**Discussion Questions: Thompson and Hodgskin**

1) Hunt argues that during the first few decades of the 19th century, as the troubles of the working class (riots, unions, and machine wrecking) intensified, the defenders of the laborers began to attribute their oppression to a new source. What was this source and do you agree with Hunt’s assessment? Explain.

2) Who was Robert Owen and how exactly did he believe he could help the poor?

1. ***Robert Owen was a humane middle-class capitalist. To help the poor, he believed the answer laid in the formation of voluntary “cooperatives,” in which the producers themselves would jointly control their own economic destinies. A system of cooperatives could coexist and compete with existing capitalist enterprises and eventually replace them entirely.***

3) What does Thompson mean when he writes about “security” and argues that capitalism could never be a “system of security.” Explain his reasons. Do you agree with Thompson’s argument? Why or why not?

4) Hunt argues that utilitarianism is both a psychological theory and an ethical theory. Use plain language to explain the meaning of this argument.

5) Hunt argues that utilitarianism seems to support egalitarian sentiments and to be a democratic philosophy, but these apparent egalitarian and democratic characteristics are illusory. Explain the ways that utilitarianism seems democratic but turns out to provide powerful intellectual justification for the status quo. Does this mean that utilitarianism demonstrates that the status quo is superior to any alternative? Explain.

6) How did utilitarianism undermine Thompson’s proposal for a more equal distribution of income. Explain how he ultimately did argue more equality would be good social policy.

7) Hunt argues that utilitarianism cannot be used to justify “radical reform of society” in an intellectually consistent way and that utilitarianism serves as an ideal defense of the status quo and/or capitalism and existing property rights. Explain Hunt’s argument and then explain whether you agree or disagree with Hunt.

8) How did Thompson reconcile his seemingly harmonious view of exchange with his view of capitalism as a system of conflict between the capitalists and the workers? That is, what did he assume about the workers and their labor they led him to conclude that conflict was the overpowering condition of the day?

9) Discuss similarities and between capitalism, competitive market socialism and egalitarian market socialism. Briefly explain the (five) “evils” of competitive market socialism that Thompson identified. Do any of this criticisms rings true in our current economy? Explain your reasoning.

10) Explain Thompson’s argument that women would be systematically oppressed in competitive market socialism or the “individualistic pursuit of wealth.” Is it different in capitalism? Why or why not? What did he concluded would be women’s lot in this system and why was that the case? Did he imagine a situation in which this would not be the case? Explain.

11) One notable historian of economic ideas (Ronald Meek) wrote that “Thomas Hodgskin was a name to frighten children. What was “frightening” about Hodgskin’s writings? Explain. Identify the economists we have studied thus far who probably influenced Hodgskin, or at least made arguments very similar to his. Develop these “links.”

12) Hunt argues personal judgments about 1) the importance of history and 2) what a thinker takes as “given and eternal” are important elements in the perspective that one tends to adopt. Explain why these factors might influence which perspective seems more useful and revealing about the functioning of capitalism. Explain why these factors might influence one’s assessment of the social merits of free, mutually beneficial exchange in well-functioning markets?

**Discussion Questions: Marx**

1) Marx argued that the “greatest deficiency of most [of the economists we’ve studied] was their lack of historical perspective.” What general sort of shortcomings did this lead to in their understanding of the workings of capitalism? Explain. Identify two of the confusions or distortions that Marx considered to be particularly important.

**The first was the belief that capital was a universal element in all production processes, and the second was that all economics activity could be reduced to a series of exchanges. Pg 203-204**

2) Explain Marx’s argument that taking capitalist property rights as universal/sacrosanct and viewing capital as common to all forms of production tends to conceal what is unique about capitalism as a mode of production. What is left for economists to analyze if they take existing property relations as given and assume capital is common to all forms of production? Explain.

**For Marx what distinguished one system from another were the social relationships. If you reduce everything to exchange, those get lost because the exchange view necessarily equalizes people. The distinguishing factors of capitalism were the relationships between the capitalists and the proletariat, which get ignored in the exchange model.**

3) How does Marx define a commodity and what is meant by the use-value and the exchange value of commodities?

**Marx defines a commodity as something with two characteristics: 1) it satisfies human needs 2) they have exchange value, they are not just designed for one specific person-they are of value to others, as well.**

**-The exchange value of a commodity was a ratio of how much of that commodity one could get in exchange for a given amount of some other commodity.**

4) What historical conditions are necessary for society to become a commodity-producing society, that is for a society to become “dominated in its length and breadth by exchange value”? Explain. Isn’t most of human history characterized by commodity-producing societies? Explain.

