

FACULTY OF ECONOMICS AND ADMINISTRATIVE SCIENCES
DEPARTMENT OF EUROPEAN UNION RELATIONS & DEPARTMENT OF
INTERNATIONAL RELATIONS

ECON 305: HISTORY OF ECONOMIC THOUGHT

COURSE OUTLINE

INSTRUCTOR: ARASH SHARGHI

Course Books: Handbook the History of Economic Thought: Insights on the Founders of Modern Economics, Jürgen George Backhaus Editor

A Concise History of Economic Thought: From Mercantilism to Monetarism, Gianni Vaggi and Peter Groenewegen

Introduction to the Course/ Course Objectives/Course Description:

The History of Economic Thought is a major branch of both Economics and of the History of Ideas. It traces the development of economic theories and ideas from earliest times to the present. The emphasis is on 'thought' rather than on 'history', although for some topics a knowledge of the institutional background is indispensable. For each topic the development of the economic writers' ideas and theories is carefully set out and secondary literature considered. The course aims to provide a survey of economic theories from Aristotle to Keynes and to give an opportunity to study particular economic ideas and theories in considerable depth. As well as a direct knowledge and understanding of major contributions to economics over a long time span, the course provides general insights into economic methodology and reasoning, and helps to deepen understanding of modern economic analysis.

Course Structure/ Lectures Outline

Session One: Introduction to the Course – 1 class

Course Objectives:

By the end of the course the students should:

- Learn and understand the concept of “history” and its importance
- Understand the components of the History of Economic Thought: methodology, theory and philosophy
- Learn and understand the origins of the term “economy” and its historical development and understanding throughout the different time periods.
- Understand the importance of the economic thought and its influence

- Distinguish between the different economic scholars and their ideas
- Understand how the talent of the household management turned into the capability of nowadays economy management

Structure of the Course:

The course will be constituted of 17 interrelated, consequent topics. Each topic will form a subject of presentation. Each topic will be given one lecture for discussion.

Course Requirements and Grades:

Assignments and Presentation: 30%

Throughout this course students have to submit several assignments related to the specific subject discussed during the lecture. Besides that, each of the students has to present a summary of the chapter assigned to him/her.

Mid-Term Examination: 30%

Final Examination: 40%

Final examination will be based upon the topics given in the beginning of the course.

Additionally:

- Specific rules and norms will be announced during the introductory lecture
- Correspondence format will be discussed
- Students' list will be formed
- Questionnaire distributed

Session Two: Introduction to the History of Economic Thought – 1 class

Course Objectives:

By the end of this chapter, students should understand:

1. What is the history of economic thought?
2. Why do we need to study the History of Economic Thought?
3. What is the content of “**History of Economic Thought**”?

KEY POINTS:

a. Subject 1: it is argued that the notion of the "school of thought", which is taken as the basic unit of the history of analysis, can be considered as a mixture of what Schumpeter calls the "preanalytical vision", that is, the "metaphysical core" constituted by perceptions and prescientific outlook of the researcher towards reality, and the analytical "superstructure", constituted by the "technical" aspects of economic theory-such as models assumptions and hypotheses-on the basis of this core.

b. Subject 2: In principle, there are at least four ways to answer the question "History of Economic Thought – what for?"

- The History of Economic Thought deals with different thinkers and the theories in the subject that became Political Economy.
- It encompasses many different disparate Schools of Economic Thought.
- Aids in the understanding of economics.
- Provides an introduction to part of intellectual history.
- Helps to illustrate how ideas develop and change within academic disciplines.
- Helps create more critical attitudes and abilities.

c. Subject 3: there are two general approaches to describe the history of economic thought

- The first one is the continental European perspective and another is the Anglo-American approach

➤ **The common points of both approaches:**

- Periods in the history of thought
- The history of thought of subdisciplines
- Focus on particular economists

