

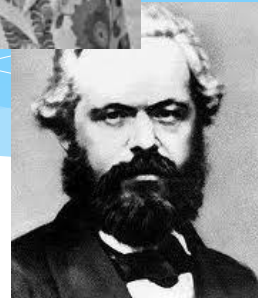
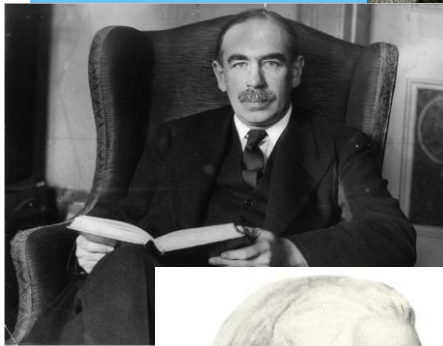
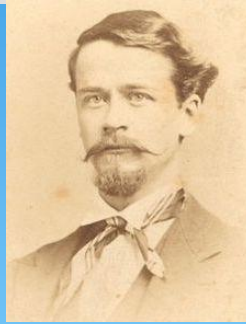
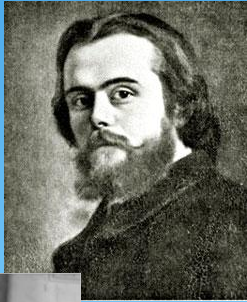
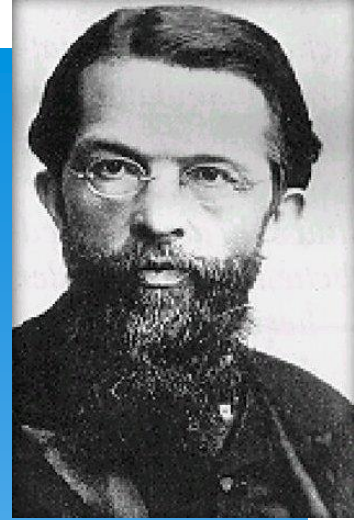
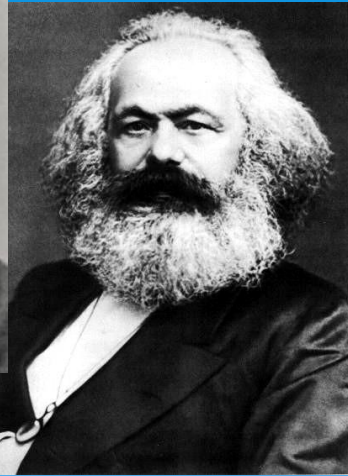
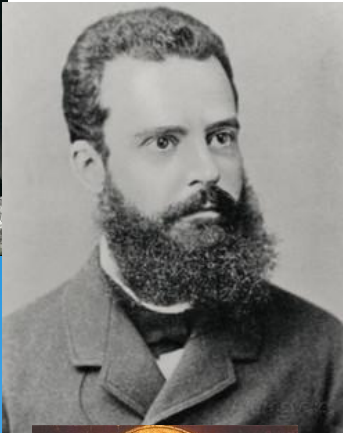
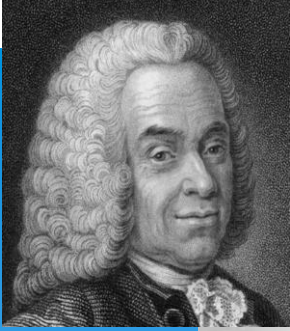
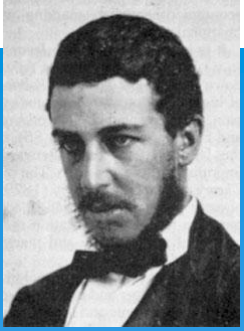
ECON 361

