

History of Economic Thought: The Marginal Revolution, 1871-1874

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«All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. **All that is solid melts into air**, all that is holy is profaned, and man is at last compelled to face with sober senses, his real conditions of life, and his relations with his kind.»

Karl Marx and Friedrich Engels. 1848. The Communist Manifesto

The Marginal Revolution

The nature of the labour theory of value

- Labour and (surplus-) value
- Objective criterion of measurement
- Essentialism
- Social classes
- “Macroeconomic” issues (such as growth, distribution of income)
- Interdisciplinarity of political economy

The Marginal Revolution

A critique of the labour theory of value

- Is (the quality of) labour homogenous?
- Is labour the only criterion to measure the value of commodities?
- Is an objective criterion possible?

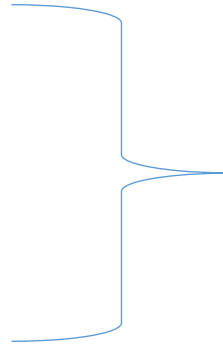
The Marginal Revolution

A critique of the labour theory of value

- “Water – diamond paradox”:

Water: utility high, value low

Diamond: utility low, value high



How should we solve this paradox – if this is a paradox at all?

The Marginal Revolution

A “solution” of the water – diamond paradox:

- The notion of *scarcity* (as opposed to *abundance*)
- A subjective criterion of measurement – utility
- And the logic of marginalism (or thinking through marginal variables)

The Marginal Revolution

Marginal theory of value (or utility theory of value):

- the value of a commodity is determined by the utility of the final unit of the commodity consumed.
- “individuals make economic decisions ‘on the margin’; that is, value is determined by how much additional utility an extra unit of a good or service provides.” <https://www.investopedia.com> (Accessed December 2019)

The Marginal Revolution

Margin:

→ “the empty space at the side of a written or printed page”*

Marginal:

→ “small and not important”*

→ “not part of a main or important group or situation”*

* Oxford Learner’s Dictionaries, <https://www.oxfordlearnersdictionaries.com>

(Accessed December 2019)

→ Marginal groups, margin of error, marginalisation of economics

The Marginal Revolution

Labour theory of value:

- Labour
- Production
- Value
- ...

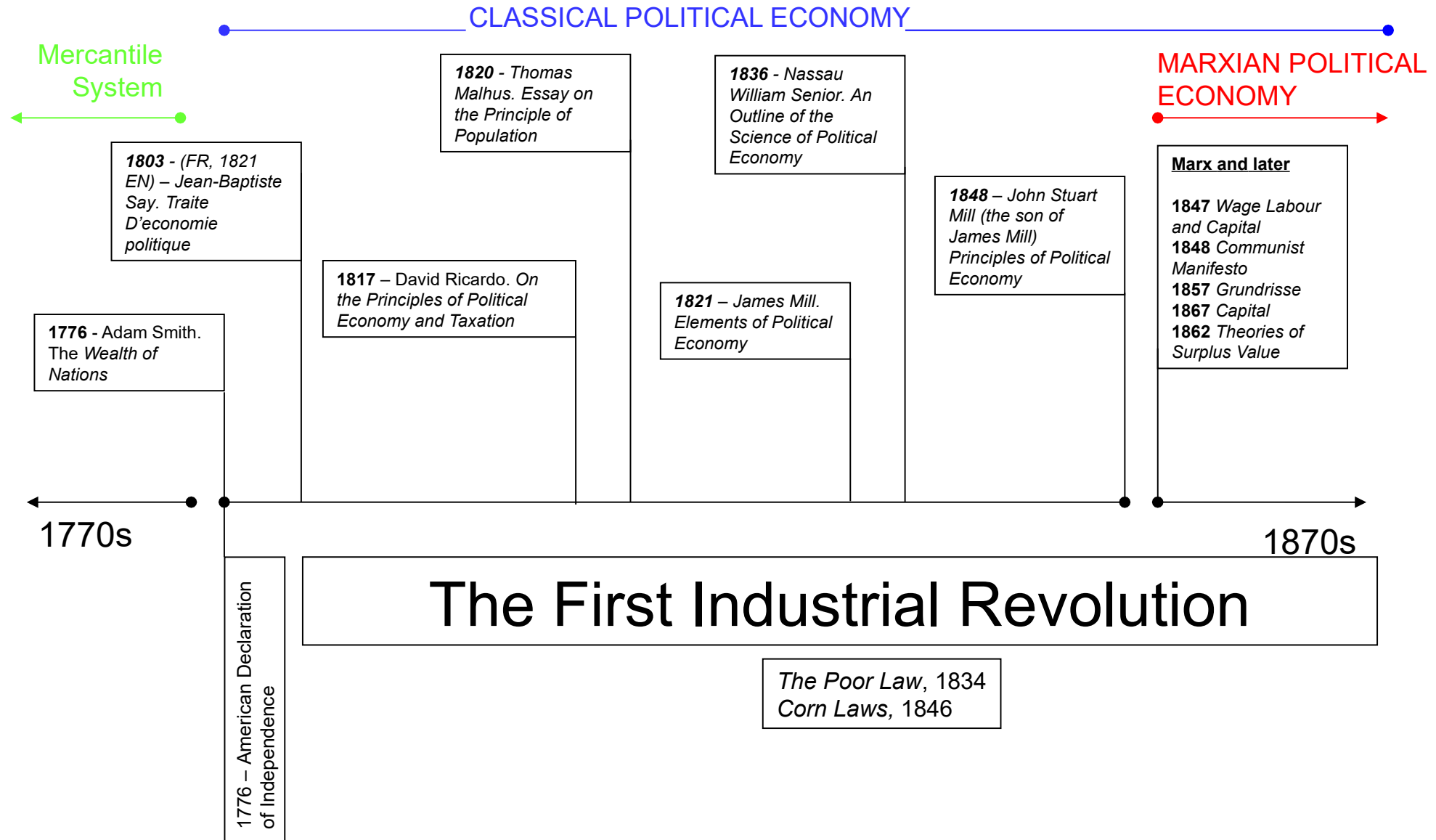
Marginal theory of value:

