

The Principle of Demand and Supply, Revisited

By Hiroshi Mori

The author argued in his previous paper, "What is price-mechanism : market-mechanism at all?", *The Monthly Bulletin* No. 263, The Institute for Social Science, Senshu University that (1) price-mechanism can be used synonymous with market-mechanism only under the condition of perfect competition, or at least in the 'flex-price sector', (2) it is not appropriate to attribute the high performance of post-war Japan's manufacturing industries to "the active working of price-mechanism", as contended by Prof. T. Tsuruta, not only with regards to analyses of the facts but also in terms of the right usage of the words, (3) it is questionable to expect to solve the potential overproduction of rice : i.e., approximately 30 percent of rice paddies being administratively set-aside by huge amount of comensation payments, by introducing "the principle of competition=leaving to the principle of demand and supply=leaving to the working of price-mechanism," as contended by Mr. Y. Kanoh and Prof. T. Tsuruta. In short, he claimed that it is too easy to use the concept of price-mechanism to various convenient effects according to TPO and to expect price-mechanism to be the panacea virtually for all problems.

In this paper the author described in somewhat polemic forms, with several comments and criticisms to his previous paper in mind, that (1) why he sticks to the "difference" between price-mechanism and market-mechanism, (2) why it would not lead to the desirable competitive-equilibrium when the production and marketing of rice were left to the working of free price-mechanism, (3) although it is very easy to call the intersection of down-ward sloping demand curve and up-ward sloping supply curve the optimum equilibrium point, what are actually important in formulating the concrete government policies are to determine slopes of these demand and supply curves and the ways they shift, by short terms (one to two years), medium terms (three to five years) and long terms (approximately ten years), and (4) specifically in the manufacturing industries in most of which oligopolistic dominant firms actually set prices according to the full-cost principle with fringe firms following suits, there

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might not exist. "supply curves" in the sense of the ordinary text books of economics.