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Prof. Dr. Michael Bolle ***Modern Political Economics*** **Seminar: Winter Term 19-20**

Session 4.2 Economics: more sophisticated – a trifle only.

1. Yes, indeed, there are no easy answers (see 3.2!!) But there is some common ground in economic analytics (be cautioned: not in policy advice even if it is based on sound reasoning) Different views are due to (a) different assumptions about actor´s reaction to impulses, that`s why social science is so much more difficult than natural science (Einstein?); and (b) systemic interdependencies are looked up differently.
2. In macroeconomic models theorists agree on interdependencies of markets (product market, labour market, capital market) whether recursive or simultaneous. They do not agree how a market economy (capitalism) performs if shocks hit like fiscal and monetary politics, trade politics, (re-)distributional politics and the efficiency of interdependencies of markets at a macro level (employment, inflation and growth) or market fail in case of externalities, public goods and lack of competition. And they do not come to a joint understanding about the distribution of wealth/income and happiness, given their concern about economic welfare. (Wow, a long list of differences but little common ground).
3. Two main strands of competing theories may be mentioned – Keynesianism and Monetarism. Here`s an easy, simplified version of a nice research question: what factors determine economic growth, employment and inflation?
4. You already have dealt with the problem in session 4 (see 4.1 and 4.2) so you are well prepared for the answer, a nice little brain teaser. Start your reasoning on the grounds of a monetarist answer, which is: if the money supply is controlled by a Central Bank and economic growth the result of efficient markets (product, labour and capital market), "inflation is always and everywhere a monetary phenomenon" with full employment and economic growth. Now try your brain on a macroeconomic Keynesian view based on market failures. (to you, three cheers, well done) Just in case, answers will be discussed next week, join the session.