DOWNLOAD PDF PRE-CLASSICAL ECONOMISTS

Chapter 1 : Classical Economics

Neoclassical economics is an approach to economics focusing on the determination of goods, outputs, and income distributions in markets through supply and demand.

Indeed, neoclassical economics has not been entirely successful in predicting the actual behavior of people, markets, and economies in the world so far, nor does it offer a view of a society that resonates with the ideals of a world in which people are able to express their uniquenesses as part of a society of peace, harmony, and prosperity. Despite much criticism, however, mainstream economics remains largely neoclassical in its assumptions, at least at the microeconomic level. History Classical economics , developed in the eighteenth and nineteenth centuries, included a value theory and distribution theory. The value of a product was thought to depend on the costs involved in producing that product. The explanation of costs in Classical economics was simultaneously an explanation of distribution. A landlord received rent, workers received wages, and a capitalist tenant farmer received profits on their investment. By the middle of the nineteenth century, English-speaking economists generally shared a perspective on value theory and distribution theory. The value of a bushel of corn, for example, was thought to depend on the costs involved in producing that bushel. The output or product of an economy was thought to be divided or distributed among the different social groups in accord with the costs borne by those groups in producing the output. But there were difficulties in this approach. Chief among them was that prices in the market did not necessarily reflect the "value" so defined, for people were often willing to pay more than an object was "worth. Several economists in different places at about the same time the s and s began to base value on the relationship between costs of production and "subjective elements," later called "supply" and "demand. The first to use the term "neoclassical economics" seems to have been the American economist Thorstein Veblen Menger, founder of the Austrian school of economics , is considered significant in the origin of neoclassical thought, with its focus on utilitarianism and value determined by the subjective views of individuals not costs. Despite starting from the same point, Austrian economics became increasingly separated from neoclassical economics in both method and focus. In method, whereas mainstream neoclassical economics became increasingly mathematical Austrian economics proceeded non-mathematically, incorporating laws and institutions into its analysis. The neoclassicals focused on equilibrium while the Austrian school focused on the study of institutions, process, and disequilibrium. Also, whereas mainstream neoclassical economics focused on perfect competition as a reference point, Austrian economics did not. Austrian economics had a sense of the correct institutional structure but not of the correct price; correct price was whatever price the institutional structure produced. Today, the term neoclassical is generally used to refer to mainstream economics and the Chicago school. The new orthodoxy became the theory of marginal utility. Writing simultaneously and independently, a Frenchman Leon Walras , an Austrian Carl Menger , and an Englishman William Stanley Jevons wrote that instead of the value of goods or services reflecting the labor that produced them, value reflects the usefulness utility of the last purchase before the "margin" at which people find things useful no longer. In a competitive economy, said the marginalists, people get what they had paid, or worked, for. Consumers act rationally by seeking to maximize satisfaction of all their preferences. People allocate their spending so that the last unit of a commodity bought creates no more than a last unit bought of something else. William Stanley Jevons was his English counterpart. He emphasized in the Theory of Political Economy that at the margin, the satisfaction of goods and services decreases. An example of the theory of diminishing returns is that for every orange one eats, the less pleasure one gets from the last orange until one stops eating. Then Leon Walras , again working independently, generalized marginal theory across the economy in Elements of Pure Economics This stimulates producers to shift production, increasing mushrooming investment, which would increase market supply leading to a new lower mushroom price and a new price equilibrium between the products. Alfred Marshall Alfred Marshall was the first Professor of Economics at the University of Cambridge and his work, Principles of Economics , coincided with the transition of the subject from "political economy" to his favored term, "economics. Over the long run, argued Marshall, the costs of production and the price of goods and services tend towards the lowest point consistent with continued production. Francis Ysidro Edgeworth Main article: Francis Ysidro Edgeworth Francis Ysidro Edgeworth â€" was an Irish polymath , a highly influential figure in the development of neo-classical economics, who contributed to the development of statistical theory. He was the first to apply certain formal mathematical techniques to individual decision making in economics. Edgeworth developed utility theory, introducing the indifference curve and the famous "Edgeworth box," which have become standards in economic theory. His "Edgeworth conjecture" states that the core of an economy shrinks to the set of competitive equilibria as the number of agents in the economy gets large. The high degree of originality demonstrated in his most work was matched only by the difficulty in reading his writings. It was Edgeworth who greatly contributed toward the establishment of the Marshallian Neoclassical hegemony and the decline of any alternative approach. John Bates Clark Main article: Having studied in Germany , his ideas were different from those of the classical school and also the Institutional economics of Thorstein Veblen. Together with Richard T. Clark sought to discover economic relationships, such as the relationship between distribution of income and production, which he argued would occur naturally in a market based on perfect competition. He believed that his "marginal productivity theory of income distribution" scientifically proved that market systems could generate a just distribution of income. He took marginal productivity theory further than others, and applied it to the business firm and the maximization of profits. He also argued that people were motivated not only by