Lecture 18: Social choice; macroeconomics after Keynes

We didn't touch upon *social choice* in the last lecture, so we catch up on this, since the impossibility theorem of Arrow not only changed the basic orientation in welfare economics but also gave rise to the new field of mechanism design.

After this, we move to a discussion of the development of macroeconomics in the second half of the 20th century, where a reaction against Keynes has set in, taking different forms but typically involving the role of expectations. Expectations played a considerable role in the *General Theory* but in a form which did not lend itself easily to a systematic treatment, and consequently their role was to some extent neglected by the immediate followers. The development of the different branches of new macroeconomics all tried to remedy this situation.

We follow (at least in broad outline) E&H chapter 22, where we have already looked at the sections on Irving Fisher and Knut Wicksell, since it seemed more natural to discuss them in connection with the late marginalists. It can be seen that or authors are very fond of the monetarist school and in particular of Milton Friedman, and this may at least to some degree be justified, but in all their praise of this particular direction they tend to overlook that there were several others, some of them probably more important. We must therefore do some justice to these other ways in which macroeconomics went in the last part of the 20th century.

We read: E&H chapter 22.