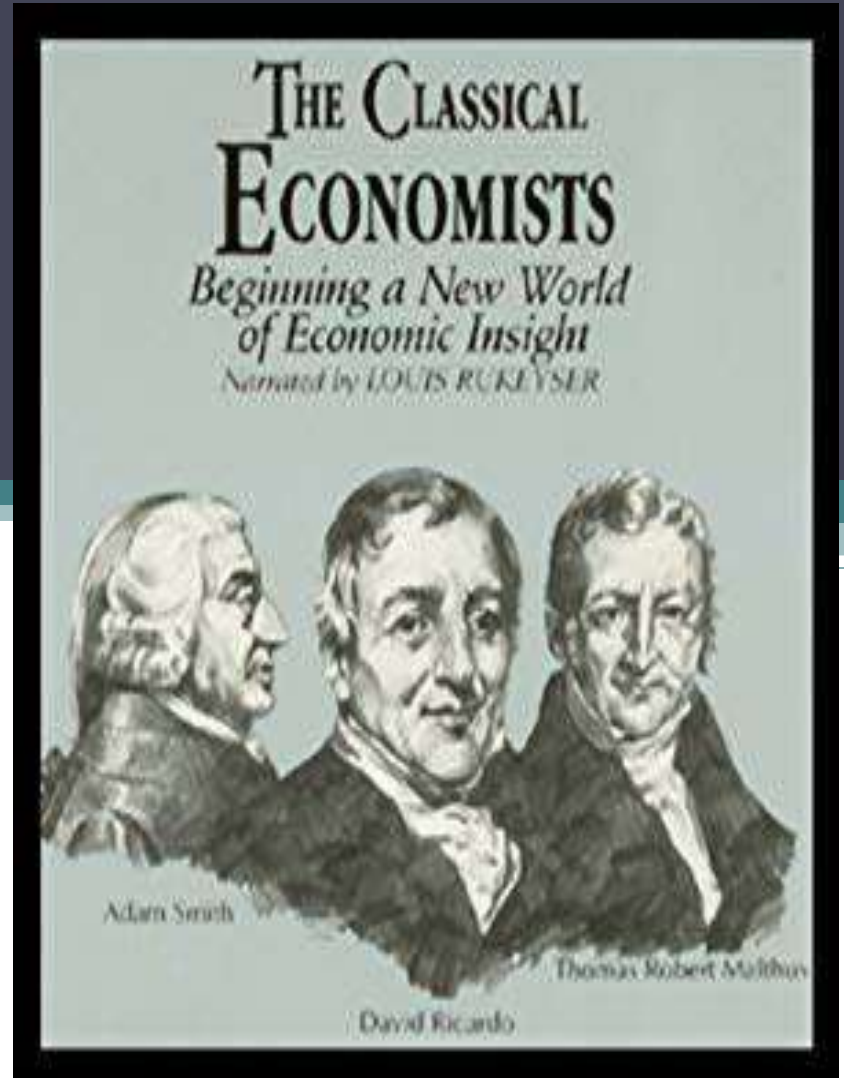


Classical School of Thought

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Introduction

- After physiocracy, a body of doctrines which existed in England over a century is named as Classicism in Economic Thought.
- These doctrines were propounded by Adam Smith and his followers in the later half of 18th century.
- Adam Smith has been regarded as the father and leader of the British Classical School.
- Classical School refers to economist who wrote between the period 1750 to 1850.

Pillars of Classicism

- Adam Smith
- David Ricardo
- Thomas Malthus

Followers of Classical School(Classical Traditionist)

- J.S.Mill
- Jean Baptiste Say



Meaning of "Classic"

- It is used to refer to economic writings of the period from Adam Smith to J.S.Mill.
- J.M.Keynes has used the term to denote the teachings of Marshall and his followers.
- Schumpeter used the term to mean the original work that went before.
- It was widely popular, so it was called as classic.

Characteristic Features of Classical School

LAISSEZ FAIRE:
that
Government is
best which
governs the least

**PERFECT
COMPETITION:**
Production,
Exchange and
distribution are
guided by market
forces.

Full Employment
Level :Economy
was self Adjusting
and any deviation
would
automatically get
adjusted

Believed in
existence of a
harmony of
interests.

Importance
of all
economic
activities.

Universality
of Economic
Laws

They were the first
to pay attention to
problems of
Economic Growth
and development

Approach
was
macro in
nature.

Say's
Law of
Market

Adam Smith(1723-1790)

- Book: "An Enquiry into the nature and causes of wealth of nations".(1776)
- Smith's Main Economic Ideas
 1. Labour and Division of Labour: He distinguishes between productive and unproductive labour and denotes labour as an important source of wealth. Division of labour increases productivity of labour and thereby wealth of nation.
 2. Capital: It is fountain of national wealth. Capital is an instrument of Production, fund maintaining the workers and a source of revenue.
 3. Value: Distinguishing between value in use and value in exchange. The first is referred as utility of commodity and the second as power of purchasing other goods.

David Ricardo(1772-1823)

- Three Basic Premises used by Ricardo:

1. Rent Theory
2. Malthus' Population Theory
3. Wages Fund Theory

- His Economic Ideas:-

- ☐ Value: He points out that in order to have exchangeable value a commodity must have utility.
- ☐ Differential Theory of Rent:
 - a. Land is of different qualities.
 - b. Labour is homogeneous.
 - c. As population increases , price of corn rises bringing marginal land into production.
 - d. Rent accrues to best land, no rent on marginal land.

Thomas Malthus(1766-1834)

- Three propositions:-
 - I. Population cannot increase without food.
 - II. Population invariably increases if food is available.
 - III. "The superior power of population cannot be checked without producing misery or vice."
- Food Production increases arithmetically ,limited by land and diminishing returns.
- Population increases geometrically.
- Theory of Glut:-He never agreed with Says law of market. There can be an excess of supply in relation to demand, as in a general recession or depression, with high and persistent underutilization of resources



THANK YOU!