general equilibrium model in keynesian economic model

The integration of general equilibrium principles within Keynesian economic frameworks represents a pivotal advancement in macroeconomic thought. This approach seeks to reconcile the short-run insights of Keynesian economics, focusing on aggregate demand and unemployment, with the long-run perspective of general equilibrium, which emphasizes the interplay of all markets and the economy's inherent tendency towards equilibrium. Understanding the general equilibrium model in Keynesian economics allows for a more nuanced analysis of economic fluctuations, policy effectiveness, and the conditions under which markets might fail to clear. This article will delve into the core concepts of both Keynesian economics and general equilibrium theory, explore their historical development and points of divergence, and critically examine how contemporary models attempt to bridge these theoretical divides. We will investigate the implications of this synthesis for understanding phenomena like sticky prices, involuntary unemployment, and the efficacy of fiscal and monetary policies in achieving full employment and macroeconomic stability.

Introduction to General Equilibrium and Keynesian Economics

Macroeconomic theory grapples with understanding the complex interactions that drive national economies, particularly in the face of unemployment and economic downturns. Keynesian economics, born from the Great Depression, fundamentally shifted the focus from classical assumptions of self-correcting markets to the crucial role of aggregate demand and the potential for persistent unemployment. In contrast, general equilibrium theory, pioneered by Léon Walras, provides a framework for analyzing how all markets in an

economy simultaneously reach equilibrium, considering the interconnectedness of supply, demand, and prices across various sectors. While distinct in their primary concerns and analytical tools, the quest to build a robust general equilibrium model within a Keynesian paradigm has been a central endeavor in modern macroeconomics.

This exploration aims to illuminate the foundational principles of both schools of thought and how they can be integrated. We will examine how Keynesian insights, such as the existence of rigidities and the possibility of involuntary unemployment, can be incorporated into a general equilibrium setting, thereby offering a more comprehensive picture of how economies function and how policies can steer them towards desired outcomes. The synthesis seeks to provide a more complete understanding of macroeconomic phenomena, moving beyond the limitations of single-market analysis to embrace the economy-wide repercussions of economic shocks and policy interventions within a general equilibrium framework informed by Keynesian principles.

Historical Evolution and Key Differences

The divergence between classical economics and Keynesian economics represents a fundamental schism in macroeconomic thought, particularly concerning the automaticity of market adjustments and the persistence of unemployment. Classical economics, rooted in the ideas of Adam Smith and later refined by thinkers like Alfred Marshall, largely adhered to the notion that markets, through flexible prices and wages, would naturally gravitate towards a state of full employment equilibrium. The concept of supply creating its own demand (Say's Law) was a cornerstone, implying that any deviations from full employment were temporary and self-correcting.

Keynes's seminal work, "The General Theory of Employment, Interest and Money," challenged these classical tenets. He argued that in the short run, aggregate demand could be insufficient to ensure full employment, leading to prolonged periods of involuntary unemployment. Keynes introduced concepts like the liquidity trap, the paradox of thrift, and the multiplier effect, all of which highlighted the potential for market failures and the need for government intervention. The core difference lies in their view of price and wage flexibility. Classical models assume perfect flexibility, allowing markets to clear quickly. Keynesian models, however, acknowledge the existence of "sticky" prices and wages, which prevent rapid adjustment and can perpetuate unemployment.

The Classical Foundation and Say's Law

Classical economics, before the advent of Keynesian thought, operated under the assumption that the economy was inherently stable and self-regulating. This stability was attributed to flexible prices and wages, which acted as

automatic signals and adjustments in response to changes in supply and demand. Say's Law was a critical component of this framework, positing that the act of producing goods and services automatically generates sufficient income to purchase those goods and services. Therefore, a general overproduction or a widespread lack of demand was deemed impossible in the long run. The labor market, like any other market, was expected to clear through wage adjustments, ensuring that everyone willing to work at the prevailing wage could find employment.

