GENERAL EQUILIBRIUM

Theory and Evidence

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PREFACE

General equilibrium theory is one of the major research programs in modern economics. It aims to describe and understand the functioning and properties of market economies. Developments of and reactions to this program constitute a major part of economics. In order to achieve its ends, general equilibrium theory focuses on four broad questions. First, under what conditions do equilibrium states exist? Second, under what conditions are equilibrium states optimal? Third, are equilibrium states relatively small in number, stable relative to adjustment processes and do they behave predictably in the face of shocks to the economy? Fourth, are equilibrium states congruent with actual economic data?

In this book, results concerning the theoretical and empirical properties of equilibrium states are presented and discussed. The principal aim of the work is to achieve an understanding of what general equilibrium theory has to say about the circumstances in which deregulated market economies function well, along with circumstances where this is not the case. As this is being written, economic policy makers in market economies around the world — particularly in the United States and in Europe — are intervening heavily in those economies in an effort to stabilise markets. This is at contradiction with what is often thought of as ‘free market orthodoxy’, a position which some think is supported by the general equilibrium theory. In fact, a close

study of general equilibrium theory tends to suggest that the circumstances under which market economies can function well are potentially quite special. The need for policy intervention, particularly in establishing appropriate parameters in which the economy can operate, may therefore be more widespread than is commonly thought.

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Notwithstanding the contributions of all these people, none can surpass that of my wife Lynne who has done the hard yards with a difficult, but ultimately harmless, academic scribbler. To you this work is, with love, dedicated.

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