

Neo-Classical Political Economy Notes

Marius Swane Wishman

Neo-Classical

- We still need at least one reference student
- Neo-classical != neo-liberal

Historical context - A crisis of capitalism

- 1870s ->
- Social upheaval (Glorious Revolution and first republic in Spain, Paris Commune etc)
- Marxism/socialism
- Economic depressions
- Imperialism
- Natural sciences & positivism
- Utilitarianism

Supply and Demand

- Léon Walras (1834-1910) supply and demand interacts to form an equilibrium (general equilibrium theory)
- William Stanley Jevons (1835-82); Carl Menger (1840-1921) (Formalized into marginal analysis)
- Alfred Marshall (1842-1924) (Formalized further and synthesized)

Assumptions

- Utility - Explains differences and maximization % Value, Smith
- Rational actors
- Information and competition

Benefits

- Proofs
- (formal) Models - much science!
- Predictions - actually super useful
 - Orthodoxy for a reason - bread and butter of economics as a field of study to this day
- With strong/assumptions come great power! BUT!
 - With great power comes great responsibility - Understanding that these are very simplified models. The assumptions will never strictly hold, and some the results will reflect that.

Units of analysis

- Consumers - Utility maximizing, rational, sovereign and in charge
- Firms - Profit maximizing. Output given by Marginal cost = marginal revenue. No more need for “winging it” when it comes to output.
 - slave to the consumer
 - slave to competitions

- * But are they really? - Constantly doing everything in their power to avoid competition! Create/inflate demand, differentiate products.
 - Simultaneously “proves” and disproves the theory!
- No room for class or society as a whole only “aggregate”
 - To what degree can individuals be aggregated?

How should we structure the market?

- Perfect competition! - Pareto efficient use of factors of production! Eliminates excess profits! Everyone is happy!
- Easier said than done?
 - Breaking monopolies? - Can undermine incentives, international competition, how monopolized before breaking up?
 - Barrier to entry can be really stubborn in a world of technology and patents.
 - Short term?
 - Long term? - Inheritance

Distribution

- Labor market is still a market - S&D - it will form an efficient equilibrium! Don't worry about it!
 - Interfering might impair efficiency of the market!
- Distribution is a result of ability

Similarities

- Capitalist markets economy
- Pursuit of “governing laws”
- Equilibrium
- Private property % Competition and self interest. Without property there are no profits
- Economic liberalism

Differences

- Neo-classical is far less holistic % Economics included history, geography, politics, institutions, social sciences in general. Concerns of social progress.
- “Physics envy”
- Far less moral concerns, but not devoid of it: liberal-interventionist