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Roger Farmer

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#2605059 in eBooks 2010-03-31 2010-03-31 File Name: B00556DWS6 | File size: 19.Mb

Roger Farmer : Expectations, Employment and Prices before purchasing it in order to gauge whether or not it would be worth my time, and all praised Expectations, Employment and Prices:

2 of 4 people found the following review helpful. Modern macroeconomic interpretation of KeynesBy ekRoger Farmer constructs a new theory by merging Keynes's ideas into the modern macroeconomics framework. Keynes argued that the state of long term expectations determines the level of economic activity. Keynesian economics, however, lacks a microfoundation, which modern macroeconomics exploits. Farmer fills the gap and explores the role of Keynes's state of long term expectations to the macroeconomy in the language of dynamic general equilibrium

theory. In Farmer's theory, this concept is represented by self-fulfilling beliefs on values of the capital good, and those beliefs select an equilibrium. As a consequence, it could be the case that high unemployment is an equilibrium phenomenon and persists for a long time due to market pessimism. This book is written in the style of academic economic research, and it contains Farmer's original and creative arguments and policy suggestions. 5 of 12 people found the following review helpful. No. Chapters 3 and 10 of the GT do not contain Keynes's microeconomic analysis of expectations. They are contained in chapter 20. By Michael Emmett Brady Farmer commits the exact same error that has been committed by practically every other economist, in the 20th and 21st centuries, who has written on Keynes's General Theory. The basic claim, first made by Richard Kahn and Joan Robinson, was that Keynes provided no worked out technical, mathematical model of his theory of effective demand in the GT. This mistaken evaluation has resulted in an economics profession that, be it 1936 or 2006, believes that Keynes's "analysis" was contained in a chapter, chapter 3, that Keynes told Dennis Robertson in February, 1935 DID NOT contain his analysis. The theory of effective demand involved the D and Z functions. These functions were presented in a purely introductory manner in chapter 3 of the GT by Keynes. Keynes provided no microeconomic foundation in this chapter and/or worked out analysis. He warned the reader that it might be unintelligible until the model was fully developed later in the book. Keynes made it very clear that he presented his formal, microeconomic analysis in chapter 20, not chapter 3, of the GT. This fact has never been understood by the economics profession. Together, the D and Z functions specified the Aggregate Supply Curve (The Employment Function), which was a locus of multiple expected equilibria. Farmer also accepts the basic claims made by the mathematically illiterate, inept, and innumerate English economist, Dennis Robertson, who insisted that chapters 3 and 10, respectively, contained Keynes's major contributions to microeconomics and macroeconomics, respectively, in the GT. Consider the following assessment made by Farmer which makes the nature of his erroneous claims explicit: "The theoretical foundations of this story have been discredited because Keynes did not construct a credible microfoundation to the theory of aggregate supply. In this chapter, I use the search model developed earlier in this book to provide such a foundation". (Farmer, 2010, pp. 81-82) The second fundamental problem is Farmer's attempt to use probability distributions to deal with the question of uncertainty, as opposed to risk, where risk is usually modeled as the standard deviation of a normal (lognormal) probability distribution. Keynes's uncertainty concept is a function of his weight of the evidence (argument) variable, w , from the A Treatise on Probability. w is completely independent of any probability distribution. w is defined on the unit interval $[0, 1]$. w measures the completeness of the relevant evidence upon which the probabilities are being calculated. A w equal to 1 is required before a particular probability distribution can be used. However, once $w=1$, there is no uncertainty, only risk. Farmer (pp. 89-90) is very clear that he is, like all neoclassical economists since Bentham, assuming that decision makers know the probability distribution or the odds. This means that there can be no uncertainty, only risk which is what Keynes completely rejected in the TP and the GT. The uncertainty of the GT is an inverse function of w . Letting U equal uncertainty, we obtain $U=f(w)$. If w increases, U decreases while if w decreases, U increases. It is as simple and straightforward as that. A severe problem occurs because the economics profession is wedded to the subjective, Bayesian, personalist approach to probability, as specified in their Subjective Expected Utility (SEU) theory, that claims that there is no distinction between risk and uncertainty, since uncertainty and risk specify the same thing. The differences are fundamental. Farmer needs to digest Pigou's 1933 model, contained in chapters 8-10 of Part II of his The Theory of Unemployment (TTOU, 1933) if he ever wants to be able to digest Keynes's chapter 20 analysis. Chapter 21 of the GT is built on chapter 20. The appendix to chapter 19 of the GT then compares the models of TTOU and the GT. It is easy to see, by comparing the elasticity analysis of Keynes's chapter 21, pp. 304-306, with Pigou's elasticity analysis, that Pigou only has one equilibrium while Keynes has many. Farmer's book is interesting because he does succeed in duplicating some of Keynes's technical results while expressing them in the latest mathematical garb-window dressing that is currently taught in graduate level micro and macro courses in economics.

