**Academic Year 2019/2020**

**Course Instructor Genet E.**

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**Course Name: History of Economic Thought II**

**Course Code: Econ3142**

* + - 1. **The Neoclassical School**
	1. The Neoclassical School- Pure competition: Alfred Marshall (Marshallian Economics, Marshall and the Cambridge school): Utility and Demand, Cost and Supply; Irving Fischer
	2. The Neoclassical School – Departure from pure Competition: Piero – Sraffa, Edward Hastings Chamberlin, Jean Robinson
	3. Sidge wick , Nicolson and the Cambridge school
	4. Wick sell and the Stockholm school
		+ 1. **Heterodox Economic Thought**
	5. Early Critics of Neoclassical Economics
		1. The Historical School
		2. The Old Institutional School
	6. The development of Modern Heterodox school
		1. The New Institutionalist School
		2. Quasi- Institutionalists: Joseph Schumpeter, Gunnar Myrdal, John Kenneth Galbraith
		3. Post-Keynesians
			1. **General Equilibrium and Welfare Economics**
	7. Walrasian General Equilibrium
	8. Approaches to welfare economics
		1. Early neoclassical approach to welfare economics
		2. New trends in welfare economics approach
	9. Pareto efficiency in welfare and pre conditions of Pareto efficient conditions
	10. Caldor and Hicks criterion of efficiency condition
	11. For runners of the school
		+ 1. **THE KEYNESIAN ECONOMICS**
	12. J.M Keynes
	13. The general theory of employment
	14. Interest and money
	15. The concept of the multiplier
	16. Theory of employment &price
	17. classical economics Vs Keynesian economics
	18. The policy implications of classical Vs the policy implications of Keynesians
	19. Keynesian economics and underdeveloped countries
		+ 1. **THE POST KEYNESIAN DEVELOPMENT IN ECONOMIC THOUGHT**
	20. Emergence of macro economics
	21. The emergence of econometrics as the sister discipline of economics
	22. Keynesians, neo-Walrasians, and monetarists
	23. Can capitalism survive? The radical view
		+ 1. **The Development of Modern Microeconomic Theory**
	24. The Movement Away from Marshallian Economics
	25. The Monopolist Competition Revolution
	26. Milton Friedman and the Chicago approach to Microeconomics
	27. Topics in Modern Microeconomics
		+ 1. **The Development of Modern Macroeconomic Thought**
	28. Historical Forerunners of Modern Macroeconomics: Quantity Theory of Money, BC Theory, Neoclassical Macroeconomics
	29. Keynesian System: The Keynesian Revolution,
	30. **Topics in Modern Macroeconomics**: Monetarists, Problems with IS-LM Analysis, The Micro foundations of Macroeconomics, The Rise of New Classical Economics, Keynesian Responses to the New Classicals
		+ 1. **The Development of Econometrics and Empirical Methods in Economics**

**Course Policy**

* Late coming is not allowed and no student is allowed to enter after class has started.
* Duplication of assignments is strictly forbidden; it entails serious penalty.
* Assignments are required to be submitted before or on the deadline.
* Cheating during exam sessions results in a minimum of “F “grade while cheating in quizzes and tests is subjected to a zero mark. All cheating cases will be reported to the department for further considerations.
* Students should switch off their cell phones while they are in class and must keep their cell phones switched off during all kinds of exam sessions.
* students must attend 80% of the class for the course. Failure to attend 80% of the class will not allow the student to sit for the final exam.
* Missing a quiz without convincing evidences will earn the students a grade of zero marks in that specific quiz

**Recommended Text Books**

Colander, David C. and Landreth, Harry (1994) History of Economic Thought, 3rd ed.

(Boston: Houghton Mifflin.)or (2002) 4th edition

Rima, Ingrid Hahne (1986) Development of Economic Analysis, 4th ed. (Irwin: Homewood, Illinois)

Blaug, Mark (1996) Economic Theory in Retrospect 5th edition (Cambridge University Press)

Roll, Eric (1973) A History of Economic Thought, 4th ed. (London: Faber and Faber, Ltd.)

Bhatia H L (1989) History of Economic Thought, Vikas Publishing House Pvt. Ltd

Spiegle, H.W. (1991) The Growth of Economic Thought, 3rd ed. Duke University Press, London.

Hajela, T.N. (1967) History of Economic Thought

**Assessment Methods**

Student evaluation in this course consist both formative and summative assessments including quizzes, test and final exam. Marks will be allocated according to the following grading schedule.

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| --- | --- |
| **Assessment method** | **Weight**  |
|  Assignment (Indiv/group) | 20% |
|  Quizzes/Tests**(Max of 10- 15 % each)** | 40% |
|  Final Exam | 40 %  |
|  **Total**  | 100% |

Marshall desired to improve the mathematical rigour of economics and transform it into a more scientific profession. In the 1870s he wrote a small number of tracts on international trade and the problems of protectionism. In 1879, many of these works were compiled into a work entitled The Theory of Foreign Trade: The Pure Theory of Domestic Values. In the same year (1879) he published The Economics of Industry with his wife Mary Paley.

Although Marshall took economics to a more mathematically rigorous level, he did not want mathematics to overshadow economics and thus make economics irrelevant to the layman. Accordingly, Marshall tailored the text of his books to laymen and put the mathematical content in the footnotes and appendices for the professionals. In a letter to A. L. Bowley, he laid out the following system:

(1) Use mathematics as shorthand language, rather than as an engine of inquiry.

(2) Keep to them till you have done.

(3) Translate into English.

(4) Then illustrate by examples that are important in real life

(5) Burn the mathematics.

(6) If you can't succeed in 4, burn 3. This I do often”.

