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THEME 6: Markets and Exchanges

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In the text book of microeconomics, a "market" is defined as a area over which buyers and sellers can negotiate the exchange of some product: buyers and sellers try to maximize their utilities or profits under budget-cost constraint. This classic concept about market is so far from reality that many economists have made a lot of efforts to improve this concept.
In our days there would be few economists who consider the market as omnipotent instrument capable of satisfying the Pareto criterion automatically. With Asymmetric information theories and/or game theoretical knowledge, even the mainstream economists think that the market is, no matter how important it would be, an "institution", complementary with the other institutions, like State, family, for example. According to them, the market will be able to construct the Nash equilibrium, but it is not sure at all that the market can realize Pareto equilibrium. In the market as Nash equilibrium, all economic subjects wouldn't prefer deviate and choose some others strategy. In this sense, market is a stable institution.

It seems reasonable to suppose that this new concept of market is more concrete and more explanatory than the classic one. However, what needs to be emphasized is that this sophisticate market concept has also difficulties.
First of all, it is too "rational". Certainly this new current of microeconomics denies Homo Economicus, premise of the General Equilibrium Theory and presupposes a more real economic agent: economic agent making choice with "bounded rationality". But when ones realize exchange in the markets, do they always calculate cost-benefit even with "bounded rationality"? Aren't they influenced by the others elements than the rational calculation: historical, cultural elements etc? That goes to the very heart of PEKEA's subject: coordination of "Market, Institution and Societality". This comment criticizes a method of new current of microeconomics.
Secondly, this new current has difficulty to explain a very important socio-economic phenomenon accelerated in the globalization of market economy: for example, enlargement of revenue disparity at the international levels as well as at the national levels, in other words "poverty". Therefore it is appropriate to indicate that this analytical cadre lacks several important points to promote a better understanding of PEKEA's object. We need to construct another analytical cadre to precise the relation between market-exchange and important socio-economic phenomena like "poverty". Let us now present some ideas to deepen, although they still remain limited information for PEKEA program,

Variety of Markets
The nature of the price is different according to the "market" where it is established. There is enough evidence to show that price in the labor market, so wage, is more rigid than the prices in the products markets; price in the financial market is the most flexible and very instable. Before making a general theory of the market, it would be better to know how the each market builds the price. Moreover taking into consideration that our economy is well lead by the financial market, financial-lead economy, we must look more carefully into the sustainability of this kind of economic society, because the instability of financial prices could give bad and destructive effects to our society. Generally speaking, it is not evident that "markets" could be coordinated automatically.
From this idea, we can emphasize necessity to (re)orient markets towards more "society friendly" ones: "markets coordination for society".

What is price? : Social Reproduction and Scarcity

Market price, index of scarcity, enables economy to practice "efficient" resource allocation in some sense. But in our days who decide the price? Price is always the adequate index of scarcity? We know that prices are defined by the big companies like Micro Soft rather than by the market. If it is so, we can't accept literally the principal assumption of standard economics: efficiency on the base of competition. Certainly the monopoly or oligopoly market theory of standard economics recognizes also this kind of defects, but we must go further.
It seems reasonable to note that "economic efficiency" doesn't necessarily mean "social efficiency". There are many cases in which they are contradictory each other. If we assume that water price is defined in the "perfect competition market", there will be poor people who can't buy the water sufficiently. This is a grave problem from the social "reproduction" point of view. It is essentially different to buy the water and to buy the game soft. If the goods, which consist of "basic human needs", are allocated by their market prices, it could bring a persistent inequality and inconvenience for the society. So to establish a humane society, it is necessary to precise indications by which we can distinguish goods to be "priced" in the market from ones not to be "priced" in the market.

What exists behind exchanges?

In the modern microeconomics, the economic agents are characterizes by the "asymmetric information" and this asymmetric character results in the unequal distribution of "rent". It is generally agreed that the asymmetric information theories introduce, in some senses, power relation in the market analysis. But they consider "asymmetric information" as individual character of economic agents. It is not sufficient. We need to study what brings the (unequal) power relation including "asymmetric information" into market exchange. The difference of asset distribution or that of their socio-economic status can bring "power relation" in the occasion of market exchange. More concretely say, if there are no differences between workers and employers at the level of information, can we consider that the workers can bargain with employers about their wages on equal terms? It is not plausible. To develop this idea, the critical examination of the "Contested Exchange Theory" of Bowls=Gintis will be useful.

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