Expectations, Employment and Prices brings Keynesian economics into the 21st century by providing a new paradigm that explains how high unemployment could potentially persist forever without a little help from the government. The book fills in logical gaps that were missing from Keynes' General Theory of Employment Interest and Money by reconciling some of its key ideas with modern economic theory. Central bankers throughout the world are talking now about developing a second instrument of monetary policy in addition to controlling the interest rate. Roger Farmer directly addresses this issue and offers new creative monetary policy proposals and suggestions for the design of new financial institutions for the 21st century.

"This is an ambitious book. We need to develop new approaches to business cycles and unemployment. Roger Farmer's attempt is refreshing, insightful and bold."--Daron Acemoglu, Charles P. Kindleberger Professor of Applied Economics, MIT and Co-Editor of Econometrica "This book is modestly represented by its author as an extension to Keynesian economics. But I am more inclined to represent it as a new tradition, 'Farmerian economics.' While both are intended to provide justification for active countercyclical policy in the face of market failure, the microfoundations for Farmerian economics are much stronger than those of John Maynard Keynes. Farmerian economics is as distinct

from Keynesian and New Keynesian economics as Lucasian economics is from Classical and New Classical Economics."--William A. Barnett, Oswald Distinguished Professor of Macroeconomics, University of Kansas, and Editor, *Macroeconomic Dynamics* "In this important book, Roger Farmer challenges the commonly accepted structure of modern DSGE models. Since these models are still, at their core, neoclassical constructs they miss much of the intuition of Keynes' original contribution. Farmer builds microfounded dynamic equilibrium models that can generate persistent inefficient equilibria with high levels of unemployment. He confronts these models with data, and uses them to argue for vigorous government policies to avoid those situations. In this way, Farmer not only greatly enriches our understanding of dynamic macroeconomics, but shows how its tools can be applied to many different environments with a surprising level of flexibility and power. An insightful work that all macroeconomists interested in business cycles should read."--Jesus Fernandez-Villaverde, Associate Professor of Economics, University of Pennsylvania "What did Keynes really mean? How much of Keynesian intuition can be formulated using the language of modern macroeconomics? If you want to find out, read this creative and fascinating book. It uses tools from search theory and self-fulfilling equilibria to breathe new life into old debates. Keynes is dead. Long live Roger Farmer!"--Harald Uhlig, Professor and Chair, Department of Economics, The University of Chicago and Co-Editor of *Econometrica*

About the Author Roger E. A. Farmer is Professor and Department Chair of the UCLA Department of Economics. He is a Research Associate of the National Bureau of Economic Research and the Centre for Economic Policy Research, and co-editor of the *International Journal of Economic Theory*. He is a member of the Financial Times Economists' Forum, a specialist on macroeconomic theory, and the author of six books and numerous scholarly articles. His book *How the Economy Works*, a companion to this book, is available from Oxford University Press. Written in clear, accessible language, it makes an argument that no one should ignore. *How the Economy Works* is suitable for general readers with an interest in business and the economy; students at all levels in undergraduate and graduate economics courses; and academics and practicing economists in business and policy institutions.