

Wage Flexibility and Economic Stability in a Non-Walrasian Model of Economic Growth*

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Abstract

In this paper, we reconsider appropriate microeconomic foundations of macroeconomics by extending the short-run static non-Walrasian economics to the dynamic context to derive the “non-Walrasian” consumption and investment functions as solutions of the intertemporal optimization problems and explore the long-run stability analysis both in rigid-wage situations and in flexible-wage situations to argue that wage flexibility can have an aggravating effect on the stability. In so doing, we also examine the possibility of a persistent “growth cycle” generated.

Keywords: Economic Stability, Keynesian Economics, Microeconomic Foundations, Non-Walrasian Analysis, Quantity Constraints, Wage Flexibility.

JEL Classification: D50, E12, E32.

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