

PAPER-6: ECONOMIC THOUGHT AND POLITICAL ECONOMY

B.A ECONOMICS HONS

SEMESTER III

5 MARKS SHORT ANSWER QUESTIONS

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10 MARKS QUESTIONS

1. Describe the Economic thoughts of Adam Smith of classical school
2. Explain about the Sociological theory of Karl Marx.
3. What are the Economic thoughts of Fabian Socialists? Explain.
4. Explain the Economic thoughts of Alfred Marshall.
5. Write about Keynesian School of Economics.
6. Explain about the Institutional school of Gunnar Mirdal.
7. Describe the Behaviourist School of Herbert Simon.
8. Explain about the ancient thought of Kautilya.
9. Write about modern thoughts of Dr. B R Ambedkar.
10. Explain about the Contemporary thought of Amartya Sen.
11. Explain the basic features of political Economy.
12. Explain the role of political parties for economic development in India.

1. Mercantilism

1. Mercantilism, economic theory and practice common in Europe from the 16th to the 18th century (period of proto-industrialization) that promoted governmental regulation of a nation's economy for the purpose of augmenting state power at the expense of rival national powers.

2. Most notable mercantilists are Thomas Mun in England, Jean-Baptiste Colbert in France and Antonio Serra in Italy,

3. Precious metals, such as gold and silver, were deemed indispensable to a nation's wealth. If a nation did not possess mines or have access to them, precious metals should be obtained by trade.

4. It was believed that trade balances must be "favourable", meaning an excess of exports over imports.

5. Colonial possessions should serve as markets for exports and as suppliers of raw materials to the mother country, Manufacturing was forbidden in colonies, and all commerce between colony and mother country was held to be a monopoly of the mother country.

6. Mercantilism is a national economic policy that is designed to maximize the exports, and/or minimize the imports, reduce a possible current account deficit, accumulate monetary reserves through a positive balance of trade. They emphasised on manufactured goods.

2. Physiocracy

1. Physiocracy is also known as the "Agricultural System". Economic thinkers who contributed to the growth and development of physiocracy have been called as physiocrats.

2. Physiocracy believed that government policy should not interfere with the operation of natural economic laws and that land is the source of all wealth. It is generally regarded as the first scientific school of economics.

3. Their theories originated in France and were most popular during the second half of the 18th century immediately preceded classical economists.

4. Physiocracy etymologically denoted the "rule of nature". They also pictured a predominantly agricultural society and therefore attacked mercantilism not only for its mass of economic regulations but also for its emphasis on manufactures and foreign trade at the cost of agriculture. 5. Again, whereas mercantilists claimed that coin and bullion were the essence of wealth, the physiocrats asserted that wealth consisted solely of the products of the soil.

6. They considered only agricultural labor to be valuable. As agricultural revolution was already taking place in England in France also attention was diverted to agriculture.

7. The French farmers were largely exploited by the landlords who used to take bulk of the produce as well as all taxes were levied on poor farmers.

8. Again, the market for agricultural goods were restricted because of Mercantilists promoted markets for industrial goods.

9 Physiocrats" revolt against mercantilism was on the ground that their policies are causing excessive harm to the nation.

3. David Ricardo

David Ricardo was born April 18, 1772, in London, England and died on September 11, 1823, Gatcombe Park, Gloucestershire. He was an English economist who gave systematized, classical form to the rising science of economics in the 19th century. His laissez-faire doctrines were typified in his Iron Law of Wages, which stated that all attempts to improve the real income of workers were futile and that wages perforce would remain near the subsistence level.

Ricardo was the third son born to a family of Sephardic Jews who had emigrated from the Netherlands to England. At the age of 14 he entered into business with his father, who had made a fortune on the London Stock Exchange. By the time he was 21, however, he had broken with his father over religion, become a Unitarian, and married a Quaker. He continued as a member of the stock exchange, where his talents and character won him the support of an eminent banking house. He did so well that in a

few years he acquired a fortune, which allowed him to pursue interests in literature and science, particularly in the fields of mathematics, chemistry and geology. His important books 1. The High Price of Bullion, a Proof of the Depreciation of Bank Notes (1810) and 2.The Principles of Political Economy and Taxation (1817)

4. What is Neo-Classical Economics

Neoclassical economics is a broad theory that focuses on supply and demand as the driving forces behind the production, pricing, and consumption of goods and services. It emerged in around 1900 to compete with the earlier theories of classical economics.

Neoclassical economics emerged as a theory in the 1900s.

Neoclassical economists believe that a consumer's first concern is to maximize personal satisfaction, also known as utility. Therefore, they make purchasing decisions based on their evaluations of the utility of a product or service. This theory coincides with rational behaviour theory, which states that people act rationally when making economic decisions. In other words, people make a logical choice between two options based on their perception of which one is better for them.

These principles can be summed up in three assumptions that underpin neoclassical economic theory:

1. Rational thinking: People make rational choices between options based on the value that they identify in each choice.
2. Maximizing: Consumers aim to maximize utility, while businesses aim to maximize profits.
3. Information: People act independently based on having all the relevant information related to a choice or action.

5.Vilfredo Pareto

Pareto, was an Italian engineer, sociologist, economist, and philosopher. Born in Paris to Italian exiles, Pareto moved to Italy to complete his education in mathematics and literature. After graduating from the Polytechnic Institute in Turin in 1869, he applied his prodigious mathematical abilities as an engineer for railroads. Throughout his life Pareto was an active critic of the Italian government's economic policies. Pareto did not study economics seriously until he was forty-two. In 1893 he succeeded his mentor, Leon Walras, as chair of economics at the University of Lausanne. His principal publications are *Leçons d'économie politique* (1896-1897), Pareto's first book, which he wrote at age forty-nine; and *Manual of Political Economy* (1906).He made several important contributions to economics, particularly in the study of income distribution and in the analysis of individuals' choices. His legacy as an economist was profound.

Pareto's important ideas may be summarized as follows:

1. In his methodology, Pareto treated economics as a pure economic science which will be free from ethical considerations.
2. Pareto contributed substantially to the development of new Welfare Economics. He developed an optimality criterion by which social welfare resulting from an economic action can be measured.
3. Another important contribution by Pareto was the law of income distribution. According to him inequality was a result of unequal human capacities.

6. Ronald Coase economic thought

Ronald H. Coase was an economist who made path breaking contributions to the fields of transaction cost economics, law and economics and New Institutional economics. Coase was awarded the Nobel Memorial Prize in Economic Sciences in 1991 for his elucidation of the role of transaction costs, property rights and economic institutions in the structure and functioning of the economy.

Understanding Ronald H. Coase:

Coase was born in England in 1910. He was an only child and suffered from some weakness in his legs that required him to wear braces and later discovered he possessed an early aptitude for learning in school. He attended the University of London where he entered the London School of Economics. In 1951, he came to the United States and began teaching at the University of Buffalo. From there, Coase went on to teach at other universities, including the University of Virginia at Charlottesville and the University of Chicago Law School, where he would spend the majority of his career. Coase was editor of the Journal of Law and Economics and a member of the Mont Pelerin Society as well.

Despite his success, Coase was not one to brag about his achievements. He referred to himself as an accidental economist, having ended up studying in the field because he didn't meet the Latin requirement to study his first choice of history.

Coase's notable contributions to economics are the transaction cost theory of the firm, the Coase Theorem of externalities and 50 property rights, and challenging the theory of public goods. Coase's contributions all fall within and developed the general field of New Institutional economics, including transaction cost economics as well as law and economics.

7. Behaviourist School

Behavioural economics is grounded in empirical observations of human behaviour, which have demonstrated that people do not always make what neoclassical economists consider the "rational" or "optimal" decision, even if they have the information and the tools available to do so.

For example, why do people often avoid or delay investing in 401ks or exercising, even if they know that doing those things would benefit them? And why do gamblers often risk more after both winning and losing, even though the odds remain the same, regardless of "streaks"?

By asking questions like these and identifying answers through experiments, the field of behavioural economics considers people as human beings who are subject to emotion and impulsivity, and who are influenced by their environments and circumstances.

This characterization draws a contrast to traditional economic models that have treated people as purely rational actors, who have perfect self-control and never lose sight of their long-term goals or as people who occasionally make random errors that cancel out in the long run.

Several principles have emerged from behavioural economics research that have helped economists better understand human economic behaviour. From these principles, governments and businesses have developed policy frameworks to encourage people to make particular choices.