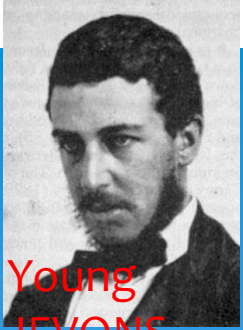
HISTORY OF ECONOMIC THOUGHT I

Assist. Prof. Çınla Akdere

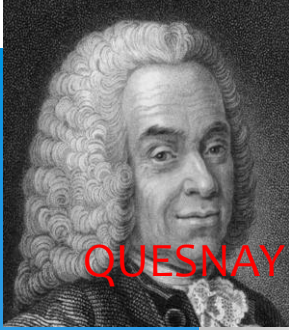
Middle East Technical University
Department of Economics

Fall 2025-2026





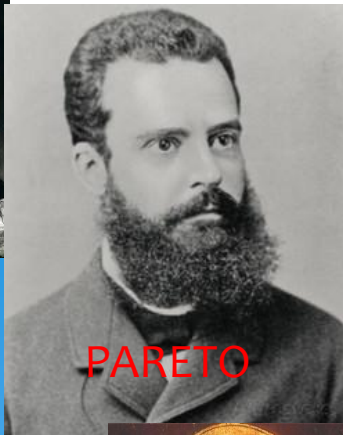
Young
JEVONS



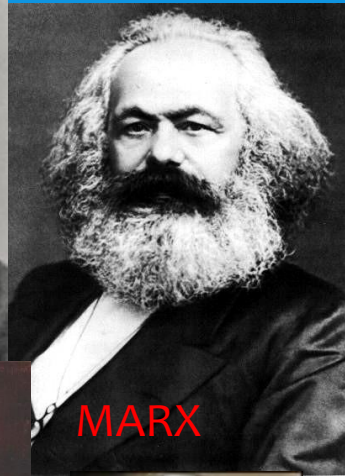
QUESNAY



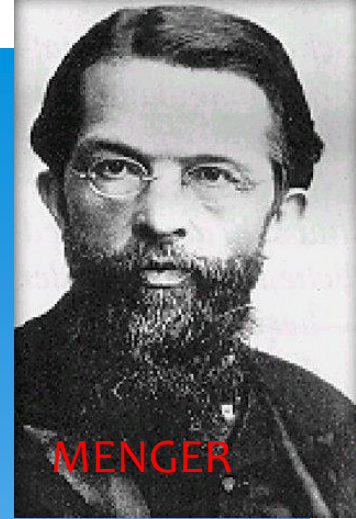
RICARDO



PARETO



MARX



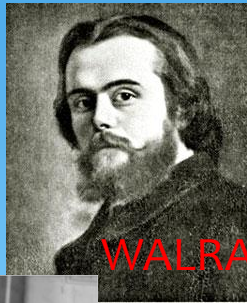
MENGER



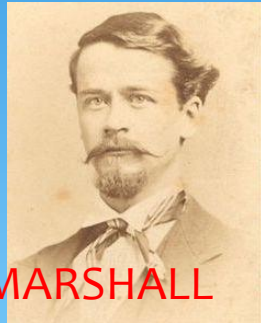
MALTHUS



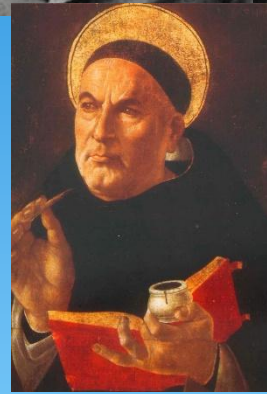
HAYEK



WALRAS



MARSHALL



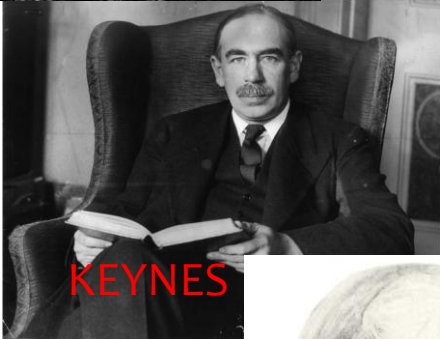
THOMAS
AQUINAS



SCHUMPETER



VEBLEN



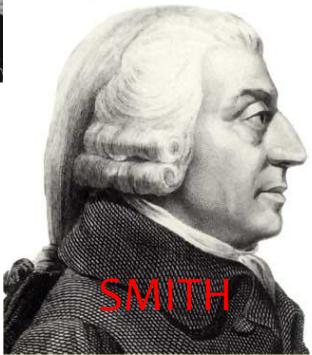
KEYNES



JEVONS



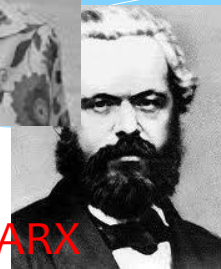
JOAN ROBINSON



SMITH



ROSA LUXEMBOURG



YOUNG MARX



J. S. MILL





Abhijit Banerjee Esther Duflo



Richard H. Thaler



Robert M. Solow



Thomas Schelling



Amartya Sen



Robert J. Shiller



Joseph E. Stiglitz



Paul Samuelson



John F. Nash



Ellinor Ostrom



Simon Kuznets



Eugene F. Fama



Christine Lagarde



Janet Yellen





2024 prize lectures in economic sciences | Daron Acemoglu,
Simon Johnson and James Robinson

<https://www.youtube.com/watch?v=YcuxbYUW8R8>

From 11:51

A chick was crushed by a car while crossing the road...



Mercantilists: The wealth of the country has decreased. We should export more chicks.

Physiocrats: Natural order regulates. Rest in peace.

Classicals: The invisible hand regulates. The rest is ours.

Neoclassicals: Other things equal (*ceteris paribus*), the chick could cross the road.

Keynesians: If an overpass was made (state intervention), the chick would not be crushed. In the long run all the chicks are dead.

Monetarists: The chick was crushed due to low traffic fines (wrong application of monetary policy)

New Classicals: The chick will not be crushed again by noticing that it was already crushed (rational expectations). Only unpredictable cars will crash the chicks.

Neo-Keynesianism: The chick who was unaware (asymmetric information) of fast cars (moral hazard) was crushed because it wanted to cross the road (adverse selection). Both predictable and unpredictable cars will crush the chicks. But unpredictable cars will crush more.

Supply-Side Economics: In order to compensate the loss of chicks, the tax has to be reduced and the production of chicks must be encouraged.

Post-Keynesians: The chick is crushed because it was uncertain that the car will pass.

Real Business Cycle Theory: The chick would not be crushed if cars would not be invented.