Keynesian Challenges to Classical Tenets

John Maynard Keynes fundamentally challenged the classical orthodoxy by emphasizing the role of aggregate demand as the primary determinant of output and employment in the short run. He argued that wages and prices are not perfectly flexible, particularly downwards, due to factors such as contracts, unions, and psychological resistance. This "stickiness" means that when aggregate demand falls, the labor market may not clear, leading to involuntary unemployment. Keynes introduced the concept of effective demand, which is the level of aggregate demand that determines the actual level of output and employment. If effective demand is insufficient, the economy can settle into a stable equilibrium with significant unemployment, a situation not anticipated by classical models.

The Concept of General Equilibrium

General equilibrium theory, as developed by Léon Walras, provides a holistic view of the economy by analyzing the simultaneous equilibrium across all markets. It posits that in a perfectly competitive economy with flexible prices, a set of prices exists that allows all markets – for goods, services, labor, and capital – to clear simultaneously. This means that at these equilibrium prices, the quantity demanded equals the quantity supplied in every market. The theory establishes conditions under which such a general equilibrium exists and is unique, often relying on assumptions of perfect competition, perfect information, and rational economic agents. However, the classical general equilibrium models often abstract away from the Keynesian concerns of effective demand failures and persistent unemployment.

Core Components of a General Equilibrium Model in Keynesian Economics

Integrating Keynesian principles into a general equilibrium framework requires incorporating mechanisms that explain market imperfections and the potential for disequilibrium. A key element is the explicit modeling of rigidities, whether in prices, wages, or both. This allows for a more realistic representation of how economies respond to shocks and the role of

sticky elements in perpetuating unemployment. Furthermore, the focus shifts to understanding how aggregate demand, influenced by factors like investment, consumption, and government spending, interacts with supply across multiple interdependent markets to determine the overall level of economic activity and employment.

These models often utilize a multi-market approach where adjustments in one market can have ripple effects throughout the economy. For instance, a shock to investment demand might not only affect the capital goods market but also lead to reduced consumption due to lower incomes, impacting the labor market and overall output. The modeling of expectations also plays a crucial role, as perceptions about future economic conditions can significantly influence current decisions regarding spending and investment, further contributing to the dynamics of aggregate demand and equilibrium outcomes within the Keynesian general equilibrium model.

Modeling Price and Wage Stickiness

A cornerstone of a general equilibrium model within a Keynesian framework is the explicit representation of price and wage stickiness. Unlike classical models where prices and wages adjust instantaneously to clear markets, Keynesian models acknowledge that these adjustments can be slow and imperfect. This stickiness can arise from various sources, including explicit contracts (e.g., labor contracts, long-term supply agreements), menu costs (the costs associated with changing prices), and imperfect information. In a general equilibrium context, this means that a shock that reduces aggregate demand might not immediately lead to falling wages and prices across all sectors. Instead, some markets might experience surpluses (excess supply) and a reduction in output and employment, as the economy struggles to reach a new equilibrium.

For example, if there is a sudden decrease in consumer spending, firms may not immediately lower prices or wages. Instead, they might cut back on production and lay off workers. This reduction in output and employment then lowers incomes, further dampening consumption and creating a vicious cycle. The general equilibrium aspect comes into play as these effects propagate across different markets. A slowdown in one sector due to sticky prices can reduce demand for inputs from other sectors, affecting their production and employment levels. Therefore, modeling these rigidities is essential for understanding why economies can experience persistent unemployment and why policy interventions might be necessary.

The Role of Aggregate Demand and Effective Demand

In any Keynesian framework, aggregate demand is the driving force behind output and employment. In a general equilibrium model, this concept is extended to consider how demand interacts across all interconnected markets. Effective demand, specifically, refers to the level of aggregate demand that

is actually realized in the economy, which may be less than the potential demand due to various constraints, including income levels and expectations. A general equilibrium model that incorporates Keynesian elements must account for how changes in consumption, investment, government spending, and net exports collectively determine the economy's overall level of economic activity.

