ABSTRACT

Most economic theories specify equilibrium relationships among economic variables, and, at least implicitly, the equilibrium information flows among economic decision-makers. However, the adjustment process which moves the system to an equilibrium position is usually not specified. This paper develops a method for analyzing a general class of such adjustment processes. The principal goal of this analysis is to determine the minimal communication and coordination among economic decision-makers needed to achieve equilibrium. This can be compared with the information structure of the equilibrium model. If the latter is not adequate for the former, equilibrium cannot generally be achieved, and the equilibrium relationships cannot reliably approximate actual economic behavior. This information analysis is proposed as a new source of discipline in the evaluation of economic models.