

Seminar: Summer Term 2019/20

Prof. Dr. Michael Bolle

Modern Political economics

Session 5. *An Interlude* - Using Brains (see 4.2)

...and the answers are *

1. A simple economic tautology

$$M \times p = v \times O$$

$$g_M + g_p = g_v + g_O$$

2. Models, logical consistent and empirically testable

a. A simple version à la Friedman (Neomonetarism)

$$g_v = 0; \quad g_O = \bar{g}$$

$$g_M = \bar{g} - g_p$$

b. A simple version à la Keynes (Keynesianism)

$$D = C + I + (Ex - Im)$$

$$C = C(Y) \quad \text{linear like } C = a + cY \text{ ?}$$

$$I = I(r, i), \quad r = \bar{r}$$

$$D = Y, \quad S(Y) = I(\bar{r}, i)$$

$$Y = \bar{p} \times O \quad (\text{x stands for ...to multiply by...})$$

$$O = O(L, K, T) \quad \text{with } L, T \rightarrow \text{parameter,}$$

$$g_O = k \times \frac{I}{O} \quad \Delta K = I \text{ and } k \text{ as marginal productivity of capital}$$

Prices, employment and growth are determined by market interdependencies and may produce a market equilibrium with unemployment. Given the weak efficiency of monetary policy budgetary action is required by the government to control for demand by budgetary action like surplus saving and deficit spending.

- I am much obliged to Julian Glitsch for excellent assistance. Thank you, Sir.