self-centered desire, but also considered the interests of society as a whole in their economic decision making. It is this utility that determines the value of a commodity: If we were here undertaking to present at length the theory of value, we should lay great stress on the fact that value is a social phenomenon. Things sell, indeed, according to their final utilities; but it is their final utilities to society Clark Collapse Alfred Marshall was still working on his last revisions of his Principles of Economics at the outbreak of the First World War They carried Marxist theory as their savior, and promised a broken country "peace, bread, and land" by collectivizing the means of production. Also in , the United States of America entered the war on the side of France and Britain, President Woodrow Wilson carrying the slogan of "making the world safe for democracy. Europe lay in ruins, financially, physically, psychologically, and its future with the arrangements of the Versailles conference in He was particularly opposed to the approach taken by classical and neoclassical economists that the economy would naturally come to a desirable equilibrium in the long run. Keynes argued in A Tract on Monetary Reform that a variety of factors determined economic activity, and that it was not enough to wait for the long run market equilibrium to restore itself. As Keynes famously remarked: In the long run we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the ocean is flat again Keynes The depression had been sparked by the Wall Street Crash of , leading to massive rises in unemployment in the United States, leading to debts being recalled from European borrowers, and an economic domino effect across the world. Orthodox economics called for a tightening of spending, until business confidence and profit levels could be restored. From this point, Keynesian economics began its ascension and the neoclassical approach faltered. Overview and assumptions The framework of neoclassical economics can be summarized as follows. Individuals make choices at the margin, where the marginal utility of a good or of a service is the utility of the specific use to which an agent would put a given increase in that good or service, or of the specific use that would be abandoned in response to a given decrease. This results in a theory of demand for goods, and supply of productive factors. Buyers attempt to maximize their gains from purchasing goods, and they do this by increasing their purchases of a good until what they gain from an extra unit is just balanced by what they have to give up to obtain it. In this way they maximize "utility"â€"the satisfaction associated with the consumption of goods and services. Individuals provide labor to firms that wish to employ them, by balancing the gains from offering the marginal unit of their services the wage they would receive with the disutility of labor itselfâ€"the loss of leisure. Similarly, producers attempt to produce units of a good so that the cost of producing the incremental or marginal unit is just balanced by the revenue it generates. In this way they maximize profits. Firms also hire employees up to the point that the cost of the additional hire is just balanced by the value of output that the additional employee would produce. Neoclassical economics conceptualizes the agents as rational actors. Agents were modeled as optimizers who were led to "better" outcomes. Neoclassical economists usually assume, in other words, that human beings make the choices that give them the best possible advantage, given the circumstances they face. Circumstances include the prices of resources, goods and services, limited income, limited technology for transforming resources into goods and services, and taxes, regulations, and similar objective limitations on the choices they may make Weintraub The resulting equilibrium was "best" in the sense that any other allocation of goods and services would leave someone worse off. Thus, the social system in the neoclassical vision was free of unresolvable conflict. The very term "social system" is a measure of the success of neoclassical economics, for the idea of a system, with its interacting components, its variables and parameters and constraints, is the language of mid-nineteenth-century physics. This field of rational mechanics was the model for the neoclassical framework: We understand that the allocation of resources is a social problem in any modern economy. Any modern economic system must somehow answer the questions posed by the allocation of resources. If we are further to understand the way in which people respond to this social problem, we have to make some assumptions about human behavior. This should be understood as an instance of positive economics about what is not normative economics about what ought to be. This distinction, positive versus normative economics, is important in itself and is a key to understanding many aspects of economics Huberman and Hogg Agents, mentioned above, were like atoms ; utility was like energy; utility maximization was like the minimization of potential energy , and so forth. In this way was the rhetoric of successful science linked to the neoclassical theory, and in this way economics became linked to science itself. Whether this linkage was planned by the early Marginalists, or rather was a feature of the public success of science itself, is less important than the implications of that linkage. For once neoclassical economics was associated with scientific economics, to challenge the neoclassical approach was to seem to challenge science and progress and modernity. These developments were accompanied by the introduction of new tools, such as indifference curves and the theory of ordinal utility which increased the level of mathematical sophistication of neoclassical economics. Value is linked to unlimited desires and wants colliding with constraints, or scarcity. The tensions, the decision problems, are worked out in markets. Prices are the signals that tell households and firms whether their conflicting desires can be reconciled. At some price of cars, for example, a person wants to buy a new car. At that same price others may also want to buy cars. However, manufacturers may not want to produce as many cars as the buyers want. As the price changes, the imbalance between buy orders and sell orders is reduced. This is how optimization under constraint and market interdependence lead to an economic equilibrium. This is the neoclassical vision Samuelson To summarize, neoclassical economics is what is called a "metatheory. It is a scientific research program that generates economic theories.