➤ **The Differences between these approaches:**

- The continental European perspective focus on: Marx, Schumpeter, List, Smit, Keynes, Müller, Fichte, Petty, Ricardo
- Conversely, Anglo-American approaches focus on: Smith, Keynes, Ricardo, Malthus, Marshall, Walras, Knight, Veblen, Fisher, Schumpeter, Cournot, Quesnay Wicksell, J. B. Clark Pareto

Session Three: The Tradition of Economic Thought in the Mediterranean World from the Ancient Classical Times Through the Hellenistic Times Until the Byzantine Times and Arab-Islamic World-2 classes

Course Objectives:

By the end of this chapter, students should understand:

1. Why we should know and understand of pre-Smithian Economic Thought?
2. Etymological definition of Economy
3. Explanation of classical Greek Economic Thought
4. The relation between the best woman and economy
5. Xenophon's Oeconomicus
6. Aristotle and his ideas on economy
7. How did Aristotle classify the Oikos?
8. Plato and his economic ideas
9. Economic Thought in Hellenistic Times (323–31 BC)
10. Economics in the Byzantine Period
11. Islamic Economic Thought

KEY POINTS:

- a.** Most of the histories of economics that give attention to the pre-Smithian background ignore the economic thought of Hellenistic and Byzantine Times, as well as Islamic economic ideas, although the Mediterranean crucible was the parent of the Renaissance, while Muslim learning in the Spanish universities was a major source of light for non-Mediterranean Europe. “The Eastern Empire survived the Western for another 1,000 years, kept going by the most interesting and most successful bureaucracy the world has ever seen. Many of the men who shaped policies in the offices of the Byzantine emperors were of the intellectual cream of their times. They dealt with a host of legal, monetary, commercial, agrarian and fiscal problems. A substantial body of contemporary social thought, including economics, is traceable to Hellenistic, ArabIslamic, and Byzantine “giants.” (Joseph Schumpeter (1883–1950) in his classic, *History of Economic Analysis* (1954)
- b.** Classical Greece made a quantum leap in the humanization of arts and philosophy. Its rationalism came as a challenge to the mythical worldview and to the religious legends and liturgies. The Greek rhetoricians and scholars were also the first to write extensively on problems of practical philosophy like ethics, politics, and economics. This is proved by the works entitled “On wealth (*peri ploutou*)” and “On household economics (*peri oikonomias*).” In the post-Socratic demarcation of disciplines, ethics was the study of personal and inter-individual behavior; politics was the discourse on the ordering of the public sphere; and the term *oikonomia* referred to the material organization of the household and of the estate, and to supplementary discourses on the financial affairs of

the city-state (polis-state) administration. Greek economic thought formed an integral but subordinated part of the two major disciplines, ethics and politics. The discourse of the organization of the Oikos and the economic ordering of the polis was not conceived to be an independent analytical sphere of thought.

c. The word “Oikonomia” comes from “Oikos” and “nemein.” The root of the verb “némein (nemein)” is nem (nem-) and the verb “nemein” which very frequently appears in Homer means “to deal out, to dispense.” From the same root derive the words nomḗ, nomeúV (a flock by the herdman), and némesiV (retribution, i.e., the distribution of what is due). “The word economy comes from oíkoV, house, and from nómoV, law, and denotes ordinarily nothing but the wise and legitimate government of the house for the common benefit of the whole family. The meaning of the term has later been extended to the government of the great family which is the state.” This term means Household Management – the ordering, administration, and care of domestic affairs within a household; husbandry which implies thrift, orderly arrangement, and frugality, and is, in a word, “economical.” Here, in the primary sense of the root, oikonomos (oikonómoV) means house manager, housekeeper, or house steward; oikonomein (oikonomein) means “to manage a household” or “do household duties,” and oikonomia (oikonomía) refers to the task or art or science of household management. According to Aristotle, the second word has the meaning of arrangement, and consequently, their harmonization for their better result.

