Hand-in 3

**Institutionalism and Keynes**

1. What characterizes the Keynesian approach to political economy, and how does this differ from the classic/neoclassic view?

The Keynesian approach to political economy is characterized by a focus on how the state can intervene, with counter-cyclical policies, to handle crises. Here lies a fundamental difference to the classical and neoclassical theory of economy, in realizing and responding to the fact that the market fails, saying that the neoclassical equilibrium can be broken. Another difference is the shift of focus, from individuals and individual firms in the classical economy, to macro-economics in Keynesianism.

Going of the assumption of a broken equilibrium, Keynesian theory also show a concern for the social consequences of economic policy. This is not a concern in the neoclassical theory.

His bottom-line point:

Keynes is broadly speaking neo-classical, working on a lot of the same assumptions, using mathematical modelling to describe the economy. Deductive as the neoclassical. The difference is the conclusion he draws from it.

There is a social element in that stimulus is more effective when going to the poor than going to the rich. The multiplier effect works better.

1. How can governments use countercyclical policy to ensure stability in the economy?

Governments can use countercyclical policy to ensure stability in the economy

In bad times you use expansionary policy to have growth’

* Multiplier effect

In good times use deflationary fiscal policy

Main emphasis on how expansionary policy works through the multiplier effect

1. Discuss this quote from Keynes: “In the long run we are all dead”.

I think that Keynes quote is meant as a critique to the classical and neoclassical economic theory. Like the earlier theories, Keynes thought that if we could just leave the economy alone, then it would stabilize itself. However, most people can’t think long-term when they are in a crisis, and will try to stabilize the economy themselves through policy. Following these assumptions, long term doesn’t matter, but what matters is the short term.

**Evolutionary economics**

1. In evolutionary economics, what are the unit(s) of analysis?

In evolutionary economics, the unit of analysis is national economies.

In general, they look at specifically individual national economies at a time. AT least large scale economies as a whole. The national market is the starting point, and the focus lies on what the state can do in terms of intervention.

1. How does evolutionary economics compare to neoclassical and institutionalist economics?

Compared to neoclassical and institutionalist economics, the evolutionary economic theory focuses more on history, path dependencies of certain economies, and on the way they have evolved. The focus is on long term trends, evolutions, equilibriums.

In similarity to the classical

Neoclassical: They are empirical inductive (neo-classicals start from assumptions, looking at what the implications for these is for the real world), looking at the world

Different unit of analysis. Different implications for free trade vs. protectionism

Institutional: can look at specific institutions. Evolutionary economics is a bit more solution-focused, while institutionalist tend to focus more on identifying problems resulting in implications, but that is not the main focus.

This traditions favours protectionism to a certain degree, while the neo-classical tradition favours free trade.

1. Explain Schumpeter’s term “creative destruction”?

“Creative destruction” describes how entrepreneurship creates something new while simultaneously destroying something old. Through the destructive element of competition, you will have a development of new technologies, where one destroys the other. This allows for great entrepreneurship, and is said by Schumpeter to be the reason why capitalism is so successful. The competition is destructive because a development in one company can make crises occur for another. However, the dominating companies will protect the power that comes with introducing a new technology, leading to a socialist revolution. The legacy of Joseph Schumpeter is therefore that innovation is key to progress, but that we should make sure that companies keep investing in development and science, instead of trying to slow down innovation in order to stay in power of the most recent technology.

1. Why does Reinert (2008) argue that it is better for a country to produce golf balls than baseballs?

Reinert argues that it is better for a country to produce golf balls than baseballs because it matters what you are doing as a national economy, and that you want to be producing products at the higher level of economic quality. Producing golf balls is better than baseballs because thy allow for innovation in production, and because you can produce them industrially, allowing for increasing efficiency. Baseballs, on the other hand, have to be hand-sewn in a specific manner. There is a low roof on how efficiently they can be produced. Cheaper production allows for higher wages because you will need educated people to produce and develop the innovative commodities, and you will also get higher profit rates that you can distribute in the economy. Working in an developing field also means that you will need experts who will be useful in other fields too.