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Some Considerations on the Causes of Structural Change in Financial Markets

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Economic theory has never had a great deal to say about markets, much less about financial markets, and even less to say about changes in institutional structures. It is thus something of a paradox that economic theory, and in particular general equilibrium theory, has attempted to generalize a particular form of financial market organization to the analysis of the operation of markets in general. Because of the insistence that general equilibrium theory is independent of any particular institutional structure of the economy, some critics have concentrated on the unrealistic nature of the ideal market form implicitly assumed in the theory, rather than on the real problem, which is the presumption that this ideal form is universal.

Walras's description cannot be faulted for lack of realism. It can be faulted because it only applies to some financial markets. The London gold pool fixes prices just as Walras described, and Keynes is witness that Walras based his idealized version of the process of price determination on the Paris Bourse [Hicks 1982, 296].

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