The interaction of these components in a general equilibrium setting highlights how a shortfall in aggregate demand in one sector can have cascading effects. For instance, a decrease in investment, perhaps due to pessimistic expectations, reduces demand for capital goods. This lower demand leads to reduced output and employment in the capital goods sector, which in turn reduces the income of workers in that sector. This income reduction translates into lower consumption demand for goods and services in other sectors, further reinforcing the initial downturn. The general equilibrium model helps trace these interdependencies, demonstrating how a localized demand shock can lead to a widespread economic contraction and persistent unemployment if prices and wages are not fully flexible.

Interdependence of Markets

The essence of a general equilibrium model lies in its depiction of the interconnectedness of all economic markets. In a Keynesian context, this interdependence becomes crucial for understanding how economic fluctuations propagate. For example, a change in the labor market, such as a widespread wage cut, would not only affect the supply of labor but also impact household income, thereby influencing consumption demand across all goods markets. Similarly, a fall in demand for manufactured goods might lead to reduced demand for raw materials and components, affecting the markets for those inputs.

A general equilibrium model structured within Keynesian economics would therefore analyze how an initial shock, like a decrease in investment spending, not only affects the market for investment goods but also has repercussions on the goods market (through reduced aggregate demand), the labor market (through lower employment), and potentially the money market and financial markets (if interest rates or liquidity preferences are considered). This multi-market perspective allows for a more comprehensive understanding of the transmission mechanisms of economic shocks and the potential for multiplier effects across the entire economy, explaining why unemployment can become a persistent issue when markets fail to adjust smoothly.

Bridging the Gap: Synthesis and Modern

Approaches

The endeavor to reconcile the insights of Keynesian economics with the analytical rigor of general equilibrium theory has been a defining feature of modern macroeconomics. Early attempts, such as the IS-LM model, provided a simplified framework for understanding Keynesian phenomena but lacked the comprehensive multi-market approach of general equilibrium. Later developments, particularly within the New Keynesian school, have focused on building micro-founded general equilibrium models that can explain the sources of nominal rigidities and their macroeconomic consequences.

These modern synthesis models often employ dynamic stochastic general equilibrium (DSGE) frameworks, which allow for the analysis of economic fluctuations driven by various shocks. By incorporating explicit microeconomic foundations, such as optimizing behavior of households and firms, and embedding nominal rigidities within these optimizing frameworks, economists can construct general equilibrium models that exhibit Keynesian characteristics, like involuntary unemployment and the effectiveness of stabilization policies. The goal is to provide a theoretically consistent explanation for observed macroeconomic phenomena that are central to Keynesian economics.

The IS-LM Model as a Precursor

While not a general equilibrium model in the Walrasian sense, the IS-LM (Investment-Saving, Liquidity Preference-Money Supply) model served as a crucial precursor in synthesizing Keynesian ideas. Developed by John Hicks and Alvin Hansen, the IS-LM model graphically represents the simultaneous equilibrium in the goods market (IS curve) and the money market (LM curve). It illustrates how changes in aggregate demand, influenced by interest rates and income, can lead to different levels of output and employment. The model highlights the Keynesian concepts of liquidity preference and the possibility of a liquidity trap, where monetary policy might become ineffective. Although it simplifies the economy into just two markets, its ability to explain persistent unemployment and the impact of fiscal policy laid important groundwork for more complex general equilibrium formulations of Keynesian economics.

New Keynesian Economics and Microfoundations

New Keynesian economics represents a significant effort to provide microeconomic foundations for the "sticky" prices and wages that are central to Keynesian thought. This school of thought aims to build general equilibrium models that are consistent with the observed behavior of optimizing households and firms, while still incorporating the nominal rigidities that lead to Keynesian outcomes. Economists like Greg Mankiw, David Romer, and Olivier Blanchard have contributed significantly by

developing models where price-setting involves costs (e.g., menu costs), leading firms to adjust prices infrequently.

