

Stock-Flow-Consistent Models and Institutional Variety

SERIES IN ECONOMIC METHODOLOGY

Summary

Orthodox macroeconomics is founded on microeconomics. Heterodox economists either reject micro foundations or experiment with behavioural relationships without paying attention to the principles that generate them. The book takes off from Michal Kalecki's aphorism about economics being a science that confused stocks and flows. Kalecki was famous for presiding over a marriage between Marx and Keynes and all three figure prominently in the volume. However, the first part of the title is a homage to Wynne Godley who pioneered stock-flow-consistent modeling in our times. The authors exploit lagged values of variables emerging from the definitions. Lags also emerge in so-called stock-flow norms connecting the aggregates. Some moving and shaking of identities and a difference or differential equation emerges. The requirements for stability of the dynamic systems are illuminating and the reader can stop at structure and history with the first half of the book. The conversation with orthodoxy begins with the second part. The equivalent equation systems of the first part throw up different pairs of characters whose happiness must be maximised over time. The price to pay through the solution process is the confrontation with many ugly expressions but the explicit calculations are undertaken repeatedly only to reassure students through drillwork that tedium is not the same as difficulty. The payoffs are that variable transitions in capitalism (the second part of the title) are captured from a small clutch of identities. The movements from backward agriculture to capitalism, from 'golden age' capitalism to 'financialization', are modeled. A separate chapter is devoted to Europe. The policy prescriptions of heterodox economics do not

compare with the richness of critique and positive analysis. 'Positive' and 'normative' are one in this work, the combination of stock-flow norms along with 'forgotten' policy variables like the tax rate promising order and stability to economies.

About the author

Amelia Correa is the Head, Department of Economics, St Andrew's College, Mumbai. She has been waging battles introducing economics to armies of students since 1984. In India, undergoing a perverse transition to full blown capitalism, she makes it her solemn duty to expose her pupils to the horrors of desperate poverty. Thus, she is instrumental in organizing a conference every year where reputed scholars and activists educate teachers and teach on the nuances of the food crisis, the land problem, labour and so on. Her research interests centered around financial arrangements that impact on poverty, resulting in MPhil and PhD dissertations on the subject. Her publications in this area include papers in the Journal of Interdisciplinary Economics and Applied Economics Letters. On the theme of the book, a paper in the World Review of Political Economy best represents her thinking.

Romar Correa works on the interface between micro and macroeconomics in non-neoclassical frameworks. As Reserve Bank of India Professor of Monetary Economics at the University of Mumbai, he delighted in using his freedom to critique policy making by the Central Bank of the country! He is not above using tools like game theory if it elucidates the political economy at hand. He has presented his work at conferences in India, France, Italy, Hong Kong and China. He has published extensively in a wide range of journals, including the Journal of Economic Integration, History of Economic Ideas, International Review of Applied Economics, Evolutionary and Institutional Economics Review, International Game Theory Review, economics e journal, American Review of Political Economy, International Journal of Social Economics.

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 VERNON PRESS
SERIES IN ECONOMIC METHODOLOGY

May 2017 | Hardback 236x160mm | 126 Pages | ISBN: 978-1-62273-181-7
Also in Paperback (\$47/€44/£39) | ISBN: 978-1-62273-182-4

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