**Three conditions necessary for a society to become "commodity producing" are 1) extreme specialization of labor, where one person is doing the same one thing over and over and over again (think assembly line) 2) separation between use value and exchange value (this part I don't really understand, but it's in the book), and 3) an extensive, well developed market. Not all of human history is characterized by commodity producing societies because, way back when, people could make some of the stuff they needed to survive (think Little House on the Prairie. They made almost everything themselves; money was a rarity), so they didn't need to make things for the purpose of exchanging them. Commodity-producing societies are a relatively recent thing.**

5) Explain the way(s) that a commodity-producing society is distinguished from a capitalist society.

**I think this mostly has to do with who owns the means of production, but don't quote me on this. I think a commodity-producing society becomes a capitalist society when a select few people monopolize the means of production so that they can take a cut of production and it forces workers to sell their labor as a commodity.**

6) What does Marx have to say about the sphere of circulation or exchange? Does he find this sphere revealing/useful to understanding the critical features and “laws of motion” of capitalism? Why or why not?

**The sphere of circulation is essentially about how much parties in an exchange rob each other. If someone sells something at its actual price, nobody gets robbed, nobody gets richer. If the commodity is sold below its price, the buyer robs the seller of the surplus, while if it's sold above its price, the seller robs the buyer. This is meant to show that no value is generated in exchange; the surplus has to come from somewhere, and it comes from robbing whomever you're exchanging with. Marx didn't think this was a useful way to look at capitalism because it told you nothing about where value came from. To understand that part, you had to look at the production process.**

7) Briefly define what Marx means by (the commodity) labor-power. How is labor-power different than labor. Explain.

**Labor power is the potential to work or the ability to work, labor is the actual work you get.**

**Labor power is the determination of the wages differentials by which skilled labor was reduced to simple labor.**

8) Explain why labor-power being sold as a commodity is the defining feature of capitalism and how this distinguishes capitalism from commodity-producing society.

**Labor power being sold as a commodity distinguishes a capitalist society because in other societies you wouldn't have to sell it. Because the workers can't produce things for themselves without tools and because the capitalists have the tools, the workers must sell their labor in exchange for the power to make things.**

9) What is the exchange-value of labor-power and how is this perfectly consistent with Marx’s (and Ricardo’s) LTV? Explain. What is the use-value of labor power? Explain.

**Notes on the mentioning of this question:**

· **Marx thinks every commodity has a use value and an exchange  
value. If something is sold as a commodity, there is no use value. When a  
commodity is bought, you want it because it has value to you, so you gain and  
the seller gains because both of you are getting what you want out of that  
exchange.**

10) Explain how this difference between the exchange-value and use-value of labor power provides the capitalist with a commodity “whose use-value possesses the peculiar property of being a source of [surplus] value.”

11) What ideas did Marx attach to the following simple diagrams? Explain, being as thorough as you are able to be about what particular types of things the M’s and C’s represent.

a) C—M—C b) M—C—M’ c) M—C…P…C’—M’

**Commodities, money, commodities. This is how it works if people are able to produce things on their own. They make something, exchange it for money, and then use that money to buy different stuff.**

**Money, commodities, MORE MONEY!! This exemplifies what Marx called "buying to sell more dearly". Someone uses money to acquire something, then sells that something for more money than they paid for it. This extra cash is a surplus, and it is chasing that surplus that makes capitalists keep investing.**

**Money, commodities (capital), production time, different commodities (products), MORE MONEY!! This is essentially how capitalism works. The capitalist spends money on capital then, after production time has elapsed, they have products, or different commodities, which they can sell for a profit!**

a) C—M—C

**This is a non-capitalist system that simply produces and sells commodities to eventually acquire other commodities to use. A Commodity-Money-Commodity. The exchange of one commodity for another, the circulation of materialized social labor. The transformation of commodities into money, and the change of the money back again into commodities. Selling in order to buy. Exchange-value to money, from money to use-value.**

b) M—C—M’

**In the capitalist system it is the transformation of money into commodities, and the change of commodities back again into money. Buying in order to sell. Money in this case circulates and thereby transforms into capital, or potential capital. But, since capitalists are “misers”, they would sell for higher than originally purchased. M’ is greater than M. Unlike the C-M-C circulation, the M-C-M’ circulation ended with a greater value than it had in the beginning. The difference in M’s, was surplus value.**

