Dynamic Models and Inequality: The Role of the Market Mechanism in Economic Distribution

Author: Robin Maialeh

Publisher: Springer Nature

Publication Date: June 30, 2020

ISBN: 978-3-030-46312-0 (Print), 978-3-030-46313-7 (eBook)

Series: Contributions to Economics

Pages: 179

Annotation:

Dynamic Models and Inequality: The Role of the Market Mechanism in Economic Distribution by Robin Maialeh offers an in-depth examination of economic inequality through the lens of dynamic models. By employing advanced mathematical tools, Maialeh explores the fundamental dynamics of markets, focusing on how subsistence constraints and competitive forces shape economic distribution. This book stands out by connecting empirical observations with theoretical principles to construct a model that reveals market-induced inequalities as intrinsic features of market economic systems.

The book opens by addressing the long-standing gap in economic literature regarding the central role of markets in economic theory. Despite the critical importance of markets, their detailed theoretical and empirical analysis has often been overlooked. Maialeh emphasizes the need to recontextualize economic distribution within the framework of general market principles, especially given the rising economic inequality observed in advanced Western economies. Introduction sets the stage for the book's primary aim: to theoretically explain the observable phenomena of economic distribution through market mechanisms, ultimately formulating a model that identifies market inequality as a fundamental feature.

The second chapter introduces basic concepts, methods, and data related to economic inequality. It discusses various types of inequalities and mainstream methods for measuring them, such as Gini coefficients and Theil indexes. The chapter also reviews empirical findings on inequality, emphasizing the dynamic and transparent connection between markets and inequality in advanced economies over recent decades. This review helps reveal the main trends and stylized facts of today's economic inequality.

The author also examines established economic theories that underpin the idea of economic convergence, where poorer economies are expected to catch up with richer ones. The chapter delves into the Solow-Swan and Ramsey-Cass-Koopmans models, highlighting their assumptions and implications for economic inequality. Maialeh argues for the importance of theoretical frameworks in understanding economic phenomena, particularly in an era of increasing data availability and emphasis on empirical research.

Important parts of the book focus on subsistence constraints and competition. The first deals with the question how subsistence constraints impact agents' optimization behaviors. The chapter presents models that incorporate subsistence levels into agents' decision-making processes, showing how these constraints lead to structural changes in behavior and economic distribution. Simulations are used to explore how subsistence constraints affect economic inequality, supporting the theoretical potential and generalizability of these models. The latter links competitive market principles with economic inequality. It presents three models emphasizing different aspects of competition: innovation and monopolistic rent, disproportionate holdings of corporate assets, and resource competition. These models demonstrate the ambivalent effects of competition on inequality, highlighting both converging and diverging tendencies within markets.

The core contribution of the book is detailed in the final chapter in which Maialeh formulates a dynamic model that integrates rational agent behavior, subsistence constraints, and competitive dynamics to explain market-induced inequalities. This model aims to reflect not only empirical observations but also the abstract principles governing market interactions. By using a homogeneous agent model, Maialeh isolates the effects of market mechanisms on inequality, showing that resulting disparities arise from the fundamental dynamics of markets rather than inherent differences among agents.

The book concludes by summarizing the key findings and their implications for economic research and policy. Maialeh emphasizes that while the mechanistic approach provides a robust framework for understanding economic distribution, it also highlights the significant role of stochasticity (or luck) in economic success and failure. The conclusions challenge the overestimated virtues accorded to the rich and the stigmatization of the poor, suggesting that market mechanisms driven by competitive imperatives can generate both convergence and divergence in economic outcomes. Maialeh calls for further development of the model through various modifications and encourages continued exploration of the relationship between market mechanisms and economic inequality.