d. Phokylides of Milet, in the second half of the VI BC, is the first to mention economists. In an elegant poem, he compares women to animals: to dogs, bees, wild pigs, and to long-named mares, to which different characteristics are assigned. Naturally, the bee is the best housekeeper. The best type of woman is only those who come from the bee. He will emphasize the good behavior of a woman, because she contributes on the welfare of the Oikos.

e. By analyzing the proper economic actions, activities, pursuits, and responsibilities of the head of the Oikos, Xenophon developed interesting ideas “framed in terms of the individual decision-maker.” Xenophon uses as an example of good organization, management, administration, and control that exercised by the queen-bee. “the business of a good oikonomos (kalos kagathos) is to manage his own estate well. In his effort to interpret the term “oikonomia,” Xenophon describes extensively the three kinds of relationships between the members of the Oikos:

- 1. The relationship between husband and wife: gamike
- 2. The relationship between father/mother and children: teknopoietike
- 3. The relationship between the head of household (kyrios) and domestic slaves

f. Aristotle:

- He provides his philosophical analysis of human ends and means.
- The more useful or desirable a good is, the higher the value of the means of production is.
- The purpose of economic action is to use things that are necessary for life (i.e., survival) and for the good life (i.e., flourishing). The Good Life is the moral life

of virtue through which human beings attain happiness. The primary meaning of economics.

- In the ***Politics***:
- Aristotle views labor as a commodity that has value but does not give value, rejecting labor as the source of wealth.
- He did not formulate the labor theory of value but instead held a theory of the value of labor.
- The basic requirement of value utility regarding a person's desires. Value is the ability to satisfy wants.
- According to him, exchange value is derived from use as communicated through market demand. He created the concept of value in use.
- In the Book I of the *Politics* he points out that natural pressures of diminishing utility for goods direct remaining human energy toward self-improvement.
- His objective was to answer the question: How can goods of different quality which are exchanged because of these qualitative differences be compared with each other and be equalized?

g. Plato:

- *The Republic* → Is one of a series of dialogues Plato transcribed, how students (including Plato himself).
 - A ruling class of "*philosopher-kings*" but he also recognized the importance of the division of labor.
 - Plato has Socrates remark in *The Republic* that specialization occurs because "*we are not all alike; there are many diversities of natures among us which are adapted to different occupations*"
 - The economic principles in action.
 - Plato addresses the essence of human nature and the role of knowledge through education.
 - He encourages us to generalize our thinking about the division of labor.
 - A complete characterization of the human endeavor requires a more general theory.
- i. The Hellenistic authors use the term "oikonomia" in the first place to designate household management; (1) in the most traditional sense, *oikonomia* means control of the household's internal areas, which was left to the wife, as opposed to the external areas and political activity which was considered the man's affairs. Furthermore, (2) the term implies, in general, the man's management of his property, as master of the house, or (3) the philosopher's management of his own possessions. The Hellenistic authors use the term *oikonomia* meaning in a figurative sense, any environment in which the capacity to manage a complex structure big or small well, can be applied with success.

h. The most prominent economic thinkers of the Islamic World:

- Kitab al Kharaj (Manual on Land Tax)
- Ibn Taimiyah (The Hisba in the Islam)
- Farabi (Tadbir al Alam)
- Al-Ghazali (Ihya Ulum al Deen)

- Ibn Khaldun (Muqaddimah)

Session Four: Pre-Adam Smith Times: Early Middle Ages, Feudalism- 1 class

Course Objectives:

By the end of this course students should:

1. Know the historical development of the economic thoughts in the Medieval period: Early Medieval Times and Feudalism
2. Learn terms: “Just Price”, “feudalism”, “feudum”. “manor”, “vassal”, “lord”, “freeman”, “serfs”
3. Explain the hierarchical pyramid of the feudal relations
4. Explain the relations between “Lords” and “Vassals”

KEY POINTS:

- a. One of the representative of the economic thought of the Medieval Times (Early Pre-classical economic thought) is Thomas Aquinas. He focused on what was called “just price”, which he considered is necessary for reproduction of the social order. “Just Price”- sufficient to cover the costs of production, including the maintenance of a worker and his family.
- b. **Feudalism**- also called feudal system or feudality it is a social-economic formation, which came to replace slavery and preceded capitalism in Europe. It is a political, social, economic system based on the exchange of land, protection and labour between kings, nobles and peasants respectively. The growth of Feudalism in Europe during the Middle Ages was caused by the collapse of the strong central government. The collapse of the Roman Empire was finalized in 476 CE, when the city of Rome was sacked. For nearly 1,000 years afterward no single centralized government was able to maintain control of Europe. As a result, the region became dominated by feudalism in order to meet the basic need for protection which was necessary for survival.
- c. **Manor**- land provided to the noble by king, which was usually consisted of castle, church, village and surrounding farm land.
- d. There were two types of peasant workers on the manor:
 - **Freemen**- skilled workers who paid rent and could leave the manor whenever they wished. (They usually had a skill needed by others on the manor.)
 - **Serfs** – workers bound to the land by contract with the nobles. (They had no freedom - they were the noble’s property.)
- e. With the development of the productive forces in the womb of feudalism the elements of capitalist relations evolved. The process of so-called primitive accumulation of capital has accelerated the preparation of the material conditions for the transition to capitalism, which strengthen as a result of revolutions.

Session Five: Mercantilism (Chapter 3: Mercantilism (Helge Peukert); Cameralism (Chapter 4: The Cameralists: Fertile Sources for a New Science of Public Finance (Richard Wagner); Physiocrats (Chapter 5: The Physiocrats (Lluís Argemí d'Abadal)- 3 classes

1. Know what does “**mercantilism**” mean, its historical background and its main assumptions
2. Learn and Understand the concept of “**National Economic Thought**”
3. Learn and Understand the concepts of “**Physiocrats**” and “**Cameralism**”
4. Explain the relationship between “**mercantilism**”, “**cameralism**”, “**physiocracy**”
5. Explain the common points and differences between “**mercantilism**”, “**cameralism**”, “**physiocracy**”

KEY POINTS:

- a. **Mercantilism**- economic system of the major trading nations during the 16th, 17th, and 18th century, based on the premise that national wealth and power were best served by increasing exports and collecting precious metals in return. Mercantilism reflects the problems of the 16th-18th centuries:
- The strong gold imports to Europe
 - The quantitative increase and geographical enlargement of trade with the colonies
 - 30 years’ war
 - The demand of merchants and trader for more support and/ or liberty by sovereign
 - The scientific revolution
 - The birth of national economy
 - Ascendancy of individual self-interest and an autonomous goal-oriented means-ends-rationality

Foreign trade was favored above domestic trade, and manufacturing or processing, which provided the goods for foreign trade, was favored at the expense of the extractive industries (e.g., agriculture). The state exercised much control over economic life, chiefly through corporations and trading companies. Society at large was seen more and more as a common commercial company.

- The essential assumption of mercantilism is an economy with unemployed resources.
- b. **Physiocrats** - school of French thinkers in the 18th century who evolved the first complete system of economics. The founder and leader of physiocracy was Francois Quesnay. In the late 17th and the 18th centuries, protest against the governmental regulation characteristic of mercantilism was voiced, especially by the physiocrats. That group advocated laissez-faire, arguing that business should follow freely the “natural laws” of economics without government interference. They regarded agriculture as the sole productive economic activity and encouraged the improvement of cultivation.
- c. **Cameralists** – emerged around 1500 and were mostly located in the German-speaking lands. Schumpeter described cameralists as “Consultant Administrators”. They were both consultants and administrators. They were consultants to the various kings, princes, and other royal

personages who ruled throughout those lands. Indeed, the term cameralist derives from camera or kammer, and refers to the room or chamber where the councillors to the king or prince gathered to do their work. The cameralists were not, however, anything like contemporary academic consultants. They were real-world administrators as well. They were engaged in such activities as managing mines or glass works. Many of the cameralists also held academic posts. The first chairs of cameral science were established in 1727, in Halle and Frankfurt on the Oder, and by the end of the eighteenth century 23 such chairs had been established. The cameralists were partly economists, partly political scientists, partly public administrators, and partly lawyers. They approached their subject matter in a manner that used all of these talents and capacities.