8 Goutam Buddha.

Buddhist economics is a spiritual and philosophical approach to the study of economics. It examines the psychology of the human mind and the emotions that direct economic activity, in particular concepts such as anxiety, aspirations and self-actualization principles. In the view of its proponents, Buddhist economics aims to clear the confusion about what is harmful and what is beneficial in the range of human activities involving the production and consumption of goods and services, ultimately

trying to make human beings ethically mature. The ideology's stated purpose is to "find a middle way between a purely mundane society and an immobile, conventional society".

The most fundamental feature of Buddhist economics is seeing "people interdependent with one another and with Nature".

Sri Lankan economist Neville Karunatilake wrote that: "A Buddhist economic system has its foundations in the development of a co-operative and harmonious effort in group living. Selfishness and acquisitive pursuits have to be eliminated by developing man himself". Karunatilake sees Buddhist economic principles as exemplified in the rule of the Buddhist king Ashoka.

Bhutan's King Jigme Singye Wangchuck and its government have promoted the concept of "gross national happiness" (GNH) since 1972, based on Buddhist spiritual values, as a counter to gauging a nation's development by gross domestic-product (GDP). This represents a commitment to building an economy that would serve Bhutan's culture based on Buddhist spiritual values instead of material development, such as being gauged by only GDP.

U.S. economics professor Clair Brown sets up a Buddhist economics framework that integrates Amartya Sen's capability approach with shared prosperity and sustainability. In her economics model, valuation of economic performance is now well the economy delivers a high quality of life to while it protects the environment. In addition to domestic or consumption), measuring economic performance includes sustainability, and activities that create a meaningful life. Person's well-being depends on cultivation of inner (spiritual) health even more than outer (material) wealth. Explain about the Modern thought of Dadabhai Naoroji.

9. Dadabhai Naoroji

Dadabhai Naoroji (1825-1917), the Grand Old Man of India, was the father of Indian nationalism. He was from a rich Parsi family of Bombay and was an intellectual, educator and a political and social leader. Naoroji was elected President of the Congress in 1886. He died in Bombay on 30 June 1917, at the age of 91. He was the first Indian to estimate the national income of India. Naoroji published Poverty and Un-British Rule in India in 1901. His book brought attention to the draining of India's wealth into Britain.

Economic Ideas of Naoroji:

1. Poverty: The economic ideas of Naoroji are found in his celebrated work: "Poverty and Un-British Rule in India". He considered poverty as the major problem of India and attributed the mass poverty of India to the British rule. According to him, the continuous exploitation of India by the British government and the consequent draining of Indian wealth to Britain was the reason for the poverty of Indians. He estimated the per capita income in Bombay Presidency for the years 1867-70. He found that it was Rs. 20 and reflected the poverty of the people as he found that at least Rs. 34 is needed to satisfy the minimum needs of life.

2. The Drain Theory: Dadabhai Naoroji is known for drain theory by which he focused on the drain of India's wealth to England through the colonial rule. The consequence of foreign domination was the drain of wealth of India to Britain. Through his work with economics, Naoroji sought to prove that Britain was draining money out of India. The drain of wealth took place in a number of ways. First large remittances were made by the British officials of their savings in India. Second large remittances were made in the form of salaries

10. Mahendra Nath Roy (M N Roy)

Mahendra Nath Roy (1887-1954), born in West Bengal, he was prominent Indian philosopher of 20th century. He was father of Indian communism. He was a political philosopher and speaker. He tried in many ways to spread the philosophy of communism in India. He gives much importance to humanism. Major works India in transition, India's problems and its solution. Labour party, nationalism, people's plan. According to his concept peoples plan were introduced in India.

Although initially a supporter of the Indian National Congress, he left it over its attitude to the war. He rejected political parties and proposed a network of people's committees as the way to democracy, publishing his radical ideas in a manifesto on the "New Humanism", which proposed a scientific, materialist, humanist philosophy. He traced morality to its biological roots and suggested that human progress depended on progress towards liberty and truth. In 1948 he launched the Radical Humanist Movement in India, which in 1952 joined with other humanist groups in Europe and America to found the International Humanist and Ethical Union (now Humanists International). Roy was one of the first Vice- presidents. The humanist centre in Bombay is called the M.N.Roy Memorial Human Development Campus.

Roy's life and political activism were based on his humanist values. His life-long passion, and a constant element in his long and varied career, was the desire for liberty.

11. Economic Liberalism.

Economic liberalism refers to the ideology that supports the idea of an economic system governed by individual rights. It means that the government refrains from engaging in industrial and commercial activities and that it should not interfere 'with the economic relations between individuals, groups of people, classes, or entire nations.

Wealth and property are the two pillars of economic liberalism. It is the foundation of capitalism and challenges the guiding policy while gaining from the state's preferences. Free trade, deregulation, tax reductions, privatization and the flexibility of the labor market are all features present in an economically liberal country.

12. Bureaucracy.

A bureaucracy is any organization composed of multiple departments, each with policy and decision-making authority. Bureaucracy is all around us, from government agencies to offices to schools, so it's important to know how bureaucracies work, what real-world bureaucracies look like, and the pros and cons of bureaucracy.

The meaning of the word 'bureaucracy' is 'government with a small desk. This term originated in France in comparison to the small desks used by the king's officials to do king's business. In this modern world the purpose of a bureaucracy is administration of the day-to-day business of a government or society. The government's bureaucracy operates on three levels namely National, State and Local levels. Some of the functions of bureaucracy are as follows:

Its main work is to implement Governmental Policies and Laws- Government policies and laws can really achieve their target only when these are effectively implemented by the civil servants.

Function of in Policy-Formulation: Civil Servants supply the desired data needed by the political executive to formulate the policies. In fact, Civil servants themselves formulate several alternative policies and describe the pros and cons of each. The Political Executive then selects such policy as the governmental policy.

Function of Running Administration: To tackle the day-to-day administration in accordance with the policies, laws, rules, regulations and decisions of the government is also the key responsibility of the bureaucracy.

Function of Advisory: One of the main functions of the bureaucracy is to advise the political executive. As qualified, experienced and expert civil servants work in all government departments, they provide expert advice and information to the ministers.

Functions in Legislative Work: The civil servants play an important role in law-making. They draft the bills which are submitted by the ministers in the legislature for law-making.

13. Indian Judiciary.

The Indian administration is divided into three branches. Legislature, Executive and Judiciary. While the first two are interdependent, the Indian judicial system is an independent pillar. A separate pillar means that the Judiciary in India functions or works without the interference of the other two organs of the government. This article will learn about the Judiciary in India and its functioning. Additionally, you will learn about the various types of judges in India and India's different kinds of courts. It is essential to know about the organ responsible for protecting the Rule of Law and ensuring the supremacy of the law.

Indian Judicial System:

The Judiciary is the third organ of the government of India. It is the branch that interprets the law, settles disputes and administers justice to the citizens of India. The Judiciary in India is considered to be the watchdog of democracy. Additionally, the Indian judicial system is the Guardian of the Constitution of

ESSAY QUESTIONS

Q. 1. Explain about the Classical School Economist views of Adam Smith.

Adam Smith's economic theory is the idea that markets tend to work best when the government leaves them alone. Smith argued that rational people would naturally find the best way to use the nation's resources and government regulation as potentially detrimental to economic growth. Smith's laissez-faire approach to economic policy in the 18th century came at a time when governments discouraged international trade. In the Wealth of Nations, Smith showed that a nation's wealth wasn't determined by the precious metals it held in its vaults.

Adam Smith contribution to economics:

1. Adam Smith didn't just contribute to economics; he basically invented it. In the early 18th century, moral philosophy was the closest thing to what we now think of as the field of economics. Smith grew up in Kirkcaldy, Scotland and studied moral philosophy at the University of Glasgow in the 1730s. One professor in particular, Francis Hutcheson (a notable Scottish philosopher of the time), had a profound impact on Smith's training and seems to have guided his early work.

2. Smith continued his education at Oxford University in 1740, where he became close friends with David Hume, another philosopher whose work would become well-known during this age of Scottish Enlightenment. Smith and Hume are rumoured to have spent many hours in the Edinburgh taverns discussing their ideas.

3. Smith published his first notable body of work. The Theory of Moral Sentiments, in 1759. In it, Smith discussed the idea that self-interested people naturally end up working toward an outcome that

benefits everyone. He described this idea as an "invisible hand" that guided individuals toward paths that simultaneously improve their lives and the lives of the people on the other side of a trade. This concept of natural liberty leading to optimal outcomes is perhaps the most significant contribution to what we now call economic theory.