Chapter 2 : List of Top 5 Pre-Classical Economists

Neoclassical economics is an approach to economics that relates supply and demand to an individual's rationality and his ability to maximize utility or profit. Neoclassical economics also uses.

Yet noneconomists may not realize that the disagreements are mostly over the detailsâ€"the way in which the big picture is to be focused on the small screen. When it comes to broad economic theory, most economists agree. By the middle of the nineteenth century, English-speaking economists generally shared a perspective on value theory and distribution theory. The value of a bushel of corn, for example, was thought to depend on the costs involved in producing that bushel. The output or product of an economy was thought to be divided or distributed among the different social groups in accord with the costs borne by those groups in producing the output. But there were difficulties in this approach. Chief among them was that prices in the market did not necessarily reflect the "value" so defined, for people were often willing to pay more than an object was "worth. Several economists in different places at about the same time the s and s began to base value on the relationship between costs of production and "subjective elements," later called "supply" and "demand. The first to use the term "neoclassical economics" seems to have been the American economist Thorstein Veblen. The framework of neoclassical economics is easily summarized. Buyers attempt to maximize their gains from getting goods, and they do this by increasing their purchases of a good until what they gain from an extra unit is just balanced by what they have to give up to obtain it. In this way they maximize "utility"â€"the satisfaction associated with the consumption of goods and services. Likewise, individuals provide labor to firms that wish to employ them, by balancing the gains from offering the marginal unit of their services the wage they would receive with the disutility of labor itselfâ€"the loss of leisure. Individuals make choices at the margin. This results in a theory of demand for goods, and supply of productive factors. Similarly, producers attempt to produce units of a good so that the cost of producing the incremental or marginal unit is just balanced by the revenue it generates. In this way they maximize profits. Firms also hire employees up to the point that the cost of the additional hire is just balanced by the value of output that the additional employee would produce. The neoclassical vision thus involves economic "agents," be they households or firms, optimizing doing as well as they can , subject to all relevant constraints. Value is linked to unlimited desires and wants colliding with constraints, or scarcity. The tensions, the decision problems, are worked out in markets. Prices are the signals that tell households and firms whether their conflicting desires can be reconciled. At some price of cars, for example, I want to buy a new car. At that same price others may also want to buy cars. But manufacturers may not want to produce as many cars as we all want. Our frustration may lead us to "bid up" the price of cars, eliminating some potential buyers and encouraging some marginal producers. As the price changes, the imbalance between buy orders and sell orders is reduced. This is how optimization under constraint and market interdependence lead to an economic equilibrium. This is the neoclassical vision. Neoclassical economics is what is called a metatheory. That is, it is a set of implicit rules or understandings for constructing satisfactory economic theories. It is a scientific research program that generates economic theories. Its fundamental assumptions are not open to discussion in that they define the shared understandings of those who call themselves neoclassical economists, or economists without any adjective. Those fundamental assumptions include the following: People have rational preferences among outcomes. Individuals maximize utility and firms maximize profits. People act independently on the basis of full and relevant information. Theories based on, or guided by, these assumptions are neoclassical theories. Thus, we can speak of a neoclassical theory of profits, or employment, or growth, or money. We can create neoclassical production relationships between inputs and outputs, or neoclassical theories of marriage and divorce and the spacing of births. Consider layoffs, for example. A theory that explains the layoff decision by the changing tastes of managers for employees with particular characteristics will not be a neoclassical theory. What can be contrasted to neoclassical economics? Some have argued that there are several schools of thought in present-day economics. They identify neo- Marxian economics , neo- Austrian economics , post-Keynesian economics , or neo- institutional economics as alternative metatheoretical frameworks for constructing economic theories. To be sure, societies and journals promulgate the ideas associated with these perspectives. Some of these schools have had insights that neoclassical economists have learned from; the Austrian insights on entrepreneurship are one example. But to the extent these schools reject the core building blocks of neoclassical economicsâ€"as Austrians reject optimization, for exampleâ€"they are regarded by mainstream neoclassical economists as defenders of lost causes or as kooks, misguided critics, and antiscientific oddballs. The status of non-neoclassical economists in the economics departments in English-speaking universities is similar to that of flat-earthers in geography departments: One specific attempt to discredit neoclassical economics developed from British economist Joan Robinson and her colleagues and students at Cambridge in the late fifties and early sixties. However, this controversy really was rooted in a clash of visions about what would constitute an "acceptable" theory of the distribution of income. What became the post-Keynesian position was that the distribution of income was "best" explained by power differences among workers and capitalists, while the neoclassical explanation was developed from a market theory of factor prices. Eventually the controversy was not so much settled as laid aside, as neoclassical economics became mainstream economics. How did such an orthodoxy come to prevail? In brief, the success of neoclassical economics is connected to the "scientificization" or "mathematization" of economics in the twentieth century. It is important to recognize that a number of the early Marginalists, economists like William Stanley Jevons and F. The times were optimistic about a future linked to the successes of technology. Progress would be assured in a society that used the best scientific knowledge. Social goals would be attainable if scientific principles could organize social agendas. Scientific socialism and scientific management were phrases that flowed easily from the pens of social theorists. Neoclassical economics conceptualized the agents, households and firms, as rational actors. Agents were modeled as optimizers who were led to "better" outcomes. The resulting equilibrium was "best" in the sense that any other allocation of goods and services would leave someone worse off. Thus, the social system in the neoclassical vision was free of unresolvable conflict. The very term "social system" is a measure of the success of neoclassical economics, for the idea of a system, with its interacting components, its variables and parameters and constraints, is the language of mid-nineteenth-century physics. This field of rational mechanics was the model for the neoclassical framework. Agents were like atoms; utility was like energy; utility maximization was like the minimization of potential energy, and so forth. In this way was the rhetoric of successful science linked to the neoclassical theory, and in this way economics became linked to science itself. Whether this linkage was planned by the early Marginalists , or rather was a feature of the public success of science itself, is less important than the implications of that linkage. For once neoclassical economics was associated with scientific economics, to challenge the neoclassical approach was to seem to challenge science and progress and modernity. The value of neoclassical economics can be assessed in the collection of truths to which we are led by its light. The kinds of truths about incentivesâ€"about prices and information, about the interrelatedness of decisions and the unintended consequences of choicesâ€"are all well developed in neoclassical theories, as is a self-consciousness about the use of evidence. In planning for future electricity needs in my state, for example, the Public Utilities Commission develops a neoclassical demand forecast, joins it to a neoclassical cost analysis of generation facilities of various sizes and types e. Those on all sides of the issues, from industry to municipalities, from electric companies to environmental groups, all speak the same language of demand elasticities and cost minimization, of marginal costs and rates of return. The rules of theory development and assessment are clear in neoclassical economics, and that clarity is taken to be beneficial to the community of economists. The scientificness of neoclassical economics, on this view, is not its weakness but its strength. About the Author E. Further Reading Becker, Gary. The Economic Approach to Human Behavior. More Heat Than Light.

Chapter 3 : History of pre-classical economic thought - encyclopedia article - Citizendium

In economic theory, the pre-classical period of economic thought begins in early antiquity and runs through the 18th century Enlightenment, ending before Adam Smith.