- d. **Cameralism** often being treated as a form of **mercantilism** and sometimes as a form of **physiocracy**. While cameralism does have points of contact with physiocracy and mercantilism, some of which have just been noted, it is nonetheless neither of these, but rather is something else entirely. To be sure, cameralism and mercantilism both originated within authoritarian political regimes, and they represented efforts to give good counsel to the heads of those regimes, in light of an unchallenged presumption that those regimes are to continue indefinitely. From here, however, the differences dominate the similarities. Most importantly, the cameralists and mercantilists differed in the international setting within which their regimes were located.

Session Six: Classical Economic Thought (Chapter 6: Adam Smith: Theory and Policy (Andrew S. Skinner); Chapter 7: Life and Work of David Ricardo (Arnold Heertje); Chapters 8 and 9: John Stuart Mill's Road to Leviathan: Early Life and Influences & the Principles of Political Economy (Michael R. Montgomery); Chapter 9: Jeremy Bentham (Christos P. Baloglou) – 4 classes (each class- one thinker)

Course Objectives

By the end of the course students should:

1. Understand the idea of Classic Economic Thought (Classical School of Economic Thought)
2. Understand the concept “**laissez-faire**”
3. Know and distinguish between the works, ideas, assumptions of the main contributors/representatives of the school:
 - **Adam Smith**
 - **David Ricardo**
 - **John Stuart Mill**
 - **Jeremy Bentham**

KEY POINTS:

- a. **Classical Economic Thought:** The Classical school, which is regarded as the first school of economic thought, is associated with the 18th Century Scottish economist Adam Smith, and those British economists that followed, such as Robert Malthus and David Ricardo. The main idea of the Classical school was that markets work best when they are left alone, and that there is nothing but the smallest role for government. The approach is firmly one of laissez-faire and a strong belief in the efficiency of free markets to generate economic development. Markets should be left to work because the price mechanism acts as a powerful 'invisible hand' to

allocate resources to where they are best employed. In terms of explaining *value*, the focus of classical thinking was that it was determined mainly by scarcity and costs of production. In terms of the macro-economy, the Classical economists assumed that the economy would always return to the full-employment level of real output through an automatic self-adjustment mechanism. It is widely recognized that the Classical period lasted until 1870.

- b. **“Laissez- Faire”**- The idea that the government should not interfere with or regulate industries and business. An economic policy of letting owners and business set working condition without interference. This policy favors a free market unregulated by the government.
- c. **Adam Smith (1723-1790) – the father of economics**
- **Main Work: “Wealth of Nations” (1776)**
 - **Three Natural Laws of Economics: Law of Self- Interest, Law of Competition, Law of Supply & Demand**
 - **Division of Labor**- can increase the output on the global level. Specialization and trade is division of labor at the global level
 - **Invisible Hand** – the unobservable market force that helps the demand and supply of goods in a free market to reach equilibrium automatically
 - **Role of Government:**
 - State has an obligation to provide for defense, since security is always more important
 - State is providing an adequate system of justice, both as a pre-condition of social order and as basic pre-requisite for economic growth
 - Provision of certain public works and institutions for facilitating the commerce
- d. **David Ricardo (1772-1823)- an early advocate of free trade**
- **Main Work: “Principles of Political Economy and Taxation” (1817)**
 - **Comparative Advantage Theory:** the idea that nations should focus on industries where they could easily compete in the market and only trade with other countries to gain products not available nationally. By this theory, each nation could profit from specializing in certain industries.
 - Modified version of **labor theory of value**
 - Preempted Karl Marx in describing adversarial class relations
 - **Free Trade ideas:** Ricardo believed that the Corn Laws, in particular, constituted a burden to the agricultural economy. He believed that these trade barriers kept food prices artificially high and encouraged a bloated rent rate.
- e. **John Stuart Mill (1806-1873)- the most influential English-speaking philosopher of the nineteenth century**
- **Main Work: “Principles of Political Economy” (1848)**
 - Early economic philosophy based strongly on free market. Later on, accepted interventions in the economy- taxation on alcohol and animal warfare
 - **Utilitarianism**- “actions are right in proportion as they tend to promote happiness; wrong as they tend to produce the reverse of happiness. By happiness is intended pleasure and the absence of pain; by unhappiness, pain and the privation of pleasure.”
 - **Role of Government:**
 - General rule was that government should prevent people from harming others
 - In general, he accepted government interventions in the economy if there were sufficient utilitarian grounds

