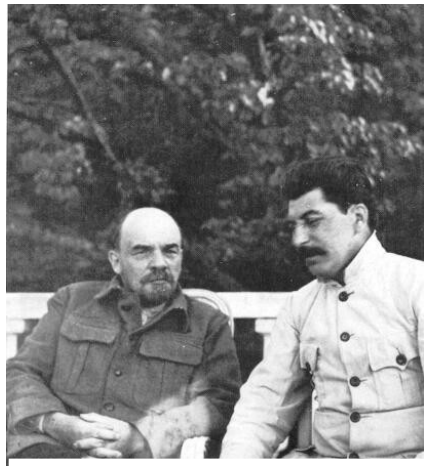
Understand the workings of the system that determines the accumulation of wealth **in which we live**

## 4. DESCRIPTION OF THE MODERN MARKET ECONOMY

### 4. 1 Market economy: definition

What are the essential, i.e. **DISTINCTIVE**, characteristics (as opposed to other economic systems such as feudalism, socialism)?

**Natural law *versus* SOCIAL RULE (institution) *versus* individual choice**



Vlagyimir Iljics Uljanov

Joszif Visszarionovics Dzsugasvili

Systemic characteristics do not depend on natural laws or individual choice!

1/ The description of the economy necessarily implies moral judgment.

because the functioning of the economy is not governed by divin (natural) laws but by social rules

ECONOMICS CAN BE DEGRADED TO SERVE IDEOLOGIES

2/ The workings of the socio-economic system cannot be understood in terms of individual choices.

METHODOLOGICAL INDIVIDUALISM, BEHAVIOURAL ECONOMICS ARE USELESS FOR THIS PURPOSE

# 4. 1 Market economy: definition

Aim: study of wealth accumulation → Primary question: what are the modalities of wealth accumulation? (**2.2**)

Karl Marx

Max Weber

►The creation of social wealth essentially follows a **CHREMATISTIC** logic.

►**there is money**

► **there is private property**

►**individual and social wealth are different in nature** (**2.1**)

J. Maynard Keynes

Other characteristics that seem important:

► **WAGED LABOUR**

Mainstream economists

► **FREE** Based on private property, no subordination by law and **DECENTRALIZED**

**WAGED LABOUR, FREE, CHREMATISTIC ECONOMY**

## 4.2 Economic theories in the light of the definition of market econoy

| Waged labour | Free | Chrematistic | Monetary economy |
|---|---|---|---|

| **PRIMARY CLASSIFICATION OF ECONOMIC THEORIES AS IMPLIED BY ADAM SMITH'S DEFINITION OF ECONOMICS** | | BEHAVIORS THAT DRIVE INDIVIDUAL DECISIONS ABOUT WEALTH | |
|---|---|---|---|
| | | oikonomia | khrematistiké |
| NATURE OF INDIVIDUAL AND SOCIAL WEALTH | identical | Orthodoxy ✗ ✗ | Marxian hetero ✓ ✗ |
| | different | Keynesian hetero ✗ ✓ | Full hetero ✓ ✓ |

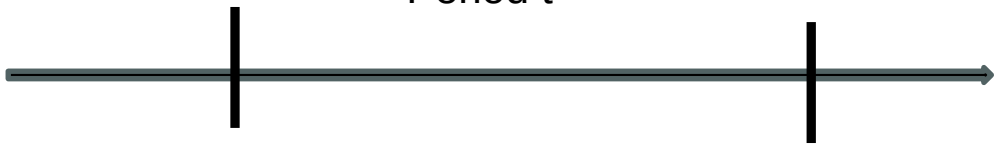
## 4.3 Accounting approaches / monetary analyis (individual and social wealth are different in nature