In these New Keynesian general equilibrium models, when a shock reduces aggregate demand, firms with "sticky" prices will not immediately lower them. Instead, they will reduce output and employment to meet the lower demand. This behavior, when aggregated across many firms and markets, explains why the economy can experience persistent unemployment and why monetary and fiscal policies can have real effects. The models often feature monopolistic competition, where firms have some market power, allowing them to set prices. However, the costs of changing prices mean they do not do so instantly in response to every market fluctuation, thus preserving the core Keynesian insights within a rigorous general equilibrium framework.

Dynamic Stochastic General Equilibrium (DSGE) Models

Dynamic Stochastic General Equilibrium (DSGE) models have become the workhorse for modern macroeconomic analysis, and they provide a powerful framework for building general equilibrium models with Keynesian features. DSGE models are characterized by their explicit reliance on microeconomic foundations, where rational, forward-looking agents (households and firms) make optimal decisions over time in an environment subject to uncertainty (stochastic shocks). By incorporating nominal rigidities, such as sticky prices or wages, into these DSGE frameworks, economists can generate outcomes that resemble those predicted by traditional Keynesian models.

For instance, a DSGE model with Calvo-type price setting (where a fraction of firms can adjust prices in each period) can exhibit Keynesian unemployment. If there's a negative demand shock, firms that cannot adjust their prices will continue to produce at the old price, but will reduce their output if demand falls. This can lead to a contraction in aggregate output and employment. The advantage of DSGE models is their ability to analyze the dynamic interplay of various shocks (e.g., technology, preferences, monetary policy) and their effects across all markets of the economy, providing a comprehensive and internally consistent framework for understanding macroeconomic fluctuations and policy effectiveness within a general equilibrium context that respects Keynesian insights.

Implications for Policy Analysis

The integration of general equilibrium principles into Keynesian economic models has profound implications for how we analyze and design macroeconomic policies. By providing a more holistic view of the economy, these synthesized models allow policymakers to better understand the transmission mechanisms of their interventions and the potential unintended consequences that might arise from the complex interplay of various markets. This enhanced

understanding is crucial for formulating effective strategies to stabilize the economy, manage inflation, and promote full employment.

For example, the recognition of sticky prices and wages within a general equilibrium framework reinforces the rationale for active fiscal and monetary policies. When markets do not self-correct quickly, demand-side interventions become necessary to stimulate economic activity and reduce unemployment. The general equilibrium perspective, however, also highlights how the effectiveness and implications of these policies can vary depending on the structure of the economy, the nature of the shocks, and the reactions of agents across different markets. This allows for more nuanced policy prescriptions, considering potential trade-offs and feedback loops that might not be apparent in simpler, single-market models.

Fiscal Policy Effectiveness

In a general equilibrium model that incorporates Keynesian principles, fiscal policy, such as government spending or tax adjustments, can have significant effects on aggregate demand and, consequently, on output and employment. When there are nominal rigidities, a fiscal stimulus can boost aggregate demand by increasing government purchases or by putting more disposable income into the hands of households. This increased demand can lead firms to increase production and hire more workers, helping to alleviate unemployment. The general equilibrium aspect means that these effects are not confined to the directly affected markets but ripple through the economy.

However, the effectiveness of fiscal policy can also be influenced by other factors within the general equilibrium framework. For instance, if the government finances its spending through borrowing, it might lead to higher interest rates, which could crowd out private investment. The interconnectedness of financial and real markets is crucial here. Furthermore, the expectations of economic agents about future fiscal policies can also influence current economic behavior. In models with rational expectations and forward-looking agents, the perceived permanence of fiscal stimulus can affect its impact on consumption and investment decisions, moderating or amplifying the policy's effectiveness within the broader equilibrium adjustments across all markets.

Monetary Policy Transmission Mechanisms

Monetary policy, typically managed by central banks, operates through various channels to influence economic activity. In a Keynesian general equilibrium model, the transmission mechanisms are more complex and are often influenced by nominal rigidities and expectations. For example, a decrease in interest rates by the central bank might stimulate investment and consumption. However, if prices and wages are sticky, the adjustment process might be slow, and the full impact on output and employment may take time to materialize.

