This course is concerned with the analysis of advanced capitalism. Although it will begin with a survey of the state of the global economy, its focus will be on the structure and dynamics of the center. The turbulent dynamics of the system, which express themselves as order generated in-and-through disorder, will be shown to give rise to patterns of recurrence over a wide variety of domains. In this course we will examine the empirical evidence and the theoretical claims of classical, neoclassical, and postkeynesian theories concerning the determination of prices, profits, production, interest rates, stock market prices, exchange rates and international trade. A subsequent course may extend the discussion to the analysis of money, credit, effective demand, growth, unemployment, inflation, technical change, cycles, long waves, and recurrent crises. A prior background is required in first year graduate macroeconomics and microeconomics, and in the history of economic thought.

Note: starred readings are optional, and should be used to gain further depth in the subject.

I: Introduction

The aim of the course
Empirical evidence on turbulent trends and recurrent patterns
Real output, real investment, business cycles
Real wages, productivity, real profits, unemployment
Commodity prices, gold prices, stock prices
Government budget deficits
Inter-sectoral and international profit rates
Other international data

Readings

The Economic Analysis of Advanced Capitalism

2. Methodological issues

Notions of equilibrium
Fast vs. Slow Processes
Understanding and representing individual economic behavior
How do people actually make economic decisions?
Why do people behave in the way they do?
Understanding and modeling aggregate economic behavior
The problem of emergent macro-properties
Does "rigor" require that macro-properties must be derived from micro-foundations?
The robust insensitivity of macro laws to micro-details
The scale-dependence of macro-laws
The importance of heterogeneity of economic behaviors

Readings on Disequilibrium Dynamics

Readings on Method

Readings on Behavior

Readings on Microfoundations
Kirman, Alan P. "Whom or What Does the Representative Agent Represent?", Journal of Economic Perspectives, 6(2), Spring: pp. 117-136.
3: Production, Exchange and the Puzzle of Aggregate Profit

Production and exchange as social relations
Production, exchange and time
Reproduction as the general disequilibrium (forcible articulation of individual activities)
Exchange for money and exchange for profit
The puzzle of aggregate profit
Two sources of profits
The importance of circuits
Profits and social accounts
Neoclassical and postkeynesian theories of profit
Relative prices, aggregate profits, and various "transformation" problems

Readings:

Obrinsky, Mark. 1983. Profit Theory and Capitalism, University of Pennsylvania Press, Philadelphia: ch 1-4, 10: The profit puzzle (ch 1); Adam Smith (ch 2); Ricardo and Marx (ch 3); Neoclassical (ch 4); Post Keynesian (ch 10).
The Economic Analysis of Advanced Capitalism

4. The Theory of Real Competition: Competition as War

Competition as the channeling mechanism
   Turbulent regulation: order-in-and-through-disorder
   Intentions versus outcomes
Central tendencies of competition
   Competition within an industry
   Competition between industries
   The notion of regulating capital
   Competition across regions and across nations

Readings:

Classical and marxian competition

Marx, K. Capital, Vol III, Chs XVIII and L (Illusions created by Competition); Chs LI and XLVIII-XLIX
(Production Relations and Distribution Relations)
Marx to Annenkov Correspondence, Dec. 28, 1846
Marx, K. Poverty of Philosophy, Ch. II, Sec. 3, International Publishers, 1971
Marx, K. Wage, Labor and Capital, any edition (this was written in 1847, and the section on competition is of particular interest).
Rosdolsky, R. The Making of Marx's Capital, Ch.IV, Sec.B.2, Pluto Press, 1977

Two critical tendencies of capitalist competition

i. Equalization of Selling Prices Within Industries (Differentiation of Profit Rates)

Marx, K. Capital, Vol III, Ch. X: 180-195 [beginning with "For commodities..." and ending with "...producers as such"].

ii. Equalization of Profit Rates Between Industries

Correspondence, Marx to Engels, April 30,1868; Marx to Kugelmann, July 11, 1868
Marx, K. Capital, Vol III, Ch X-XII (competition and the equalization of the general rate of profit); Ch XVI-XVII (commercial capital and prices of production)

The notion of regulating capital


Empirical evidence on competition and rates of return in advanced countries

Shaikh, Anwar. 2008. Competition and Industrial Rates of Return, forthcoming
The Economic Analysis of Advanced Capitalism

5: Conventional notions of competition

Comparison to the neoclassical notion of perfect competition
- Perfect competition
- Rational competition
- Walrasian competition

Comparison to oligopoly and monopoly theories
- Kalecki
- Post-Keynesian

Readings:

**Neoclassical competition and related debates**


**Imperfect competition and monopoly theory**


Kaleckian and Post-Keynesian theory and debates


6. The classical theory of relative prices and the empirical evidence

The fundamental equation of prices
The Smithian derivation
Ricardo’s two hypotheses
Marx’s commentary on Ricardo’s hypothesis
The turbulent equalization of rates of profit
Notion of regulating capitals
Returns on total capital vs. return on new investments
Empirical evidence
On relative prices in advanced economies
On rates of return in advanced economies

Readings:


The Economic Analysis of Advanced Capitalism

7: International competition and the theory of exchange rates

Reprise of competition within a country

- Competition within a national industry
- Competition between national industries
- Prices of production with unequal wages
- Domination of relative selling prices by relative real unit labor costs (Smithian decomposition)
- Competition within a country (dominance of absolute real costs)
- Within a country, regions with higher costs will run a persistent trade deficit

Competition between countries

- Competition within an international industry
  - International Law of Correlated Prices, subject to tariffs, taxes, transport costs (implicit nonlinearities)
  - Purchasing Power Parity theory as special case of the Law of One Price
- Competition between international industries
  - Smith and Marx on international trade
  - Ricardo's substitution of a different principle for international prices: law of comparative costs
    - Fixed exchange rate rates
    - Flexible exchange rate rates
    - Capital flows
    - Free trade makes each country equally competitive.
- Neoclassical theory
  - The full employment assumption
  - Comparative costs rooted in factor endowments: the theory of comparative advantage
  - Difficulties and 'paradoxes' within orthodox theory

Extending Smith and Marx's theory of competition to foreign trade

- International regulating prices
- Theoretical implications
- Implications of competition between unequal trading partners: persistent trade imbalances

Empirical evidence for advanced countries

Policy implications of the classical approach

Readings:

- Competition, absolute advantage, and comparative advantage

The Economic Analysis of Advanced Capitalism


Conventional and Post-Keynesian trade theory and the empirical evidence


Absolute advantage approach to exchange rates: theory, evidence, and policy implications

8: Competition and the banking sector

Theories of interest rates
Marxian theory
Keynesian and post-Keynesian theory
Neoclassical theory
Hicks’ argument
Gibson’s paradox

Competition between industry and banking: the theory of the loan rate of interest
- Classical definition of bank capital advanced
- Equalization between industrial and banking rates of profit
- Implications for the theory of the rate of interest

9. Competition and the bond and equity markets

Definition of rates of return in bond and equity markets
- Types of bonds: zero-coupon, coupon and consol bonds
- Yields to maturity vs. rates of return
- Equity market yields and rates of return
The notion of risk premia
Arbitrage within the bond market
Arbitrage between the bond market and the real sector
Arbitrage between the equity market and the real sector
Differential patterns between bond and equity markets
The equity premium puzzle
- Explaining the puzzle
Comparisons to conventional finance theory
- Discounted cash flow model
- CAPM (Capital Asset Pricing Model)
- APT (Arbitrage Pricing Theory)
- Tobin’s Q
- 'Practical' models (Fed model)
Empirical evidence on stocks, bonds, and corporate investment