R*

*r** concept makes no sense

- "Wicksell treated the natural rate of interest as a real rate of interest in the sense that it **equated the forces of productivity and thrift**, as **if saving and investment were undertaken in real goods** (*in natura*) …. . Monetary equilibrium was said to exist when the market rate of interest, determined in the market for credit, equaled the natural rate, determined by the real forces of productivity and thrift. Any discrepancy between the market and natural rates produced cumulative inflation or deflation." (Rogers 2001: 545).

*r** concept makes no sense

- "The natural rate of interest is a real rate in the sense that it is supposedly determined in a market in which saving and investment are undertaken *in natura*. However, the fact is that **in any but the most primitive economy no such 'capital' market exists**, and the **natural rate of interest**, as envisaged by Wicksell and Robertson, **does not exist either**. The concept of the natural rate of interest is not merely non-operational: it is an abstract special case of no general theoretical significance. It cannot, therefore, provide the theoretical foundations for an operational loanable funds theory of the rate of interest"
- (Rogers, C. 1989. *Money, Interest and Capital: A Study in the Foundations of Monetary Theory*, Cambridge University Press, Cambridge.)

*r** in the „New Keynesian“ models (NCM)

- P. Arestis “**New Consensus Macroeconomics and Keynesian Critique”**: http://www.neweconomicthinking.org/downloads/P_Arestis_NCM%20AND%20KEYN%20CRITIQUE.pdf
- The NCM model portrays an economy in which the **interest rate can be adjusted to secure equilibrium in terms of a zero output gap** and a balance between aggregate demand and aggregate supply (alternatively between planned savings and planned investment). The rate at which this materializes is, to repeat, the real equilibrium rate of interest.
- But it is the case that a shift in the **state of confidence** and **expectations leading to a shift in the investment** schedule would lead to a **shift in the real equilibrium rate of interest**.
- Arestis and Sawyer (2008), show that **any real equilibrium rate of interest** would be **defined for** a **specific fiscal stance**, **specific world demand** and **specific set of ‘animal spirits’** influencing investment, in addition to preferences and technology.