4. In 1776, Smith published An Inquiry into the Nature and Causes of the Wealth of Nations. Smith's ideas in these works and others helped to develop the foundation of political economics, inspired policies that shifted away from mercantilism, established the concepts of specialization and the division of labor and laid the groundwork for macroeconomic theory. Because of his wide influence, Smith is often known as the father of economics.

5. Adam Smith create capitalism: Smith was among the first philosophers of his time to declare that wealth is created through productive labor, and that self-interest motivates people to put their resources to the best use. He argued that profits flowed from capital investments, and that capital gets directed to where the most profit can be made.

6. Adam Smith importance to the Industrial revolution: Adam Smith is sometimes cited as an influential figure of the Industrial Revolution, which is usually described as beginning in 1760 in England. During that period, advances in technology changed the way that human society lived and worked.

2. Explain about the Sociological theory of Karl Marx.

Sociological theory aims to understand what we know as the modern world. This is approached through understanding the transition from pre-modern or traditional societies to modern societies. The theorists commonly known as the founders or fathers of sociological theory are also three key figures in understanding this transition, its consequences and ultimately what it will lead to in the future.

The classical sociological canon is framed by the works of Karl Marx, Max Weber, and Emile Durkheim. Karl Marx relied on a particular understanding of historical materialism and 'laws of history'.

Karl Marx:

With the nation state being among the central markers defining the difference between traditional and modern societies, we can then come to understand how Karl Marx utilized historical materialism to understand society. Marx's philosophy of history is an inversion of Hegel's 'idealist conception of history' that argues that society is determined at any given time by its material conditions. Marx's historical materialism reveals that no means of social reproduction can exist without the necessary material conditions. This articulation also reveals that the very circumstances that create social phenomena also harbor the means for their demise: their contradiction. Marx's historical materialism and the dialectic focus on material conditions and their role in shaping social and political conditions.

People and Land

Marx's analysis of relations between people and land is a critical read of history and contemporary. Marx analyses the place of class struggle within feudal relations to understand the origins of the capitalist nation state. Marx discusses the rise of capitalist modernity in the terms of labor relations and private property. In *The German Ideology*, Marx states that under feudalism, property consisted chiefly in the labour of each individual person.

Seeds for the revolt

Marx argues that the transformation from feudalism to capitalism harbors in it the contradictions of capitalist exploitation and plant the seeds for the revolt of the working class and give way to communism. According to Marx, the conditions for capitalist means of production and exchange were generated in feudalist society.

Manifesto of the Communist Party

In Manifesto of the Communist Party, Marx and Engels state, the feudal organisation of agriculture and manufacturing industry, in one word, the feudal relations of property became no longer compatible with the already developed productive forces; they became so many fetters. They had to be burst asunder; they were burst asunder. Into their place stepped free competition, accompanied by a social and political constitution adapted to it, and by the economical and political sway of the bourgeois class.

The transition to modernity

The transition to modernity lies in the relationship between the propertied and laboring class thus the relations of production. These relations have exploitative consequences that alienate workers from themselves, nature, and the products of their labor. Marx argues that private property is the end product of alienated labour. Private property is then the product of alienated labour and the means through which labour "alienates itself, the realization of this alienation". Capitalism rises through the commodification of labour power and the objectification of nature.

Demise of capitalism

As the serfs were freed from their land they had nothing to sell but their labor. And to generate a profit, capitalism aims to produce a profit for the owners of the means of production and providing a mere means of subsistence that ensures that workers show up each day. These means of exploitation that harbor the demise of capitalism. Marx argued that the future of capitalism is thus its destruction.

Abolishment of private property

The weapons with which the bourgeoisie felled feudalism to the ground are now turned against the bourgeoisie itself. But not only has the bourgeoisie forged the weapons that bring death to itself; it has also called into existence the men who are to wield those weapons-the modern working class-the proletarians. Thus, the future of modernity for Marx is the rise of the working class resulting in the abolishment of private property.

3.What are the Economic thoughts of Fabian Socialists? Explain.

In 1884 The Fabian Society was founded in England with the aim of bringing about a socialist society by means of intellectual debate, the publication of books and pamphlets and the permeation" of socialist ideas into the universities, the press, government institutions, and political parties. This was in marked contrast to the other means of bringing about socialism which was adopted by Marxist parties, namely the use of violence and revolution to overthrow capitalism.

The Fabian Society was named after the Roman general Quintus Fabius Maximus who used tactics of attrition and delay (what we might now call guerrilla tactics) rather than direct military confrontation to defeat the enemy. Thus, one might describe the tactics of the Fabian Society as one of "intellectual guerrilla warfare" against free market societies. Some of the Society's early members included the playwright George Bernard Shaw, the writers and educators Sidney and Beatrice Webb, the feminist Emmeline Pankhurst and the novelist H. G. Wells. The Fabian Society has been enormously influential in British and Australian politics over the past 120 years: it used a bequest to found the London School of Economics in 1895 (it is rather ironic then that this is where Friedrich Hayek taught from 1931 to

1950), it joined with the trade unions to found the British Labour Party in 1900, it founded the magazine the new Statesman in 1913, it laid the intellectual foundations for the creation of the welfare state after the Second World War (over 220 Labour MPs elected in the landslide victory of 1945 were members of the Fabian Society), and it was important in the revitalisation of the Labour Party in the 1990s by publishing Tony Blair's pamphlet on the "Third Way".

In 1889 the Fabian Society published a collection of essays, *Fabian Essays in Socialism* edited by George Bernard Shaw, in order to present their ideas in a coherent form. The first print run was a conservative 1,000 copies but after 2 years the Society had sold over 27,000 copies of the book. Two years before the founding of the Fabian Society a group of supporters of individual liberty and free markets led by the Earl of Wemyss had founded the Liberty and Property defence League. Whereas the Fabian Society wanted to turn socialism from a minority intellectual and political movement into a mainstream movement, the Liberty and Property Defence League was trying to prevent the slow degeneration of classical liberalism into a new form of liberalism which supported increasing amounts of government intervention in the economy.

The League quickly recognised the importance of the Fabian Society's intellectual challenge to free market ideas with the publication of the *Fabian Essays in Socialism* and in response asked the ex-wine merchant and author Thomas Mackay to put together a collection of essays to defend the free market from the Fabians's critique. The result were two volumes of essays, a *Plea for Liberty* which appeared in 1891 and *A Policy of Free Exchange* which appeared in 1894. Historically one might argue that the Fabian Society "won" the intellectual and political war against the individualists and free marketeers as classical liberalism was largely a spent force by 1914. For the next 75 years socialism in its various forms (Marxist, National, Fabian) was to be the dominant intellectual force.

However, I would argue that the arguments put forward by the Liberty and Property defence League have found a new significance and relevance after the collapse of Soviet Union in 1991, the discrediting of the idea of centrally planned economies and the rediscovery of market liberalism in the 1980s. Perhaps if societies had heeded the warnings and predictions of the dire consequences of socialism made by Mackay and his co-authors in the early 1890s some of the economic and political catastrophes of the 20th century might have been avoided.

4. Explain about Neo Classical and Marginal Revolution School of Alfred Marshall.

Alfred Marshall was the dominant figure in British economics (itself dominant in world economics) from about 1890 until his death in 1924. His specialty was Micro Economics - the study of individual markets and industries, as opposed to the study of the whole economy. In his most important book, *Principles of Economics* Marshall emphasized that the price and output of a good are determined by both SUPPLY and demand: the two curves are like scissor blades that intersect at equilibrium. Modern economists trying to understand why the price of a good changes still start by looking for factors that may have shifted demand or supply, an approach they owe to Marshall.

To Marshall also goes credit for the concept of price elasticity of demand, which quantifies buyers' sensitivity to price (see DEMAND).

The concept of consumer surplus is another of Marshall's contributions. He noted that the price is typically the same for each unit of a commodity that a consumer buys, but the value to the consumer of each additional unit declines. A consumer will buy units up to the point where the marginal value equals the price. Therefore, on all units previous to the last one, the consumer reaps a benefit by paying less than the value of the good to himself. The size of the benefit equals the difference between the consumer's value of all these units and the amount paid for the units. This difference is called the

consumer surplus, for the surplus value or utility enjoyed by consumers. Marshall also introduced the concept of producer surplus, the amount the producer is actually paid minus the amount that he would willingly accept. Marshall used these concepts to measure the changes in well-being from government policies such as TAXATION. Although economists have refined the measures since Marshall's time, his basic approach to what is now called welfare economics still stands.