**This is Marx’s general form of capital. This form is seen as merchant capitalism and is seen as “parasitic”.**

c) M—C…P…C’—M’

**In this formula it takes a capitalist’s approach to making money. A capitalist acts like the buyer, M-C, then uses whatever it bought to produce another commodity with higher value, P, to then resell it to the public in order to make more money, C’-M’.**

**M’:**

**C’ : You buy things you need to produce, you extend the work day and you end up with a different commodity. More human labor than you had to pay.**

12) According to Marx, how is it possible for firms to make profits in capitalism even in long-run equilibrium (when all things exchange at their values)? Explain in some detail and (once again) use the concepts of “use-value” and “exchange-value” in your explanation.

**Profits in capitalism come from the discrepancy between the exchange value and use value of labor. The exchange value is just the cost of a subsistence wage, while the use value is almost incalculable. And because laborers are easily replaceable, capitalists don't have to pay any more than a subsistence wage for much more labor than it should strictly buy. All this extra use value that capitalists from laborers for free becomes surplus value, and that's what generates profits.**

13) Explain the concepts of necessary labor, surplus labor and surplus value and then explain how these terms are linked to the actual struggles between capitalists and workers over the length of the working day.

**Necessary labor is the labor time a laborer would need to put in to make a subsistence wage. Surplus labor is the amount of labor time beyond necessary labor time that a laborer puts in for his boss. Surplus value is somehow derived from surplus labor, but I'm really not sure how. This explains the struggle over the work day because capitalists will want to get as much surplus labor (and thereby surplus value) from their workers as they can, so they will try to extend the work day to the extent of human endurance. This usually works because as long as workers keep reproducing, they will be replaceable, so they really have no bargaining power.**

14) How does Marx define or describe “capital” and how is it important to his arguments about profit? Explain.

**Capital is the monopolized means of production in the hands of the very few. Only once you have capital do you have profit because only then can capitalists extort time and labor from their workers.(idk not sure)**

**Capital: a social relationship because workers depend on the means of production.HTey depend on people who own and to produce for themselves.**

**In terms of capital Marx had 3 types. Merchant capital, interest-bearing money capital, and industrial capital. Merchant capital and interest-bearing capital are involved in creating any surplus value with a commodity and follows the M-C-M’ model of capitalism. Industrial capital uses production to create a more valuable product from a commodity. In terms of profit merchant capital and its counterpart acquire profit simply through increasing the price after buying a commodity. For industrial capital, a purchased commodity is literally being altered into something more valuable to sell.**

15) Contrast Marxian and utility theories of value (e.g., Say and Senior) on wage determination. That is, use plain language to express and contrast what wages will reflect (in the long run) in these two frameworks. Explain the arguments or assumptions that underlie these varying descriptions/predictions.

**Marx: laborers participate in surplus and necessary labor, but are only paid for necessary; they are coerced to stay and support themselves (Thompson). This subsistence pay should support them and provide just enough to allow them to reproduce, and thus continue the cycle of exploitation. Utilitarian: you earn the utility you contribute.**

**They are paid subsistence but other economists did not recognize that this subsistence (that they called the natural price) was a composition of the necessary labor and surplus labor, which culminated in the means to reproduce. The amount of labor and pay required to keep them coming back.**

16) So… is Marx just saying that “cheating” workers is the source of profit? (This does not seem a simple “yes or no”

answer to me.) Briefly explain.

**Marx is arguing that yes workers are being “cheated”. Workers are “freely” given the choice either to die of starvation or work. He argues that capitalism**

17) Marx has all kinds of nasty things to say about capitalists. He created a character called ‘Moneybags’ and writes of capitalists’ “unrestrained passion” and “were-wolf hunger for surplus value.” How are Smith/Say/Senior’s theories of capitalist behavior fundamentally different than Marx’s? Explain.

**Marx believed that capitalists' voracious desire for surplus value drove them into a fierce game of competition and exploitation that would know no end. He characterizes capitalists as rapacious and unscrupulous, driven by their appetites to accumulate more and more. This is contrary to Bentham, Say, and Seniors' idea of capitalist behavior. They all saw capitalists as virtuous and moderate because it was through their abstinence that they were able to accumulate enough wealth to invest in capital.**

18) On page 233 Hunt quotes Marx as referring to a group of stories or ideas as “insipid childishness.” What are those stories/ideas and which of the authors we have studied seem to promulgate them? Explain?

