

Mantel (1974) showed that the standard theory provided essentially no structure for macro-economics—essentially any demand or supply function could have been generated by a set of diverse rational consumers. It was the unrealistic assumption of the representative agent that gave *theoretical* structure to the macro-economic models that were being developed. (As we noted, New Keynesian DSGE models were but a simple variant of these Real Business Cycles, assuming nominal wage and price rigidities—with explanations, we have suggested, that were hardly persuasive.)

There are alternative models to both Real Business Cycles and the New Keynesian DSGE models that provide better insights into the functioning of the macro-economy, and are more consistent with micro-behavior, with new developments of micro-economics, with what has happened in this and other deep downturns. While these new models differ from the older ones in a multitude of ways, at the center of these models is a wide variety of financial market imperfections and a deep analysis of the process of credit creation. These models provide alternative (and I believe *better*) insights into what kinds of macroeconomic policies would restore the economy to prosperity and maintain macro-stability.

This lecture has attempted to sketch some elements of these alternative approaches. There is a rich research agenda ahead.

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