Wanting to understand how markets adjust to changes in supply or demand over time, Marshall introduced the idea of three periods. First is the market period, the amount of time for which the stock of a commodity is fixed. Second, the short period is the time in which the supply can be increased by adding labor and other inputs but not by adding capital (Marshall's term was "appliances"). Third, the long period is the amount of time taken for capital ("appliances") to be increased.

To make economics dynamic rather than static, Marshall used the tools of classical mechanics, including the concept of optimization. With these tools he, like neoclassical economists who have followed in his footsteps, took as givens technology, market institutions and people's preferences. But Marshall was not satisfied with his approach. He once wrote that "the Mecca of the economist lies in economic biology rather than in economic dynamics". In other words, Marshall was arguing that the economy is an evolutionary process in which technology, market institutions and people's preferences evolve along with people's behavior.

5. Explain about Keynesian School of Economics.

John Maynard Keynes, a prominent economist of the 20th century, made significant contributions to economic thought, particularly in the field of macroeconomics.

Keynesian economics gets its name, theories, and principles from British economist John Maynard Keynes (1883-1946), who is regarded as the founder of modern macroeconomics. His most famous work, *The General Theory of Employment, Interest and Money*, was published in 1936. But its 1930 precursor, *A Treatise on Money*, is often regarded as more important to economic thought. Until then economics analysed only static conditions essentially doing detailed examination of a snapshot of a rapidly moving process. Keynes, in *Treatise*, created a dynamic approach that converted economics into a study of the flow of incomes and expenditures. He opened up new vistas for economic analysis. In *The Economic Consequences of the Peace* in 1919, Keynes predicted that the crushing conditions the Versailles peace treaty placed on Germany to end World War I would lead to another European war. He remembered the lessons from Versailles and from the Great Depression, when he led the British delegation at the 1944 Bretton Woods conference, which set down rules to ensure the stability of the international financial system and facilitated the rebuilding of nations devastated by World War II. Along with U.S. Treasury official Harry Dexter White, Keynes is considered the intellectual founding father of the International Monetary Fund and the World Bank, which were created at Bretton Woods.

During the Great Depression of the 1930s, existing economic theory was unable either to explain the causes of the severe worldwide economic collapse or to provide an adequate public policy solution to jump-start production and employment. British economist John Maynard Keynes spearheaded a revolution in economic thinking that overturned the then prevailing idea that free markets would automatically provide full employment that is, that everyone who wanted a job would have one as long as workers were flexible in their wage demands (see box). The main plank of Keynes's theory, which has come to bear his name, is the assertion that aggregate demand measured as the sum of spending by households, businesses and the government is the most important driving force in an economy. Keynes further asserted that free markets have no self-balancing mechanisms that lead to

full employment. Keynesian economists justify government intervention through public policies that aim to achieve full employment and price stability.

The revolutionary idea Keynes argued that inadequate overall demand could lead to prolonged periods of high unemployment. An economy's output of goods and services is the sum of four components: consumption, investment, government purchases, and net exports (the difference between what a country sells to and buys from foreign countries). Any increase in demand has to come from one of these four components. But during a recession, strong forces often dampen demand as spending goes down. For example, during economic downturns uncertainty often erodes consumer confidence, causing them to reduce their spending, especially on discretionary purchases like a house or a car. This reduction in spending by consumers can result in less investment spending by businesses, as firms respond to weakened demand for their products. This puts the task of increasing output on the shoulders of the government. According to Keynesian economics, state intervention is necessary to moderate the booms and busts in economic activity, otherwise known as the business cycle.

There are three principal tenets in the Keynesian description of how the economy works:

1. Aggregate demand is influenced by many economic decisions public and private. Private sector decisions can sometimes lead to adverse macroeconomic outcomes, such as reduction in consumer spending during a recession. These market failures sometimes call for active policies by the government, such as a fiscal stimulus package (explained below). Therefore, Keynesian economics supports a mixed economy guided mainly by the private sector but partly operated by the government.
2. Prices and especially wages, respond slowly to changes in supply and demand, resulting in periodic shortages and surpluses, especially of labor.
3. Changes in aggregate demand, whether anticipated or unanticipated, have their greatest short-run effect on real output and employment, not on prices. Keynesians believe that, because prices are somewhat rigid, fluctuations in any component of spending consumption, investment, or government expenditures cause output to change. If government spending increases, for example, and all other spending components remain constant, then output will increase. Keynesian models of economic activity also include a multiplier effect; that is, output changes by some multiple of the increase or decrease in spending that caused the change. If the fiscal multiplier is greater than one, then a one dollar increase in government spending would result in an increase in output greater than one dollar.

Stabilizing the economy No policy prescriptions follow from these three tenets alone. What distinguishes Keynesians from other economists is their belief in activist policies to reduce the amplitude of the business cycle, which they rank among the most important of all economic problems. Rather than seeing unbalanced government budgets as wrong, Keynes advocated so-called counter cyclical fiscal policies that act against the direction of the business cycle. For example, Keynesian economists would advocate deficit spending on labour-intensive infrastructure projects to stimulate employment and stabilize wages during economic downturns. They would raise taxes to cool the economy and prevent inflation when there is abundant demand-side growth. Monetary policy could also be used to stimulate the economy for example, by reducing interest rates to encourage investment. The exception occurs during a liquidity trap, when increases in the money stock fail to lower interest rates and, therefore, do not boost output and employment.

Keynes argued that governments should solve problems in the short run rather than wait for market forces to fix things over the long run, because, as he wrote, "In the long run, we are all dead". This does not mean that Keynesians advocate adjusting policies every few months to keep the economy at full employment. In fact, they believe that governments cannot know enough to fine-tune successfully.

Keynesianism evolves Even though his ideas were widely accepted while Keynes was alive, they were also scrutinized and contested by several contemporary thinkers. Particularly noteworthy were his arguments with the Austrian School of Economics, whose adherents believed that recessions and booms are a part of the natural order and that government intervention only worsens the recovery process. Keynesian economics dominated economic theory and policy after World War II until the 1970s, when many advanced economies suffered both inflation and slow growth, a condition dubbed "stagflation". Keynesian theory's popularity waned then because it had no appropriate policy response for stagflation. Monetarist economists doubted the ability of governments to regulate the business cycle with fiscal policy and argued that judicious use of monetary policy (essentially controlling the supply of money to affect interest rates) could alleviate the crisis. Members of the monetarist school also maintained that money can have an effect on output in the short run but believed that in the long run, expansionary monetary policy leads to inflation only.

Keynesian economists largely adopted these critiques, adding to the original theory a better integration of the short and the long run and an understanding of the long-run neutrality of money, the idea that a change in the stock of money affects only nominal variables in the economy, such as prices and wages, and has no effect on real variables, like employment and output. Both Keynesians monetarists came under scrutiny with the rise of the new classical school during the mid1970s. The new classical school asserted that policymakers are ineffective because individual market participants can anticipate the changes from a policy and act in advance to counteract them.

6. Explain about the Institutional school of Gunnar Myrdal

Gunnar Myrdal, a Swedish Social Democrat Member of Parliament and one of the fathers of the Swedish welfare state of the 1960s, helped draft many social and economic programs. As an economist, Myrdal made early contributions to price theory, incorporating the role of uncertainty and expectations on prices. Much of his later work focused on development economics and social problems. He was awarded the Nobel Prize in Economics in 1974, along with economist F. A. von Hayek "for their pioneering work in the theory of money and economic fluctuations and for their penetrating analysis of the interdependence of economic, social and institutional phenomena".

In addition to serving in Parliament Myrdal sat on the Board of the Bank of Sweden and chaired the Swedish Post-War Planning Commission. He was Sweden's Minister of Commerce from 1945-1947 and later was appointed as Executive Secretary of the United Nations Economic Commission for Europe.

Throughout his subsequent career, Myrdal's economic research was predicated on his left-wing political and social views. His first post-graduate published work, the book *The Political Element in the Development of Economic Theory*, criticized the body of existing economic theory as a product of the political value judgments of its authors. Despite being awarded the Nobel Prize, he later public called for the abolition of the Nobel Prize in economics on the grounds that it was also sometimes awarded to economists who did not share his political beliefs.

In America, he became famous for his influential 1944 book on race relations, *An American Dilemma: The Negro Problem in Modern Democracy*. His study was influential in the 1954 landmark U.S. Supreme Court Decision *Brown v. Board of Education*, which ended legal racial segregation in schools. A lifelong foe of inequality, and supporter of wealth redistribution, Myrdal showed how economic policies implemented by President Franklin Delano Roosevelt, including the minimum wage law and restrictions on cotton production, hurt African-Americans. This book was particularly cited by the Nobel Prize committee as being of great importance in its decision to award him the Prize.