Moreover, the presence of nominal rigidities can make monetary policy more potent in certain situations, such as during a recession when the economy might be operating below its potential. The concept of a liquidity trap, where nominal interest rates are already very low and further reductions may not stimulate demand, can be analyzed within these models. In such scenarios, unconventional monetary policies or the coordination of monetary and fiscal policies might be considered more effective. The general equilibrium perspective helps in understanding how monetary policy actions affect not only the money market but also the goods, labor, and asset markets simultaneously, and how these interactions can lead to different policy outcomes than predicted by simpler models.

Challenges and Criticisms

Despite the advancements in synthesizing general equilibrium theory with Keynesian insights, this approach faces significant challenges and has been subject to various criticisms. One primary concern revolves around the empirical relevance of the nominal rigidities assumed in many New Keynesian models. While economists have identified various reasons for sticky prices, the precise degree and nature of these rigidities are often debated, and their quantitative importance in explaining macroeconomic fluctuations remains an active area of research.

Furthermore, some critics argue that even sophisticated DSGE models, while theoretically sound, may not fully capture the complexities of real-world economies, especially during periods of significant financial distress or structural change. The assumption of rational expectations and representative agents, while useful for analytical tractability, can abstract away from the heterogeneity of economic actors and the role of imperfect information or behavioral biases, which are often central to Keynesian explanations of crises. The debate over the appropriate way to model economic behavior and market adjustments continues, highlighting the ongoing evolution of macroeconomic theory.

Empirical Validation of Rigidities

A key challenge for general equilibrium models incorporating Keynesian elements is the empirical validation of the assumed price and wage rigidities. While theoretical models posit menu costs, staggered price setting, or contractual wage agreements as sources of stickiness, the exact magnitude and impact of these factors on macroeconomic outcomes are difficult to measure precisely. Economists employ various techniques, such as analyzing microdata on price changes or estimating structural parameters in macroeconomic models, to assess the degree of nominal inertia in the economy.

However, the results from these empirical studies are often mixed and can

depend heavily on the specific methodology and the data used. Some research suggests that price adjustments are more frequent and widespread than initially thought in some New Keynesian models, which could imply a weaker role for nominal rigidities in driving business cycles. This ongoing debate about the empirical strength of these rigidities is crucial because it directly impacts the theoretical justification for active stabilization policies that are central to the Keynesian tradition. If rigidities are found to be less significant, the case for intervention based on these models weakens.

The Lucas Critique and Rational Expectations

The Lucas Critique, formulated by Robert Lucas Jr., poses a fundamental challenge to econometric models, including those attempting to integrate Keynesian ideas within a general equilibrium framework. The critique argues that traditional econometric models, which are estimated using historical data, may not be reliable for predicting the effects of policy changes. This is because economic agents, possessing rational expectations, will anticipate policy changes and alter their behavior in response. If a policy is implemented, agents will learn about it and adjust their strategies, thereby changing the underlying structural relationships that the model was estimated on.

In the context of Keynesian general equilibrium models, especially those using rational expectations and microfoundations (like DSGE models), the Lucas Critique highlights the difficulty of predicting the true impact of policy interventions. For instance, if a government announces a permanent increase in spending, rational agents will not just react to the immediate increase in demand but will also consider the future tax implications and adjust their spending and saving behavior accordingly. This makes it challenging to design policies whose effects can be accurately predicted by static or historically estimated models, necessitating a deeper understanding of how expectations shape economic responses within the general equilibrium structure.

Assumptions of Rationality and Representative Agents

A significant point of criticism for many advanced general equilibrium models, including those with Keynesian features, relates to their reliance on assumptions of perfect rationality and representative agents. The assumption of perfect rationality implies that economic actors make optimal decisions based on all available information, a simplification that may not accurately reflect real-world behavior, where cognitive biases, bounded rationality, and imperfect information play crucial roles. Behavioral economics has provided substantial evidence that agents often deviate from purely rational decision-making.

