

Lecture 14: Imperfect competition; Econometrics

We are now approaching the 1930s where much of what we know today as standard economics took its shape.

One of the new developments of this period was the theory of **imperfect competition**. It may seem strange that this field had been lying unattended since the contributions of Cournot almost 100 years before, and indeed the early marginalists, both Jevons and Menger, were concerned about situations of less than perfect competition. However, the approach of Walras and in particular Marshall gained the day and price theory became focussed on supply and demand.

It seems that time had ripened around 1930 for a new development, as shown by the contributions of Chamberlin and Joan Robinson. Both are well covered by E&H in chapter 20, Chamberlin perhaps a little more detailed than what we need, so it may be read without too much immersion. Concerning Robinson it should be added that she had several other contributions not mentioned here, but we return to them.

Several other approaches to imperfect competition appeared in the 1930s, such as for example the work of Hotelling. Moreover, this decade saw the beginning of *game theory*, to which we also return in a later lecture.

From chapter 20 we move to chapter 23 which deals with second-generation or neo-Austrians. We have already dealt with Schumpeter who stands somewhat apart from the other Austrians, who follow the tradition of von Mises and Hayek, with successively fewer contributions of their own. Due to their political orientation, they have been successful in attracting funding to private universities, which may have participated to their popularity.

The chapter may be read superficially, the most interesting part is that dealing with the "*great*" *systems debate* in the 1930s. It is by now almost forgotten, but it was often referred to in the second half of the 20th century (up to 1990, where the interest faded for obvious reasons). The theoretical content was the question of whether a society based on other principles than those of capitalism and private ownership could survive, and several prominent authors took part, such as von Mises and Hayek on the one side, Lange and Lerner on the other. We mention it today mainly to comment on other work of the participants.

Our textbook are is rather brief on several subfields of economics which today have become rather important (and have a considerable weight in the study program-

mes). At this point it seems reasonable to give a short overview over the development of **econometrics**, which arose slowly from the turn of the century but attained its present form mainly due to the achievements made in the course of the 1930s. E&H have a couple of pages about it in chapter 25. I have given a brief summary in the Lecture Note 14.

We read: E&F, chapters 20 and 23.