Later in life, he became obsessed with third-world poverty, which led him to advocate land reform in South Asia as a prerequisite for eradicating poverty. Myrdal authored a multivolume study of inequality and poverty in South Asia and a follow-up volume of policy prescriptions for income redistribution and land reform. He was a vocal opponent of the U.S. war in Vietnam and led an international commission on alleged American war crimes.

Swedish economists claimed that Keynes' idea of using a stabilization policy to smooth out economic cycles was predated by Myrdal's book *Monetary Economics*, published in 1932. This policy involves deficit spending to boost the economy during slumps and increased taxation during economic expansions to prevent overheating the economy. Like fellow liberal-Keynesian John Kenneth Galbraith, Myrdal would later criticize such policies because the fiscal brakes were seldom used during economic expansions and instead, inflationary policies were continually applied, which hurt the poorest in society.

Myrdal was born in 1898 in Sweden and died in 1987. He earned his law degree and doctorate in economics from Stockholm University, where he later became a professor of political and international economy. His wife, Alva Myrdal, was the co-winner of the Nobel Peace Prize in 1982 for her efforts to promote world disarmament. Their son, the communist political writer and columnist Jan Myrdal, spurned his parents' liberal politics and was a Maoist sympathizer and apologist for genocidal Khmer Rouge dictator Pol Pot. He died in 2020.

7. Explain about the Behaviourist School of Herbert Simon.

Herbert A. Simon (1916-2001) was an American economist and political scientist who won the Nobel Memorial Prize in Economic Sciences in 1978 for his contributions to modern business economics and administrative research. He is widely associated with the theory of bounded rationality, which states that individuals do not make perfectly rational decisions because of both cognitive limits (the difficulty in obtaining and processing all the information needed) and social limits (personal and social ties among individuals). Simon earned his Ph.D. from the University of Chicago in 1943. After graduating, he worked in research and held teaching posts at a handful of universities before joining the Carnegie Mellon University faculty in 1949. He taught there for more than 50 years, as a professor of administration, psychology and computer science. He also had a hand in the establishment of several of Carnegie Mellon's departments and schools, including the Graduate School of Industrial Administration, which is now known as the Topper School of Business.

In addition to the Nobel Memorial Prize in Economics, Simon also received the A.M. Turing Award in 1975 for his work in computer science, including his contributions to the area of artificial intelligence. He also won the U.S. National Medal of Science in 1986. Simon authored dozens of journal articles and 27 books during his lifetime, including "Administrative Behavior (1947)", "The Sciences of the Artificial (1968)" and "Models of Bounded Rationality (1982)".

Herbert A. Simon and Bounded Rationality:

Herbert A. Simon and his theories on economic decision-making challenged classical economic thinking, including the ideas of rational behavior and the atomistic individualism of economic man. Rather than subscribing to the idea that economic behavior was rational and based upon all available information to secure the best possible outcome for an individual ("optimizing"), Simon believed decision-making was about achieving outcomes that were "good enough" for the individual based on their limited information and balancing the interests of others. Simon called this "satisficing". His term was a combination of the words "satisfy" and "suffice".

According to Simon, because humans cannot possibly obtain or process all the information needed to make fully rational decisions, they instead seek to use the information they do have to produce a satisfactory result, or one that is "good enough". He described humans as being bounded by their own "cognitive limits".

In addition to cognitive limits, Simon also wrote about how personal relations and social organizations constrain decision-making. This means that individuals often do not make decisions considering only their own interests or the individual's utility maximization, but must negotiate, exert power over, or otherwise navigate the interests of others and the rules of the institutional setting within which they operate.

Together these cognitive and social limits and the way they shape decision-making are commonly known as the theory of bounded rationality. Under bounded rationality, decision-makers must settle for finding satisfactory solutions to the problem or problems in front of them, while being mindful of how other decision-makers in the company are solving their own problems, within these bounds, decision-making can still be rational in that it consists of comparing the relative costs, benefits, and risks to achieve a desired result. Bounded rationality would also go on to become a foundational element in behavioral economics, which at times also questions whether human decision-making is really rational at all.

When the Royal Swedish Academy of Sciences awarded Simon the Nobel Memorial Prize in Economics for his work in this area, it noted that much of modern business economics and administrative research are based on his ideas. Simon replaced the concept of the all-knowing, profit-maximizing entrepreneur with the idea of cooperating decision-makers within a company who face informational, personal and social limitations.

8. Explain about the ancient thought of Kautilya.

Kautilya (350 BC-275 BC) was a professor of political science at the Takshashila University of ancient India, and later the Chief Minister of Chandragupta Maurya who ruled over the mighty Indian empire in the 4th century BC. He wrote the Arthashastra ("Science of Material Gain" or "Science of political economy" in Sanskrit) both names that are traditionally identified with Kautilya. He is known by the name of Kautilya, because he was an expert in diplomacy and political strategy. Arthashastra deals extensively with aspects of political, economic and social management and is the oldest book on management in the world. Arthashastra provides an authentic account of the economic and political ideas of the day. It also contains information about law, agriculture etc. prevailed at that time. It also deals in detail with the qualities and disciplines required for a wise and virtuous king.

According to Kautilya, the king's happiness lies in the happiness of his subjects and his welfare lies in the welfare his subjects. It was written by Kautilya around 350 BC. Kautilya has given vivid description of the administrative procedures, the duties of kings, ministers and government officers, in his book, Arthasastra. It covers almost every aspect of the theory and practice of economics. It also deals with nature and purpose of material wealth, varta agriculture and animal husbandry, dignity of labour, trade, public finance, population, slavery, welfare state, social security, interest, price control, socio-economic institutions and town planning. His book contains ample ideas on a welfare state. We may briefly summarise the economic ideas prevailed in ancient India as elaborated by Kautilya.

Nature and Purpose of Material Wealth:

Kautilya says that artha (sound economies) is the most important thing and dharma and karma are dependent on it. Hence the king shall be ever active in the management of the economy. The root of

wealth is (economic) activity and lack of it results in material distress. In the absence of (fruitful economic) activity, both current prosperity and future growth will be destroyed. A king can achieve the desired objectives and abundance of riches by undertaking (productive) economic activity. The term Artha (wealth) occupied an important place as one of the Purusharthas, in the system of economic thought during the Vedic Period. Artha or the material wealth or prosperity was essential for the stability and maintenance of the social structure and organization which provide means and opportunities to a decent living

1. Varta - National Economy: The most common word used at that time as Varta meaning the national economy. The national economy consists of agriculture, animal husbandry and trade. Later on money lending and artisanship were also brought under Varta. The King was expected to have a good grasp of Varta or Economics. The term Arthashastra was wider in scope than Varta and it was a combination of economics, political science and jurisprudence. Arthashastra is that science which describes the actions and administration of Kings in accordance with the dictates of revelation and of law as well as the means of appropriate livelihood. Arth or material prosperity was necessary for the smooth functioning of social structure, organization and institutions

2. Agriculture: Ancient Indian scholars laid considerable emphasis on agriculture including animal husbandry. It was regarded as the basic source of new wealth. Agriculture was the highest occupation in society. Agriculture is the most important constituent of the economy. Three principal vocations are recognised as providing men with the means of livelihood namely, krsi (agriculture), pasupalya (cattle rearing) and vanijya (trade). The three together constitute varta (derived vritti, livelihood). In those days the state and the community were responsible for the development of agriculture for which waste land were to be cultivated. The lands which were neglected by absentee landlords were to be taken away and given to those who could cultivate them with greater advantage. With respect to taxes on agriculture, avoid extremes of either complete absence of taxes or exorbitant taxation.

3. Labour: The economic thinkers of ancient India regarded that labour as unproductive which failed to achieve its end. They never said that agriculture was more productive than other types of labour. Kautilya clearly mentioned that women should help men in productive activities in agriculture and trade.

4. Trade: Gold or bullion was regarded as a means of producing wealth; and trade was the source of industrialized capital. There were free trade in those days in India. Tolls, duties and customs were realized for revenue purposes. The state had framed trade regulations which show that commerce in ancient India had reached an advanced stage.

5. Population: In ancient India there were no fear of large population as population could not grow beyond a reasonable limit because of constant wars between small states, and loss of life due to the lack of medical facilities.

