Title: SUPPLY AND DEMAND: A NEW MODEL FOR AN OLD THEORY

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Abstract

This paper suggests a dynamic decision-making model on price and production in the daily market period, or very short run period, when real transactions take place and actual prices are collected for analytical purposes. In the daily market period there is no clearing, production never matches consumption. This means that in the daily market there is no equilibrium and, accordingly, no supply curve. It is the mathematical development of the model that brings about a long run, theoretical equilibrium status in which it is defined a supply curve which slopes upwards. This provides a general model for representing supply-and-demand theory. Comparisons with neo-classical principles and time series analysis stress the advantages of the new model. Empirical example presented. Supply-and-demand theory states essentially that price and production depend upon the simultaneous behaviour of producers and consumers which are embodied in the slopes of the supply and demand curves. But the positions of these curves stem from the level of the exogenous variables, among them the economic policy variables. Therefore the model brings about a theoretical equilibrium status which is not necessarily a species of social best for it depends on exogenous variables values. Main features of this theoretical approach are 1) the economy is demand-led and, 2) economic policy is the visible hand which may rule supply and demand. Some Keynesian features of the model, especially the link with macroeconomics, are remarked. Demand-expanding economic policy becomes thus the natural way to induce investment and growth in the real sector.

JEL Classification: A10, B41, C10, D21, E12.

Key words: supply curve, econometrics, firm behaviour, Keynesian policy.