Comparing Different Schools of Economics

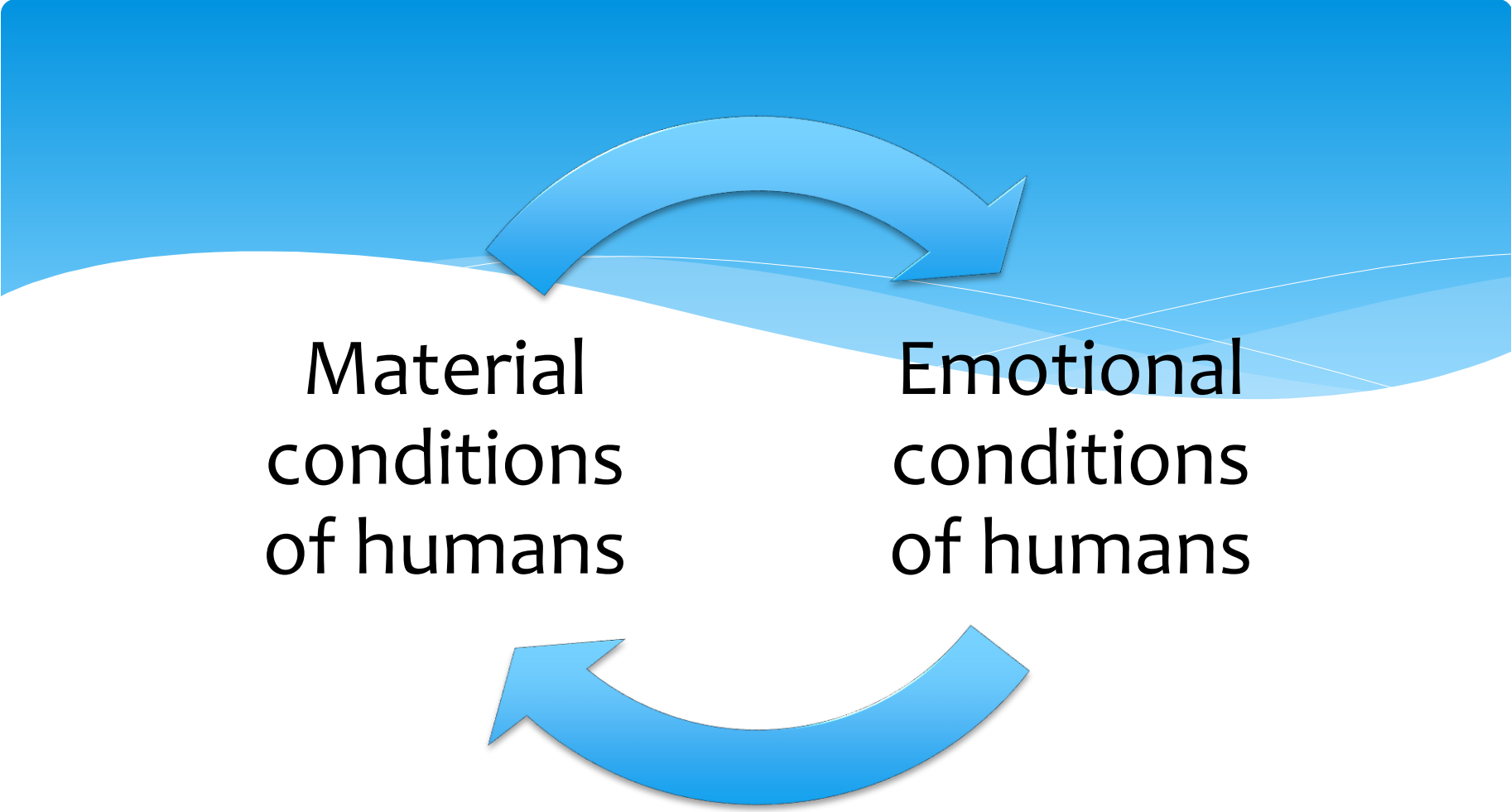
	CLASSICAL	NEOCLASSICAL	MARXIST	DEVELOPMENTALIST	AUSTRIAN	SCHUMPETERIAN	KEYNESIAN	INSTITUTIONALIST	BEHAVIOURALIST
The economy is made up of...	classes	individuals	classes	no strong view, but more focused on classes	individuals	no particular view	classes	individuals and institutions	individuals, organizations and institutions
Individuals are...	selfish and rational (but rationality is defined in class terms)	selfish and rational	selfish and rational, except for workers fighting for socialism	no strong view	selfish but layered (rational only because of an unquestioning acceptance of tradition)	no strong view, but emphasis on non-rational entrepreneurship	not very rational (driven by habits and animal spirits); ambiguous on selfishness	layered (instinct – habit – belief – reason)	only boundedly rational and layered
The world is...	certain ('iron laws')	certain with calculable risk	certain ('laws of motion')	uncertain, but no strong view	complex and uncertain	no strong view but complex	uncertain	complex and uncertain	complex and uncertain
The most important domain of the economy is...	production	exchange and consumption	production	production	exchange	production	ambiguous, with a minority paying attention to production	no strong view, but puts more emphasis on production than do the Neoclassicals	no strong view, but some bias towards production
Economies change through...	capital accumulation (investment)	individual choices	class struggle, capital accumulation and technological progress	developments in productive capabilities	individual choices, but rooted in tradition	technological innovation	ambiguous, depends on the economist	interaction between individuals and institutions	no strong view
Policy recommendations	free market	free market or interventionism, depending on the economist's view on market failures and government failures	socialist revolution and central planning	temporary government protection and intervention	free market	ambiguous – capitalism is doomed to atrophy anyway	active fiscal policy, income redistribution towards the poor	ambiguous, depends on the economist	no strong view, but can be quite accepting of government intervention

Aim

- ◆ To focus on **the essential ideas** of every school of economic thought.
- ◆ Focusing on **the social conditions** associated with the emergence of a school of economic thought, its **evolution** and its **contemporary influence**.
- ◆ It's all about the evolution of **microeconomics** and **macroeconomics**

- 
- * The main goal of this class is to present economic theories that survive over time and which are tools for us to understand **current developments** and **economic policies**.
 - * What is a school of thought?

