Chapter 10
Money, Price, Output, Interest Rate, and Factor Employment: Comparative Theory

ABSTRACT

This is a chapter in general-equilibrium study of the Walrasian type. It is extended to money, output, and prices along with their other important economic effects (e.g. employment and stability). The Walrasian monetary model and the quantity theory of money model are both compared and contrasted with the endogenous theory of money model in light of the systemic view of unity of knowledge that grounds the phenomenological model in this book.

INTRODUCTION

The objective of the chapter is spelled out in its four parts. These are firstly, to lay out a general perspective of monetary theory in mainstream economics so as to lay down how money and real economy are treated in the way as we understand monetary theory and policy and the evolution of monetary history. Secondly, we lay down a universal theory of interactive, integrative, and evolutionary (IIE) worldview of unity of knowledge, which is understood as organic circular causal unifying inter-relationship between the good things of life. Among these blessed artifacts of life are money and production, price stability and factor utilization, trade and productivity in the phased out regime of interest rates (Choudhury, 2007). The underlying economic perspective follows the IIE-learning methodology that emanates from the
foundation of the universal theory of unity of knowledge. All the variables appear as complementary possibilities rather than the kinds of mainstream understanding of marginalism and trade-off between them.

The mainstream theory of economics, finance, and ‘everything’ as in the generalized world-system is thus critiqued and replaced rigorously in this chapter by the worldview conception of organic (learning) unity in the interactive, integrative, and evolutionary methodology of epistemic unity gained by continuous learning. Money in Islam in its contrasting study with mainstream theory overviewed in the first part of this chapter is presented in a substantive way in part three of this chapter. Part four of this chapter presents an empirical exercise in the light of the theory of money in Islam using the estimation/simulation method of circular causation.

The chapter concludes by establishing the Islamic methodological worldview of unity of knowledge as the episteme for explaining the learning dynamics of all issues and problems of the human domain. In a specific case we establish the model and the learning dynamics of complementary relations between money and real economy through the function of the financial instruments/sector in the model of unity of knowledge. Thus a contrasting result emerges between the marginalist axioms of mainstream economics and finance characterizing the nature of goods or ‘bads’, and the continuously learning dynamics in complementarities between ethical possibilities and their induced variables.

**THE MAINSTREAM GENERAL EQUILIBRIUM MODEL OF MONEY, PRICES, GOODS, AND PRODUCTIVE FACTORS**

The Pareto optimal general equilibrium model of goods, prices and productive factors has been elegantly established by Henderson and Quandt (1971). We will firstly explain textually and then summarize the mathematical result in this chapter.

The Pareto optimal general equilibrium model comprises the simultaneous solution for goods, prices, and factor utilization between the demand side shown by consumer utility, and the supply side shown by the production function. The utility function $U_i(q_{i1}, \ldots, q_{is}, x_{i1}^o - x_{i1}^*, \ldots, x_{im}^o - x_{im}^*, M_i)$ of the $i$-th-consumer, for $i = 1, 2, \ldots, m$, is a function of consumption that equals all of $s$-number of produced goods of various types denoted by the vector, but also including a quantity of money $M_i$ in our specific case. This vector is denoted by $Q_i = \{q_{i1}, q_{i2}, \ldots, q_{is}, M_i\}$. The $i$-th-consumer owns $n$-types of total quantity of primary factors as endowments, with $j = 1, 2, \ldots, n$. Of these given productive endowments, the $i$-th consumer uses $x_{ij}^*$ for work. Hence he uses $(x_{ij}^o - x_{ij}^*)$ for leisure activity. We denote the net supply of productive factors by $x_i^* = \{x_{i1}^*, x_{i2}^*, \ldots, x_{im}^*\}$ and the net leisure activity vector is $(x_i^o - x_i^*) = \{(x_{i1}^o - x_{i1}^*), \ldots, (x_{im}^o - x_{im}^*)\}$.  

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