

Lecture 43

Topic

6.5 Conclusion

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- This course discussed the major paradigms in the history of modern economic thought. By modern I refer to the economic thought which appeared during the post industrialization period.
- The course started giving the account of the development chronologically the classical economists appearing first. However, the intention of this course is not to provide a chronological account of the events.
- Economics in general is concerned with the question of resource allocation and how this is done through the institution called market. Economics also evaluates different allocations using a criteria called Pareto Efficiency.
- This paradigm, which is often projected as the only paradigm of economics, is referred to as the Marshallian-Walrasian (MW) paradigm.
- The essence of the MW paradigm is the efficiency of market solution (and non-efficiency of non-market solution). This result resonates itself in all the policy debates around us and even in the theoretical debate between the classical and Keynesian schools of thought.
- The main theorems of the MW paradigm, usually referred to as the fundamental theorems of welfare economics, are the result of a certain formulation and does not hold if we change the assumptions. Hence, it is important that we understand the welfare theorems critically { i.e. properly appreciate the scope and the limitations of the theorems.
- In this course we present both the critiques internal to the Neo-Classical paradigm and the critiques coming from the paradigms such as institutionalists, and marxists who don't accept the basic premise of the Neo-classical school of thought.

- This course starts with pre-classical thoughts such as Physiocrats and Mercantilists.
- Then the students are introduced to the thoughts of Adam Smith and David Ricardo whose work came as a strong criticism to the Mercantilist view which strongly opposed free trade. Both of them belong to the classical political economy school which highlights the importance of the productive capacity (and not the stock of treasure) of an economy in determining the wealth of nation.
- The next important thinker is Marx who provided the most consistent critique of the classical political economy proposed by Smith and Ricardo. However, from the methodological point of view Marx himself belongs to the classical political economy.
- We also touch upon Malthus whose theory links demography with economic development. His projection was pessimistic as he saw population growth restricting economic growth.
- Next we move to Neo-classical economics, the tradition which occupies the most part of any textbook these days.
- After the introduction of neo-classical tradition, we talk about three types of critique of neo-classical economics: internal critique, Marxian critique and institutional critique.
- By internal critique we mean the criticism from the economists who agree on the premise of self seeking individuals but critique the fundamental theorems on the grounds of asymmetric information.
- The Marxian and institutional analysis of economics on the other hand criticizes the basic premise of the Neo-classical economics which takes self seeking individual as the unit of analysis. Neo-classical economics takes a particular institutional set up which is common to the industrial societies and then analyzes individual decision making. Marxian economics calls this approach a narrow one and analyzes changes in societal structure based on class struggle.
- The next major section consists of the Keynes vs Classics debate in macroeconomics.
- The classical view in Macro did not see any reason for government intervention in an economy. They even reasoned that government intervention would be

detrimental for country's economic performance. The early classical economists did not use micro-foundation but their work seem to be a logical extension of the results derived in the Walrasian general equilibrium framework.

- This view of macroeconomics was the most accepted view until the great depression of 1930s when the economic systems of the West collapsed. In this backdrop, John Maynard Keynes came up with his theory which theorized the importance of government intervention.
- Keynes said that if an economy is left on its own, it can run into the problem of aggregate demand which was evident at the time of great depression.
- Only government can rescue a nation by spending more money to create the extra demand.
- Keynesian view was going strong in the post world war II world. Then from 1980s onwards the new-classical school started taking the centre stage.
- They criticized Keynesian view for its lack of micro foundation. The new classical view showed that if micro foundation and rational expectation are introduced then Keynesian policies will have no effect on the level of national income and inflation.
- In response to the New Classical movement came the New Keynesian theories. The New Keynesian theories showed that in presence of market imperfection policies matter. Hence, government should be proactive in rescuing a country in the time of economic crisis.
- Besides these major debates, this course also outline some major developments in microeconomics and econometrics in recent times. The developments in microeconomics consists of game theory, behavioral economics and experimental economics.
- Empirical economics on the other hand took a major turn from 1980s and started focusing more on the quality of research design to ensure exogeneity of the independent variables. We briefly discuss techniques such as difference in difference, regression discontinuity etc which are widely used in micro-econometrics these days.

- To conclude we can say that this course, besides tracing the sequential development of economics as a discipline, emphasizes the importance of pluralism in economics. This is often ignored in a standard syllabus which remains busy with teaching one kind of technique. The history of economic thought teaches us that different technique or analytical framework arose to deal with different issues. Hence, rather than applying a single framework to all problem we should try to choose our framework based on the question we choose to answer.