Review report on “Solving the paradox of monetary profits”

The study is very interesting. The two main contributions of the paper are the proposed solution of the paradox of monetary profits and the modelling approach. The proposed paradox solution basically relies on the turnover period of firms’ bank account for the payment of workers wage. The modelling approach is new and is based on the equilibrium conditions of three state variables, namely the bank accounts of workers, firms and banks. The equilibrium conditions allow the determination of flows consistent with those conditions and then the so-called monetary profits become evident.

I think that the paper deserves publication in the special issue of the Economics e-journal about “Managing Financial Instability in Capitalist Economies”. However, a number of presentational issue should be addressed before publication in order to improve the understanding and the readability of the paper and therefore its potential impact:

1. The distinction between stocks and flows is correct and perfectly clear to the author. Also, Referee 1 is wrong when he says that the equilibrium conditions are actually accounting identities. Indeed, they are equilibrium conditions that can be fulfilled or not and are different from the sort of accounting identities given by the double-entry book keeping. However, the author could really improve the notation in order to let the reader understand better if the variables considered are stocks or flows. For example, the “bank income” account is a stock in the model, but the name “income” clearly recalls a flow. The name should then be changed. Also the “firm loan” account would be probably better named as “firm debt”. A further suggestion could be to improve variable notation as follow: capital letters for stocks, lower-case letters for flows, and Greek letters (except for interest rates) for the ratios between flows and stocks.

2. Pag 4: the author could provide some evidence, e.g. a reference to justify the assertion “workers tend to spend their wages on a fortnightly basis”.

3. Pag 4: “if the real rate of interest was 5%”, is the adjective “real” correct and meaningful in this context?

4. Captions of figures 1, 2, 3 and 5 are affected by typos, e.g. the variable subscripts, and should be corrected.
5. Pag 7: the same division rate of surplus between wages and profits, i.e., workers and capitalists, is maintained also for the national income. Is it a trivial consequence or any assumption needs to be made? What is the connection between surplus and national income?

6. Figure 6: the red and blue curves should be perfectly symmetric while the blue curve crosses the y-axis at 1 at a higher point with respect to the cross of the y-axis at 0 by the red curve. Any mistake here?

7. The derivation of numbers presented in table 3 should be explained a bit. In particular, it should be explained that net income numbers take into account also interests paid by banks. Actually, the fact that workers net income is higher than their gross income is quite disturbing from a presentational perspective.

8. Pag 10: the derivation of the price is straightforward, so first the two equations could be skipped.

9. In the numerical example provided, the author should clearly state what is M and what is M+. Is M the initial 100 $ loan? Is M+ the gross profits, the wage bill, or both?

10. In the matrix provided in figure 8, in order to take into account here also the compound interest, the author uses a different notation with respect to the one used in table 1. This difference may generate further confusion and should be addressed.