Ministry of education and science of Republic of Kazakhstan
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THEME:CLASSICAL ECONOMY

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CLASSICAL ECONOMY

WHAT WE NEED TO KNOW ABOUT THIS

Classical Economics

The market is perfect and self-sustaining

Government intervention can only be a detriment to the economy

David Ricardo

The market automatically adjusts to "booms" and busts

Supply = Demand

Historical Perspective: Classical economics came of age during and after industrialization.

Say's Law: Supply Creates its own demand. The economy is stimulated when more goods are produced.

PLAN:

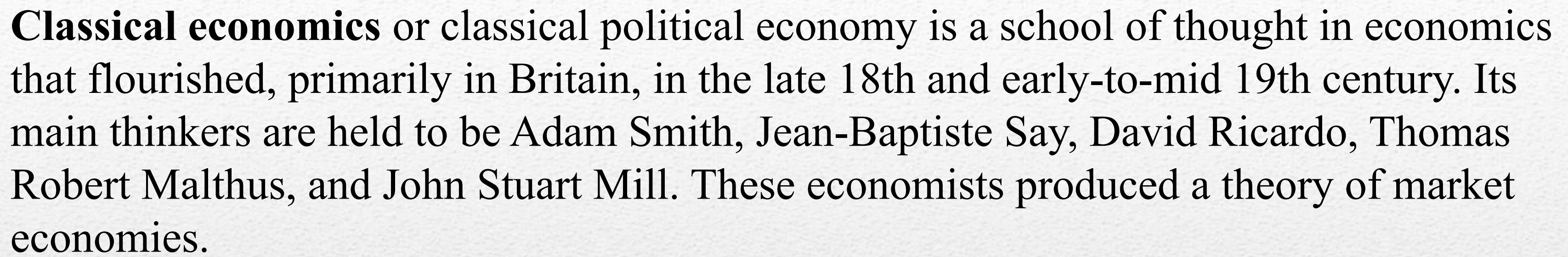
1. EXPLANATION OF CLASSICAL ECONOMY
2. HISTORY OF APPEAL
3. CLASSICAL THEORIES OF GROWTH AND DEVELOPMENT
4. VALUE THEORY
5. MONETARY THEORY

AUTHORS OF CLASSICAL ECONOMY

INTRODUCTION

The Classical School of economics was developed about 1750 and lasted as the mainstream of economic thought until the late 1800’s.

Adam Smith's Wealth of Nations, published in 1776 can be used as the formal beginning of Classical Economics but it actually it evolved over a period of time and was influenced by Mercantilist doctrines, Physiocracy, the enlightenment, classical liberalism and the early stages of the industrial revolution.


Classical economics or classical political economy is a school of thought in economics that flourished, primarily in Britain, in the late 18th and early-to-mid 19th century. Its main thinkers are held to be Adam Smith, Jean-Baptiste Say, David Ricardo, Thomas Robert Malthus, and John Stuart Mill. These economists produced a theory of market economies.

Adam Smith's The Wealth of Nations in 1776 is usually considered to mark the beginning of classical economics.

Smith acknowledged that there were areas where the market is not the best way to serve the common interest, and he took it as a given that the greater proportion of the costs supporting the common good should be borne by those best able to afford them. He warned repeatedly of the dangers of monopoly, and stressed the importance of competition. In terms of international trade, the classical economists were advocates of free trade, which distinguishes them from their mercantilist predecessors, who advocated protectionism.

The designation of Smith, Ricardo and some earlier economists as 'classical' is due to Karl Marx, to distinguish the 'greats' of economic theory from their 'vulgar' successors.

History

The classical economists produced their "magnificent dynamics" during a period in which capitalism was emerging from feudalism and in which the Industrial Revolution was leading to vast changes in society.
Classical economists and their immediate predecessors reoriented economics away from an analysis of the ruler's personal interests to broader national interests.
Adam Smith, following the physiocrat François Quesnay, identified the wealth of a nation with the yearly national income, instead of the king's treasury. Smith saw this income as produced by labour, land, and capital.
Ricardo and James Mill systematized Smith's theory. Their ideas became economic orthodoxy in the period ca. 1815-1848, after which an "anti-Ricardian reaction" took shape, especially on the European continent, that eventually became marginalist/neoclassical economics. The definitive split is typically placed somewhere in the 1870s, after which the torch of Ricardian economics was carried mainly by Marxian economics, while neoclassical economics became the new orthodoxy also in the English-speaking world.

