Course Description

This is the first semester of a two-semester sequence on a classical approach to economic analysis, built around the material in my book *Capitalism: Competition, Conflict, Crises*, Oxford University Press, 2016. The aim is to show that there exists a coherent alternative to neoclassical and Post Keynesian theory that does not rely in any way on utility maximization, rational choice, rational expectations, or perfect/imperfect competition. Consumer theory is based on real consumer behavior, the behavior of the firm is addressed in terms of the theory of real competition, and the theoretical and empirical concerns of Keynes' and Kalecki's theory of effective demand and Kalecki's theory of price are shown to be fully consistent with the classical framework of profit-driven real competition.

The present course, Advanced Political Economy II is actually the first of the two-semester sequence, focused on a classical approach to *microeconomics*: the theory of consumer behavior and the theory of the firm. It will begin with a survey of the structure and dynamics of the center countries. The turbulent dynamics of the system, that themselves as order generated inand-through disorder, will be shown to give rise to patterns of recurrence over a wide variety of domains. It will then develop a consistent classical approach grounded in the theory of real competition to the determination of relative prices, profits, output, interest rates, stock market prices, exchange rates, and international trade. In all cases, the classical approaches will be compared to neoclassical and Keynesian/Post Keynesian ones, and to the relevant empirical evidence.

In this course, students will be asked to work on specific course topics for weekly lab sessions, including the deconstruction of a standard microeconomics textbook and the possible construction of an alternate text grounded in the classical approach. There will be a final exam in the course, based on a question-set made available well in advance.

The second (Spring) semester, Advanced Political Economy I, will develop a classical approach to *macroeconomics*. It will begin with a history of the rise and fall of modern macroeconomics, moving from pre-Keynesian theory to Keynes, Kalecki and Hicks, then to the subsequent prominence of various neoclassical arguments by Friedman, Phelps, Lucas and others, and the corresponding rise of Post Keynesian economics of Davidson, Godley, Taylor, Lavoie and others. Then it will move to the construction of a classical theory of effective demand in a growth context, grounded in the theory of real competition in which profitability plays a central role in regulating aggregated supply, aggregate demand and the levels and structures of interest rates. The theoretical and empirical relations between the real wages, the social structure and the degree of unemployment will be compared in classical, neoclassical and Post Keynesian approaches. A similar theoretical and empirical comparison will be undertaken for the relations between money, credit and inflation. The various elements will then be brought together to develop a classical analysis of the current world crisis.

Note: The primary text for the course is my book, *Capitalism: Competition, Conflict, Crises*, Oxford University Press, 2016. In the reading list, starred readings are optional, and should be used to gain further depth in the subjects involved. For comparison, look at Varian, Hal R. 1993. *Intermediate Microeconomics: A Modern Approach*. New York: W.W. Norton, or

I. Foundations

1. *Introduction to real economics*

Classical Microeconomics

2. **Macroeconomic Context of Microeconomic Behavior**


3. **Methodological issues**

**Equilibrium Dynamics**


**Microfoundations**


II. **Stochastic Consumer Microeconomics**


III. **Production and Costs**

1. **Social foundations of production**


Marx, K. *Capital*, Vol. I, Ch. XIV, XV (Sections 1-5).

2. **Production and Cost Curves**


IV. Profit

1. Classical theory


2. Comparison of profit theories


V. Real Competition

1. Theory of real competition


Ch. 8, Sections

Marx, K. *Capital*, Vol III, Ch.s XVIII and L (Illusions created by Competition); Ch.s 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).


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)


2. Evidence on the behavior of the firm


3. Empirical evidences on profit rate equalization


4. Choice of technique and debate on the path of the profit rate


5. Implications for worker struggles


Classical Microeconomics

VI. Perfect and imperfect competition

1. Perfect Competition


2. Imperfect competition and monopoly theory


3. Kaleckian and Post-Keynesian theory and debates


Classical Microeconomics


4. Empirical Evidence of Competition and Monopoly


VII. Relative Prices

1. Foundations of the classical theory of relative prices


2. Empirical evidence on relative prices


3. Empirical Evidence on wage-profit curves


4. Implications for the Cambridge Capital Controversy and aggregate production functions


VIII. Interest rates and stock prices

1. Real competition and interest rates

Classical Microeconomics


2. Real competition and stock prices


3. Empirical evidences on interest rates and stock prices


4. History of theories of interest rates


VIII. International competition, exchange rates and trade balances

1. Neoliberalism and the standard theory of trade


2. Ricardian comparative cost advantage, neoclassical and Post-Keynesian trade theories


3. **Real competition and absolute cost advantage**

4. **Empirical evidence of exchange rates and trade balances**