19) What name did Marx use to describe the actual historical processes/events that are concealed by this “intellectual food of the infant” or “insipid childishness”? Briefly describe the general features of what Marx argues is a more accurate account of this “insipid childishness” or group of stories. Recount a few of the “highlights” that Marx describes in what he

considers a more accurate portrayal.

20) Marxian analysis seems to “predict” certain outcomes over time in capitalism (even in highly competitive markets). Identify some of the “predictions” you see in Marx. In terms of general predictions about how capitalist society would evolve, discuss some of the ways in which Marx seems to have gotten it “rather wrong” and some of the ways in which he

seems to have gotten it “rather right.”

21) We’ve read the Marx chapter and we read a short excerpt and watched a video clip from Milton Friedman. Milton and Marx could not be further apart in their general views about capitalism. Given this, are you able to identify significant ways in which Milton and Marx seem to be saying similar things about capitalism? Explain. In what ways do these two seem to have fundamental disagreements about capitalism? Explain.

22) Hunt includes long sections from Marx on pages 241. In one excerpt Marx asserts that the worker “no longer feels himself to be free in any but his animal functions…. and in his human functions he no longer feels himself to be anything but an animal.” As best you can, summarize the arguments that Marx (and Hunt) is making in this section of the chapter. Do you find it at all convincing or does it seem like nonsense to you? Explain.

I will assign this reading later.

23) In The Modern Theory of Colonization, Marx says ‘the political economist…christens them “capital” under all circumstances, even when they are its exact opposite. Thus is it with Wakefield. Further: the splitting up of the means of production into the individual property of many independent labourers, working on their own account, he calls “equal division of capital.”’ Explain why Marx would argue that splitting the means of production evenly between many workers is the “exact opposite” of capital.

24) Explain the argument(s) Marx is making when he writes: “After Wakefield has contrasted the English capitalist agriculture and its “combined” labour with the scattered cultivation of American peasants, he unwittingly gives us a glimpse at the reverse of the metal. He depicts the mass of the American people as well-to- do, independent, enterprising and comparatively cultured, whilst “the English agricultural labourer is a miserable wretch, a pauper...”

25) This one is challenging but is a good barometer for your command of Marx’s arguments.

Use the excerpt from The Modern Theory of Colonization to briefly do all of the following:

**Discussion Questions: Triumph of Utilitarianism (Jevons & bit of Walras)**

1-new) What changes during the period from the mid-1840s to led Hunt to say “Within this historical context, it might seem that economists would aban1on Adam Smith’s “invisible hand” conception of a capitalist economy?” Explain why.

2-new) Hunt repeatedly argues that the contributions of Jevons, (Menger) and Walras are not particularly revolutionary. Explain his argument. If these authors are so unimportant, why does Hunt devote an entire chapter to them? Explain.

3-new) Explain the difference between general equilibrium and partial equilibrium analysis.

1) Jevons wrote to this brother that he had finally discovered (to paraphrase) the scientific form that economics must ultimately take. What did he consider to be essential to this “scientific form” and what was his new contribution? Explain. Jevons also wrote that he could hardly stand reading previous economists because they had such wrongheaded ideas. Which authors did he seem to have particularly in mind and what did he find so wrongheaded about their ideas?

2) Jevons “proved” that, in equilibrium, “particular ratios” would hold for every consumer in the economy. Describe these ratios and use plain language to thoroughly explain why that will be the case. In particular, be sure to explain how diminishing marginal utility is essential to this argument. Please explain all of this in a way that would be perfectly clear to someone who has never taken an economics course.

3) Economics, especially since the contributions of Jevons (and Walras), claims it is scientific and these “particular ratios” are central to the promise of an “invisible hand.” How do we “know” these ratios will be achieved by every individual? How would you prove they are achieved? How would you prove they are not achieved? Explain. What does this seem to imply for the “scientific” nature of neoclassical theory? Explain.

4) Briefly explain what has come to be called the water-diamond paradox. Then, carefully explain exactly how the contributions of Jevons can be used to resolve the water-diamond paradox. If you’re able, use demand curves for water and diamonds to illustrate the distinction he made between total utility and marginal utility as a part of his breakthrough.

5) The writings of Jevons have generally been treated as a “revolution” in economics separating classical theory from neoclassical theory. Describe some of the significant ways in which neoclassical theory is quite similar to classical theory. Describe some of the significant ways in which they are different (or in which neoclassical theory represents significant advances in economic thinking).