6. Welfare State: The state was to promote the welfare of people by regulating the life of people. It had to give subsidies for the development of trade, agriculture, irrigation, mines, cattle welfare, etc. Various regulations relating to financial transactions, weights and measures, essential industries, currency and exchange, public works, prevention of adulteration, usury, etc point towards the ideal of a welfare state. Good governance in Kautilya's literature is aimed at fulfilling the welfare of the people. "In the happiness of the King's subjects lies his happiness, in their welfare, his welfare. Whatever pleases him personally, he shall not consider as good, but whatever makes his subjects happy, he shall consider good".

7. Private Property: Our ancient economic thinkers supported the institution of private property. Individual and family can own land and the right in land was transferable and saleable. The state dominated all forms of property and levied cesses and fines when needed.

8. Interest: Interest was justified in ancient India on the ground that capital was essentially productive. Interest in those days was part of profit. Kautilya proposed the public regulation of interest.

9. Production and Consumption: The starting point of the ideals of consumption in ancient India was the acceptance of the doctrine of the four ends of life. They are Dharma, Artha, Kama and Moksha. In those days four agents of production - land, labour, capital and organization appear to have been recognised. Land was regarded as the source of all wealth.

10. Functions of the State: Our ancient economic thinkers had a clear idea about the functions of the state. In the field of production, the government followed the principle of full freedom and enterprise to individuals within limits. It is important to note that private individuals could also undertake the manufacture and sale of commodities monopolized by the state.

11. Public Finance: Taxation was regarded as one of the most important sources of State revenue. Ancient Indian thinkers supported tax for beneficial purposes and not to be wasted by the government. The two principles that were followed in connection with the realization of taxes were: (i) It should be levied once a year and should not prove burdensome and (ii) Taxes should be levied according to the ability to pay. Kautilya's discussion of taxation has several underlying principles: the taxing power of the state should be limited, tax should not be felt to be heavy or excessive, tax hikes should be introduced gradually, tax should be levied in the proper place, time and form, and tax level should be equitable and reasonable. Ideally, the government should collect taxes like a honeybee that sucks just the right amount of honey from the flower so that both can survive. Kautilya's scheme of taxation involved the elements of sacrifice by the taxpayer, direct benefit to the taxpayers, redistribution of income (the state took care of the poor), and tax incentives for desired investments. Kautilya suggested forced loans for meeting deficit budgets.

12. Town Planning and Social Security: Town planning which included the re-orientation of main roads and streets, and the sub-division of city areas was found in a much-developed form, particularly during the days of Mauryan Kings. The metropolitan city was established after a detailed and careful planning; and due emphasis was laid on the maintenance of sanitation and prevention of fire. Regarding social security, Kautilya emphasized that it was the prime duty of the state to protect the weak and the aged, to provide jobs to the unemployed and to set up poor houses and charitable institutions.

13. Critical Estimate: The study of ancient Indian economic thought leads one to the conclusion that the economic ideas were scattered and discontinuous. Economic life was governed by religious ideals and moral sanctions. People generally believed in the Karma theory. Economics was not regarded as a separate discipline but was combined with ethics, politics and philosophy. State intervention was considered necessary for the protection of consumers and weaker sections of the community. Due emphasis was laid on the establishment of a welfare state. It was the duty of the King to maintain law and order and to regulate the life of people. The King should also adopt measures to increase their prosperity. Self-dependent village units provided economic stability in ancient India. The economic ideas of Kautilya are undoubtedly the precious gems of ancient economic thought.

9 Explain about the Modern thought of Dr. B.R. Ambedkar.

Dr. B.R. Ambedkar (1891-1956) is celebrated as the "Father of Indian Constitution", found economics closest to his heart and got his doctorate for a thesis on "The Problem of the Rupee". Ambedkar was

a keen student of economics and got his MA for his thesis on 'Ancient Indian Commerce' and M.Sc (London) for his thesis on 'The Evolution Provincial Finance in British India'. His evidence before the Hilton-Young Commission was an important contribution to the discussion of currency problems in India.

Dr. Ambedkar was conferred posthumously the Bharat Ratna, the nation's highest civilian honour, on his 99th birth anniversary in 1990.

Economic ideas of Ambedkar:

Ambedkar's economic philosophy is expressed in his ideas on mixed economy (socialism), state ownership of industries industrialisation, etc. He belongs to group of liberal thinkers but by and large his orientation is that of a socialist. Strangely he does not agree with Karl Marx as his ideas and methods appeared violent to Ambedkar. His economic ideas reflected his concern for the downtrodden and his desire for their development and upliftment in the social ladder. In order to eradicate exploitation by landlords and capitalist he advised mixed economy or state socialism.

1. Land reform: Ambedkar's main concern was the nature of land holdings, especially their fragmentation and division into unproductive and economically in viable structure. According to him, consolidation may eliminate the evils of scattered holdings but not the evils of small holdings unless the consolidated holding was an economic holding. According to Ambedkar, the basic problem of Indian agriculture was that it was unable to generate surplus which ultimately led to scarcity of capital. This resulted in the inefficient use of resources, surplus labour and superfluous employment which by raising the cost of production culminated in low agricultural productivity. Thus, the process of overall economic growth gets adversely affected. Ambedkar was the first person to raise his voice against Khoti system. The Khoti system was one of the minor land revenue tenures in the former Bombay presidency. It was found mostly in Ratnagiri district and in some parts of Kolaba and Thane districts. In Khoti system unlike Ryotwari system, the government employed the services of the Khot for the purpose of collection of revenue.

Under this system the khot was obliged to collect revenue from the tenants and to pay a certain part of it to government. Once such a payment was made the Khot enjoyed unrestricted freedom to do whatever he liked to the tenants. On 17 September introduced in Bombay Legislative council a Bill seeking the abolition of the Khoti system. By introducing this bill Ambedkar king the sought to put an end to the exploitation of the actual tillers edar land and established a direct relationship between them s of the government. Ambedkar was of the opinion that the state should acquire all the agricultural land held by private individuals like the owners, tenants or mortgages and pay them compensation equal to the value of land. The state should provide the land required into farms of standard size and should let out the farms for cultivation to the residents of the villages.

2. Currency problem: Ambedkar's writings on currency problems constituted in his book "The problem of the rupee" and his evidence before the Hilton Commission in 1926. He brought a new perception on the monetary issue. He was not in favour of linking the rupee with gold and recommended establishment of a fully managed in convertible currency with fixed limit of issue. Ambedkar stated " It is much better to introduce a currency system which will do away with the exchange standard and also the gold standard reserve. According to Ambedkar the pure gold standard comprises use of gold in some form convertible standard, paper money is also issued in addition to gold coins and is pledged to be redeemable in gold. In contrast under the gold exchanged standard the medium of exchange comprises only paper money which is kept exchangeable at fixed rates with gold and authorities back it up with foreign currency reserves of such countries as on the gold standard. Ambedkar nd

vehemently criticized Keynes and other supporters of the gold exchanged standard and argued in favour of the gold standard of a modified form. Ambedkar argued that the gold exchange standard does not have the stability of the gold standard. Under the gold standard, additions to the supply of currency are so small that stability is not affected. Ambedkar provided statistical evidence to show that prices varied much less under the gold standard than under the gold exchange standard in Indian context. Ambedkar favoured Gold currency and wanted to close down the mint as this will eradicate the money inflation and imbalances in internal payments. For the flexibility in currency he was of the opinion that Gold is a suitable measure for the flexibility of money.

3. State management: Ambedkar emphasised on the nationalisation of economy. He was of the view that state should manage the economy that the production might reach the optimum level and the benefits must not be taken away by the capitalist. The benefits must be distributed equally. He stood for the progressive transformation of society, removing glaring social and economic inequalities that were due to the capitalist system. B.R. Ambedkar was a firm believer of socialism. According to him, "state socialism is essential; for India's industrialisation". Private economy cannot do so and if it makes an attempt it would give way to economic disparities, as it can be visualised in the case of Europe. His view on nationalisation of industries and life insurance showed his great concern for the economic problems faced by India. The formation of the public sector and the establishment of Life Insurance Corporation showed that he was in agreement with other leading economists. He remarked that industrialisation of India was a necessary thing. But side by side the principle of state management and state ownership of industry must be adopted. Amenities like social insurance and control over employment, dismissal were vital to the progress of industry. About these measures the lower middle class must be protected. He firmly believed that by eliminating exploitation, the industrial harmony can be established through labour welfare and congenial industrial relation. He remarked "we have attained political freedom and equality but without economic and social equality this is quite insufficient". Ambedkar emphasised more on economic and social freedom and equality. His concept of society and socialism aimed for the welfare of the poor classes, ending inequality based on birth eliminating discriminatory practices in social behaviour patterns reorganising the political economy for the benefit of all maintaining full employment and education, providing social security for the weak and the sick.

