

IMPERFECT COMPETITION

(Kurz – CH 7)

- OLD INSTITUTIONAL ECONOMICS
 - ◆ Thorstein Veblen (1857–1929)
The Theory of the Leisure Class (1899)
Theory of Business Enterprise (1904)
 - ◆ John Maurice Clark (1884–1963)
 - ◆ Frank H. Knight (1885–1972)
 - ◆ John R. Commons (1862–1945)
 - ◆ Wesley Clair Mitchell (1874–1948)

Thorstein Veblen (1857–1929)

The Theory of the Leisure Class (1899)

- He identified **social recognition** and **prestige** as the chief motives of human action.
- **Wealth** and a **high income** are a means to the end of “**conspicuous consumption**”

Theory of Business Enterprise (1904)

- Veblen extended his critical view to the business world.
- **Managers** and **bankers** chiefly follow **their own interests** and not those of **owners and clients**—and they frequently understand amazingly little about business.

The figure of home economicus



(1711-1776)

- David Hume's picture of people as “but a heap of contradictions”—as the playthings of passions, instincts, and habits
- Institutions as a way to cope with incomplete information and uncertainty.

John Maurice Clark (1884–1963)

He built upon Veblen's work, disputing the kind of **consumer sovereignty** assumed by neoclassical economics.

John R. Commons (1862–1945)

Legal Foundations of Capitalism (1924):

- The interrelationships between **the economy and the legal system**, focusing attention on **the importance of property rights**, the development of common law, the behavior of legislatures and courts, and the evolution of organizational forms.
- Commons is considered to be one of the founders of the law and economics field.

John R. Commons (1862–1945)

Institutional Economics: Its Place in Political Economy (1934)

- The methods employed and the results obtained by institutional economics and compared it with alternative approaches.
- Against methodological individualism he argued: “Instead of isolated individuals in a state of nature they are always participants in transactions, . . . citizens of an institution that lived before them and will live after them,” and spoke of agents possessing “institutionalized minds.”

Wesley Clair Mitchell (1874–1948)

Business Cycles and Their Causes (1913):

Business cycles

- The use of economic policy instruments.
- Mitchell was convinced that an explanation of business cycles must not start from *ad hoc* and dubious psychological axioms but **from empirical facts** and recurrent **patterns of business prosperity, crisis, depression, and revival**.
- What was needed first and foremost was to observe, analyze, and systematize the phenomena under consideration.
- In Mitchell's view **business cycles were endogenous to capitalism, reflecting its internal dynamism**.

The end of old institutionalism

- NEW INSTITUTIONAL ECONOMICS

Subjects: social norms, organizational arrangements, and the like from the viewpoint of the neoclassical modal of rational choice

Nobel laureates— Ronald Coase, Douglass North, Elinor Ostrom, Oliver Williamson and Daron Acemoglu.

Others: James G. March, Johan P. Olsen, Armen Alchian, Claude Ménards.....

MONOPOLISTIC COMPETITION

✓ Pierro Sraffa (1898-1983)

“The Laws of Returns Under Competitive Conditions” (1926)

✓ Edward Chamberlin (1899–1967)

The Theory of Monopolistic Competition (1933)

✓ Joan Robinson

The Economics of Imperfect Competition (1933)

OLIGOPOLISTIC COMPETITION

...a small number of suppliers in a given market.

FURTHER DEVELOPMENTS

...industrial economics

...industrial organization

...a theory of the firm, the firm's boundaries, and its relationship with the market.

Joseph-Louis-François Bertrand (1822–1900)

Antoine-Augustin Cournot (1801-1877)

Recherches sur les principes mathématiques de la théorie des richesses
(1838) (duopoly)

John Forbes Nash (1928–2015) Game Theory, Nash equilibrium

FURTHER DEVELOPMENTS

- a rich literature on various market forms
- as “industrial economics” or “industrial organization.”

QUESTIONS:

Why are there firms (that is, nonmarket institutions characterized by hierarchies among members) whereas in markets agents are formally equal?

Why are not all economic transactions directly mediated via markets?

Ronald Coase (1910–2013)

- In **“The Nature of the Firm,”** published in **1937** argued that **firms exist because they allow one to economize on transaction costs**, such as **costs of negotiating, of writing enforceable contracts, and soon.**
- A huge **managerial and behavioral literature** evolved.
- Industrial economics deals with **the policy issues of economic regulation, antitrust law, patent law, and all aspects of industrial policy, including R&D.**