In antiquity various philosophers studied topics in economics. Aristotle was the most important. Aristotle Aristotle created some important economic concepts in his books Politics [2] and Nicomachean Ethics [3] , both written around B. Aristotle analysed the economic processes around him and was able to define the place of economy within a society that included commercial buying and selling. His economic thought especially his value theory is inspiring but sometimes contradictory and inconsistent. In Book I of the Politics, Aristotle distinguishes between use value and exchange value, defines value as the ability to satisfy wants and demand as being governed by the desirability of a good i. According to Aristotle, exchange value is derived from use value as communicated through market demand. For Aristotle , the economic dimension is the individual human action of using wealth. According to Aristotle, human nature has a dual material and spiritual character. For him economics is an expression of that dual character and the economic sphere is the intersection between the corporeal and mental aspects of men. Aristotle classifies economics as a practical science, as opposed to speculative sciences, such as mathematics and metaphysics. For Aristotle economics is concerned with both the household and the polis, relating to the use of things required for the good or "virtuous" life. Economics is aimed at the good and is fundamentally moral. For him Economics was embedded in politics, so it can be said that the study of political economy began with Aristotle. Theory of Value In the Politics [2] , Aristotle views labor as a "commodity" that has value but does not give value. He did not see labor as a source of wealth. Aristotle formulated a "theory of the value of labor". Value is the ability to satisfy wants. Demand is governed by the desirability of a good i. In Book I of the Politics, Aristotle distinguishes between "use value" and "exchange value". It was Aristotle who created the concept of "value in use". In addition, Aristotle distinguished between final goods and factors of production. Aristotle anticipated the role of diminishing marginal utility in price formation. According to Aristotle, the quantity of a good reaches its saturation point when the use value plunges and becomes immaterial. The Problem of Commensurability Aristotle discovered, formulated, and analyzed the problem of commensurability. He wondered how ratios for the exchange of heterogeneous things could be set. Aristotle says that money, as a common measure of everything, makes things commensurable and makes it possible to equalize them. For Aristotle, money is a medium of exchange that makes exchange easier by translating subjective qualitative phenomena into objective quantitative phenomena. The lending of money at interest is condemned as the most unnatural mode of acquisition. Aristotle insisted that money was barren. BC was a soldier and philosopher from Athens who wrote a book called Economics, in which the cynic Kritoboulos and the sympathetic Isomachos engage in a philosophical exchange mediated by the figure of Socrates. In Greek, the work "oikonomikon" signifies "household management". Ibn Khaldun Ibn Khaldun [7] was a Muslim historian born in North Africa in present-day Tunisia whose ideas, though not rediscovered until the 19th century, preshadowed modern ideas in historiography, sociology and economics. His best known book is " Muqaddimah "Prolegomenon " [8] Khaldun was the first to understand the important interaction of forces between society and the economy. Ibn Khaldun was the first to systematically analyze the functioning of an economy, the importance of technology, specialization and foreign trade in economic surplus and the role of government and its stabilization policies to increase output and employment. For Ibn Khaldun, the role of the State is to establish law and order conducive for economic activities. The enforcement of property rights, the protection of trade routes and the security of peace are necessary for a civilized society to engage in trade and production. For him "over-taxation" would occur when the demands bureaucracy and mercenary armies would expand beyond "normal" economic surplus. For Ibn Khaldun, it is clear that "the profit human beings make is the value realized from their labor," but this value, the price of labor, is determined by the law of supply and demand. Khaldun recognized the advantages of specialization. For him, specialization meant the coordination of different functions of factors of production where, "what is obtained through the cooperation of a group, of human beings satisfies the need of a number many times greater than themselves. Thomas Aquinas and the School of Salamanca [12] - which was initiated by Francisco de Vitoria around and counted Navarrus and de Soto as its most prominent theoreticians; its influence lasted until circa , and the Franciscans approximately Thomas Aquinas [13] , that set down the dogma of the Catholic Church in light of the resurrection of the Greek philosophy. In economics there were four themes the Scholastics were particularly concerned with: Private property and Christian teachings have been always at odds. In the 5th century, the early Church fathers the "Patricians", e. Augustine had struck down "communistic" Christian movements and the Church itself went on to accumulate enormous amounts of property. In the 12th century, St. Francis of Assisi began a movement the "Franciscans" , which insisted on vows of poverty, "brotherhood" and deplored the accumulative tendencies of the Church. Against the Franciscans were arrayed St. Thomas and the Dominicans, who dug out of Aristotle and the Bible the necessary arguments to put down their challenge. The Thomists took a practical stance. Another question that arose was that of entrepreneurship. Should a merchant be allowed to profit from differentials in prices? The Scholastics replied with a qualified yes, provided the merchant is not motivated by pure gain and profit be only just enough to cover the "sacrifices" of the merchant. They argued that the trader is performing a valuable service and increasing general welfare by meeting different needs. The charging of interest on money lent usury , came quickly under scrutiny. There is no clear basis for a ban on usury in Christian scriptures. To early Church fathers, like St. Jerome, the Christian notion that "all men are brothers" necessarily implied that usury must be banned outright. Ambrose, decided that lending with interest to enemies in the course of a just war was permissible. Clerics had been prohibited from lending at interest at least since the 4th century. This ban was extended to laymen much later. In , the Second Lateran Council denied all sacraments to unrepentant usurers and, in an decree, condemned any payment greater than the capital that was lent. Jews and Moors "strangers" in Christian lands were initially exempt, but the Fourth Lateran Council issued an admonition prohibiting non-Christians from charging "excessive usury". In , Pope Clement V at the Council of Vienna prohibited usury outright and condemned as "heretical" any secular legislation that tolerated it. The issue of "justice in exchange" was a more complicated issue. Even if we hang the intrinsic value of a good on its "usefulness", how does one estimate what the "just price" justum pretium should be?. Following the Golden Rule "Do unto others as you would have them do unto you" , the Scholastics decided that a person should not charge more for a good than what he would be willing to pay for it himself. The Salamanca School The University of Salamanca, founded , is one of the oldest universities in the world. It was a prominent Dominican bastion in the late Scholastic [14] period. Home of the Thomistic theology , it maintained its full strength even after the doctrines of St. Thomas Aquinas became under attack elsewhere in Europe, first under the Scotist and Nominalist onslaughts, and then from the Reformation. During the confusing economic times of the inflationary 16th century, there was reversal of centuries of Scholastic thinking on economic matters. It was the Salamanca school that defined the just price as no more and no less than the naturally exchange-established price. Theologians moved away from past dogma and approached their questions in the spirit of natural law philosophy. Their analysis led them to trace a scarcity theory of value and employed supply-and-demand with dexterity. They also provided a resounding defense of usury. The ideas of the Salamanca School were fierciely opposed by the Franciscans Scholastics. Influenced by Neoplatonic mysticism, Scotus was the progenitor of the " Nominalist " movement that unravelled Thomism in the 16th century. In the process, he created a "cost theory of value" and formulated some interesting arguments about the nature of pure and monopolistic competition. Nicole de Oresme, c. Oresme produced a succinct analysis of currency debasement. A late Nominalist, Biel is renowned for his defense of entrepreneurship and free contract. He undermined the concept of "just price" by noting that trade would actually not occur without advantages to the parties. The task of surveying Ireland and assessing its riches was given to a physician which had accompanied the British army, Sir William Petty. Thus, the first "econometrician" was born. Petty was disciple of Hobbes and a Mercantilist in his policies. On his works one can find rudiments of the "labor theory of value". His writings were influential upon Davenant and Locke. Adam Smith [18] coined the term "mercantile system" to describe it. Bullionism was an early and primitive form of mercantilism and is most closely associated with 16th- and 17th-century Spain, which was thought to owe its prosperity and military might to the gold and silver of its New World colonies. Colbertism was the mercantilism as idealized by the French statesman Jean-Baptiste Colbert , one of the most successful practitioners of mercantilism. He encouraged the growth of industry through subsidies and tariff protection, regulated the qualities and prices of manufactured and agricultural products, worked to break down trade barriers within France, initiated a vigorous road-building program, and restricted the use of natural resources. Mercantilism was adopted as an economic philosophy by merchants and statesmen during the 16th and 17th centuries. Nation-states without mines should obtain gold and silver by trade, selling more goods than they bought from abroad. For this purpose nation-states intervened extensively in the free market, imposing tariffs on foreign goods to restrict imports and granting subsidies to incentivate exports of domestic goods. The economic rationale for mercantilism during the sixteenth century was the consolidation of the regional power centers of the feudal era by large competitive nation-states. Contributing factors were the establishment of colonies outside Europe, the growth of European commerce and industry relative to agriculture, the increase in the volume and breadth of trade, and the increase in the use of metallic monetary systems, particularly gold and silver, as opposed to barter transactions.

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Pre-Classical Economist # 3. Richard Cantillon: Richard Cantillon's "An Essay on the Nature of Commerce in General" is the most systematic statement of economic principles, before the Wealth of Nations.

