

Looking at the FTPL through a Unified Macro Model

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Abstract

This paper considers the fiscal theory of the price level (FTPL) using a model which unifies the short-run and the long-run macro models. The short-run model is based on the principle of effective demand which means that investment determines saving. A difference from traditional Keynesian economics is the assumption of flexible prices even in the short run. The long-run model is constructed as a special case of the short-run model under several assumptions. This paper views the FTPL in the long-run steady state of the unified model. Then, it is concluded that the price level is not determined by the fundamental equation for the FTPL because it is an identity.

Key words: Unified macro model, Short-run equilibrium, Long-run equilibrium, Price determination, Fiscal theory of the price Level

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