Alfred marshall

People

Alfred Marshall became one of the most influential economists of his time. His book, Principles of Political Economy (1890) brought together the theories of supply and demand, of marginal utility and of the costs of production into a coherent whole. It became the dominant economic textbook in England for a long period . Born in London, and educated at St John's College, Cambridge, Marshall took themathematicstripos.

By 1868 he was college lecturer in moral sciences at St John's College, with particularresponsibilityfor teaching political economy. In 1885 he became professor at Cambridge University, retiring in 1908. Marshall was regarded as one of the founders of the neoclassical school in economics and the most influential figure in the marginalist tradition of British economics. He dominated economics at Cambridge University almost to his death with many disciples, including A. C. Pigou, the young J. M. Keynes, and D. H. Robertson.

His major contributions related to the economics of the stationary state, welfare economics, and partial equilibrium analysis; although claims could be made on his behalf for much that became part of economics textbooks over generations, including innovations relating to utility theory, economies of scale, and supply curves. Marshall saw economics as concerned with those aspects of human behavior open to pecuniary influences and sufficiently regular and ubiquitous to permit statements of broad scope and some persistence.

While maintaining that some heeded moral imperatives might be impervious to pecuniary considerations, he conceded that most behaviors lay within the ambit of the measuring rod ofmoney. On the other hand, he emphasized thatmotivationwas not merely a matter of pursuing pecuniary self interest, even broadly conceived to include interests offamilyand friends. He stressed the human desire for social approbation or distinction, and the pleasures of skilful activity. Marshall developed a number of economic theories that main of which are the following:

Demand Theory Marshall’s treatment of the theory of demand is sketchy, concentrating on the demand for a single commodity, or commodity group, against a loosely defined background. One of the outcomes of his Demand Theory is that demand price and consumer surplus are proportional to the marginal utility and the utility benefit, respectively, the proportionality factor being the reciprocal of the individual's marginal utility of money. This result is fundamental for Marshall’s welfare analysis.

The now-familiar concept of demand elasticity - propor¬tional quantity change divided by proportional price change -was first defined by Marshall. Production and Long-Period Competitive Supply In deriving the long-period supply curve of a commodity, Marshall envisages production as organized by firms, typically family businesses. Each firm strives to minimize its production costs, substituting one productive factor or production method for another according to the Principle of Substitution.

In its simpler forms this involves marginalist adjustment to bring relative marginal value products into line with relative marginal costs. But more generally, the Principle of Substitution is akin to a natural selection process, being “ a special and limited application of the law of survival of the fittest” . Marshall’s firms do not have costless access to a common production function, but must grope and experiment their way to cost-reducing modifications. The long period supply curve is defined for a given state of general scientific and technical knowledge. But each firm must explore this to some extent anew.

The conception of competition in Marshall’s manufacturing case is much closer to later ideas of imperfect or monopolistic competition than to modern notions of perfect competition. Products are differentiated and firms are not price takers. Even if the difficulties of rapidly building up a firm’s internal organization can be overcome, the resulting enlarged output can not be sold at a price covering cost - even granted substantial scale economies in production - without going through the slow process of building up a clientele and shifting the firm's particular demand curve.

The time this takes is assumed to be considerable relative to the duration of the firm's initial vitality. But in some cases the difficulties of rapid expansion may be overcome. They may not have been very severe, as when different firms' products are highly substitut¬able, or the firm's founder may have unusual genius. In such cases the industry will pass into a monopoly or be dominated by a few, strategically-interacting firms, or ‘ conditional monopolies’ as Marshall termed them . Price Determination and Period Analysis

The long-period supply curve for any good indicates for each market quantity the least price at which that quantity will continue indefinitely to be supplied. The equilibrium price and quantity (long period) are determined by the intersection of this supply curve with the negatively sloped market demand curve, indicating the highest uniform price at which any total quantity can be sold. In an agricultural case, equilibrium will be unique as the supply curve slopes positively. But in a manufacturing case, the supply curve, as well as the demand curve, will have negative slope, so that multiple equilibrium can occur.

Equilibrium is adjudged locally stable if demand price is above (below) supply price at a quantity just below (above) the equilibrium quantity. The intuitive justification for this is that the actual price of any available quantity is determined by the demand price, while quantity produced tends to increase whenever an excess of market price over supply price promises high profits, while it tends to decrease in the opposite case. Period analysis is Marshall's most explicit and self-conscious application of the comparative-static, partial-equilibrium method with which his name will always be associated.

As he observed, the most important among the many uses of this method is to classify forces with reference to the time which they require for their work; and to impound in Ceteris Paribus those forces which are of minor importance relatively to the particular time we have in view Normal Value and Normal Profit Normal value is defined as the value which would result " if the economic conditions under view had time to work out undisturbed their full effect" . It is contrasted with market value, which is " the actual value at any time" .

Normal value is hypothetical, its role being to indicate underlying tendencies. The normal value of a commodity may approximate its average value over periods sufficiently long for the " fitful and irregular causes" , which dominate market value to cancel out, but this should not be presupposed automatically outside a hypothetical stationary state. Profit was viewed by

Marshall as the residual income accruing to a firm's owner, a return to the investment of his own capital and to the pains he suffers in exercising his " business power" in planning, supervision and control.

Normal profit is essentially an opportunity cost, the minimum return necessary to secure the owner's inputs to their current use, or rather to accomplish this for an owner of normal ability. Marshall presumes that there is a large and elastic supply of versatile actual or potential owner managers of normal ability. In long-period equilibrium each of these must just receive the same normal rates of return on his investment and exercise of business power whatever his line of business. The brief survey of economic theories constructed by Alfred Marshall provides the grounds to maintain that the main field of his activity was macroeconomics.

His theories include most of Ten Principles of Economics. Specifically such principles as ' People face tradeoffs' and ' The cost of something is what you give up to get it' and ' Rational people think at the margin' are considered in his Demand Theory, while principles ' Markets are usually a good way to organize economic activity' and ' Governments can sometimes improve market outcomes' are considered in interrelated markets and distribution theory; and finally the principle ' Prices rise when the government prints too much money' is included in his monetary theory.

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