Lecture 18: Social choice; uncertainty; macroeconomics after Keynes

We didn't touch upon *social choice* in the last lecture, so we catch up on this, since the impossibility theorem of Arrow not only changed the basic orientation in welfare economics but also gave rise to the new field of mechanism design.

After this, we need also to mention the upsurge in *economics of uncertainty,* where Bernoulli was rediscovered and and expected utility found wide application in different fields of economics, such as insurance, finance and – macroeconomics, where it was part of the partial return from Keynes to the classics. On its way, expected utility became itself the object of an ongoing discussion, which we comment very briefly.

This takes us finally to the development of macroeconomics in the second half of the 20th century, where a reaction against Keynes set in, taking different forms but in generally involving the role of expectations, something which played a considerable role in the *General Theory* but in a form which did not lend itself to a systematic treatment, so that it was to some extent neglected by the immediate followers. The development of the different branches of new macroeconomics all tried to remedy this situation.

We read: In rough outlines, the material is covered in B&D chapter 6-8, we don't read the rest of B&D.