Ex: **Keynesian School**= Keynes + others who follow Keynes



The diagram features a light blue background with a white wavy line separating the top from the bottom. Two large, curved blue arrows form a cycle: one at the top pointing from left to right, and one at the bottom pointing from right to left. The text 'Material conditions of humans' is positioned on the left side, and 'Emotional conditions of humans' is on the right side, both in black font.

Material
conditions
of humans

Emotional
conditions
of humans

- ◆ Emotional conditions (how we feel)
- ◆ Material conditions (home, wealth, gain, tax, etc.)

1) ECONOMIC FACTS

Trade, exchange, barter, track etc.

2) ECONOMIC THINKING

Should we keep this deer for making cloths or to exchange it with a beaver... or two beavers? See A. Smith's *Wealth of Nations* (1776)

- Economics? (after 1870s)
- Political economy? (before 1870s)



HOW
OLD
IS
ECONOMICS?

“A”

definition of capitalism

An economic system that was established through a long and slow process that has started in Western Europe in the 16th century and gained momentum with the advent of the industrial revolution in the mid to late 18th century.

A long and slow process...

What happened in 16th and late 18th century?

- In 16th century the economic activity and the creation of a new system has emerged with the help of trade.
- In late 18th century, Adam Smith's book *Wealth of Nations* came the the scene in 1776 (the beginning of economic thought, economics as a scientific discipline)

Markets...

Solution to the economic problem?

What is market?

“A market is an organization that, in truly remarkable fashion, allows society to ensure its own provisioning with a minimum of resource to either tradition or command”

Markets...



A Dialogue on 'The market' (1/3)

taken from Heilbroner R. L & Milberg W. (2001)

The Making of Economic Society

Assume for a moment that **you** could act as economic advisers to a society that had not yet decided on its mode of economic organization. Suppose, for instance that YOU were called on to act as consultants to a nation emerging from a history of tradition-bound organization and answer the questions of **the leader of the Nation**.

A Dialogue on 'The market' (2/3)

The leader of the Nation (LN): We have always known a highly tradition-bound way of life. Our men hunt and our women gather fruits as they were taught by the force of example and the instruction of their elders. We know, too, something of what can be done by economic command. We are prepared, if necessary, to sign an edict making it compulsory for many of our men to work on community projects for our collective development. Tell us, is there any other way we can organize our society so that it will function successfully – or better yet, more successfully?”

The economist (E): Well, there is another way. One can organize a society along the lines of a market economy.

The leader of the Nation (LN): I see. What would we tell people to do? How would we assign them to their various tasks?

E: That's the very point. In a market economy, no one is assigned to any task. In fact, the main idea of a market society is that each person is allowed to decide for himself or herself what to do.

LN: You mean there is no assignment of some men to farming and others to mining? No manner of designating some women for gathering and others for weaving? You leave this people to decide for themselves? But what happens if they do not decide correctly? What happens if no one volunteers to go into the mines, or if one offers himself as a bus driver?

E: You must rest assured, none of that will happen. In a market society, all the jobs will be filled because it will be to people's advantage to fill them.

A Dialogue on 'The market' (3/3)

LN: Now look, let us suppose that we take your advice and allow our people to do as they please. Let's talk about something specific, like cloth production. Just how do we fix the right level of cloth output in this 'market society' of yours?

E: But you don't.

LN: We don't! Then how do we know there will be enough cloth produced.

E: There will be. The market will see to that.

LN: Then how do we know there won't be too much cloth produced?

E: Ah, but the market will see to that too!

LN: But what is this market that will do these wonderful things? Who runs it?

