Market Price Formation, STANLEY REITER, Purdue University.

STATIC ECONOMIC THEORY explains the determination of market prices by the condition that market (aggregate) excess demand be zero; when this condition is satisfied the market is said to be in equilibrium. The term "equilibrium" suggests a stationary state of a dynamic process, which in this context may be called a market adjustment process. Static theory of price determination is not based on an explicitly specified adjustment process. No doubt the term "equilibrium" is used to name the static-market-clearing price(s) because of a widely shared view that an appropriate dynamic adjustment process exists and that its specification will ultimately provide a justification more solid than mechanical analogy for calling the static solution "equilibrium."

This paper presents a dynamic market adjustment process intended to explain the formation of market price in a market of minimal organized structure.

The adjustment process provides an explicit mechanism for communication under restrictions on the capacities of individuals to acquire and store information. The process given satisfies Hurwicz's criteria[1] for informational decentralization but stronger notions regarding incentives and behavior are used here. The economic environment is less general than that of the Hurwicz Process.

[1] "Decentralized Resource Allocation," Cowles Comission Discussion Paper, Economics No. 2112, May 3, 1955.

A new definition of process equilibrium is given, which does not require stability of offers over time, and it is shown that in equilibrium there is (a) a single market price, (b) it is constant over time, (c) the market is cleared on the average, (d) equilibria exist.

Further analysis of the process presented is in progress.