The divergence between the modernized classical views, on the one hand, and the historical and Marxist schools, on the other hand, is wider, so much so, indeed, as to bar out a consideration of the postulates of the latter under the same head of inquiry with the former. Neoclassical economics is characterized by several assumptions common to many schools of economic thought. There is not a complete agreement on what is meant by neoclassical economics, and the result is a wide range of neoclassical approaches to various problem areas and domainsâ€"ranging from neoclassical theories of labor to neoclassical theories of demographic changes. Three central assumptions[edit] It was expressed by E. Roy Weintraub that neoclassical economics rests on three assumptions, although certain branches of neoclassical theory may have different approaches: People act independently on the basis of full and relevant information. From these three assumptions, neoclassical economists have built a structure to understand the allocation of scarce resources among alternative endsâ€"in fact understanding such allocation is often considered the definition of economics to neoclassical theorists. Given, a certain population, with various needs and powers of production, in possession of certain lands and other sources of material: For example, profit maximization lies behind the neoclassical theory of the firm , while the derivation of demand curves leads to an understanding of consumer goods , and the supply curve allows an analysis of the factors of production. Utility maximization is the source for the neoclassical theory of consumption, the derivation of demand curves for consumer goods, and the derivation of labor supply curves and reservation demand. Their interactions determine equilibrium output and price. The market supply and demand for each factor of production is derived analogously to those for market final output to determine equilibrium income and the income distribution. Factor demand incorporates the marginal-productivity relationship of that factor in the output market. Regularities in economies are explained by methodological individualism , the position that economic phenomena can be explained by aggregating over the behavior of agents. The emphasis is on microeconomics. Institutions, which might be considered as prior to and conditioning individual behavior, are de-emphasized. Economic subjectivism accompanies these emphases. See also general equilibrium. This section does not cite any sources. Please help improve this section by adding citations to reliable sources. Unsourced material may be challenged and removed. August Learn how and when to remove this template message Classical economics , developed in the 18th and 19th centuries, included a value theory and distribution theory. The value of a product was thought to depend on the costs involved in producing that product. The explanation of costs in classical economics was simultaneously an explanation of distribution. A landlord received rent, workers received wages, and a capitalist tenant farmer received profits on their investment. This classic approach included the work of Adam Smith and David Ricardo. However, some economists gradually began emphasizing the perceived value of a good to the consumer. They proposed a theory that the value of a product was to be explained with differences in utility usefulness to the consumer. In England, economists tended to conceptualize utility in keeping with the utilitarianism of Jeremy Bentham and later of John Stuart Mill. The third step from political economy to economics was the introduction of marginalism and the proposition that economic actors made decisions based on margins. For example, a person decides to buy a second sandwich based on how full he or she is after the first one, a firm hires a new employee based on the expected increase in profits the employee will bring. This differs from the aggregate decision making of classical political economy in that it explains how vital goods such as water can be cheap, while luxuries can be expensive. The marginal revolution[edit] The change in economic theory from classical to neoclassical economics has been called the " marginal revolution ", although it has been argued that the process was slower than the term suggests. Historians of economics and economists have debated: Whether utility or marginalism was more essential to this revolution whether the noun or the adjective in the phrase "marginal utility" is more important Whether there was a revolutionary change of thought or merely a gradual development and change of emphasis from their predecessors Whether grouping these economists together disguises differences more important than their similarities. Menger did not embrace this hedonic conception, explained diminishing marginal utility in terms of subjective prioritization of possible uses, and emphasized disequilibrium and the discrete; further Menger had an objection to the use of mathematics in economics, while the other two modeled their theories after 19th century mechanics. Marshall thought classical economics attempted to explain prices by the cost of production. He asserted that earlier marginalists went too far in correcting this imbalance by overemphasizing utility and demand. Marshall thought that "We might as reasonably dispute whether it is the upper or the under blade of a pair of scissors that cuts a piece of paper, as whether value is governed by utility or cost of production". Marshall explained price by the intersection of supply and demand curves. The goods produced for sale on the market are taken as given data, e. Prices quickly adjust to clear markets. Industrial capacity is taken as given. The level of output, the level of employment, the inputs of raw materials, and prices fluctuate to equate marginal cost and marginal revenue , where profits are maximized. Economic rents exist in short period equilibrium for fixed factors, and the rate of profit is not equated across sectors. The stock of capital goods, such as factories and machines, is not taken as given. Profit-maximizing equilibria determine both industrial capacity and the level at which it is operated. Technology, population trends, habits and customs are not taken as given, but allowed to vary in very long period models. Marshall took supply and demand as stable functions and extended supply and demand explanations of prices to all runs. He argued supply was easier to vary in longer runs, and thus became a more important determinant of price in the very long run. Further developments[edit] An important change in neoclassical economics occurred around Joan Robinson and Edward H. Chamberlin , with the near simultaneous publication of their respective books, The Economics of Imperfect Competition and The Theory of Monopolistic Competition , introduced models of imperfect competition. Theories of market forms and industrial organization grew out of this work. They also emphasized certain tools, such as the marginal revenue curve. Anglo-American economists also responded to these problems by turning towards general equilibrium theory , developed on the European continent by Walras and Vilfredo Pareto. These developments were accompanied by the introduction of new tools, such as indifference curves and the theory of ordinal utility. The level of mathematical sophistication of neoclassical economics increased. The interwar period in American economics has been argued to have been pluralistic, with neoclassical economics and institutionalism competing for allegiance. Frank Knight , an early Chicago school economist attempted to combine both schools. But this increase in mathematics was accompanied by greater dominance of neoclassical economics in Anglo-American universities after World War II. Some [17] argue that outside political interventions, such as McCarthyism , and internal ideological bullying played an important role in this rise to dominance. The second, which was arguably not immediately influential, presented a model of temporary equilibrium. This was part of an abandonment of disaggregated long run models. This trend probably reached its culmination with the Arrowâ€"Debreu model of intertemporal equilibrium. Many of these developments were against the backdrop of improvements in both econometrics , that is the ability to measure prices and changes in goods and services, as well as their aggregate quantities, and in the creation of macroeconomics , or the study of whole economies. The attempt to combine neo-classical microeconomics and Keynesian macroeconomics would lead to the neoclassical synthesis [18] which has been the dominant paradigm of economic reasoning in English-speaking countries since the s. Hicks and Samuelson were for example instrumental in mainstreaming Keynesian economics. These developments are reflected in neoclassical theory by the search for the occurrence in markets of the equilibrium conditions of Pareto optimality and self-sustainability. Criticisms of neoclassical economics Neoclassical economics is sometimes criticized for having a normative bias. In this view, it does not focus on explaining actual economies, but instead on describing a theoretical world in which Pareto optimality applies. This disregard becomes hot denial by Neoclassical economists when limits are asserted, since to accept such limits creates fundamental contradictions with the foundational presumptions that growth in scale of the human economy forever is both possible and desirable. Many see the " economic man " as being quite different from real people. Many economists, even contemporaries, have criticized this model of economic man. Thorstein Veblen put it most sardonically. Neoclassical economics assumes a person to be, [A] lightning calculator of pleasures and pains, who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift about the area, but leave him intact. This was explored in a major debate in the sâ€"the " Cambridge capital controversy "â€"about the validity of neoclassical economics, with an emphasis on economic growth , capital , aggregate theory, and the marginal productivity theory of distribution. There were also internal attempts by neoclassical economists to extend the Arrow-Debreu model to disequilibrium investigations of stability and uniqueness. However a result known as the Sonnenscheinâ€"Mantelâ€"Debreu theorem suggests that the assumptions that must be made to ensure that equilibrium is stable and unique are quite restrictive. Neoclassical economics is also often seen as relying too heavily on complex mathematical models, such as those used in general equilibrium theory, without enough regard to whether these actually describe the real economy. Many see an attempt to model a system as complex as a modern economy by a mathematical model as unrealistic and doomed to failure. Some [24] see mathematical models used in contemporary research in mainstream economics as having transcended neoclassical economics, while others [25] disagree. Critics of neoclassical economics are divided into those who think that highly mathematical method is inherently wrong and those who think that mathematical method is potentially good even if contemporary methods have problems. It is fair to say that many but not all of these criticisms can only be directed towards a subset of the neoclassical models for example, there are many neoclassical models where unregulated markets fail to achieve Pareto-optimality and there has recently been an increased interest in modeling non-rational decision making.