E: Oh, nobody runs the market. It runs itself. In fact, there really isn't any such thing as 'the market'. It's just a word we use to describe the way people behave.

LN: But I thought people behaved the way they wanted to!

E: And so they do. But never fear. They will want to behave the way you want them to behave.

LN: I am afraid that we are wasting our time. We thought you had in mind a serious proposal. What you suggest is inconceivable. Good day.

The economic problems of production and distribution

- * The “market” is the solution to the economic problem, because it proposes a way of maintaining **socially viable patterns** of production and distribution. This is the market organisation of society.
- >> “an organization that, in truly remarkable fashion, **allows society to ensure its own provisioning with a minimum of resource to either tradition or command**”
- * Adopting markets to solve the economic problems of production and distribution

The economic problems of production and distribution

The market solution to the economic problem has today been adopted more widely and extensively than ever before in world history.

This unprecedented appeal to market forces has important implications for the creation and distribution of wealth, for the way companies organize the process of work, and for the role of government in determining economic and social outcomes.

The economic problems of production and distribution

Marketization has not pervaded all aspects of economic society but **the expansion of markets** sets the tone for the great debates in today's economic society. Many of these debates concern the **scope of government**; that is, its policies of taxing, spending, and regulation.

- How did the **market solution** itself come into being?
- Did it arise **spontaneously** and without forethought?
- Societies at **some earlier date**?

The economy may be described as a
“pre-market”

BUT
has also

- 1) trade
- 2) multiform products
- 3) organized exchanges
- 4) interest seeking

Premarket societies

1) Tradition



2) Command



Tradition: economies run **by tradition**

- * **The oldest one.**
- * They solve economic problems following the way **their fathers do.**
- * Tradition is a **mode of social organization** in which both production and distribution are based **on procedures devised in the distant past**, which was a **long process of historic trial and error**, and maintained by the powerful forces of **custom and belief.**
- * Young follow in the footsteps of their elders – this is the source of **social continuity.**
- * Jobs of fathers also are **assigned** to their sons
- * The **hereditary allocation of tasks** was also the main stabilizing force within society.
- * **Birth** usually determined one's role in life.

Command: economies run **by command**

- * This is the method of imposed **authority**.
- * The system depend on **the orders of an economic commander-in-chief**.
- * The mode of **authoritarian economic organization** (ex. Ancient Egypt , **despotisms of Medieval and Classical China, communist China or Russia**)

Why to focus on **Greeks and Christian period**

- * We are facing that kind of economic systems in the ancient **Greeks and Christian period**.
- * Because **classical economics**, consolidate, summarize, and synthesize the original work of an earlier period and cannot be fully understood without having some basic knowledge on pre-markets economies.
- * More recent writers, or economists, such as **scholastics in the 13th century** and **Adam Smith in the 18th century**, read ancient writers and in their works, they tried to answer some questions that has been already asked by them.

As long as man has lived on earth,
he has resolved “economic questions” such as

- * How to divide an available amount of food between **consumption today** and **consumption tomorrow**?
- * How to divide **the necessary labor** between the members of a group?

oikonomía

- * From Ancient Greek οἰκονομία (*oikonomía*, “management of a household, administration”),
from οἶκος (*oîkos*, “house”) + νόμος (*nómos*, “law”).
- * The economic organization of house

Agricultural society - The power of soil

All human communities, no matter how industrialized, live off **the soil**: All that differentiates an « industrial » society from an « agricultural » one is the number of the nonagricultural population that is **food growers** can support.

Characteristics of ancient societies (1/3)

- 1) All ancient societies were basically rural economies.
- 2) The peasant of antiquity did not own his land. We hear of the independent citizen-farmers of classical Greece and republic Rome, but these were exceptions to the general rule in which peasants were but tenants of a great lord.
- 3) Slavery on a massive scale was a fundamental pillar of nearly every ancient economic society. A statistic : At the height of “democratic” Athens in the fourth century B.C. it is estimated that at least one-third of its population were slaves.
- 4) Nothing like the free exercise and interplay of self-interest guided the basic economic effort of antiquity.

