Classical Economics

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I. Historical backdrop
   A. Industrial Revolution
   B. Associated with the rise of the market economy

II. Classical economics (definition)
   A. Marx's definition
   B. Keynes' definition
   C. 4 propositions
      1. output depends on the level of employment
      2. level of employment depends on voluntary negotiations between employees and employers
      3. say's law
      4. quantity theory of money

III. Formal classical model
   A. Microfoundations:
      1. Classical economics makes use of supply and demand in its analysis of the economy
      2. Basis of supply:
         a) Diminishing return--classical economics assumed that land in particular was fixed
         b) Marginal analysis--each firm produces at that point where the additional revenue from one more unit of labor just equals the additional costs
   B. Labor Market
      1. Supply of labor--disutility of work
      2. Demand for labor--value of the marginal product of labor

IV. Output Market
Classical Model

Diagram showing:
- A curve representing the relationship between Y and N.
- A curve representing the relationship between Y and P Level.
- A graph showing the demand (D) and supply (S) schedules with N on the horizontal axis and W/P on the vertical axis.
- A graph showing the relationship between W/P and P Level.