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Neoclassical economics refers to a general approach in economics focusing on the determination of prices, outputs, and income distributions in markets through supply and demand.

Arnsperger and Varoufakis argue that three axioms constitute the paradigmatic core of neoclassical economics: Terminology, analysis and conception of the economy According to neoclassical economics, the central economic problem is the limited nature of social resources. Due to this scarcity, economics as science should study the organization of an economy in order to establish welfare by the optimal allocation of resources. Simply put, the economy can be understood as an exchange economy in which rational actors with exogenously determined resource allocations interact in markets. Those actors trade with each other since the interaction generates mutual utility. Productivity is seen as the source for the functioning of the economy and the determinant of the wealth of a nation. In the neoclassical conception of the economy, individuals can choose between different alternatives and the aim of their decisions is to maximize their own utility. In order to reach an optimal outcome, economic subjects base their decisions on a comparison of costs and benefits whereby marginal units â€” pursuant to the postulates of marginalism â€” serve as important factors. In this context, the abstract concept of the homo economicus is often used. It represents an ideal individual who acts rationally, i. By aggregating all the individual utility functions, aggregate demand can be derived. On the market, the latter meets aggregate supply. By means of the price mechanism, which itself is not further modelled, supply and demand converge towards an equilibrium where supply equals demand and where the market is cleared. This property makes the price mechanism an optimal instrument of allocation. Elaborating on the prerequisites of such a price mechanism, in his definition of neoclassical economics, Arne Heise , 3 highlights the axiom of gross substitution according to which all goods and services are generally mutually exchangeable. Only by means of this axiom can it be assured that the price mechanism works as an instrument of allocation and that the market equilibria can exist. As long as there is no market failure â€” e. This is called a Pareto-efficient state, since no party can improve its own situation without worsening the one of others. While microeconomics mainly analyses the behaviour of households and firms on different markets and types of markets, macroeconomics focuses on economic aggregates such as the gross domestic product, the unemployment rate or the inflation rate as well as on the interaction of markets in particular the commodity market, the labour market and the money market. Macroeconomic analyses of key economic aggregates are increasingly based on microeconomic foundations. The argument underlying the need for such microfoundations is that the rules for individual decision making do not remain stable, for example, in the case of a policy-induced change of the economic conditions cf. The particular form of modelling of neoclassical economics offers the statistical and mathematical tools for the testing of mathematical models and economic phenomena. The approach focuses on the development of quantitative methods for empirical data analysis. Ontology As already mentioned above, there is no single definition of neoclassical economics since it became increasingly diverse and since other approaches were integrated into the perspective. Nevertheless, according to neoclassical understanding, the central economic problem remains the scarcity of resources. According to Arnsperger and Varoufakis , there are three axioms which can be found in all neoclassical models and sub-schools and therefore constitute the paradigmatic core of neoclassical economics: The first axiom, methodological individualism, implies that processes at the macro level can only be ascribed to the actions of individuals at the micro level. Therefore, all economic phenomena can be described and explained by referring to individual actions. Furthermore this implies that only the individual can be the source of moral values: Hence the influence or the setting of values by external institutions such as religion is rejected. This description can on the one hand be interpreted as an ontological fixation on individuals which means that the existence of economic phenomena and structures that cannot be ascribed to the individual emergence is rejected. On the other hand, the axiom can be understood methodologically. In this case, the explanation of social phenomena can only take place with reference to the individual Hodgson et al. The behaviour of actors, according to the second axiom, is a result of fixed preferences or preference bundles. The satisfaction of those preferences generates utility. Individuals continuously strive for the maximization of this utility but are restricted e. The emphasis on individualism and instrumental rationality leads to the following conception of humans: While the maximization logic is taken as a universal feature of all human beings, the content of those preferences is variable. Accordingly, individuals may not only strive for the maximization of consumption bundles but also for the achievement of social or ethical preferences e. Akerlof and Kranton All in all, decisions and actions at the micro level lead to an overall equilibrium at the macro level. The market itself normally tends towards a state of equilibrium, which is why it is considered to be generally stable. However, this does not mean that the market permanently remains in equilibrium, but that it moves towards a static, stable state in the long run. Nevertheless, it can be concluded from this understanding of the market that neoclassical economics generally assumes that there are general economic laws which exist independently from time and space. The conception of time aims at identifying, comparing and assessing static states rather than at understanding and reconstructing sequences of dynamic processes. Mark Blaug , goes even further by arguing that due to the formalistic revolution in the s, the in-part process-oriented analyses of comparative statics were replaced by the definition of an entirely static endpoint. A further ontological premise of neoclassical economics can be characterized with regards to closed and open systems. A closed system is defined by the connection of all atomistic and independent elements of a system, as well as by the absence of any external impacts. Furthermore, the elements follow deterministic and probabilistic laws Lawson , ; Heise , In an open system, however, neither all