



a slightly more serious position: he admits that “market” demand and supply curves “cannot be observed in reality” and speaks of the need of a “theoretical structure” that will help understand the real world. We can only agree with him on this point, but not on the precise “theoretical structure” he chooses, a structure in which there are imaginary “market” supplies and “market” demands (that “cannot be observed” but nevertheless convey information to agents). As we underlined in our article, *people trade with each other, and not with “the market.”*<sup>1</sup>

Economic relations are always between two agents and never between an agent and “the market.” Let us consider a “theoretical structure” different from Katzner’s—one that takes this obvious fact into account, while maintaining the neoclassical approach. Let us consider, for example, a firm that wants to sell the good it produces. As there is no auctioneer to help it, the firm will have to set the price all by itself. This price will depend on the demand that the firm *expects* from potential buyers of the good. This expected demand depends particularly on prices that may be proposed by other sellers of the good, or of its substitutes. One does not need a PhD in economics to understand this. Any firm, big or small, then tries to estimate its expected demand at different prices and determines the price that, for example, maximizes its expected profit. The situation is immediately, *from the beginning*, of the same kind as those described by microeconomic models of monopoly or of monopolistic competition. We here insist that such models can be applied to numerous situations, from the grocery store “around the corner” to the Boeing Company. Both have to estimate the specific demand for the goods they sell.

The grocery store has to take into account the nearby shops and the prices they propose; Boeing cannot ignore Airbus. Firms’ decisions depend on the information they have concerning the tastes and incomes of their potential buyers and their beliefs. Firms’ decisions also depend on their conjectures about the other firms’ reactions and on their expectations about their current and future choices. Finally, these decisions also depend on the rules of the game, that is, the regulations, and the social, historical, and economic environment they are confronted with.

Microeconomists have tried, for a long time, to illustrate this kind of situation in models to which they have associated such names as Cournot, Bertrand, Edgeworth, Stackelberg, Bowley, Kreps, and Scheinkman. Indeed, different kinds of conjectures and of players’ strategies imply important differences in the form of the equilibria or the models’ “results.”

Case says that he prefers monopolistic competition models to duopoly ones. He alludes to his textbook where a “simple model . . . includes price setting firms, product differentiation, reasonably free entry and a zero-profit equilibrium” (is this really “simple”?). Yet, Case certainly knows that, since Hotelling in 1929, neoclassical theoreticians have tried to give a precise form to models much more simple than his. They rapidly realized that this raises numerous difficulties and logical problems, at least if one wants to deal with the issue in a serious manner. For Case, this is not what we should teach undergraduates, this “is not what Econ 101 or 201 is all about.” He seems to think that anecdotes and superficial analyses are

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1. We have just published a book titled *La Théorie Néoclassique* where we present the main microeconomic models, without ever using the word “market,” apart from expressions such as the “complete market” assumption (which, indeed, represents a very high centralized system).





