A simple macroeconomic model with non-perfect competition in the long run

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In this paper, a macroeconomic model with microeconomic foundations based on imperfect competition is presented. The objective is to examine the long-run effects of various macroeconomic policies on aggregate output and average price level.

The derived comparative static results highlight the importance of supply-side interest-rate effects and cost-push effects in determining the equilibrium level of output. Further, tax cuts may not necessarily induce a real expansion in the long run, even with the price level being neutralized by a monetary adjustment. Our analysis also suggests that, with free entry/exit of firms in the long run, a balanced-budget multiplier may be negative under imperfect competition.