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A NEW MODEL FOR THE CONTEMPORARY MARKET PRICES MECHANISM

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***Abstract**: Thinking at the most recently financial and economical evolutions on international level, we can easily conceive that the collateral effects of economical globalization and market integration, represents the main issues debated in specialized professional or political circles. In this context, the authors have concluded that the international effort should be oriented first toward remodeling the fundamental economic theory implicated in revealing the real features of globalization process. Thus, in particular, this paperwork has approached, as a first step of an ample demarche, the price market mechanism contemporary functionality within a globalized framework. Studying the last macroeconomic evolutions in statistics terms, the authors are asserting that the actual model of market prices mechanism is totally obsolete, being distorted by the credit evolution and by its corresponsive artificial consumption. The paperwork is subsequent to an ample research program developed by the authors, aiming to rebuild the theoretical basis of the new contemporary economic realities. As research conclusions, approaching an analytic method, the authors have proposed a new model for price mechanism, that should take under consideration the sustainable consumption related to real incomes and industrial output, but not distorted by the irrational credit policy.*
***Key words**: price mechanism, market, global economy.*

1. INTRODUCTION

The unanimous impression underlines the fact that integration in contemporary global market development exceeded too much and to profound the conceptual frame formulated as work hypothesis for the beginning of '80's the realities evolving radically uncontrolled. In this case, the free capital global running is no longer a factor for market equilibrium as "market fundamentalists" predicted, financial integration as global process creating and forcing gradually the market bubbles in lack of an efficient frame of global supervision.

As many theoreticians have underlined and predicted in the past three decades (Soros, 1986 and Stiglitz, 2006,), the free access to the international monetary and financial system, in the framework of free capital movement, let the banking system liberty to deny its fundamental ration as simple capital intermediation agent, forcing a severe and imprudent competition of borrowers and lenders, thus determining a harmful run after market speculations. In this order, many of banking companies becomes financial corporation with valences on regional and international level, cumulating many other complex functions in investment and less in saving management, implying themselves

in major capital markets, including in those speculative ones. The differentiated risks, assumed on different areas on volatile transactions, should at least on theoretically level, to sustain the speculative activities of these corporations in balance with their classical operations in saving management.

Unfortunately, in the present market conditions, the tendency for sustaining the severe gap between short and long maturities based on artificial grown market values is not a valuable work hypothesis but a false and harmful option in market management. Therefore, opposite to market sensibility, the *maturities binder* is based on *real value of guarantees brought into transaction* consisted in mortgages.

In this order, comes inevitable the idea that the market prices becomes highly volatile in the presence of market severe corrections, determined by the economic and financial framework conjuncture.

2. THE NEW MODEL OF MARKET VALUES MECHANISM

The "supply and demand scissors" owed to A. Marshall theory about market prices mechanism (Marshall, 1920), in its initial optics, prove itself as being important for the new financial and economic realities, in relation with the over-sophisticated complex of contemporary financial banking mechanisms, operations and market instruments. Dynamically speaking, the evolution of supply and demand curves, are substantially depending on the nuances of real values concept and relevancy in relation with market values consistency, from this point of view the exclusive determinations imposed through the symmetrical value theory wouldn't be exhaustive, univalent and exclusive (Marshal, 1920).

Thus, the market supply and demand dynamics won't determine exclusively the equilibrium prices in one way, but also the market prices distorted by the credit tendency or by other market variables are able, from the opposite way, to determine the supply and demand evolution as well. From this perspective, the real values dynamics, expressed through getting the human-social optimum in supply and demand arbitration, has two distinctive components, with contrary motion on contemporary market prices mechanism evolution (Ionescu, Popa, 2010):

- *Centrifugal type of values* – created after symmetrical values theory from moderating market supply and demand – this type of values have the tendency for a permanent growing being feed in its evolution by those measures regarding the consumption stimulation through credit and by those aggressive politics for excessive production and consumption segments diversification or extensive incentive.
- *Centripetal type of values* – that are influencing in opposite way the supply and demand curve evolutions, in respect of getting a market equilibrium price, limiting or correcting in reverse the market prices tendency, starting from the relevancy of real human needs and scarcity of resources, in terms of objective consumption limits.