[Labour problem: Ambedkar supported trade union movement and right to strike against capitalism. He wanted participation of labourers in industrial management. He paid attention to joint councils employment exchanges and earned leave for permanent workers, welfare activities, conciliation, trade disputes. According to him industrial peace would prevail if it is based on social justice. He introduced 5% to 6% reservation for Schedule castes in Central government. He helped the untouchable students wishing to take technical education in foreign countries. In his inaugural address to the conference of the regional Labour Commission Ambedkar stated "three things are necessary to mitigate or prevent industrial disorder Machinery for Conciliation, amendment in the Trade Disputes Act and Minimum Wage Legislation. According to him, the industrial peace could be realised if it was based on social justice." Ambedkar, while discussing the labour problem, had in his mind not only industrial labour but also agricultural labour. According to him, similar condition of work provident fund employer's liability, workmen's compensation, health insurance including invalidity pensions should be open to all sorts of labour whether it was Industrial labour or agricultural labour.

5. Economics of Caste System: According to Ambedkar the caste system in India was a major obstacle to economic growth and development. The caste system didn't allow people to teach their professional skills to any person belonging to other caste. Only the members of their own caste were allowed to learn the profession. Thus, if a person had the skill necessary for a particular job he would not accept

the profession of a caste lower than his own. In a dynamic Industrial set up the individual must be free to choose his occupation.

But due to social religious restriction on inter occupational mobility has following consequences: Firstly, by not permitting readjustment of occupation, caste become a direct cause of much of the Unemployment in various groups, as a religious Hindu would prefer to be unemployed rather than getting employed in profession

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assigned to his caste. Second, individual justice and economic efficiency demand that competition exists in factor market. Due to the restriction on inter-occupational mobility of labour, capital and entrepreneurship across caste groups the caste system creates segregation in each of these markets. Labour and capital thus does not flow from one occupation to another even if the wage rate or rates of return on investments are higher in the alternative occupations. This brings about a high level of inefficiency in resource allocation.

The division of occupation is not based on individual choice. Some of the occupations are socially degrading, and people are forced in these occupations on account of their caste origin. Such people cannot derive job satisfaction. As economic organisation caste is therefore a harmful institution in as much as it involves the subordination of man's natural powers and inclination to the exigencies of social rules. This also results in disassociation of intelligence from work. The dignity of labour is nearly absent in the general scheme of theory of caste. The practise of untouchability has ruined the nation and the economy as a whole. Those belonged to the lower strata of society or the untouchables were not allowed to mix with others and denied basic civil right. They had no access to sources of income. They had no right to education. They had no right to property and were prohibited from acquiring wealth. They could not use their labour for their own upliftment. The Caste system has crippled the untouchable as it denied them economic security and independence.

In the opinion of Ambedkar the economics of the caste system had six types of consequences: (i) it divided labour, (ii) it disassociated work from interest, (iii) it disconnected intelligence from the manual labourer, (iv) it devitalized persons by denying them right to cultivate vital interest, (v) it prevented mobilization, (vi) it deprived Sudras of all economic avenues of employment and took them nearly to the position of a slave.

10. Explain about Contemporary Thought of Amartya sen, Rao-Manmohan.

Amartya Kumar Sen:

Amartya Kumar Sen was born in West Bengal 1933. Sen is an Indian economist who was awarded the Nobel Prize in Economics 1998. He was awarded Nobel prize for his contributions to welfare economics and social choice theory and for his interest in the problems of society's poorest members. Sen is best known for his work on the causes of famine, which led to the development of practical solutions for preventing shortages of food. He helped to create the United Nations Human Development Index. In 2012, he became the first non-U.S. citizen recipient of the National Humanities Medal. He is currently the Professor of Economics and Philosophy at Harvard University. Sen's books have been translated into more than thirty languages over a period of forty years. He is a trustee of Economists for Peace and Security. In 2006, Time magazine listed him under "60 years of Asian Heroes" and in 2010 included him in their "100 most influential persons in the world". New Statesman listed him in their 2010 edition of "World's 50 Most Influential People Who Matter".

Rabindranath Tagore is said to have given Amartya Sen his name ("Amartya" meaning "immortal"). Sen began his high-school education at St Gregory's School in Dhaka in 1941, in modern-day Bangladesh. His family came to India following the partition of the country in 1947. In India Sen studied at the Visva-Bharati University school and then at the Presidency College, Kolkata. In 1953, he moved to Trinity College, Cambridge. To Sen, then Cambridge was like a battlefield. There were major debates between supporters of Keynesian economics and the "neo-classical" economists skeptical of Keynes. Sen submitted his Ph.D thesis on "the choice of techniques" in 1959 under the supervision of Joan Robinson. Between 1960 and 1961, Sen was a visiting Professor

[16:03, 29/10/2024] Venkataswara Rao: Massachusetts Institute of Technology. He was also a visiting Professor at UC-Berkeley, Stanford, and Cornell. He has taught economics also at the University of Calcutta and at the Delhi School of Economics. In 1972, he joined the London School of Economics as a Professor of Economics where he taught until 1977. From 1977 to 1986 he taught at the University of Oxford, where he was first a Professor of Economics at Nuffield College, Oxford and then the Drummond Professor of Political Economy and a Fellow of All Souls College, Oxford. In 1986, he joined Harvard as the Thomas W. Lamont University Professor of Economics. In 1998 he was appointed as Master of Trinity College, Cambridge. In January 2004, Sen returned to Harvard.

He has served as president of the Econometric Society (1984), the International Economic Association (1986-1989), the Indian Economic Association (1989) and the American Economic Association (1994). He has also served as President of the Development Studies Association (1980-1982) and is a Honorary Vice-President of the Royal Economic Society, which he has been since 1988.

He presently serves as Honorary Director of Center for Human and Economic Development Studies at Peking University in China and is also a board council member of the Prime Minister of India's Global Advisory Council of Overseas Indians. In 1981, Sen published *Poverty and Famines: An Essay on Entitlement and Deprivation* (1981), a book in which he argued that famine occurs not only from a lack of food, but from inequalities built into mechanisms for distributing food. Sen also argued that the Bengal famine was caused by an urban economic boom that raised food prices, thereby causing millions of rural workers to starve to death when their wages did not keep up. Sen's interest in famine stemmed from personal experience. As a nine-year-old boy, he witnessed the Bengal famine of 1943, in which three million people perished. He presents data that there was an adequate food supply in Bengal at the time, but particular groups of people including rural landless labourers and urban service providers like haircutters did not have

the monetary means to acquire food. Sen devised methods of measuring poverty (Sen Index) that yielded useful information for improving economic conditions for the poor.

Rao-Manmohan:

Rao-Manmohan, 21 June 1991, a worried Prime Minister P V Narasimha Rao took Dr. Manmohan Singh in his cabinet as his finance minister, at a time when India's economy was in shambles. There was a huge balance of payments deficit where we had barely a billion dollars in terms of foreign exchange reserves just to support two weeks of imports. In short our country was on the verge of bankruptcy.

Brought in strong reforms to move forward and began the restructuring process of the Indian economy and opened the economy to competition and one of the biggest changes was in allowing foreign investment in a closed economy.

Rao-Manmohan Singh Model of Growth: The economic reforms initiated in 1991, under the leadership of Prime Minister P.V. Narasimha Rao and Finance Minister Dr. Manmohan Singh, were based on the

Rao-Manmohan model. This model aimed to bring about substantial changes in India's economic management and development. Here are the key objectives and principles of this model

1. Reorientation of the State's Role: The model advocated a shift in the role of the state in economic management. It emphasized that the state should primarily focus on social and infrastructural development, rather than directly managing or controlling various sectors of the economy.

2. Selective Dismantling of Controls and Permits: The model proposed the selective dismantling of controls and permits. This was done to encourage the private sector to invest more freely and participate actively in economic activities. By reducing bureaucratic hurdles, the aim was to stimulate private enterprise and economic growth. Promotion of Private Sector Investment: The model sought to promote private sector participation in economic development. By creating a conducive environment for private investment, it aimed to spur economic growth, job creation, and innovation.

4. Competition for Public Sector Enterprises (PSEs): The model advocated introducing competition for Public Sector Enterprises. This was intended to enhance productivity and profitability in the public sector, making them more efficient and responsive to market dynamics.