Mathematical representation of variations in discrete time

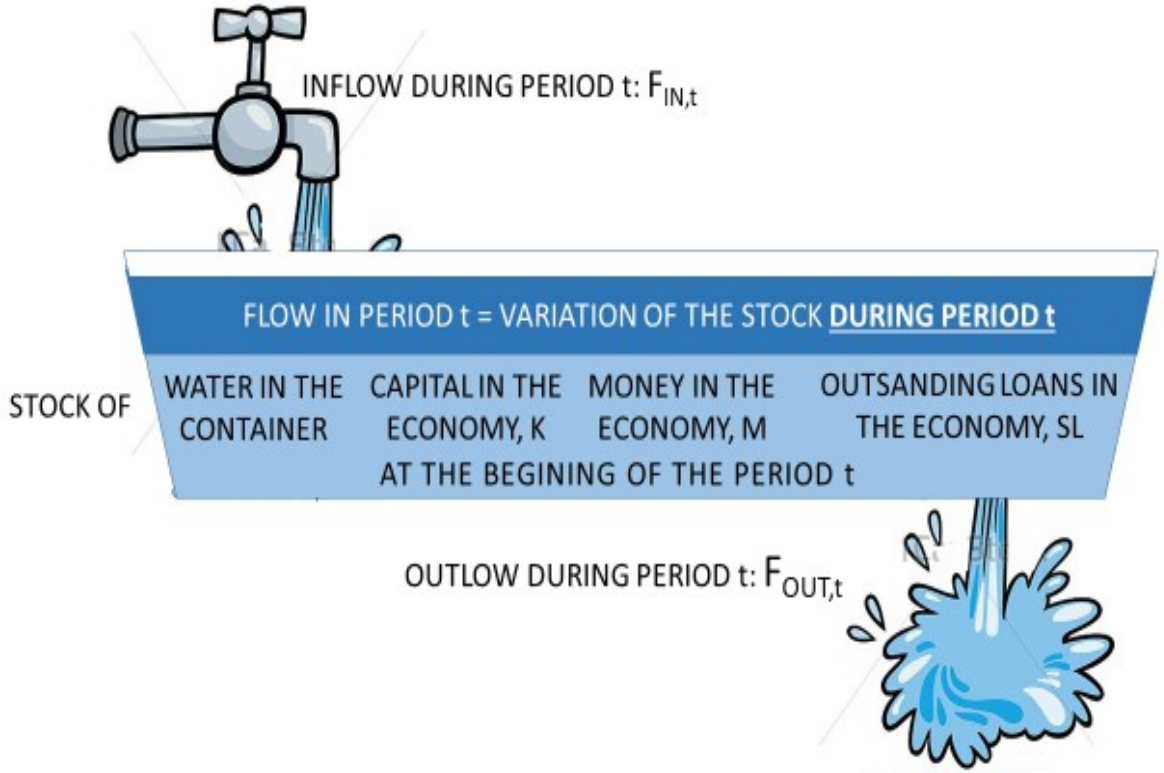
point in time t-1

Point in time t

Period t



$$S_{t-1} + (F_{IN,t} - F_{OUT,t}) = S_t$$



