

Cost of production (Supply price) of Goods: Walras versus Leontief

Topic: Methodological aspects of input-output analysis II

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Abstract

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This paper discusses the relationship between Walras's and Leontief's determination of cost of production (supply price) of goods. It will be shown that, despite of that Leontief's version is based on Walras's theory and hence formally they are similarly, there are several crucial differences. One of the conditions of equilibrium state according to Walras's own law of equilibrium establishment is equality between supply price and demand price of each commodity separately for all four economies. However, since production economy, cost of production performs a role of supply price.

Walras considered three types of factors: land, labour and capital. In addition, Walras divided capital proper into two categories: fixed capital and circulating or working capital and stressed that they have different role in the calculation of cost of production. Yet, prices of new circulation capital goods equal price of goods multiplied by interest rate.

Leontief's first compiled empirical input-output table and because of that the data, in general, were in monetary terms prices and quantities were not separated. Therefore, Leontief considered two different versions of input-output: (1) theoretical, where quantities (physical) and prices (money) are separated similar to Walras; and (2) according to empirical input-output, where quantities are in monetary terms and prices are in relative (or latent) form. Thirdly, Leontief's theoretical model of input-output differs from Walras's system despite and it does not completely describe reality. For example, issues such as money, capital (circulation), and others are discussed in very simplified form if at all. They are, in general, aggregated with other categories sometimes contradicting each other. Therefore, it is very difficult to take into account their influence on the calculating of cost of production. However, the results are considerably distorted from the point of reality.

Keywords: Walras, Leontief, Cost of Production, Money, Circulation Capital, Rate of Interest

JEL Classification: B3, B4, C6, D5

The Topic: 20. Examinations of the Input-Output Price Model

Preferred time my paper's presentation is the Morning.

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