- Utility
- Exchange
- Price
- ...



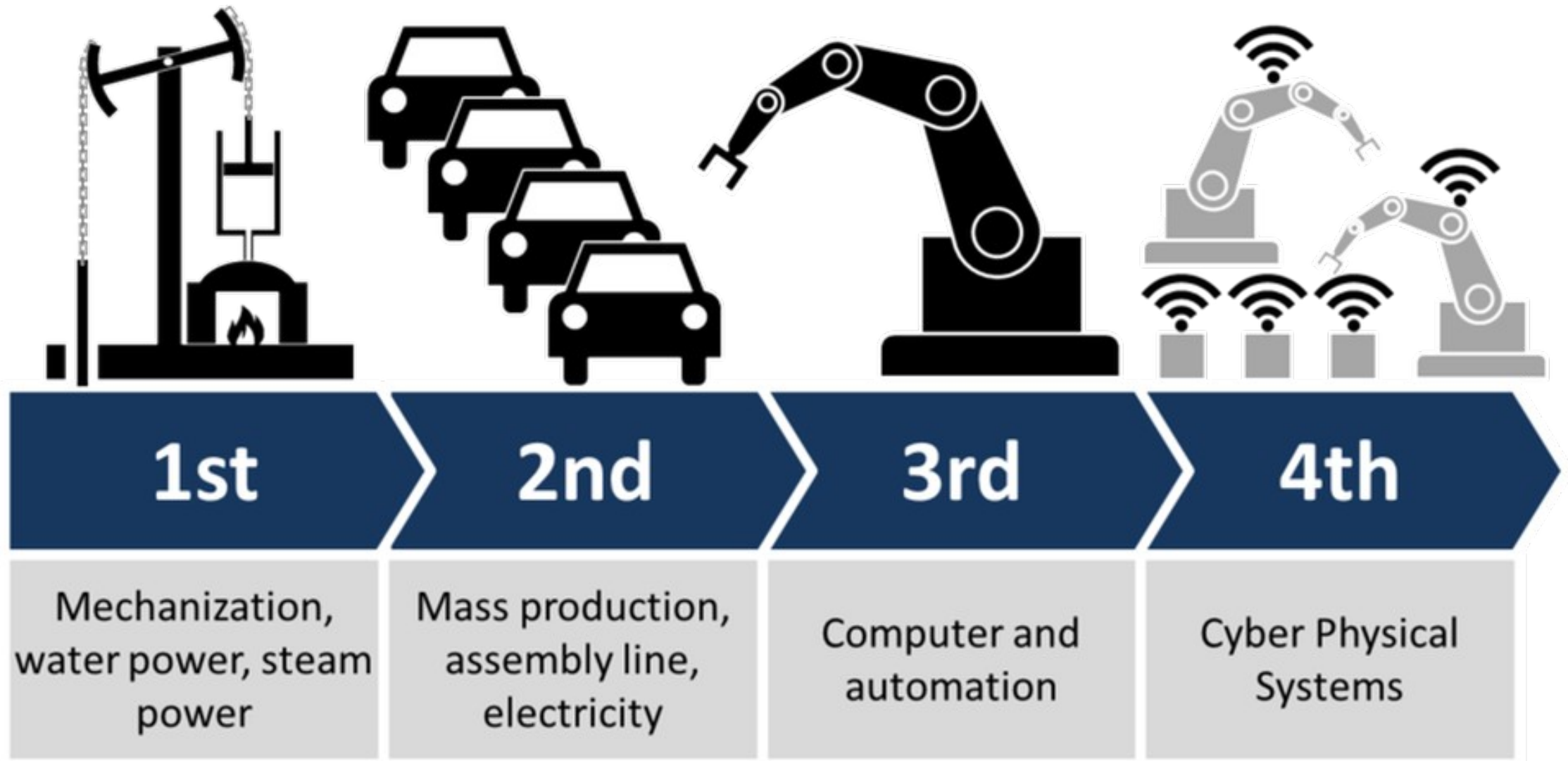
The moving focus of attention in economic theorizing after the Marginal Revolution

