

**AN EXPLORATION OF MONEY & INTEREST IN THE
THEORY OF VALUE**

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Declaration by the Research Scholar

This is to certify that the thesis entitled “**An Exploration of Money and Interest in the Theory of Value**”, submitted by me to the Gokhale Institute of Politics & Economics, Pune for the award of the degree of Ph. D is a bonafide record of research work carried out by me under the supervision of **Dr. Rajas Parchure**. The contents of this thesis, in full or in parts, have not been submitted to any other Institute or University for the award of any degree or diploma.

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Thesis Certificate

This is to certify that the thesis entitled “**An Exploration of Money and Interest in the Theory of Value**”, submitted by **Milind Desai** to the Gokhale Institute of Politics & Economics, Pune for the award of the degree of Ph. D is a bonafide record of research work carried out by him under my supervision. The contents of this thesis, in full or in parts, have not been submitted to any other Institute or University for the award of any degree or diploma.

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Milind Desai

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List of Abbreviations

S_{ij} - i^{th} Stock coefficient in the j^{th} industry

A_{ij} - i^{th} flow coefficient in the j^{th} industry

L_j - Labour used in the j^{th} industry

w - Uniform wage rate across industries

r - Uniform rate of profit across industries

P_j - Price in the j^{th} industry

i_t - Interest rate in the t^{th} period, $t=1$ to n

l_t - Loan/ Debt in the t^{th} period, $t=1$ to n

D_t - Deposit in the t^{th} period, $t=0$ to n

B_j - Output for the j^{th} industry

g - Growth rate of the economy

α - Marginal propensity to consume of the capitalists

β - Marginal propensity to consume of the workers

k_{ij} - i^{th} money turnover ratio in the j^{th} industry

k_c^p - Capitalists share in the currency out of their incomes

k_e^p - Capitalists share in the equity out of their incomes

k_0^p - Capitalists share in the demand deposits out of their incomes

k_1^p - Capitalists share in the fixed deposits period 1 out of their incomes

k_2^p - Capitalists share in the fixed deposits period 2 out of their incomes

k_3^p - Capitalists share in the fixed deposits period 3 out of their incomes

k_c^w - Workers share in the currency out of their incomes

k_e^w - Workers share in the equity out of their incomes

k_0^w - Workers share in the demand deposits out of their incomes

k_1^w - Workers share in the fixed deposits period 1 out of their incomes

k_2^w - Workers share in the fixed deposits period 2 out of their incomes

k_3^w - Workers share in the fixed deposits period 3 out of their incomes

Curr- Currency in the economy

NNP- Net National Product

Abstract

The most serious challenge the existence of money poses to the theorist is this- even the best developed models of the economy cannot find room for it.

On one more thought, another great economist had posed this:

How to make money appear without making standard theory disappear?

Yet another in the theory has to offer:

Recent work on the existence of an equilibrium has been concerned with a world without money while all work in monetary theory has ignored the 'existence' question.

Do all of these have something in common? Yes indeed- these are thoughts as well on “An exploration of money and interest in the theory of value”. When Ostroy has to question us on how to make money appear without making standard theory disappear- to him the standard theory is the theory of value. Also, Hahn’s best developed models are not different than the standard mainstream neoclassical models of the time. He also questions Arrow- Debreau reasoning in proving the existence of a monetary equilibrium. These similarities are indeed good enough motivations to begin this thesis. In what is to follow, we would be exploring the possibility of synthesizing a monetary and value theory. In the process, since precedents have shown that the monetary economy cannot be integrated with the mainstream theory, we deviate from the standard mainstream theory itself. Instead, we find that the model proposed by Sraffa in his 1960 book comes to our rescue. The Sraffa system of production of commodities by means of commodities becomes an ideal system for us to describe the real activity in the economy. On the monetary front, mainstream theories before us cannot be adapted to suit the requirements of the real system described and hence, we develop a pure theory of banking during the course. Unifying the two doctrines of monetary and real system, we proceed to explore the properties of the such an

economy using hypothetical (numerical) examples of economic situations. In the end, we get over all the three questions above (and more questions as well that are posed in the theory but not listed above) and provide for the role of money through this integration of the monetary and value theory. In so doing, we would come across the conclusion that though this integration may be possible in the non-standard theory, a natural monetary equilibrium is not possible. More so, and importantly, it would be discovered that money is not neutral in theory as well. Money affects prices, outputs, interest, employment and fiscal activities equally. It plays an important role in determination of the overall economic behavior.