Marshall had been Mary Paley's professor of political economy at Cambridge and the two were married in 1877, forcing Marshall to leave his position as a Fellow of St John's College, Cambridge to comply with celibacy rules at the university. He became the first principal at University College, Bristol, which was the institution that later became the University of Bristol, again lecturing on political economy and economics.

He perfected his Economics of Industry while at Bristol, and published it more widely in England as an economic curriculum; its simple form stood upon sophisticated theoretical foundations. Marshall achieved a measure of fame from this work, and upon the death of William Jevons in 1882, Marshall became the leading British economist of the scientific school of his time.

Marshall returned to Cambridge, via a brief period at Balliol College, Oxford during 1883–4, to take the seat as Professor of Political Economy in 1884 on the death of Henry Fawcett. At Cambridge he endeavoured to create a new tripos for economics, a goal which he would only achieve in 1903. Until that time, economics was taught under the Historical and Moral Sciences Triposes which failed to provide Marshall the kind of energetic and specialised students he desired.

Principles of Economics (1890)

Marshall began his economic work, the Principles of Economics, in 1881, and spent much of the next decade at work on the treatise. His plan for the work gradually extended to a two-volume compilation on the whole

of economic thought. The first volume was published in 1890 to worldwide acclaim, establishing him as one of the leading economists of his time. The second volume, which was to address foreign trade, money, trade fluctuations, taxation, and collectivism, was never published.

Principles of Economics established his worldwide reputation. It appeared in 8 editions, starting at 750 pages and growing to 870 pages. It decisively shaped the teaching of economics in English-speaking countries. Its main technical contribution was a masterful analysis of the issues of elasticity, consumer surplus, increasing and diminishing returns, short and long terms, and marginal utility. Many of the ideas were original with Marshall; others were improved versions of the ideas by W. S. Jevons and others.

In a broader sense Marshall hoped to reconcile the classical and modern theories of value. John Stuart Mill had examined the relationship between the value of commodities and their production costs, on the theory that value depends on the effort expended in manufacture. Jevons and the Marginal Utility theorists had elaborated a theory of value based on the idea of maximising utility, holding that value depends on demand.

externality for all the firms in the market place, outside the control of any of the firms.

The Marshallian industrial district:

A concept based on a pattern of organisation that was common in late nineteenth century Britain in which firms concentrating on the manufacture of certain products were geographically clustered. Comments made by Marshall in Book 4, Chapter 10 of Principles of Economics have been used by economists and economic geographers to discuss this phenomenon.

The two dominant characteristics of a Marshallian industrial district are high degrees of vertical and horizontal specialisation and a very heavy reliance on market mechanism for exchange. Firms tend to be small and to focus on a single function in the production chain. Firms located in industrial districts are highly competitive in the neoclassical sense, and in many cases there is little product differentiation.

The major advantages of Marshallian industrial districts arise from simple propinquity of firms, which allows easier recruitment of skilled labour and rapid exchanges of commercial and technical information through informal channels. They illustrate competitive capitalism at its most efficient, with transction costs reduced to a practical minimum, but they are feasible only when economies of scale are limited.

The works of Alfred Marshall:

 1879 – The Economics of Industry (with Mary Paley Marshall)  1879 – The Pure Theory of Foreign Trade: The Pure Theory of Domestic Values  1890 – Principles of Economics  1919 – Industry and Trade  1923 - Money, Credit and Commerce.

NEW CLASSICAL ECONOMICS:

New Classical Economics, is a school of thought in macroeconomics that builds its analysis entirely on a neoclassical framework. Specifically, it emphasizes the importance of rigorous foundations based on microeconomics, especially rational expectations.

New classical macroeconomics strives to provide neoclassical microeconomic foundations for macroeconomic analysis. This is in contrast with its rival new Keynesian school that uses microfoundations such as price stickiness and imperfect competition to generate macroeconomic models similar to earlier, Keynesian ones.

The New Classical school emerged in the 1970s as a response to the failure of Keynesian economics to explain stagflation.

New classical economics is based on Walrasian assumptions. All agents are assumed to maximize utility on the basis of rational expectations. At any one time, the economy is assumed to have a unique equilibrium at full employment or potential output achieved through price and wage adjustment.

New Classical and monetarist criticisms led by Robert Lucas, Jr. and Milton Friedman respectively forced the rethinking of Keynesian economics. In particular, Lucas made the Lucas critique that cast doubt on the Keynesian model. This strengthened the case for macro models to be based on microeconomics.

After the 1970s and the apparent failure of Keynesian economics, the New Classical school for a while became the dominant school in Macroeconomics.

The new classical perspective takes root in three diagnostic sources of fluctuations in growth: the productivity wedge, the capital wedge, and the labor wedge.

 A productivity/efficiency wedge is a simple measure of aggregate production efficiency. In relation to the Great Depression, a productivity wedge means the economy is less productive given the capital and labor resources available in the economy.  A capital wedge is a gap between the intertemporal marginal rate of substitution in consumption and the marginal product of capital. In this wedge, there’s a “deadweight” loss that affects capital accumulation and savings decisions acting as a distortionary capital (savings) tax.  A labor wedge is the ratio between the marginal rate of substitution of consumption for leisure and the marginal product of labor and acts as a distortionary labor tax, making hiring workers less profitable (i.e. labor market frictions).

New classical economics is based on Walrasian assumptions. All agents are assumed to maximize utility on the basis of rational expectations. At any one time, the economy is assumed to have a unique equilibrium at full employment or potential output achieved through price and wage adjustment. In other words, the market clears at all times.

New classical economics has also pioneered the use of representative agent models. Such models have received severe neoclassical criticism, pointing to the disjuncture between microeconomic behavior and macroeconomic results, as indicated by Alan Kirman.