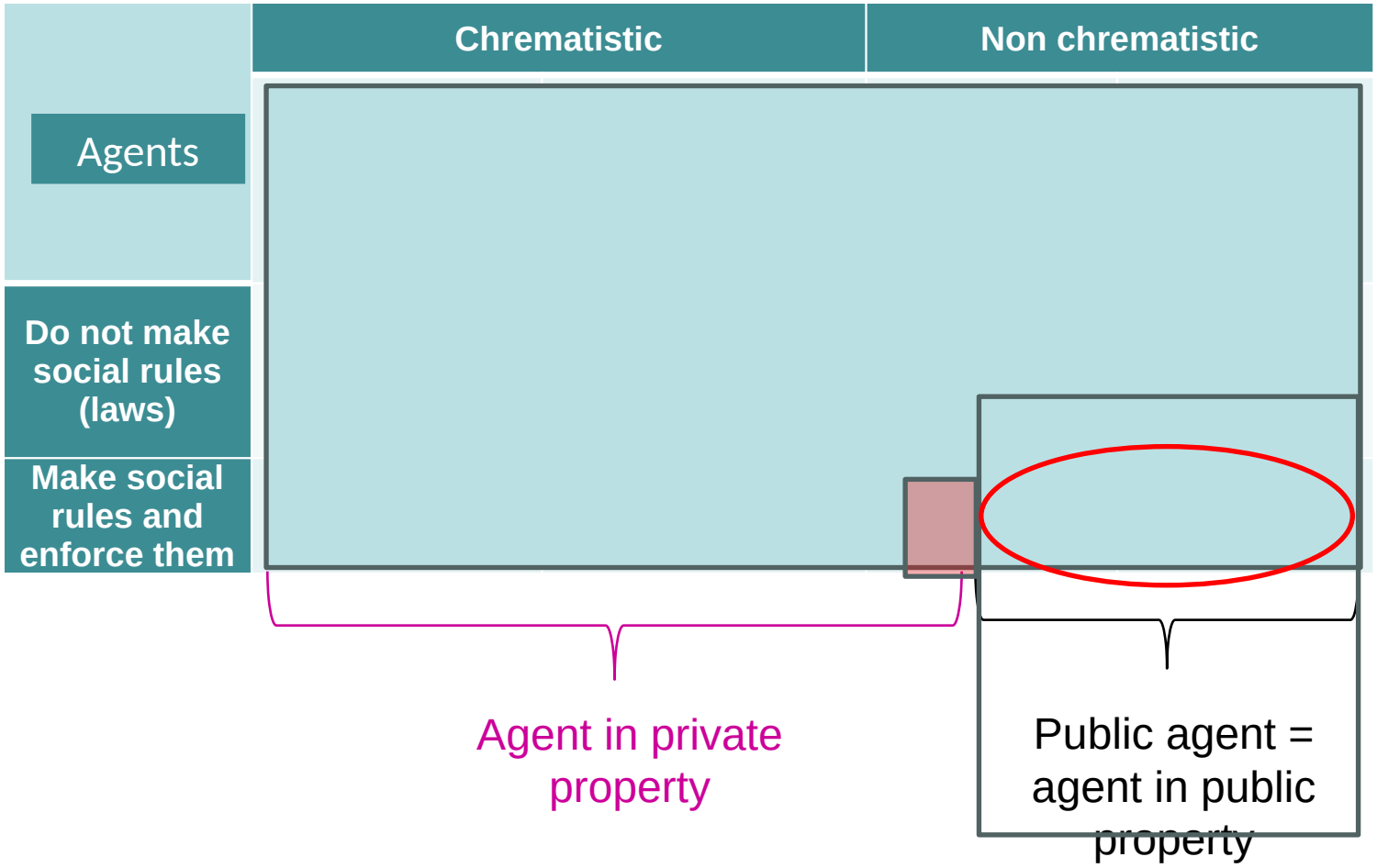
## 4.3 Accounting approaches/ monetary analysis

Definitions: related to social rules that determine the variation of wealth (especially money)