elements are connected with all the other elements nor is it possible to clearly describe their interactions. Moreover, the system can take on different configurations, i. In contrast to many other perspectives, neoclassical economics assumes that the economy is a closed system. Critics therefore accused neoclassical economics of having an ontological understanding that fails to describe reality adequately or that does so only in a reductionist way e. Chick and Dow ; Lawson ; Heise Epistemology Neoclassical economics cannot be unambiguously assigned to realism or to instrumentalism. This claim implies that there exists an observable external world as well as appropriate instruments for its analysis. Also, the postulate that neoclassical research is value-free cf. Friedman and the conception that scientists are neutral observers indicate a proximity to epistemological realism. Since neoclassical economics always judges findings of other schools of thoughts by its own standards, a scientific monism results in which alternative ways of understanding are excluded ex ante or are considered outdated. On the other hand, the use of models which are based on highly idealized and abstracted axioms are justified with the argument that the decisive factor is not the realism of axioms but the predictive power of a model and consequently the empirical adequacy of a drawn conclusion cf. Thus, neoclassical economics can be considered to be instrumentalist. The characteristics of the object are less important for neoclassical model and theory building than the method which is predetermined by the perspective. The mathematical formal method of neoclassical economics relies on the premise that the interdependencies and causalities of the economic reality can be modelled by means of mathematical descriptions. It is based on the assumption that economic phenomena and actors react and interact according to observable regularities. Furthermore, it is assumed that actors act atomistically, i. The operation of models consists of two steps: Then, the model is measured against the empirical reality. Note however that within the past few years, a pragmatic view on models became popular, in which empirical adequacy is the most important criterion rather than dogmatic coherence and mathematical aesthetic. Methodology As explained in the preceding section, neoclassical economics builds mathematical formal models in order to describe economic relations. The latter are assumed to follow regularities which can be formalized in models. Often, the use of mathematical explanation is considered a strength when compared with other social sciences, since the findings of formalistic models seem to be more trustworthy than verbal analyses. Proponents argue that in contrast to verbal arguments, mathematical formulations are unambiguously defined and, in contrast to classical economics, cannot be interpreted arbitrarily Rodrik , Neoclassical economics mainly works in the deductive research tradition. Based on axioms, hypotheses are derived from theoretical considerations. This does, however, not mean that hypotheses are not revised and linked to empirical findings. For instance, econometrics aims at further developing and improving models in order to ensure empirical adequacy. A central concept of economic analyses is the mathematical formulation and solution of optimization problems under constraints by means of static and dynamic optimization methods, such as the approaches developed by Lagrange, Kuhn and Tucker, or Hamilton. Classically, with these methods, the utility maximization of individuals, which is subject to constraints, can be modelled. Also, environmental economists use this approach in order, for example, to calculate the optimal taxation of greenhouse gas emissions. Thereby, economic growth is described as the target function and emission limits as the constraint cf. For instance, instead of taking economic development as an endogenous process in historical time, the causal relations of dependent variables are analysed by holding other factors constant. Even while some research does focus on dynamic modelling e. Ideology and political goals According to the neoclassical perspective, ethical questions are not an object of fundamental economic analyses but only come into play when explicitly normative issues are considered. For Quaas and Quaas , the increase of wealth is the primary goal of mainstream economics. This self-conception explains the neoclassical macroeconomic focus on economic growth as the target variable. In this context, the categories, terms and relations as well as the heuristics are presented as value-free. Most neoclassical economists differentiate between facts and norms, where the latter are only an issue in explicitly normative fields of neoclassical economics such as welfare economics or economic policy, which provide guidance and analysis for binding, normative decisions. Following this understanding, an author of one of the leading economic textbooks argues as follows: This conception of positive economics often identifies itself with the â€" misinterpreted and simplified â€" claim of Max Weber to ban value judgements from scientific analyses. However, the assumptions of neoclassical economics do have a normative basis which results from the definition of its fundamental problem: Neoclassical economics assumes that humans have the goal to maximize their utility and that this maximization can be modelled. Since only individuals know their own preferences, the market is considered to be the best instrument to satisfy them. State intervention is only considered to be economically reasonable in case of a market failure, while the perfect market is taken as the normal case and perfect competition as ideal state. Ideologically, neoclassical economics only discusses negative freedom, i. Negative freedom is argued to be best realized in a market system. These categorizations and terms imply a certain faith in markets which is why neoclassical economists are often associated with a market liberal worldview. This is illustrated by the approach of environmental economics: A further criticism points out that neoclassical economics is biased towards specific normative aims in its questions and analyses: Current debates and analyses Generally speaking, the dynamic, New Keynesian DSGE models can be considered the current standard of macroeconomic analyses of economic growth and business cycles cf.

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By the middle of the nineteenth century, English-speaking economists generally shared a perspective on value theory and distribution theory. The value of a bushel of corn, for example, was thought to depend on the costs involved in producing that bushel.

