

Developing New Dynamic Disequilibrium Models

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Abstract: This paper explores Iwai's dynamic disequilibrium model, recreating it through the integration of the principles of New Keynesian models. Iwai's aforementioned model was a bold experiment in its attempt to come to grips with disequilibrium; however, the macroeconomic descriptive model packaged with it was a traditional IS–LM model. This paper endeavors to construct a model in line with New Keynesian models that incorporates Iwai's dynamic disequilibrium model.

Here, this paper proposes a new dynamic disequilibrium model, comprising four equations that integrate New Keynesian models and Iwai's dynamic disequilibrium model. In addition, it discusses how to extend this model to open economies and the implications suggested by this new model. Further, an empirical analysis reveals and indexes levels of disequilibrium in product and labor markets. Issues for further study include bolstering the microeconomic foundations of the open economy model.

Keywords: disequilibrium dynamics, New Keynesian models, microfoundations, open economy model