Macroeconomic Methodology

A Post-Keynesian Perspective

Jesper Jespersen

Professor of Economics, Roskilde University, Denmark

Edward Elgar

Cheltenham, UK • Northampton, MA, USA

Contents

List of figures, tables and box	viii
Preface	X
Summary	xii
Introduction	1
Introduction: different points of view	1
Neoclassical macroeconomic methodology: key terms Post-Keynesian macroeconomic methodology: important	3
terminology	9
Conclusion: methodology as a major dividing line within	
macroeconomics	14
1 Keynes-inspired macroeconomic theory in a	
methodological perspective	19
Introduction	19
From generalized micro-theory to actual macro-theory	20
Keynesians after Keynes	25
Keynes and post-Keynesians	35
Post-Keynesian (I): growth, price theory and income	
distribution	39
Post-Keynesian (II): money and inflation	43
Post-Keynesian (III): the need for a methodology tackling	
reality	46
Summary	48
2 Macroeconomic methodology: from a critical realist persp	ective 53
Prologue	53
Introduction to macroeconomic methodology: central issu	ies 54
Critical realism with reference to macroeconomics	62
From theory to practice	79
Appendix 2.1	85
Appendix 2.2	87
3 The macroeconomic landscape: an example of an	
ontological reflection	91

	The socially embedded macroeconomic vision An ontological reflection: a sketch of a macroeconomic	91
	landscape	96
	Some structures in the macroeconomic landscape	98
	Macroeconomic causal relations: 'macro-behaviour relations'	105
	Summary	106
	Appendix 3.1	108
	rippendin 3.1	100
4	About uncertainty, risk and limited knowledge	110
•	Introduction	110
	About uncertainty, risk, limited knowledge and expectations-	
	formation	112
	Inherent macroeconomic uncertainty	116
	Microeconomic uncertainty as a basis for macroeconomic	
	behavioural relations	122
	Summary	125
	Appendix 4.1	126
	ripponers in	120
5	Uncertainty and 'the economy as a whole'	132
_	Introduction	132
	A closed system: a laboratory-shaped reality without	
	uncertainty	135
	Open macroeconomic systems	137
	Summary	152
	Summary	132
6	Equilibrium and path-dependence from a perspective of	
•	uncertainty	155
	Prologue: 'a long struggle of escape'	155
	Introduction: two separate positions	157
	The equilibrium concept in the laboratory model	159
	Equilibrium and uncertainty in post-Keynesian theory	166
	Summary	176
	Appendix 6.1	177
	ripponess v.i	• • • •
7	The fallacy of composition	180
•	Introduction: from micro to macro in a historical	100
	perspective	180
	The fallacy of composition as a consequence of	
	methodological individualism and general equilibrium	186
	The representative agent: the micro-macro divide	187
	From market level to the 'economy as a whole'	189
	Summary	193

s vii
s vii

8	Effective demand: a macroeconomic causal relationship	196	
	Prologue	196	
	Introduction	197	
	Macroeconomic 'behaviour' with a microeconomic		
	consideration	197	
	The principle of effective demand	198	
	Differences between Keynes's and neoclassical theory of		
	'output as a whole'	206	
	Aggregate demand in the long run	211	
	Summary	213	
	Appendix 8.1	214	
9	Methodological perspectives for realistic macroeconomic		
	research: a summary	219	
	Dividing lines	219	
	Making macroeconomic reality operational: from World 1 to		
	World 3	225	
	Summing up	230	
Ri	bliography	234	
	Index		

•