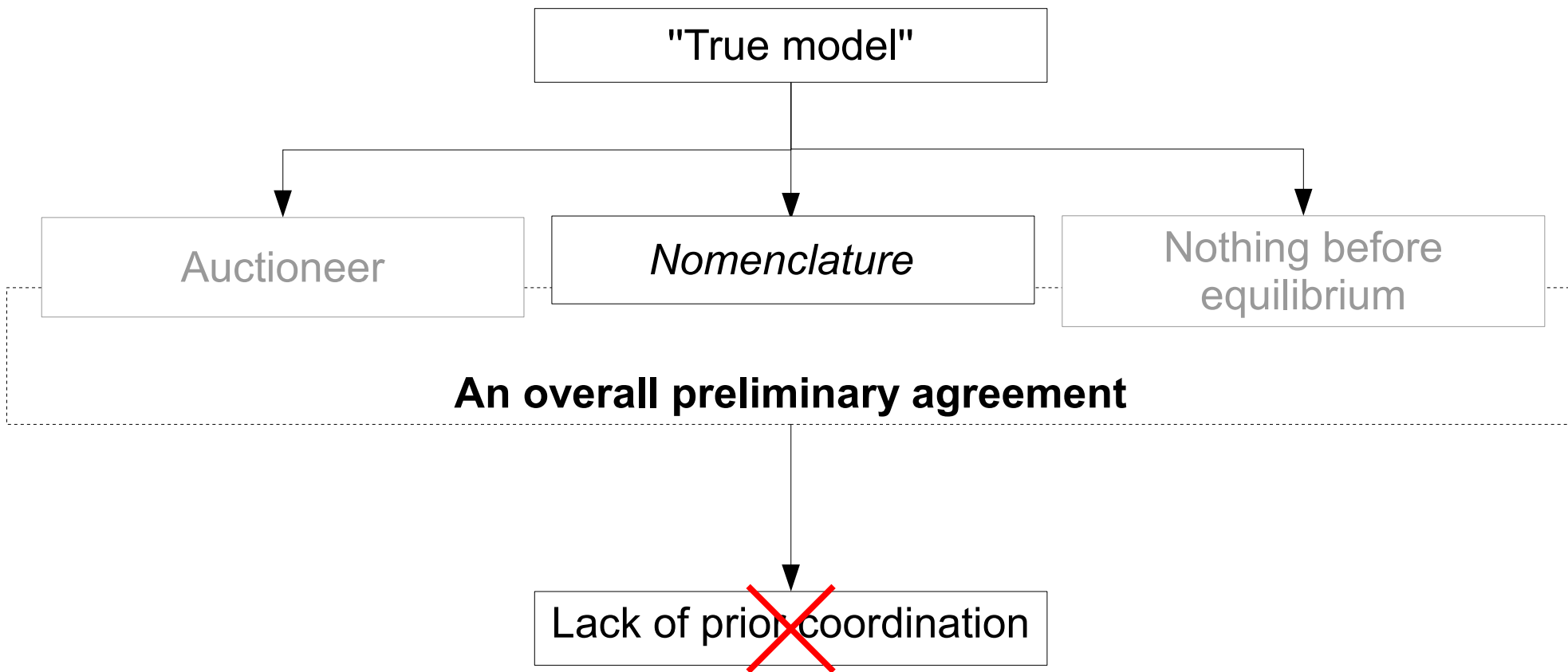
*Viability*

**THE END**

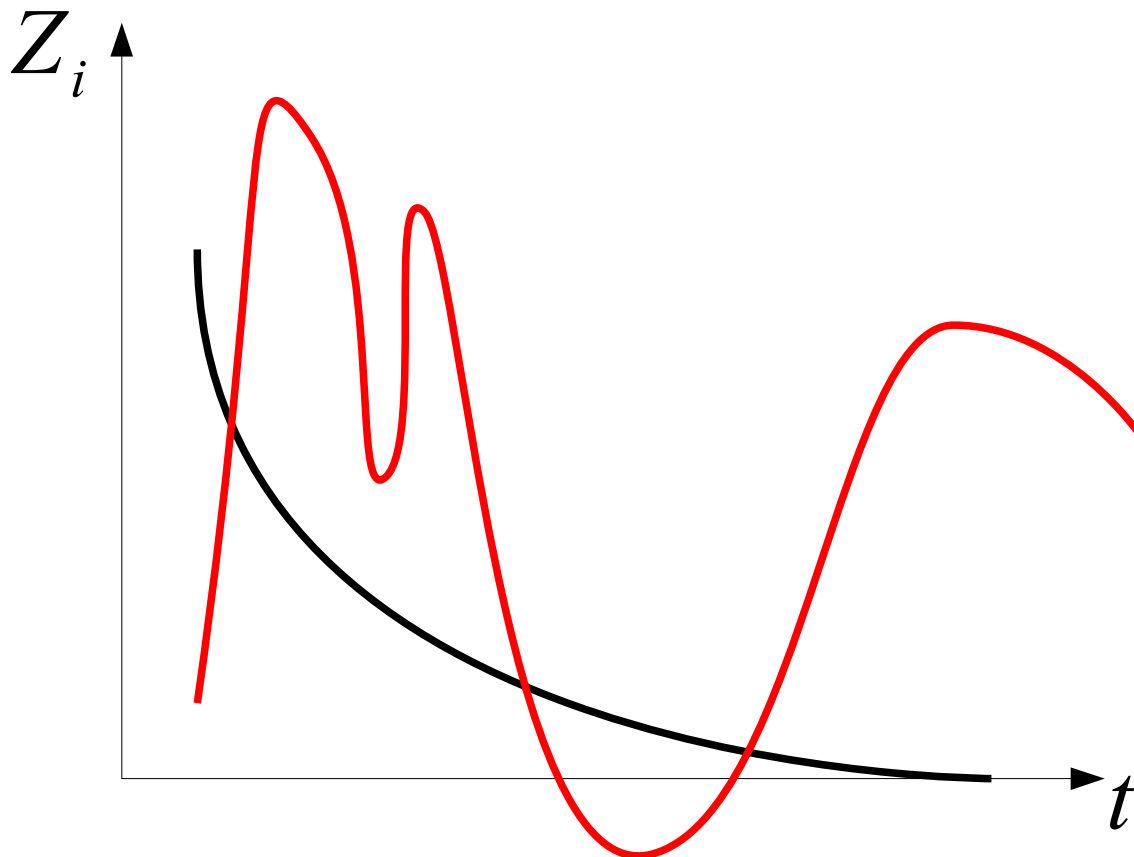
# Disequilibrium dynamics, the Edgeworth Process and the Hahn Process (Just a few words)



## Disequilibrium dynamics and the "true model" à la Fisher (Just a few words)



## The Sonnenschein-Mantel-Debreu Theorem (Just a few words)



$$\frac{\partial p}{\partial t} = H_i[Z_i(p)]$$

$$p = (p_1; p_2; \dots; p_n)$$

$H_i$  Sign preserving  
("Continuous" case)