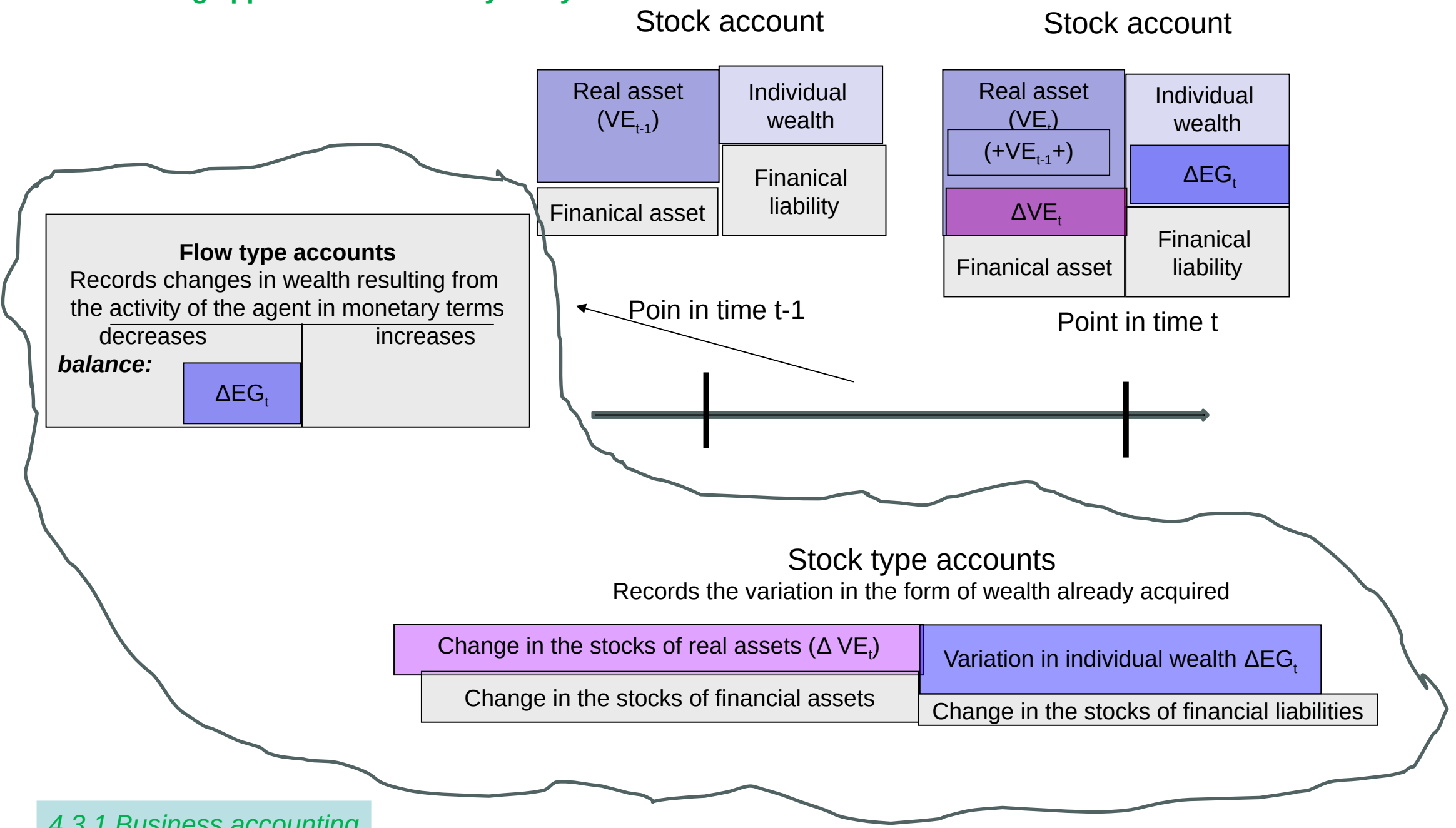
Real analysis / value theories

Definitions are related to commodities

Household = Consumer…
Firm = Producer ….



## 4.3 Accounting approaches/ monetary analysis




*4.3.1 Business accounting*

## Recording by the „income flow”

**Flow type accounts**
Records changes in wealth resulting from the activity of the agent in monetary terms

decreases | increases

***balance:***

Stock type accou
Records the variation in the fo
already acquired in monet

ΔEAssets

Balance: $\Delta EG_t$

Agent= **sector** (activity as main profile):
Household, Financial corporations, Non-financial corporations, General governement, *etc.*

Account of 1 aggregated agent

| | - Flowaccounts + | |
|---|---|---|
| flow account | Production account<br>Generation of income account<br>Allocation of primary income account<br>Secondary distribution of income account<br>Use of income account | |

Integrated economic accounts, 2023 [r...]

| Transactions and balancing items | ctorized | Non-financial corporations | Financial corporations | General government | Households | NPISHs | T |
|---|---|---|---|---|---|---|---|
| | 1N | S.11 | S.12 | S.13 | S.14 | S.15 | |
| | RESOURCES | | | | | | |
| **II.4. Use of income account** | | | | | | | |
| **ng, gross** | | | | | | | |
| **ng, net** | | | | | | | |
| **ent external balance** | | | | | | | |
| | CHANGES IN LIABILITIES AND NET WORTH | | | | | | |
| **III.1. Capital account** | | | | | | | |

| | ΔA Financial account ΔL | |
|---|---|---|
| stock account | ΔFinancial assets | Net lending/borrowing |
| | | ΔFinancial liabilities |
| balance: | | Net lending(+)/borrowing(-) |

## 4.3.2. National accounting

**Income** side recording

1HUF of expenditure is at the same time 1HUF of income: the double-entry bookkeeping is valid for two agents together.

| Firms - Flow accounts + | | | Households - Flow accounts + | |
|---|---|---|---|---|
| 1.45Ft CI | 1.45Ft CI | | | |
| | 3.100Ft C | | 3.100Ft C | |
| 2. 35Ft W | | | | 2. 35Ft W |