- Mill believed that "equality of taxation" meant "equality of sacrifice" and that progressive taxation penalized those who worked harder and saved more and was therefore "a mild form of robbery".
- Mill was more "Smithian" than "Ricardian" - he thought that economics should be integrated into broader theories of human behavior
- He distinguished between laws of production and laws of distribution
 - laws of production are laws of nature, cannot be changed by people
 - laws of distribution were based on human action and institutions - these can be changed by social intervention
- Mill believed that economics should be more integrated with a comprehensive study of human behavior

f. Jeremy Bentham (1748-1832) – father of utilitarianism

- **One of the Main Works: “An Introduction to the Principles of Morals and Legislation” (1789)**
- His economic writings are concerned with extending the realm of individual initiative in commerce, trade and industry as a means of increasing social welfare.
- Property- offspring of desire, as basic to man as the exercise of his own will

Session Seven: Marxian School of Economic Thought (Chapter 12: The Legacy of Karl Marx (Helge Peukert)- 2 classes

Course Objections:

By the end of this course students should:

1. Know the basics of Marxian School of Economic Thought
2. Know and understand the ideas and concepts of the Marxist thought and theories

KEY POINTS:

a. Karl Marx (1818-1883)

- Was a socialist theoretician and organizer, a major figure in the history of economic and philosophical thought, and a great social prophet
- **Forces of Production & Relations of Production:** Marx believed that the basis of the social order in every society is the production of economic goods. What is produced, how it is produced, and how it is exchanged determine the differences in people’s wealth, power, and social status. **The relations of production** are the relations men establish with each other when they utilize existing raw materials and technologies in the pursuit of their productive goals. While industrialism would be a particular force of production, capitalism would be the relations of production. By relations of production, Marx means the social relationships people enter into by participation in economic life.
- **Division of Labor:** The organization of economic activities leads to the division of labor which causes the formation of classes; over time, these classes develop

different material interests, they become “antagonistic.” Thus antagonistic classes become the primary actors in the historical drama.

- **Economic Organization:** Economic organization to meet our material needs eventually comes to determine virtually everything in the social structure. All social institutions are dependent upon the economic base, and an analysis of society will always reveal its underlying economic arrangements.
- **Social Classes:** According to Marx, men and women are born into societies in which property relations have already been determined. These property relations, in turn, give rise to different social classes
- **Concepts of :“Capitalism”, “Social conflict”, “Socialism”, “Socialist Revolution”, “Proletariat”, “Bourgeoisie”**
- **4 Contradictions of Capitalism:**
 - **The inevitability of monopolies, which eliminate competition and gouge consumers and workers;**
 - **A lack of centralized planning, which results in overproduction of some goods, and underproduction of others. This encourages economic crises such as inflation, slumps, and depressions,**
 - **Automation and ever lower wages which forces the pauperization of the proletariat; and**
 - **Control of the state by the bourgeoisie, the effect of which is the passage of laws favoring their class interests and incurring the wrath of the proletariat**

Session Eight: Chapter 13: Friedrich List’s striving for Economic Integration and Development (Karl-Heinz Schmidt)- 1 class