List of top five pre-classical economists: Sir David Hume 5. Petty was born in Hampshire on December 16, Petty is aptly regarded as the founder of political economy and statistical method. He is remembered for his contributions in the field of economic theory. He had a quantitative bent of mind and was the first to develop a fact-finding approach in economic enquiry. As a statistician, Petty confined himself only to the employment of quantitative data and used simple averages as the statistical technique. What distinguishes Petty in the field of economics is not his statistical method but the economic concepts which he derived from his statistical investigations. His economic ideas are the result of his brooding over the actual problems of his time and country. Petty believed that land and labour were the two original factors of production capable of generating value. The question that strained his mind was to determine the money value of the surplus product, which Petty called rent. Natural and true rent is the surplus of corn over what is used by the cultivator to meet his cultivation expenses as well as his subsistence needs. Thus, rent is simply the difference between the total production of land and the cost of producing it. What is the money value of rent? If a man produces a net surplus of silver equal to one ounce during the same period, then the price of a bushel is an ounce of silver. In his analysis of value, Petty ignored the use-value and set aside the differences of various lands. Petty also attempted to link rent with interest. Natural interest net of risk premium will be equal to the rent of so much land as the money lent will buy. Petty was also the first to pen down a systematic treatise on public finance. In fact his all other economic ideas are interconnected with his ideas of public finance. Petty singled out six heads of public expenditure defending the country, maintaining the rulers, ensuring justice, supporting educational institutions, helping the orphanages and their dependents, and maintaining the public works like roads, streams, bridges etc. On the revenue side, Petty regarded the tax on rent as the most suitable source of public revenue. In a new country, such a tax is the best one. In this case, land tax will be immediately capitalized because the new buyers of land will certainly take the tax into their consideration. As a result of this, land price will fall. In old countries, the land tax will affect different classes of people differently. In case of short period lease, the land tax will compel the landlords to step up the rent and the tenants to raise the price of corn. Thus, the ultimate burden of tax will fall on the consumers. In case of a long-term lease, the landlords will not be able to pass the land tax on the tenants. On the other hand, the tenants will sell the corn at the same higher price at which the short term tenants are selling. The net effect will be that the long-term tenants will be better off after the imposition of land tax. The consumers are always the losers. Whether the lease is for short period or for long period, the burden of land tax will fall ultimately on the consumers through higher prices. Petty was of the view that taxes should be proportional and equitable. He justified such a tax on the ground that it will not affect the relative economic position of different tax payers and all of them will suffer the burden of tax proportionately. The revenue collected through taxes must be spent in such a way that it promotes industry and trade of the country. Petty referred to a normative subsistence theory of wages which stated that wages should not be more than subsistence. If they are more than subsistence, the workers will prefer leisure to work. Thus, Petty hinted at the backward sloping supply curve of labour. Petty also realised the importance of national income in economic analysis. By making it clear that the national income is always equal to the national expenditure, he anticipated Keynes theory of income-expenditure equality symbolized in his famous equation: Orderliness of the outer structure and Consistency of the internal analysis are the two qualities which give the Treatise its status as a scientific work and rank Petty among the originators of scientific economics. John Law is better known as a man of practical affairs. But he made an important contribution to the theory of money and made a distinction between the use value and market value of a commodity. The latter depends upon the relative supply and demand position. He gives the well-known examples of water and diamonds to prove his point. Water has a high use value, but on account of its abundant supply, it has a very low market value; diamonds, on the other hand, have very low use value, but command a high market value on account of their scarcity. The same idea, as extended to money, implies that money also has no imaginary value. The value of money depends upon the uses to which it is put and the service which money renders to the society is similar to the service which any other commodity provides. John Law is remembered, more than anything else, for his suggestions for the issue of paper money so much prevalent in the modern times. The issue of paper money resulted in severe inflation which caused much ruin. Ultimately the only property that remained was land which came to be regarded most important as envisaged in the development of French Physiocratic thought. Also, he is generally regarded as the founder of a subjective theory of value, with special reference to the value of money. He definitely rejected the idea that money had an imaginary value. According to him, nothing had any value except for the use to which one puts it. The same was true of the money commodity even in relation to its monetary uses. The service which it rendered as money was no different from its other services or from the services of any other commodity. These views clearly make him a forerunner of Austrian School. The Essay begins with a definition of land as the source of wealth, labour as the power which produces it, and all material goods as its constituents. It goes on to discuss the economic structure, wages, value, population and money. The second part of the book is taken up mainly with problems of money, exchange, and interest; and the third part deals with foreign trade, the mechanism of the foreign exchanges, banking and credit. It is in the last two parts that Cantillon excels in original analysis and description. For it is here that he is able to combine his insight into economic principles with his own commercial experience and to write sentences which can take their place with any modern work on those subjects. He has none of these difficulties about the mechanism of foreign payments which had troubled Locke. This will at once redress the balance of trade. The analysis of the effects of an increase in the circulating medium is even better worked out than in Hume. Assuming an increased gold output from the mines, Cantillon is able to show how the benefits of the increased purchasing power that has become available are distributed. The owners, smelters, refiners and other workers will be the first to be able to increase their demand for food, clothes, and manufactured goods, the suppliers of these commodities will in their turn be able to increase their expenses. But the share of commodities that goes to other people in the state must of necessity be diminished, because they do not participate at first in the wealth of the mines. The path of rising prices and the ensuing changes in the distribution of wealth are then carefully traced and even international effects were not ignored. Altogether, this argument remains an excellent demonstration of an important aspect of monetary theory. Cantillon was also aware that the effects of an increase of the money commodity and those of paper money were only apparently the same. On the question of foreign exchanges, too, Cantillon was able to express clearly the principles which underlie economic practice. He showed the relation between merchandise trade, speculation and specie movements; and he showed also their interaction with exchange rates and price-level in the mechanism of international payments. Particularly lucid was the explanation of the causes which raise or lower the exchange from parity and the way in which such movements can be foreseen and discounted. His treatment of these is not always strikingly new. He owes more to his predecessors, and he gets less far ahead of them than he does in other matters. In particular, the analysis of value lacks some consistency; though it is perhaps for that very reason that Cantillon may be taken as one of the early representatives of the eclecticism which became a characteristic of English economic thought. His theory of value is in origin a labour theory but it is transformed into a cost of production theory and it also contains some admixture of a supply and demand theory. The first strand of thought is derived largely from Petty, the second from Locke. The meaning of the subsequent analysis amounts to this: But the proportion in which land and labour will determine the value of particular goods will vary. Besides making cost of production wages of labour plus cost of material determine value, Cantillon also distinguishes between the intrinsic value and the fluctuating price at which goods are sold in the market. A rich man who has spent much money on beautifying his estate will not necessarily get its intrinsic value when he comes to sell it. Nor will farmers get the expense of the land and labour which have entered into the production of corn if they have produced more than is necessary for consumption. The ensuing excess of supply over demand will depress the market price below the intrinsic value. Intrinsic values never alter. But because it is impossible always to apportion production among different commodities in perfect harmony with consumption, variations in market prices will occur. The supply and demand forces are again mentioned in connection with the problem of money. Like Law, her rejects the definition which gives money an imaginary value. It is true, he said, that common consent has given gold and silver value; but so it has to everything which cannot be regarded as an absolute necessity of life. The precious metals have a value which is determined in exactly the same way as that of any other commodity, namely, by the land and labour which enter into their production. Cantillon develops this point at some length. This inquiry into the Par, an expression taken from Petty, resolves itself into a discussion on ages which leads to results somewhat similar to those of Petty. The clue of the Par is to be found in the amount of subsistence required to produce a given amount of labour. From that, the amount of land which has to be allotted to this purpose can be deduced. And an equivalence between land and labour is thus established. Sir David Hume Sir David Hume, though primarily a philosopher, is also known as an economist.

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Chapter 8 : Neoclassical Economics | Exploring Economics

The teachings of the classical economists attracted much attention during the midth century. The labour theory of value, for example, was adopted by Karl Marx, who worked out all of its logical implications and combined it with the theory of surplus value, which was founded on the assumption that human labour alone creates all value and.

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