Thus, the human-social values quantify not only the purchasing power parity or the marginal good's utility after case, but in particularly the subjective perception regarding the risks assumed on long terms, in relation with the objective appraisal and perception of the real effort allocated to investment basis.

In this context, we consider that the credit is able to distort the perception regarding the human-social values, as it has been observed in the period of the last decades studying the house holding behavior (Popa, 2008). Due to its effect above the immediate consumption, the credit has “diluting” the risk perception and “camouflaging” the perception of real human effort compensation, stimulated by the possibility of the maturities rolling procedures in banking market operations.

As it can be observed from the below graph (fig. 1), built in Keynesian perspective (Sowell, 2004), the aggregate supply and demand (that determine the equilibrium point **P**e) are influenced by the credit dynamics, distorting the consumption and the aggregate services and goods output as well. Therefore, the equilibrium market price **P**e is retranslated in point **P**’e, into an unsustainable manner on a long time, due to the price growth from **P**1 to **P**2 (based on the artificial incomes growth) in correlation with the responsive supply extension from **Q**1 to **Q**2 (excessive “diversification” effect based on the aligning supply tendency related to an expansive demand).

Together with this described trend will artificial grow also the mortgages market values to that level where the aggregate supply and demand wouldn’t be able to be sustained by the credit expansion, the correction coming up on the maximum offered rate for short time financial operation (Popa, 2008).

The moment of starting market values depreciation will conduct toward maturities shortage, diluting the credit as guarantee basis of conception and production. The general tendency for closing position on financial and monetary markets will generate on a short time a severe liquidity deficit on markets (*a financial crisis*) and after a while, on a long time, will induce a profound economic crisis in lack of market trust and its real values market perceptions.

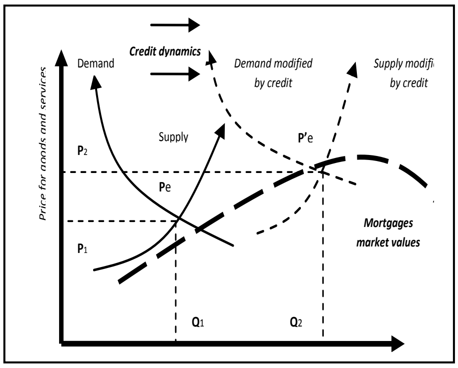

Fig. 1. The new model for supply and demand market mechanism

3. NEXT ACTIONS PRIORITIES

Beyond the contagious mechanism of crisis described by the spiral “*demand-credit-consumption*”, the evaluation risks can be anticipated only through a correct correlation with the cyclic model of economic evolution. In this order, will try to prove in very next researches that the market pressure, as market indicator should be correlated with the long term tendencies, taking under consideration the existence of economic cycles, when the human needs and marginal utilities are forced to be adjusted, based on discrepancies between real values and artificial market values.

4. CONCLUSIONS

In the last three decades the major tendency has been the separation of international financial industry by the real economy, the industry being tied by the financial system not only through the economic rations but first by the speculative criteria. The money price becomes aliened by the real purchasing power, all the market values being appraised not based on the short term perspective in a healthy way, but on the long and very long time horizon, thus deforming the price market mechanism itself. Therefore, the goods, services and business appraisal have been translated in the future, in a wrong and subversive manner.

Therefore, the crisis are not determined exclusive and definitively by the consumption „repulse” or by a lack of liquidities on the market. On the contrary the generally deflation indicates an excess of international liquidities related with the appetite for risk. The generalized prices diminishing for investment goods, beyond the domino effect triggered in mortgage market, are able to relaunch the consumption on healthy basis and would reduce the panic related to the short term decision options or to the banking system overdue negotiations. This theory should be first correlated together with short term credit overdue “rolling” on a time grading long term formula and second together with the real manufacture sector restructuring. For a developed country the optimum economical revival method is not a variable of credit policy anymore but is dependable by the quality of the incomes/prices level on market that becomes unsecured under unemployment pressure. The capital injection in transnational companies who produces overstocks will stimulates the growth of those enterprises who already forget about production optimization models throughout short cycles (Kitchin cycles, Schumpeter, 1961).

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