CLASSICAL POLITICAL ECONOMY (1776 – 1870s)



The Marginal Revolution (1871 – 1874) and the neoclassical school of economics

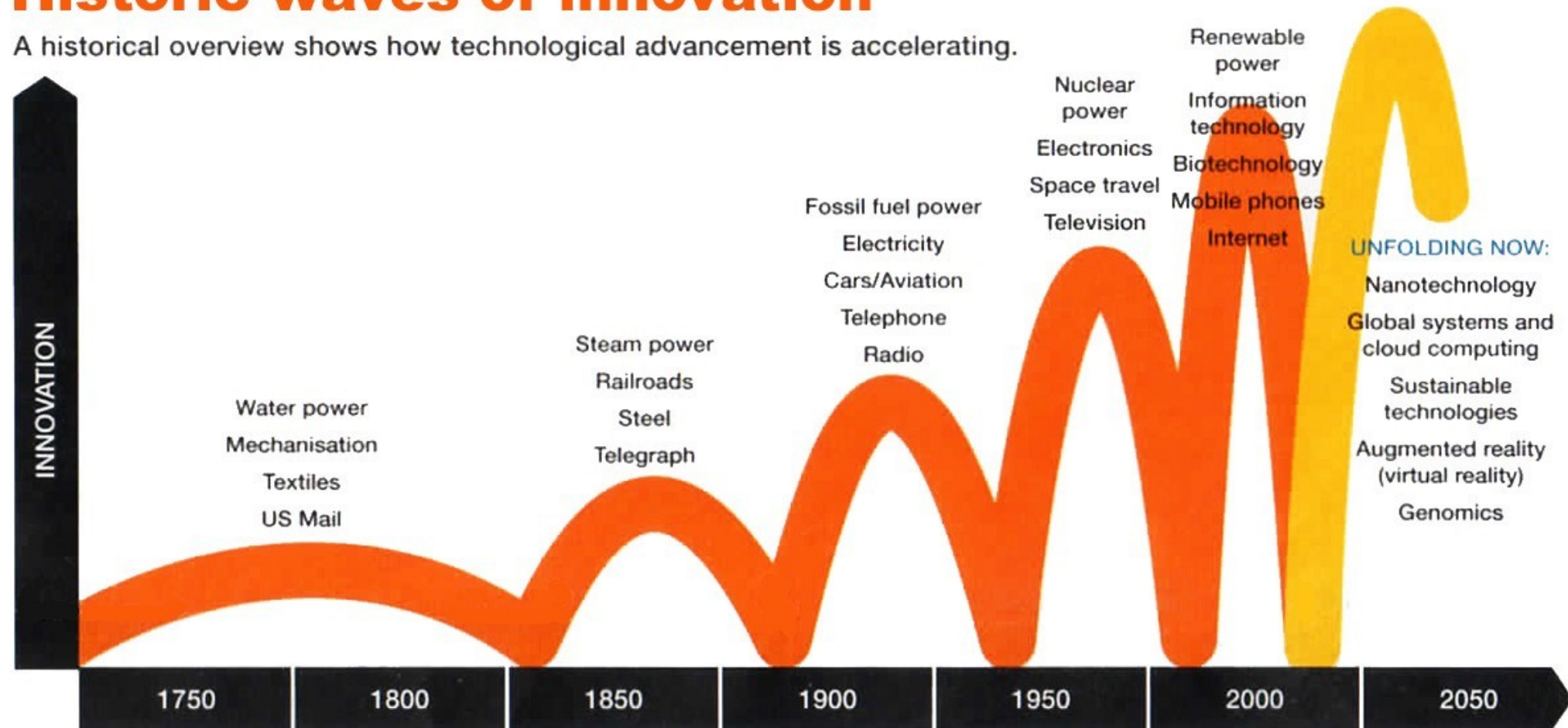




Source: Christoph Roser, <https://www.allaboutlean.com/industry-4-0/industry-4-0-2/>
[Accessed: May 2019]