Similarly, the use of representative agents, where the economy is modeled as

if it were composed of a single, identical agent, can obscure important distributional effects and the heterogeneity of economic experiences. This abstraction can be particularly problematic when analyzing situations where different groups of agents respond differently to economic shocks or policies. For example, the impact of a recession might disproportionately affect certain segments of the population, and a representative agent model might fail to capture these nuances, which are often at the heart of Keynesian concerns about unemployment and social welfare. Therefore, while simplifying for analytical purposes, these assumptions can limit the models' ability to fully capture the complexities of real-world economic dynamics and policy impacts.

Conclusion

The synthesis of general equilibrium principles with the core tenets of Keynesian economics represents a significant stride in macroeconomic understanding. By embedding Keynesian insights concerning market imperfections, particularly price and wage rigidities, into rigorous general equilibrium frameworks, economists have developed more nuanced models capable of explaining phenomena like involuntary unemployment and the transmission of economic shocks. These advancements, often seen in New Keynesian and DSGE models, offer a powerful lens through which to analyze the effectiveness of fiscal and monetary policies in stabilizing economies and promoting full employment.

While challenges remain regarding empirical validation, the Lucas Critique, and the simplifying assumptions of rationality and representative agents, the ongoing development of these integrated models continues to refine our understanding of macroeconomic dynamics. The pursuit of a robust general equilibrium model that accurately captures Keynesian phenomena is crucial for evidence-based policymaking and for navigating the complexities of modern economies, ensuring a more stable and prosperous economic future.

Frequently Asked Questions

How does the Keynesian General Equilibrium Model differ from the Neoclassical General Equilibrium Model?

The primary difference lies in the role of aggregate demand. While Neoclassical models assume full employment and focus on supply-side factors, Keynesian models emphasize the determination of output and employment by aggregate demand, particularly in the short run, and allow for persistent unemployment due to insufficient demand.

What are the key components of a Keynesian General Equilibrium Model?

Key components typically include the consumption function, investment function, government spending, net exports, and the demand for money, coupled with an aggregate supply relationship that can result in output levels below potential.

How does the model explain the persistence of unemployment?

Unemployment persists in the Keynesian GE model because a deficiency in aggregate demand leads firms to produce less than their potential, resulting in layoffs or reduced hiring. Wages and prices may not adjust downwards sufficiently or quickly enough to restore full employment.

What is the role of sticky prices and wages in the Keynesian GE framework?

Sticky prices and wages are crucial. They prevent the rapid adjustments that would quickly clear markets and restore full employment in response to demand shocks. This stickiness allows for prolonged periods of unemployment and underutilization of resources.

How does fiscal policy operate within a Keynesian General Equilibrium framework?

Fiscal policy (changes in government spending or taxes) directly impacts aggregate demand. An increase in government spending or a tax cut aims to boost aggregate demand, leading to higher output and employment, especially when the economy is operating below full capacity.

What is the transmission mechanism of monetary policy in this model?

Monetary policy affects aggregate demand primarily through interest rates. Expansionary monetary policy (lowering interest rates) makes borrowing cheaper, stimulating investment and consumption, thereby increasing aggregate demand and output.

How does the 'multiplier effect' operate in a Keynesian GE model?

The multiplier effect occurs when an initial change in spending (e.g., government spending) leads to a larger, subsequent increase in overall economic output. This happens because the initial spending becomes income for others, who then spend a portion of it, creating further rounds of spending.

What are the implications of the IS-LM model for Keynesian General Equilibrium?

The IS-LM model is a foundational graphical representation of Keynesian general equilibrium. It shows the simultaneous equilibrium in the goods market (IS curve) and the money market (LM curve), determining the equilibrium levels of income and interest rates.

How does the Keynesian GE model account for supply-side factors?

While aggregate demand is central, supply-side factors like capital stock, labor supply, and technology are still implicitly present, determining the economy's potential output. However, the model focuses on how demand can prevent the economy from reaching this potential.

What are the limitations or criticisms of the Keynesian General Equilibrium Model?

