

# **"History of Modern Economic Thought"**

**Dr. Anirban Mukherjee**

**Assistant Professor**

**Department of Humanities and Sciences**

**IIT-Kanpur**

**Kanpur**

**Module 1**  
**Pre Classical Thought**  
**(Lectures 1, 2 and 3)**

**Topics**

**1.1 Introduction**

**1.2 Mercantilism**

**1.3 Physiocracy**

## Module 1

### Lecture 1

#### Topic

#### 1.1 Introduction

#### 1.1 Introduction

- The current course talks about the development of economics as a discipline in the post-industrial revolution world.
- The industrial revolution not only brought in unprecedented growth in per capita income it also left a deep impression on the social thinkers which resulted into the birth of a new discipline called Economics. Although there were scholars writing about economic issues from the pre-industrial revolution period – ranging from Kautilya to Plato – the post industrial revolution era saw the most systematic and persistent development of economics as a separate discipline.
- This was partly because the industrial society was characterized by a social and production organization which was radically different from the past era. But more importantly unlike the earlier societies, the capitalist society would not make people work by coercion. Hence, it was important to design incentive schemes to make people work. Hence, it is not surprising that the most dominant school of thought in economics sees the problem of economic decision making as the problem of incentives.
- This course takes the standard path by tracing the path of intellectual development from Adam Smith to the contemporary economic thoughts. But while doing so it also brings forth the critiques of the existing curriculum which is dominated by the Neo-classical tradition. The criticality invoked by this course is somewhat crucial for appreciating the development of economics. Unlike physical science, where scientists thrive to reach at *the truth* and therefore only one tradition is more likely to emerge which is the closest to the truth, social sciences ideally should embrace pluralism providing students with different perspectives of viewing society. For example, gender viewpoint and ethnic view point coexist without making any one of them a lesser truth. Economics in this respect is different from other social sciences at least when it comes to undergraduate texts. Economics as it is taught in undergraduate classes posits neo-classical economics (more specifically the Marshall-Walras tradition) as the truth. There is

no denying that the Walrasian paradigm has a lot of advantages as a tool of analysis. But the fundamental lessons from neo-classical economics upholds market as the best way of resource allocation which is not consistent with many other equally compelling paradigms of economics. Some of dissenting paradigms were formulated in the nineteenth-early twentieth century (Marx, Veblen) while some are more recent (information economics, game theory).

- The criticisms laid against the Walrasian paradigms can be internal/external critiques. The internal criticism accepts the premise of self-seeking individuals but criticizes fundamental theorems of welfare economics. These are criticisms formed from the point of view of information economics. The external criticisms, mainly formed by Marx and Veblen, denounces the inductive tradition of neo classical economics which analyzes the atomistic individuals to gain insight about the society. In these views, the core function of economics is not to analyze allocation under a specific institutional set but to understand how institutions (or systems for Marx) change over time.
- The course is arranged chronologically to a large extent. We start with pre-classical economics theories such as physiocrats and mercantilists.
- In the next section we move on to classical political economics to study the works of Adam Smith, David Ricardo, Malthus and Karl Marx.
- Then we move on to the basic tenets of neo-classical economics including the general equilibrium framework of Walras.
- Next comes the information economics critique of Welfare theorem argued by Stiglitz.
- In the next few section we develop the controversy between the classical and Keynesian macroeconomics.
- This is followed by the recent developments in macroeconomics which takes the form of New Classical, New Keynesian and Real Business Cycle models.
- Then we conclude with the recent developments in empirical economics and micro-economics.
  - Here we try to losely relate emergence of of certain ideas with some historical events. Here we present a time map of major historical events and locate the thinkers in that map.

NPTEL- History of Modern Economic Thought

