

Hayek and Alfred Marshall

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Hayek The reconstruction of society based on rational lines is the of critical discussion today. While it has been long believed that rationality and order are the best ways to shape the society, the issue of socialism has been underresearched. Especially, its economic aspect needs to be clarified. Namely, the problem here arises when a few purposes start competing for the resources that are available. Prices and cost influences the decision making on how and what exactly to produce. Functioning of the price system is one of the ways to solve existing economic problems. While the price system has the disadvantages of its own, it's should still be thought of as a marvel of the economically driven coordination.

Hayek explains that the contrast exists between the natural and social sciences. In the sciences of the natural type, if advances are to be made, scientists should recognise that things are actually not what they might seem. Science undoubtedly dissolves the existing categories of subjective experience only to replace them with causes that are hidden and lie beneath the surface. Hayek believes that contrary to this principle the study of society ought to take to use as its raw material the subjective ideas and beliefs expressed by members of the society. To illustrate, Hayek says, “ the position of man, midway between natural and social phenomena (...) brings it about that the essential basic facts which we need for explanation of social phenomena are part of the common experience, part of the stuff of our thinking” (Hayek 126). In brief, one should perceive the society in relation to the role of men's conscious reflection of the done actions. While people in a society are all the time choosing among a variety of choices of how to act, in a collective sense the outcome is an unintended result of decisions taken consciously.

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Central planning is a wrong way to shape the social economic order. Hayek is against centralization, when economic planning is carried out by one authority over the system, but thinks that this economic planning has to be distributed among many individuals. Based on his review of the Mises's work, Hayek agrees that rational calculation, applicable to an economic order, has been made impossible by socialism the way Hayek saw it functioning in practice. Indeed, central direction of the overall economic activity at once at distribution of the income that is not dependent on private property in the situation when output is greater than production is doomed to failure. Yet, Hayek believes, other ways may be looked for to achieve socialist ideals. Two conclusions were made by critics of Mises's discussion: free competition should be made more versatile or abandoned completely so that no free choice of consumer/occupation exists.

Marshall (Questions)

Question 1

1. Why does Marshall prefer to use partial equilibrium models rather than general equilibrium?

Question 2

2. How can Marshall's ideas be viewed in the context of macroeconomics?