**Notions**: what do we have in accounting framework (monetary analysis)?

**NO COMMODITY SPACE!!**

- Who pays to whom
- Changes social wealth or not (change in real assets)
- cost expenditure to execute a chrematistic (business) plan / non cost

**We should define these notions differently…**

**Example: A firm sells for 100HUF to households a table, that costs 80HUF: 45HUF buys woodfrom another firm and pays 35HUF wage.**

1.Buying wood: Intermediate consumption CI 45HUF
2.Wage payment W 35HUF
3.Households purchase: Consumption C 100HUF

**NOTIONS DEFINED IN VALUE THEORY**

**CI**: products totally used up in production during the period

**C**: satisfaction of need with goods

## 4.3.2 National accounting: a mule

**NOTIONS DEFINED IN VALUE THEORY** **CI, C**

**Income** side recording

**Product** side (use-ressource balance) recording

Society as a whole

**Flow type accounts**

Records changes in wealth resulting from the activity of the agent in monetary terms

| decreases | increases |
|---|---|
| **CI** | **TOTAL INCOME = TOTAL PRODUCT** |
| balance: ***GDP=C+I*** | |
| **C** | |
| balance: ***ΔEG=S*** *saving* | |

**STOCK ACCOUNTS**

Records the variation in the form of wealth already acquired in monetary terms

| ΔEAssets | ΔLiabilities |
|---|---|
| **ΔVE=I** | **S** |
| balance: **0** *(net lending/borrowing)* | |

**branch** a group of homogeneous production units which produce the same product from the other products of the nomenclature.

**P= CI+C+I**

**I**: purchase of capital, capital …
**P**: outptu/production (market/non market)

**GDP=P-CI=C+I**

**GDP**: the value of the surplus (products) produced by the residents of a country at market prices during the year / total value added at market price

**In total income there is no:**

- WAGE
- INCOME from FINANCIAL OPERATIONS (ex. interest)
- TAX

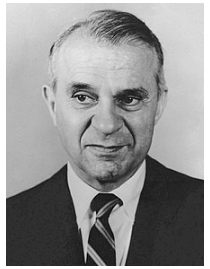
because…

**I**: … / expenditure in period t on which the chrematistic agent wants to realize the excess earning only in subsequent periods

# 4.3.2.1. Economic theory independent application of the product side recording : the **LEONTIEF MODEL** (Input – output model)

**Income** side recording

1973 Nobel price



**Product** side (use-ressource balance) recording

**P= CI+C+I**

| | | 1.Branch Agriculture $CI_1$ | 2.Branch Industry $CI_2$ | Final use (C+I) |
|---|---|---|---|---|
| 1. Product agriculture | $P_1=p_1q_1$ | $p_1r_{11}q_1$ | $p_1r_{12}q_2$ | $p_1\mathbf{v_1}=p_1(q_1-r_{11}q_1-r_{12}q_2)$ |
| 1.Product industry | $P_2=p_2q_2$ | $p_2r_{21}q_1$ | $p_2r_{22}q_2$ | $p_2\mathbf{v_2}=p_2(q_2-r_{21}q_1-r_{22}q_2)$ |
| **Value added** | VA (h) | $\mathbf{h_1}q_1=(p_1-p_1r_{11}-p_2r_{21})q_1$ | $\mathbf{h_2}q_2=(p_2-p_1r_{12}-p_2r_{22})q_2$ | |
| | P | $P_1=p_1q_1$ | $P_2=p_2q_2$ | |

$q = R*q+v$

$p = p*R+h$

$P_1$ value of total product 1.
$\mathbf{r_{21}}$production coefficient: the use in product 2. of the 1. branch
$q_1$ physical quantity of the 1. product
$p_1$ price of 1. product
R matrix of production coefficients
p price vector, q, v, h vectors

**Practical questions:**

- If the output of a branch varies, what is the total change in output or imports it generates?
- If the price of one product changes, how will this affect the price of other products?
- **effective rate of protection**: If we impose tariffs on one product, how will that affect the competitiveness of other products?

Suppose production coefficients are **FIX**!