Critiques of the Neoclassical "Perfect Market" Economy and Alternative Price Theories

Immediately following the introduction to neoclassical economics and, in particular, general equilibrium theory (Chapter 5) this chapter details some of the most prominent criticisms of this economic paradigm. Most importantly, the chapter recounts Mirowski’s historical analysis of the origins of the general equilibrium theory in classical mechanics and the problems that come with applying the theory to real economies and economics. Internal inconsistencies in equilibrium theory and the unobservability of utility (in spite of the research on revealed preferences) are also addressed in this chapter. The chapter highlights the limitations of neoclassical equilibrium theory and shows that there were alternatives which have not been pursued by economic mainstream. One of these, which is also introduced in this chapter, is the classical theory of prices and its Sraffian variation, as well as Post-Keynesian and Institutionalist price theories.