6) Walras made a pretty notable claim about competing uses of a hypothetical drug. Briefly describe this claim and then use this example to very carefully describe exactly what is means when economists assert that perfectly competitive markets are “efficient” or guided by an invisible hand to maximize society’s utility.

**Discussion Questions: Marshall and Clark**

1) Explain the difference between general equilibrium analysis and partial equilibrium analysis.

2) Hunt describes a “circular flow” model of capitalist economies on p 286. Depict this circular flow in a visual model (or sketch) that identifies 1) each economic decision maker, 2) each market and 3) each “type” of flow. What is your best guess about what point Hunt is trying to make with this description and why he thinks it’s useful to make it?

3a) Hunt argues that Marshall’s introduction of “substitutability” represented a significant break with most Classical theorists and fostered similarities between the neoclassical analysis of households and firms. Explain Hunt’s arguments in ways that someone who has never taken any economics could easily understand.

3b) Hunt argues that “modern” neoclassical theory assumes significant similarities between decision makers in households and in firms. Briefly describe these similarities and discuss how reasonable they seem to you.

3c) Hunt argues that another analytical similarity between household consumption and firm production is that they both confront diminishing “outcomes” to various activities. Briefly comment on how useful this similarity seems to describing your behaviors and those of your future employers.

3) Clearly articulate all the ways that theories of the firm (production) are nearly identical to theories of the household (consumption). It might be useful to start with all the ways that factors of production are analogous to consumption goods in the neoclassical framework, but there are other similarities as well.

Some background: Early in the semester we used some simple supply and demand analysis to demonstrate Smith’s assertion that (in an “early and rude” economy in which people made their own tools) market prices (of deer and beaver) would automatically tend toward “natural” prices – or the amount of labor embodied in commodities. We did not assert that demand curves reflected rational, utility-maximizing calculations in any way, even though they represented the quantities people were willing and able to buy at various prices.

4) Identify the (two) key assumptions that Marshall made to argue that demand curves reflect the rational, maximizing utility calculations of buyers. Explain the logic of his argument as clearly as you’re able.

5) Characterize the general arguments Marshall was making when he saw fit to include the names of Karl Marx and Baron Rothschild in the same sentence. What do you make of his argument?

6) Hunt argues that, while Marshall was a proponent of the UTV, he has more in common with Bentham, Thompson, (and Mill) than he does with Say, Senior, and Bastitat. What does he mean by that? Explain.

7) Which of the economists we’ve studied made the argument that there are fundamental differences between incomes earned as wages and as profits? Briefly explain. Which economists have argued that incomes earned as wages and as profits are very similar if not nearly identical? Briefly explain. What did Marshall argue was the source of profit? How does this compare to the arguments made by Say and Senior?

8) Marshall’s analysis of the firm was divided between three time periods. Name them and briefly explain the differences between them.

9) Define the marginal cost of a firm. Why did Marshall expect that a firm’s short term marginal cost curve would be upward sloping (for sufficiently high levels of production) in the short term?

10) Marshall argued that a firm’s marginal cost curve is the firm’s supply curve. Explain this argument in language that a non-economist could easily understand.

11) Marshall is famous for introducing the “two blades of the scissors” – supply and demand curves -- that determine price in the neoclassical economic framework. 1. Use plain language to explain exactly what individual (and market) demand curves for consumer goods represent 2. Use plain language to explain exactly what individual (and market) supply curves for consumer goods represent. More importantly, explain all the assumptions that are important to his analysis of supply and demand.

12) Clark is famous for introducing the “two blades of the scissors” in markets for inputs or the factors of production (labor, capital and natural resources). Address all the same topics that I asked you to explain for output markets in DQ## above.

13) Marshall argued that in the short run firms might earn quasi-rents, but in the long run, all quasi-rents disappeared. Explain what a quasi-rent is and why it disappeared in the “long period” (or long run).

14) Explain what is meant by constant, decreasing, and increasing returns to scale. What did Marshall expect to be true about returns to scale in the manufacturing sector? What challenge does this pose to the “invisible hand argument”? How does Marshall resolve this challenge? What do you think of Marshall’s resolution?

15) How is it possible to achieve “economies of scale” when diminishing returns to productive inputs seems to be an unavoidable law of nature at some point? Explain.