Criticisms include its assumption of sticky prices and wages (which may not always hold), its focus on the short run potentially neglecting long-run supply constraints, and debates about the effectiveness and potential side effects of fiscal and monetary interventions.

Additional Resources

Here is a numbered list of 9 book titles related to the general equilibrium aspects within Keynesian economic models, with short descriptions:

1. _Keynesian Macroeconomics and General Equilibrium: Reconciling Microfoundations_
This book delves into the efforts to build rigorous microfoundations for Keynesian models, often drawing upon general equilibrium frameworks. It explores how concepts like sticky prices, imperfect competition, and information asymmetries can be integrated into a general equilibrium setting to explain Keynesian phenomena. The aim is to bridge the gap between the aggregate intuitions of Keynes and the detailed analytical structure of general equilibrium theory.

2. _Effective Demand, General Equilibrium, and the Limits of Neoclassical Synthesis_
This work critically examines the integration of Keynesian ideas of effective demand within a general equilibrium context. It questions the extent to which traditional neoclassical general equilibrium models can fully capture the nuances of Keynesian economics, particularly concerning unemployment and persistent recessions. The book highlights the limitations and challenges faced in reconciling these two major schools of thought.

3. _Foundations of Modern Keynesianism: Equilibrium with Imperfect Information_
This title investigates how modern Keynesian economics builds its framework upon general equilibrium principles, with a particular focus on the role of imperfect information. It explores how uncertainty and asymmetric information can lead to deviations from full employment equilibrium, a core Keynesian insight. The book showcases how these elements are modeled within sophisticated general equilibrium structures.

4. _The General Equilibrium Approach to Business Cycles in a Keynesian Framework_
This book offers a comprehensive analysis of business cycle fluctuations through the lens of general equilibrium theory, but specifically within a Keynesian paradigm. It examines how shocks to aggregate demand, as emphasized by Keynes, can propagate through an economy modeled with interdependencies across various markets. The focus is on how an economy can get stuck in suboptimal equilibria due to these dynamics.

5. _Macroeconomic Disequilibrium and General Equilibrium: A Keynesian Perspective_
This volume explores the concept of macroeconomic disequilibrium as a central feature of Keynesian economics, and how this can be understood within general equilibrium frameworks. It moves beyond the notion of a unique market-clearing equilibrium to consider situations with persistent unemployment. The book discusses models where multiple equilibria, including underemployment ones, are possible.

6. _Keynes's General Theory and the Quest for General Equilibrium Analysis_
This book traces the historical development of general equilibrium analysis as it relates to and attempts to formalize Keynes's seminal work, The General Theory of Employment, Interest and Money. It discusses the early attempts and ongoing challenges in constructing general equilibrium models that accurately reflect Keynesian principles. The evolution of these analytical tools is a key theme.

7. _Sticky Prices, Aggregate Demand, and General Equilibrium in Keynesian Models_
This title focuses on the specific mechanisms of sticky prices and their impact on aggregate demand within general equilibrium models inspired by Keynes. It explores how nominal and real rigidities in various markets can prevent the economy from reaching full employment equilibrium. The book illustrates how these rigidities are crucial for generating Keynesian outcomes in a general equilibrium setting.

8. _The Transmission Mechanism of Keynesian Shocks in General Equilibrium_
This work examines how Keynesian shocks, such as changes in investment or consumer confidence, are transmitted throughout the economy in a general equilibrium framework. It analyzes the interlinkages between different sectors and markets that amplify or dampen these initial disturbances. The book provides a rigorous analysis of the propagation of aggregate demand shocks.

9. _New Keynesian Economics and the General Equilibrium Foundations_
This book delves into the modern advancements in New Keynesian economics, emphasizing its strong reliance on general equilibrium theory. It details how microfoundations are built for sticky prices, rational expectations, and imperfect competition within a dynamic general equilibrium setting. The aim is to showcase how these models provide a rigorous foundation for understanding contemporary macroeconomic issues through a Keynesian lens.

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