Classical theories of growth and development

Analyzing the growth in the wealth of nations and advocating policies to promote such growth was a major focus of most classical economists. However, John Stuart Mill believed that a future stationary state of a constant population size and a constant stock of capital was both inevitable, necessary and desirable for mankind to achieve. This is now known as a steady-state economy:592–596

John Hicks & Samuel Hollander, Nicholas Kaldor, Luigi L. Pasinetti, and Paul A. Samuelson have presented formal models as part of their respective interpretations of classical political economy.

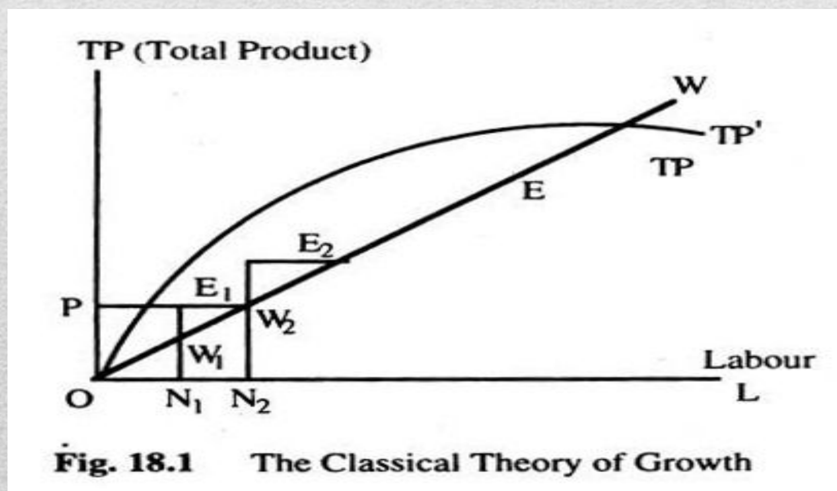


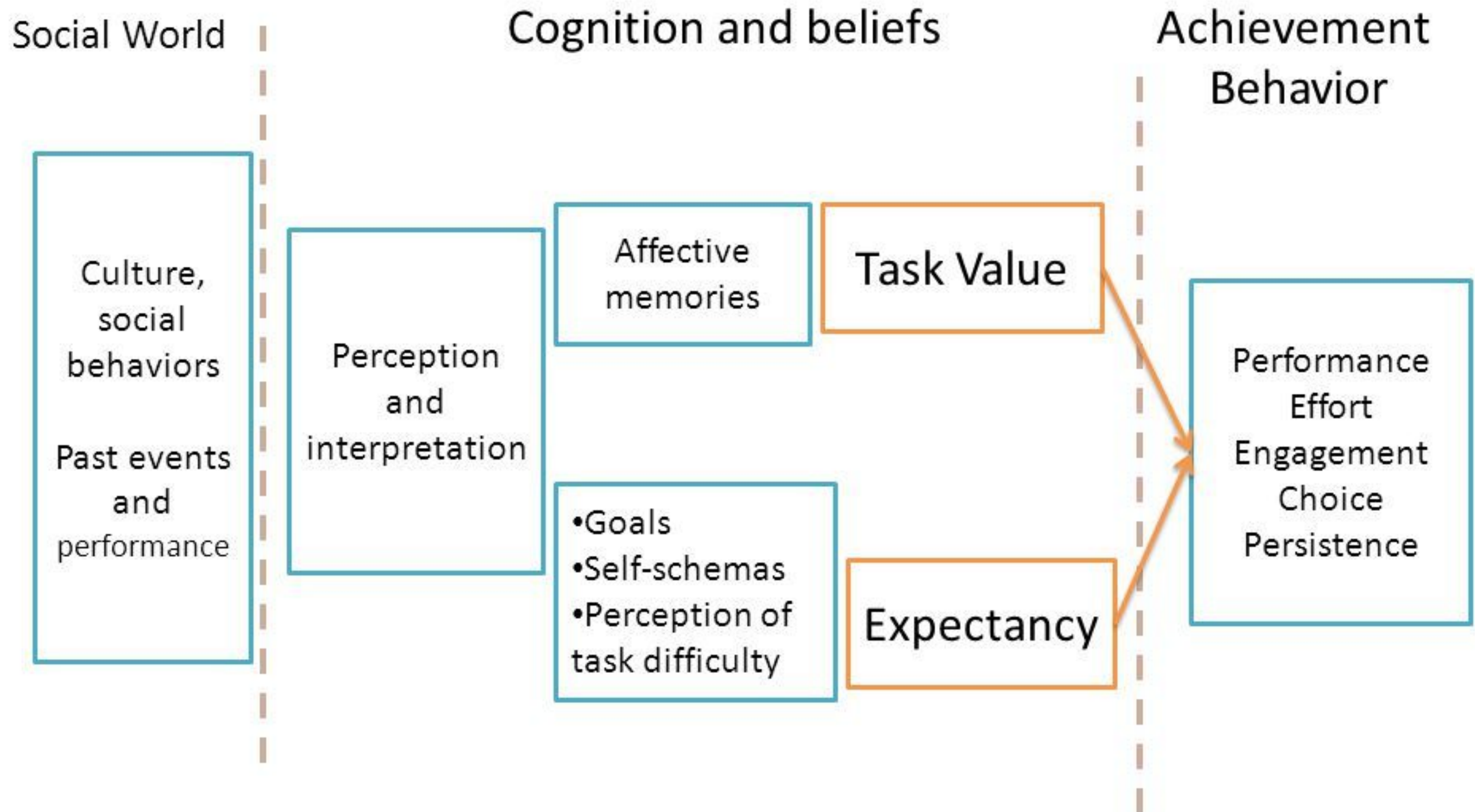
Fig. 18.1 The Classical Theory of Growth

Value theory

Classical economists developed a theory of value, or price, to investigate economic dynamics. William Petty introduced a fundamental distinction between market price and natural price to facilitate the portrayal of regularities in prices. Market prices are jostled by many transient influences that are difficult to theorize about at any abstract level. Natural prices, according to Petty, Smith, and Ricardo, for example, capture systematic and persistent forces operating at a point in time. Market prices always tend toward natural prices in a process that Smith described as somewhat similar to gravitational attraction.