Course Objectives

By the end of this course students should:

1. Know and understand the ideas of Friedrich List
2. Understand List’s vision of federalism
3. Understand List’s phases of Political Economy

KEY POINTS:

a. Friedrich List (1789-1846)

- His contributions to political economy can be arranged in three groups: **public administration and public finance, economic development policy and infrastructure policy**, especially transportation, education and integration
- State should be based on the freedom of the individual citizen
- 4 arguments of List’s vision of federalism;
 - Strong interest of an individual in the satisfaction of the individual preferences
 - Strong relations between individual citizen and the state by close relations between corporations
 - Increase of civil freedom by free corporations
 - Increase of productivity by increase of freedom of the citizens and corporations

**Session Nine: Chapter 23: Joseph Alois Schumpeter: The Economist of Rhetoric (Yuichi Shionoya)-
1 class**

Course Objectives

By the end of this course students should:

1. Understand the basic ideas of Joseph Schumpeter
2. Understand the importance of the entrepreneurship for Schumpeter
3. Understand the concept of “Creative Destruction”

KEY POINTS:

a. Joseph Alois Schumpeter (1883-1950)

- Schumpeter emphasizes the role and importance of entrepreneurs. Entrepreneurship involves discovery, innovation, and acting on the opportunities that discovery and innovation create. Schumpeter believed that innovation causes most markets to evolve in a characteristic pattern
- **Creative Destruction:** is the essential fact about capitalism. The opening of new markets, foreign and domestic, from the craft shop and the factory to such concerns as US Steel illustrate the process of industrial mutation that incessantly revolutionizes the economic structure *from within*, incessantly destroying the old one, incessantly creating a new one.
- Schumpeter’s ideas have been used to defend monopoly, on the grounds that high economic profits are a necessary reward to encourage innovation, which results in higher long-run growth
- Policy analysis should focus more on the impacts of policies on innovation and less on the impacts on prices and current welfare
- A key managerial implication is that even competitive advantages based on inimitable resources or capabilities or early-mover advantages are vulnerable in the long run as new technologies arise, tastes change, or government policy evolves
- Inventions occur irregularly – innovations come in waves

Session Ten: Chapter: Keynesian Economy. Chapters 25 & 26: John Maynard Keynes (Royal Brandis; Hans-Joachim Stadermann & Otto Steiger)- 1 class

Course Objectives

By the end of the course students should:

1. Know the basics of Keynesian School
2. Know and understand the basic ideas of J. M. Keynes

KEY POINTS:

- a. **Keynesian School:** Keynesian economists broadly follow the main macro-economic ideas of British economist John Maynard Keynes. Keynes is widely regarded as the most important economist of the 20th Century, despite falling out of favor during the 1970s and 1980s following the rise of new classical economics. In essence, Keynesian economists are skeptical that, if left alone, free markets will inevitably move towards a full employment equilibrium. The Keynesian approach is interventionist, coming from a belief that the self-interest which governs micro-economic behavior does not always lead to long run macro-economic development or short run macro-economic stability. Keynesian economics is essentially a theory of aggregate demand, and how best to manipulate it through macro-economic policy.
- b. **John Maynard Keynes (1883-1946)**
 - John Maynard Keynes was probably the most influential economist of the first half of the twentieth century. He was an economist who made important contributions to probability theory and mathematical economics. He was the British representative in 1944 at Brenton Wood Conference that set up the International Monetary Fund and the World Bank
 - Keynes stated that if **Investment exceeds Saving**, there will be **inflation**. If **Saving exceeds Investment** there will be **recession**. One implication of this is that, in the midst of an economic depression, the correct course of action should be to encourage spending and discourage saving.
 - **Say's Law** – one of the economic “givens” of his era. Say's Law states that supply creates demand. Keynes believed the opposite to be true – output is determined by demand.
 - Keynes's view that governments should play a major role in economic management marked a break with the laissez-faire economics of Adam Smith, which held that economies function best when markets are left free of state intervention