16) Marshall was an optimist who believed that economic chivalry would ultimately replace many of the “sordid and gross” pleasures that seemed too dominant in capitalist economy he was observing. Briefly explain why this statement is completely inconsistent with his utilitarian framework. Also explain how this same utilitarian framework is indispensable to the argument that markets give us “efficient” or “optimal” outcomes.

17) Marshall’s analysis of the long-period equilibrium led him to conclude that competition: i) equalized the rate of profit for all firms, ii) minimized the cost of production, and iii) resulted in all goods being sold at a price that yielded “no surplus for any class to expropriate from any other class.” Explain his argument. What does this have to do with the “invisible hand argument”?

18) Rather thoroughly develop and explain each component of Clark’s arguments about the distribution of income in capitalism (e.g., marginal physical product, price of the product, value of the marginal product). Identify every component that is linked to utility calculations of individuals. Finally, explain the argument that income distributions in capitalism are fair and appropriate.

19) Clark argued that unobstructed capitalism “assigns to everyone what he (sic) has specifically created.” Given this argument, what are the factors we would explore if we hoped to understand the fundamental causes of increasing inequality? Explain. Given his analysis, what effects would Clark predict from increasing the minimum wage? Explain. Finally, what types of policies might be appropriate for narrowing inequality in the distribution of income if one were inclined to intervene in markets? Explain.

20) Explain the ways that “making college more affordable” is consistent with Clark’s theory of income distribution. Explain. What kind of outcomes would Clark probably expect to see in labor market for HS grads and the labor market college grads if we succeed in making college more affordable and graduating a significantly larger percentage of our population from college? Explain. Finally, what outcomes would you personally expect? Explain your reasoning.

21) Nearly all neoclassical analysis assumes preferences (or utility functions) to be given and fixed. What argument does Hunt make about the importance of this assumption for the ethical theory underlying neoclassical economics? Explain.

Classical economics and neoclassical economics are both schools of thoughts that have different approaches to defining economics. Classical economics was founded by famous economists including Adam Smith, David Ricardo, and John Stuart Mill. Neoclassical economics was said to be developed by authors and scholars such as William Stanley Jevons, Carl Menger, and Leon Walras. The two schools of thought are quite different to each other in that classical economics was developed historically, and neo classical economics encompasses the kinds of economic principles and concepts followed and accepted today. The following article provides a clear outline of what each school of thought is, and how they differ to each other.

**Classical Economics**

Classical economic theory is the belief that a self-regulating economy is the most efficient and effective because as needs arise people will adjust to serving each other’s requirements. According to classical economic theory there is no government intervention and the people of the economy will allocate scare resources in the most efficient manner to meet the needs to individuals and businesses. Prices in a classical economy are decided based on the raw materials used to produce, wages, electricity and other expenses that have gone into deriving a finished product. In classical economics, government spending is minimum, whereas spending on goods and services by the general public and business investments are considered as the most important to stimulate economic activity.

**Neoclassical Economics**

Neo classical economics are the economic theories and concepts that are practiced in the modern world. One of the major underlying principles of neo classical economics is that prices are determined by the forces of demand and supply. There are three fundamentals assumptions that govern neo classical economics. Neo classical economics assumes that individuals are rational in that they act in a manner that brings forth the best personal advantage; individuals have limited income and, therefore, strive to maximize utility and organizations have constraints with regard to cost and, therefore, use the available resources to maximize profits. Finally, neo classical economics assumes that individuals act independently of one another and have full access to the information required for decision making. Despite its acceptability in the modern world, neo classical economics has invited some criticism. Some critiques question whether neo classical economics is a true representation of reality.

**Classical vs Neoclassical Economics**

Neo classical economics and classical economics are two very distinct schools of thought that define the economic concepts quite differently. Classical economics was used in the 18th and 19th century, and neo classical economics, which was developed towards the early 20th century, is followed till today.

Classical economics believes in a self-regulating economy with no government intervention, with the expectation that resources will be used in the most efficient manner to meet needs of individuals. Neo classical economics operates with the underlying theory that individuals will strive to maximize utility and business will maximize profits in a market place where individuals are rational beings who have full access to all information.

Summary:

• Neo classical economics and classical economics are two very distinct schools of thought that define the economic concepts quite differently.

• Classical economic theory is the belief that a self-regulating economy is the most efficient and effective because as needs arise people will adjust to serving each other’s requirements.

• Neo classical economics operates with the underlying theory that individuals will strive to maximize utility and business will maximize profits in a market place where individuals are rational beings who have full access to all information.