PART I
Competing approaches to Keynesian macroeconomics 1

1 Representative households or principal-agent capitalism? 3
1.1 Introduction 3
1.2 The role and scope of microfoundations 3
1.3 Representative agent macrodynamics 5
1.4 Principal/agent capitalism and the distribution of income and wealth 9
1.5 Conclusions 14

2 The two-class Pasinetti model from a neoclassical perspective 16
2.1 Introduction 16
2.2 The model 17
2.3 Discussion of the model 21
2.4 Conclusions 25
Appendix: proofs of propositions 26

3 Expectations and the (un)importance of the real-wage feedback channel 29
3.1 Introduction 29
3.2 The limitations of perfectly synchronized period analysis 31
3.3 New Keynesian macrodynamics 33
3.4 Matured Keynesian macrodynamics 41
3.5 Real wage channel dominance 45
3.6 Conclusions 50
PART II
Supply dynamics, demand-driven inflation and the distributive cycle

4 Viability and corridor stability in Keynesian supply driven growth
4.1 Introduction 55
4.2 A Keynesian model of supply-driven growth 56
4.3 Global viability, corridor stability and persistent business fluctuations 60
4.4 Sluggish wage and price adjustment 65
4.5 Conclusions 72

5 Wicksellian inflation pressure in Keynesian models of monetary growth
5.1 Introduction 73
5.2 A general prototype model of Keynes–Wicksell type 74
5.3 The laws of motion of the model 80
5.4 The Goodwin (1967) growth cycle case 83
5.5 Rose (1967) employment cycle extension 88
5.6 Monetary growth cycles: a point of departure 96
5.7 Expectations and the pure monetary cycle 100
5.8 The real and the monetary cycle in interaction 108
5.9 Conclusions 110

6 Interacting two-country business fluctuations
6.1 Introduction 113
6.2 Two interacting Keynes–Wicksell–Goodwin economies 115
6.3 The core 10D KWG growth dynamics 123
6.4 Steady-state and β-stability analysis 129
6.5 Numerical investigation of the KWG dynamics 140
6.6 Conclusions 153

PART III
The semistructural aggregate demand-aggregate supply model: theory and evidence

7 Distributive cycles, business fluctuations and the wage-led/profit-led debate
7.1 Introduction 157
7.2 Theoretical considerations and stylized facts 158
7.3 A dynamical (dis)equilibrium AD–AS model 166
7.4 Wage- and profit-led goods market dynamics and macroeconomic stability 171
7.5 Conclusions 175
Appendix: local stability analysis of the model 176

8 DAD–DAS: estimated convergence and the emergence of “complex dynamics” 179
  8.1 Introduction 179
  8.2 Baseline DAD–DAS macrodynamics 180
  8.3 Simulating an estimated version of the model 184
  8.4 Analyzing the estimated version of the model 192
  8.5 Midrange downward money wage rigidity 196
  8.6 Wage-led regimes, rising adjustment speeds and the emergence of complex dynamics 200
  8.7 Conclusions 205

9 International linkages in a Keynesian two-country model 206
  9.1 Introduction 207
  9.2 The baseline open-economy framework 208
  9.3 The two-country framework: estimation and evaluation 219
  9.4 Eigenvalue-based stability analysis 232
  9.5 Conclusions 239

PART IV
The structural Keynes–Metzler–Goodwin model 241

10 Integrating macromodels of employment, price and inventory dynamics 243
  10.1 Introduction 243
  10.2 A complete Keynesian model of monetary growth 245
  10.3 The implied 6D dynamics 248
  10.4 Three prototype “subdynamics” 250
  10.5 Dynamic properties of the integrated Rose–Tobin–Metzler dynamics 255
  10.6 The case of no nominal wage deflation 260
  10.7 Conclusions 266

11 Calibration of an unobservable inflation climate 275
  11.1 Introduction 275
  11.2 Overview of modeling approach and methodology 276
  11.3 Formulation of the AIC module 278
  11.4 Fitting model-generated inflation to actual inflation 283
# Contents

11.5 A sensitivity analysis 291  
11.6 Additional criteria for the numerical coefficients 297  
11.7 Conclusions 302

12 A macroeconometric framework for the analysis of monetary policy 304  
12.1 Introduction 304  
12.2 Adjustment mechanisms and feedback dynamics 305  
12.3 A monetary macrodynamic model 309  
12.4 The dynamics of the private sector under alternative monetary policy rules 316  
12.5 Estimation of the model parameters 321  
12.6 Evaluating the macroeconometric model and the monetary policy rules 325  
12.7 Conclusions 335

PART V  
Extensions 337

13 The dynamics of "natural" rates of growth and employment 339  
13.1 Introduction 339  
13.2 The KT model with endogenous "natural" growth and employment 340  
13.3 Stability analysis of the 6D core subdynamics 345  
13.4 Hysteresis effects in "natural" employment and/or growth 346  
13.5 Some numerical simulations 349  
Appendix: the model in extensive form 358

14 High-order disequilibrium growth dynamics 361  
14.1 Introduction 361  
14.2 Disequilibrium growth in small open economies 362  
14.3 Partial feedback chains and stability issues 367  
14.4 Relaxation oscillations in the market for foreign exchange 371  
14.5 Adding sluggish trade balance adjustments 375  
14.6 Kinked Phillips curves 376  
14.7 Period-doubling routes to chaos 379  
14.8 Conclusions 381

15 AD–AS disequilibrium dynamics and endogenous growth 388  
15.1 Introduction 388  
15.2 AD–AS disequilibrium growth: exogenous technical change 389  
15.3 The dynamics of the private sector 394
15.4 Endogenous technical change 397
15.5 Conclusions 400

PART VI
The road ahead: financial markets 401

16 Stabilizing an unstable economy and the choice of policy measures 403

16.1 Introduction 403
16.2 Asset markets and Keynesian business cycles: a portfolio approach 404
16.3 Dampening unstable business cycles 420
16.4 An applicable model of the real-financial disequilibria interaction: a next step 430
16.5 Outlook: toward a dynamic stochastic general disequilibrium model 434
Appendix: derivation of the model in intensive form 435

Notes 438
Bibliography 457
Index 468