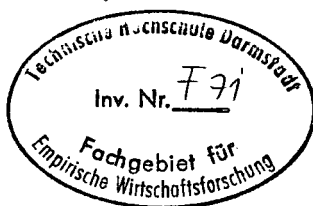


**Models of  
Economic Systems**

A Theory for  
Their Development and Use

Arnold H. Packer



## Contents

List of Figures	viii
List of Tables	ix
Preface	xi
<b>1</b>	
<b>The Problem: Bridging the Gap between Quantitative Analysis and Decision Making</b>	<b>1</b>
1.1	
Introduction	1
1.2	
Terminology and Basic Concepts	8
1.3	
Previous Work	16
<b>2</b>	
<b>Adaptive Modeling</b>	<b>26</b>
2.1	
Adaptive Decision Processes	26
2.2	
The Adaptive Modeling Procedure	30
2.3	
Models and the Empirical Reality	40
2.4	
Tacking Auxiliary Models onto the Primary Model	45
2.5	
The Scientific Nature of the Formal Models	48
<b>3</b>	
<b>Objective Functions</b>	<b>53</b>
3.1	
Objective Functions for Choosing among Alternatives	53
3.2	
Objective Functions for Microeconomic Decision Making	57
3.3	
Objective Functions for Macroeconomic Decision Making	67
<b>4</b>	
<b>Allocating Resources: The Static Case under Uncertainty</b>	<b>76</b>
4.1	
The Allocation Problem	76

4.2	
The Primary Model	78
4.3	
The Other Components of the Adaptive Procedure	87
4.4	
A Numerical Example of the Static Case	100
<b>5</b>	
<b>Allocating Resources: The Dynamic Case</b>	<b>110</b>
5.1	
Growth Models and Production Functions	110
5.2	
The Extended Primary Model for the Dynamic Case	117
5.3	
The Decision-Making Algorithms for Investment	120
5.4	
The Macrolevel Investment Decision	132
5.5	
The Adaptive Procedure for the Combined Case	139
5.6	
Conclusions	143
<b>6</b>	
<b>A Pilot Procedure for the Stabilization Problem</b>	<b>147</b>
6.1	
The Primary Model of the Pilot Procedure	147
6.2	
The Four Other Components of the Pilot Procedure	155
6.3	
Mechanics of the Pilot Procedure	167
<b>7</b>	
<b>The Certainty Components of a Prototype Procedure for the Stabilization Problem</b>	<b>172</b>
7.1	
The Primary Model for the Prototype Procedure	174
7.2	
The Monetary Auxiliary Model	176
7.3	
The Decision-Making Roles	178
7.4	
The Objective Function	181

7.5	
The Information System	183
7.6	
The Dynamic Environment	187
<b>8</b>	
<b>The Exogenous-Event Library and Auxiliary Models</b>	<b>195</b>
8.1	
The Library	195
8.2	
Auxiliary Models for International Shocks	202
8.3	
Auxiliary Models for Domestic Strikes	207
<b>9</b>	
<b>An Appraisal of the Procedure and Its Potential Applicability</b>	<b>210</b>
9.1	
Models, Games, and Their Relationships	210
9.2	
Appraisal of the Adaptive Modeling Procedure	217
Bibliography	220
Index	233