The theory of what determined natural prices varied within the Classical school. Petty tried to develop a par between land and labour and had what might be called a land-and-labour theory of value. Smith confined the labour theory of value to a mythical pre-capitalist past. Others may interpret Smith to have believed in value as derived from labour. He stated that natural prices were the sum of natural rates of wages, profits (including interest on capital and wages of superintendence) and rent. Ricardo also had what might be described as a cost of production theory of value. He criticized Smith for describing rent as price-determining, instead of price-determined, and saw the labour theory of value as a good approximation.

Expectancy-value theory



Monetary theory

British classical economists in the 19th century had a well-developed controversy between the Banking and the Currency School. This parallels recent debates between proponents of the theory of endogeneous money, such as Nicholas Kaldor, and monetarists, such as Milton Friedman. Monetarists and members of the currency school argued that banks can and should control the supply of money. According to their theories, inflation is caused by banks issuing an excessive supply of money. According to proponents of the theory of endogenous money, the supply of money automatically adjusts to the demand, and banks can only control the terms (e.g., the rate of interest) on which loans are made.

Used sources:

1) Wikipedia : https://en.wikipedia.org/wiki/Classical_economics
2) Slideshare : https://www.slideshare.net/sayidxoday/classical-school-37384438
3) New world encyclopedia : http://www.newworldencyclopedia.org/entry/Classical_economics
4) "Basic economics" Thomas Sawell.