Historic waves of innovation

A historical overview shows how technological advancement is accelerating.



ADAPTED FROM WAVES OF INNOVATION MODEL, *THE NATURAL ADVANTAGE OF NATIONS*, K. HARGROVES AND M. SMITH. (2005)

The Marginal Revolution

Total utility and marginal utility

Total utility (TU): summation of satisfaction that an individual gets from the multiple units of consumption.

Marginal utility (MU): satisfaction that an individual gets from the additional unit of consumption.

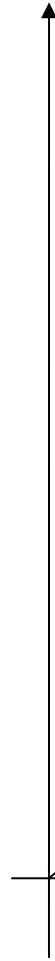
The Marginal Revolution and Neoclassical Economics

For one single commodity:

$$\text{Total Utility (TU}_q) = \sum \text{Utility } q_n$$

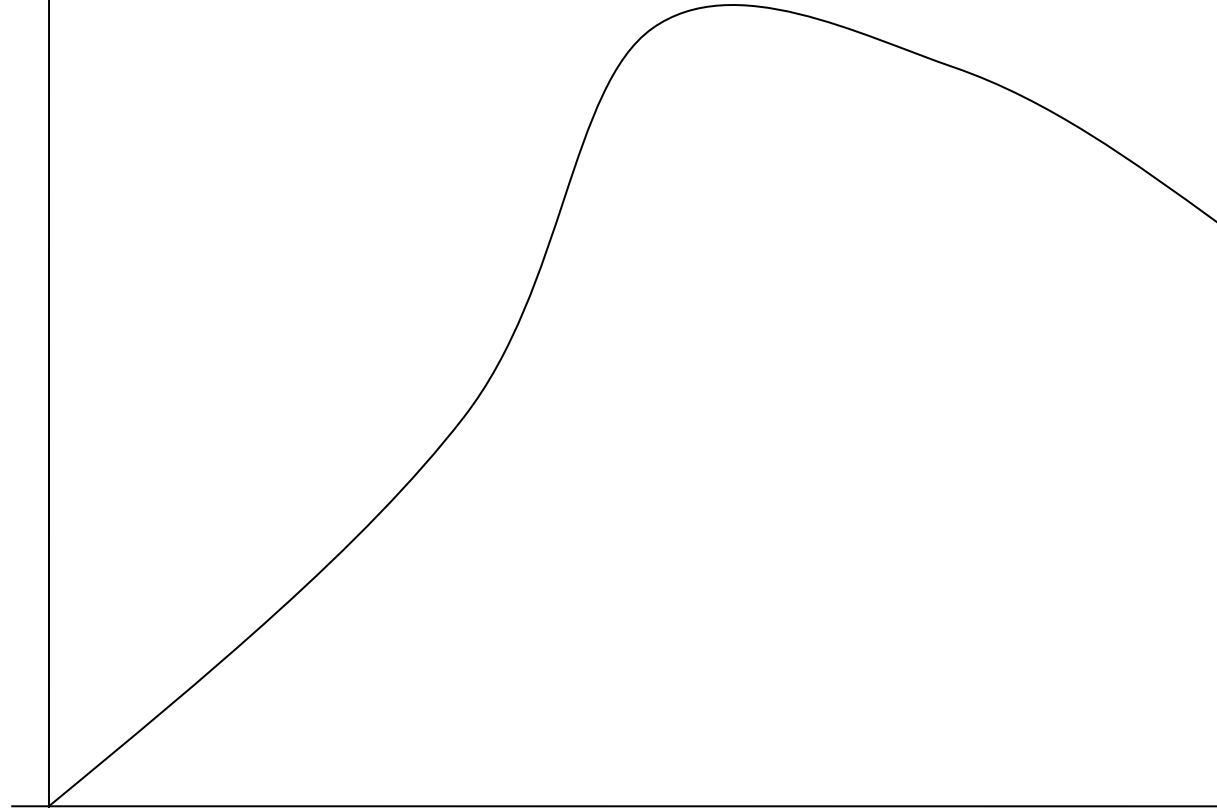
$$\text{Marginal Utility (MU}_q) = \Delta \text{TU} / \Delta q_n$$

