

III BA ECONOMICS

HISTORY OF ECONOMIC THOUGHT IV UNIT

# MARGINAL REVOLUTION

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- The marginal revolution took place in **the latter** half of nineteenth century.

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The marginalist school developed in many countries at the same time.

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- The term marginal Revolution is applied to the writings of the above economist because they made fundamental changes in the apparatus of economic analysis.

- The marginal Revolution

# The marginal Revolution

And they started looking at some of the important economic problems from altogether new angle different from the classical economist.

Marginal economist has been used to analyze the single firm and its behavior, consumer behavior, the market for a single product, and the formation of individual prices.

Marginalism dominates western economic thought for nearly a century until it was challenged by Keynesian attack in 1936.

Keynesian economist however shifted the sphere of enquiry from microeconomics to macroeconomics, where the problem of the economy on the whole is analyzed.

# The marginal Revolution

The leading early marginalist felt the need for thoroughly revising the classical doctrines, especially the theory of value.

They thought by rejecting the labour theory of value and by advocating the marginal theory of value, they could strike at the theoretical basis of socialism.

The classical theory emphasized on supply, production and cost. But the marginalist school emphasizes on consumption, demand and utility.

# The marginal Revolution

Utility is key word of marginalist school.

And they have used this concept to shift the emphasis from supply to demand and **from cost** to utility as the basis of value.

The marginal analysis is regarded as an innovation in the method of approach **of science**.

As has already be noted, the essential elements of modern techniques, namely the emphasis on demand and utility and the recognition of marginal utility were adopted in 19th century.

The utility approach is subjective approach

# The marginal Revolution

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Value is the central problem in exchange.

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The classical economist explains value in term of labour. It was an objective theory.

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The classical theory was not strong enough to withstand the attacks of the growing working class movement.

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So the early marginalist abandoned the labour theory of value

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The marginal utility theory school takes consumption as the starting point. The school claims that its theory of value independent of any social order.

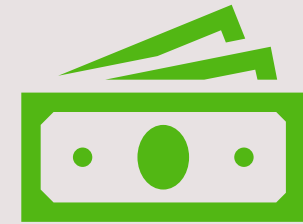
# Essential ideas of the Marginalist school



The marginalist school, concentrated on the margin' to explain economic phenomena.



According to this school, all economic discussions are made at the point of margin.



The marginal utility school extended the marginal principle to all economic doctrine.

# Essential ideas of the Marginalist school...

The approach of the marginalist school is microeconomics rather than the macroeconomics.

The marginalist school does not deal with the aggregate economy. It deals with decision making of individual buyers and sellers, price of single commodity, the output of single firm and so on.

In other words, it is concerned mainly with the problem of partial equilibrium analysis.



## Essential ideas of the Marginalist school...

- The marginal school has adopted the abstract and deductive method (deductive methods involve beginning with a general concept or given rule and moving on to a more specific conclusion) of classical economist.



# Essential ideas of the Marginalist school

- The marginal utility analysis is based on the assumption of competition. There is larger buyer and sellers who can influence the decision making by their action.



# Essential ideas of the Marginalist school

- While the classical economist consider the cost of production, that is supply, as the determinant of value, the marginalist school considered demand to be important element in the determination of value.



## Essential ideas of the Marginalist school

- The analysis of marginal school is based on the subjective and psychological approach.



# Essential ideas of the Marginalist school

The marginalist approach is based on the assumption of rational behavior on the part of individuals.

The marginalist assumes that man acts in a rational manner in balancing their pleasures and pain and in measuring the marginal utilities of different values.

# Essential ideas of the Marginalist school

The marginalist school believes that economic forces generally tend towards equilibrium.



Lastly the marginal school supported the laissez fair policy of classical economist.