Preface

In this book, I reconsider Keynes's *The General Theory of Employment, Interest and Money* (*The General Theory*) from the perspective of modern microeconomic dynamics. It comprises two parts: (i) the reconsideration of *The General Theory* and (ii) the applications of the extended theory derived from such reconsideration to the current Japanese economy. There are two prominent issues in Part I, which deals with the reconsideration. The first is that I clarify that Keynes has surely succeeded in proving the existence of *involuntary unemployment* without an ad hoc price rigidity assumption by using the method of comparative statics although the way in which the nominal wage is determined remains an open question. Namely, Keynes shows that there are some involuntarily unemployed workers for *any given* nominal wage to the extent that effective demand is insufficient. The second issue asserts the inseparability of effective demand and liquidity preference theories. I shall show that unless the flow aspect of an economy (the effective demand theory) depends on the stock aspect (the liquidity preference theory), Say's law is upheld. To the extent that any firm maximizes its market value, this implies that industries overall are only surrogates for the savings of individuals. Accordingly, capital investment is always equal to the saving. In order to the sustain Keynes's theory, the existence of an alternative investment opportunity other than capita, namely money is essential. Part II explores the theoretical relationship between Japanese radical quantitative easing (QE) monetary policy and prolonged stagnation. As will be discussed in Part I, since the flow and stock aspects of an economy are inseparable, a change in the nominal money supply immediately affects the equilibrium condition of the fund market (or equivalently, the aggregated goods market). The real rate of return for money should be increased against that of real capital to equilibrate the fund market whenever money is rapidly injected into the economy by a radical QE monetary policy. As such, a radical QE monetary policy advances disinflation/deflation although such consequences seem to be unpredictable for the monetary authority. Moreover, the heightened rate of return for money raises the opportunity cost of capital investment. Accordingly, a radical QE monetary policy possibly slows down the economy.

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