TU, MU

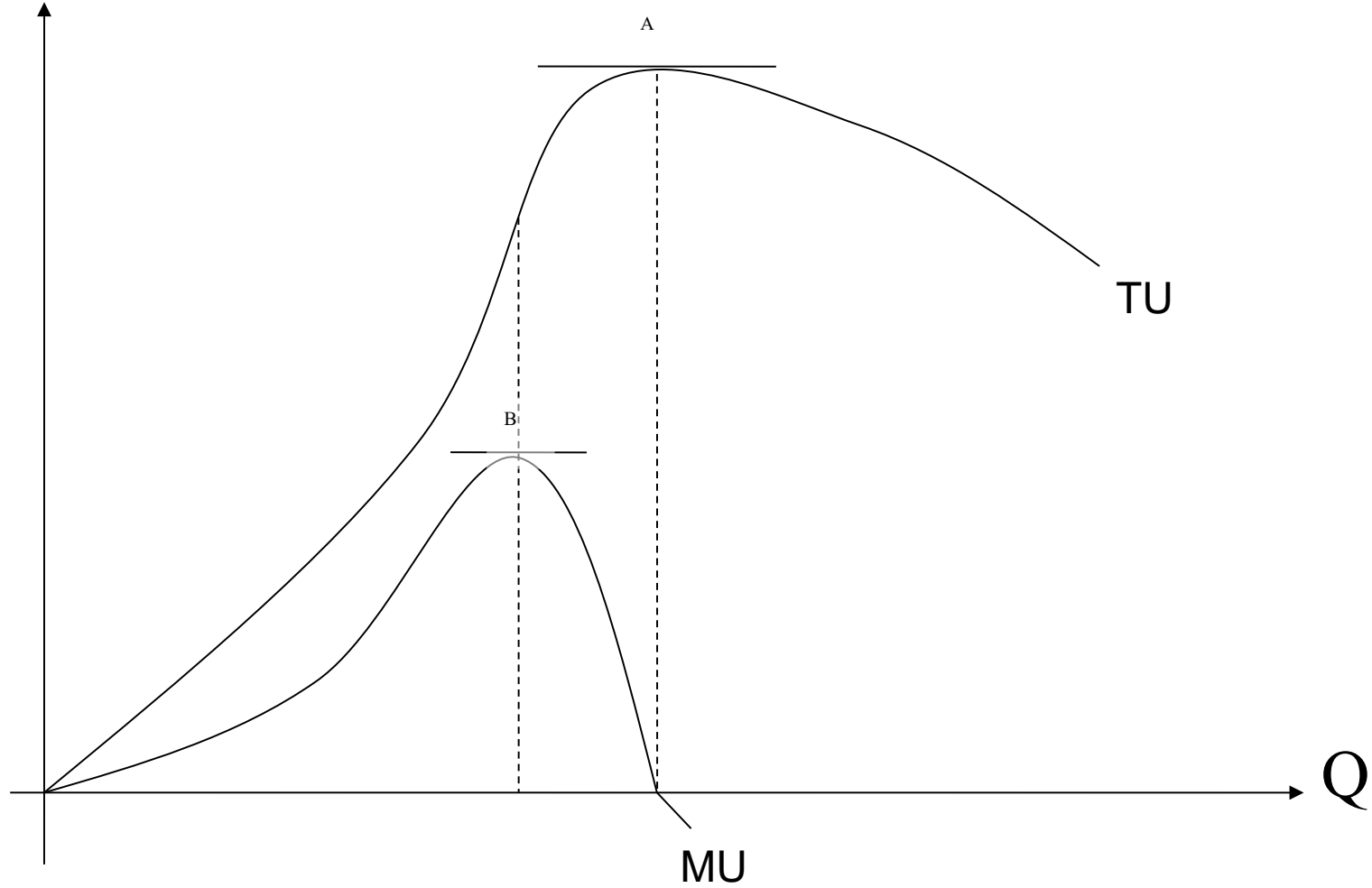


Q

TU



TU, MU



Marjinal Devrim ve Neoklasik İktisat

For multiple commodities:

$$MU_q = MU_r$$

$$\Delta TU_q / \Delta q_n = \Delta TU_r / \Delta q_m$$