5. External Sector Liberalization: The model focused on liberalizing the external sector of the economy. This involved integrating the Indian economy with the global economy to leverage resource flows and foster competition. The liberalization measures helped accumulate foreign exchange reserves, alleviating balance of payments pressures.

6. Stimulating Foreign Investments: The model aimed to attract foreign investments, including Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII). This influx of foreign capital contributed to economic growth, technological advancement, and increased competitiveness in the Indian market.

7. Boosting Exports: The liberalization of the economy, coupled with reforms in trade policies, led to a significant uptick in exports. This contributed to economic growth and helped strengthen India's position in the global market.

The Rao-Manmohan Singh model of growth played a pivotal role in transforming India's economic landscape. It paved the way for increased economic liberalization, globalization, and integration with the global economy, setting the stage for higher growth rates and improved living standards.

11. Explain about the features of Political Economy.

Political economy is a social science that studies production, trade, and their relationship with the law and the government. It is the study of how economic theories affect different socio-economic systems, such as socialism and communism, along with the creation and implementation of public policy.

Different groups in an economy have different beliefs about how their economy should be developed; hence, political economy is a complex field that covers a broad range of political interests. In simple terms, political economy refers to the advice given by economists to the government on either general economic policies or on certain specific proposals created by politicians.

Components of Political Economy:

Political economics is split into two sections: Classical Political Economy and Modern Political Economy.
Classical

[16:06, 29/10/2024] Venkataswara Rao: Political Economy studies the works of philosophers such as Machiavelli, Adam Smith and Karl Marx. Modern Political Economy, on the other hand, studies the work of modern philosophers, economists, and political scientists such as John Maynard Keynes, Milton Freidman, and Friedrich Hayek.

The study of political economy is influenced by game theory, as it involves different groups competing for finite resources and power that assess which policies will provide the most beneficial results. It also relates to the capability of the economy to achieve the desired results. The study of political economy focuses on three major areas:

1. Interdisciplinary study: From an interdisciplinary standpoint, political economy focuses on economics, sociology, and political science to understand how economic systems, political institutions and the environment affect and influence each other.

The three areas in interdisciplinary study include economic models of political processes, the international political economy and how it affects international relations and resource allocation in different economic systems.

2. New political economy: The new political economy area treats economic policies as a belief or action that must be further discussed rather than as a framework that needs to be analyzed. It unites the ideologies of classical economics and new advances in the field of politics and economics.

The approach dismisses old ideals about agencies and the interest of states and markets and aims to encourage political debates about societal wants and needs.

3. International political economy: International political economy study, also known as global political economy, analyzes the relationship between economics and international relations. It uses ideas from economics, sociology, and political science. International political economy focuses on how states and institutions use global economic interactions to shape political systems.

Political Economy Behavior: Political economists are very interested in gains and losses incurred with the implementation of a certain policy. It gives them an idea as to which groups support the policy and which groups don't. They also examine how individuals increase their utility by participating in political activity.

Capital and labor are used to influence political processes and generate policy outcomes with the most benefit. The political behavior in an economy is shaped by:

(a) Interests: They include the interest of individuals and groups who are able to use their power to influence policy. Individuals in government tend to promote their own economic and political interests that will help them retain power. People outside the government are often more concerned with the outcome of the economic policies implemented.

(b) Ideas: Ideas are considered an important influence on policy, in addition to economic and political interests. It is assumed that individuals are self-seeking and rational and that they are unable to assess the outcomes of all the choices available to them.

Ideology allows an individual to decide what they should do in order to remain consistent with their basic values and beliefs. Incorporating ideology into economic models allows some political action to be guided by factors other than self-interest. Some people want to enter politics simply because they want to make a change in the world.

(c) Institutions: There are political rules that include the Constitution and define how leaders are chosen and how a new policy can be implemented. Institutions help structure incentives facing individuals and groups within the economy. Political Economy Theory:

The modern economist's theories are split into three ideologies, namely:

1. Liberalism: The liberal ideology stems from the concept of labor and exchange and the use of land, labor, and capital to produce

durable goods. Liberal economists believe that economics can benefit everyone and that society can progress with the improvement in the standard of living.

They think that the wants of the community rather than of individuals are most important for decision-making. They also believe in equal opportunity for everyone and are concerned with the structure of civil society.

2. Marxism: Marxism states that inequality is bad, and wealth is generated from labor and exchange. It does not support the private ownership of resources, which it believes leads to inequality and only favors the needs of the elite and not of the whole society.

3. Economic nationalism: Economic nationalism is the belief that the state possesses all the power and that individuals should work to make use of the economic benefits. The ideology states that the government should control all resources and that individuals are ignorant and cannot create a cohesive society without a strong state. Thus, political economy provides us with an understanding of how a country and household are managed and governed by considering both the political and economic factors associated with each.

Q. 3. Explain about Economic Liberalism.

Economic liberalism refers to the ideology that supports the idea of an economic system governed by individual rights. It means that the government refrains from engaging in industrial and commercial activities and that it should not interfere with the economic relations between individuals, groups of people, classes, or entire nations.

Wealth and property are the two pillars of economic liberalism. It is the foundation of capitalism and challenges the guiding policy while gaining from the state's preferences. Free trade, deregulation, tax reductions, privatization and the flexibility of the labor market are all features present in an economically liberal country.

12. Explain role of Political Institutions for Development and Political Parties.

Political institutions are the organizations in a government that create, enforce, and apply laws. They often mediate conflict, make (governmental) policy on the economy and social systems, and otherwise provide representation for the population.

In general, democratic political regimes are divided into two types: presidential (headed by a president) and parliamentary (headed by a parliament). Legislatures built to support the regimes are unicameral (only one house) or bicameral (two houses, for example, a senate and a house of representatives or a house of commons and a house of lords).

Party systems can be two-party or multiparty and the parties can be strong or weak depending on their level of internal cohesion. The political institutions are those bodies parties, legislatures, and heads of state, that make up the whole mechanism of modern governments. Parties, Trade Unions, and Courts:

In addition, political institutions include political party organizations, trade unions, and the (legal) courts. The term 'political Institutions' may also refer to the recognized structure of rules and principles within which the above organizations operate, including such concepts as the right to vote, a responsible government and accountability.

Political Institutions: Political institutions and systems have a direct impact on the business environment and activities of a country. For example, a political system that is straightforward and evolving when it comes to the political participation of the people and laser-focused on the well-being of its citizens contributes to positive economic growth in its region.

Every society must have a type of political system so that it may allocate resources and ongoing procedures appropriately

[16:10, 29/10/2024] Venkataswara Rao: political institution sets the rules in which an orderly society obeys and ultimately decides and administers the laws for those that do not obey.

Types of Political Systems:The political system consists of both politics and government and involves the law, economy, culture, and other social concepts.

The most popular political systems that we know of around the world can be reduced to a few simple core concepts. Many additional types of political systems are similar in idea or root, but most tend to surround concepts of:

1. **Democracy:** A system of government by the whole population or all the eligible members of a state, typically through elected representatives.
2. **Republic:** A state in which supreme power is held by the people and their elected representatives and that has an elected or nominated president rather than a monarch.
3. **Monarchy:** form of government in which one person reigns, typically a king or a queen. The authority, also known as a crown, is typically inherited.
4. **Communism:** A system of government in which the state plans and controls the economy. Often, an authoritarian party holds power and state controls are imposed.
5. **Dictatorship:** A form of government where one person makes the main rules and decisions with absolute power, disregarding input from others.

The Function of a Political System:

In 1960, Gabriel Abraham Almond and James Smoot Coleman gathered three core functions of a political system, which include:

1. To maintain the integration of society by determining norms.
2. To adapt and change elements of social, economic, and religious systems necessary for achieving collective (political) goals.
3. To protect the integrity of the political system from outside thIn modern-day society in the United States, for example, the main function of the two core political parties is seen as a way to represent interest groups and constituents and to create policies while minimizing choices. Overall, the idea is to make legislative processes easier for people to understand and engage with.

Political Stability:

Every government seeks stability, and without institutions, a democratic political system simply cannot work. Systems need rules to be able to select political actors in the nomination process. The leaders must have fundamental skills about how the political institutions work and there must be rules about how authoritative decisions are to be made. The institutions constrain political actors by punishing deviations from institutionally-prescribed behaviors and rewarding appropriate behavior.

Institutions can resolve collection action dilemmas, for example, all governments have a collective interest in reducing carbon emissions, but for individual actors, making a choice for the greater good makes no good sense from an economic standpoint. So, it must be up to the federal government to establish enforceable sanctions.

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