Characteristics of ancient societies (2/3)

- 4) Society had not yet integrated the production of wealth with the production of goods.
- 5) Wealth was still a surplus to be seized by conquest, squeezed from the underlying agricultural and slave populations; not yet the result of a system of continuously increasing production in which some part of an expanding total output might accrue to many classes of society.
- 6) Emperors, nobles, religious orders, merchant traders – all enjoyed the wealth of antiquity at one time or another.
- 7) Most wealth did not go to those who played a strictly economic role. Rather, in ancient civilization, wealth was generally the reward for political, military, or religious power or status, and not for economic activity. To sum up: In premarket societies, wealth tended to follow power; not until the market society would power tend to follow wealth.

Economic subjects treated

- * the division of labour and specialization
- * money
- * exchange
- * value
- * self-interest
- * estate management
- * public administration

Characteristics of ancient societies (3/3)

- * Self-regulating capacities of individuals (yes)
- * Rational decisions with maximizing human happiness (yes)
- * Self-regulating marketplace (no)
- * Two contrasting ideas of individualism
 - private household management called *oikonomikos*
 - the development of a hedonic calculus of rational self-interest.

Some components of modern economics in Greek thought

- * Hedonic calculus
- * Subjective value
- * Diminishing marginal utility
- * Efficiency
- * Resource allocation

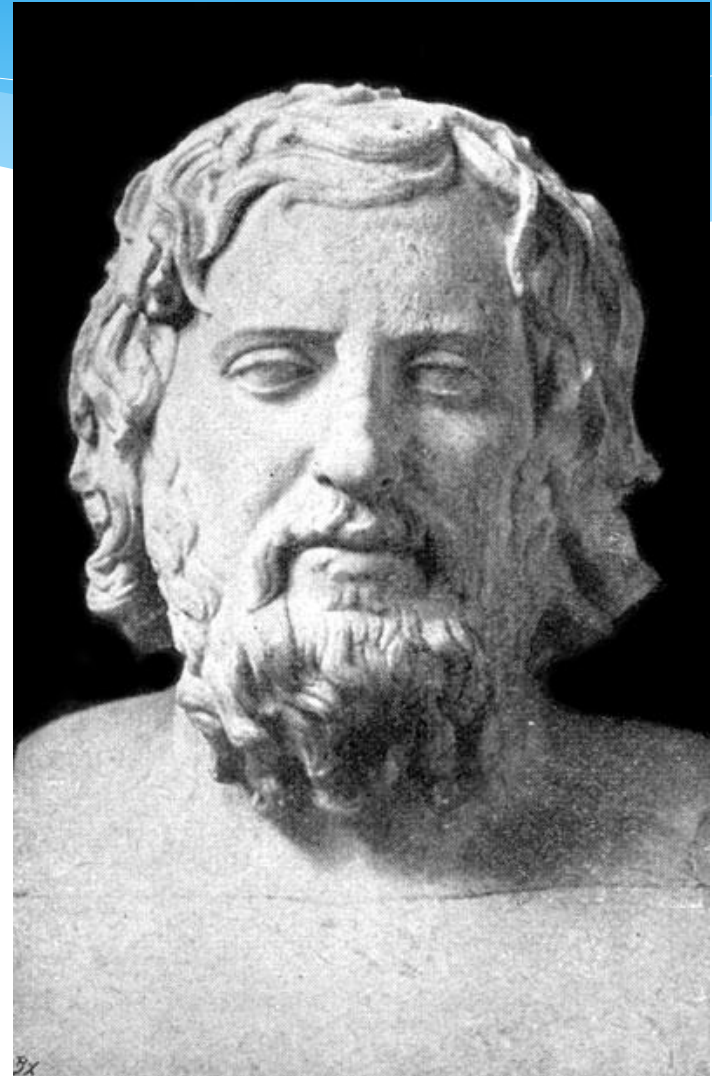
Ancient Greece

Xenophon (430-354 B.C.)

Plato (427-347 B.C.)

Aristotle (384- 322 B.C.)

Xenophon (430-354 B.C.)



Debate: value, wealth, profit

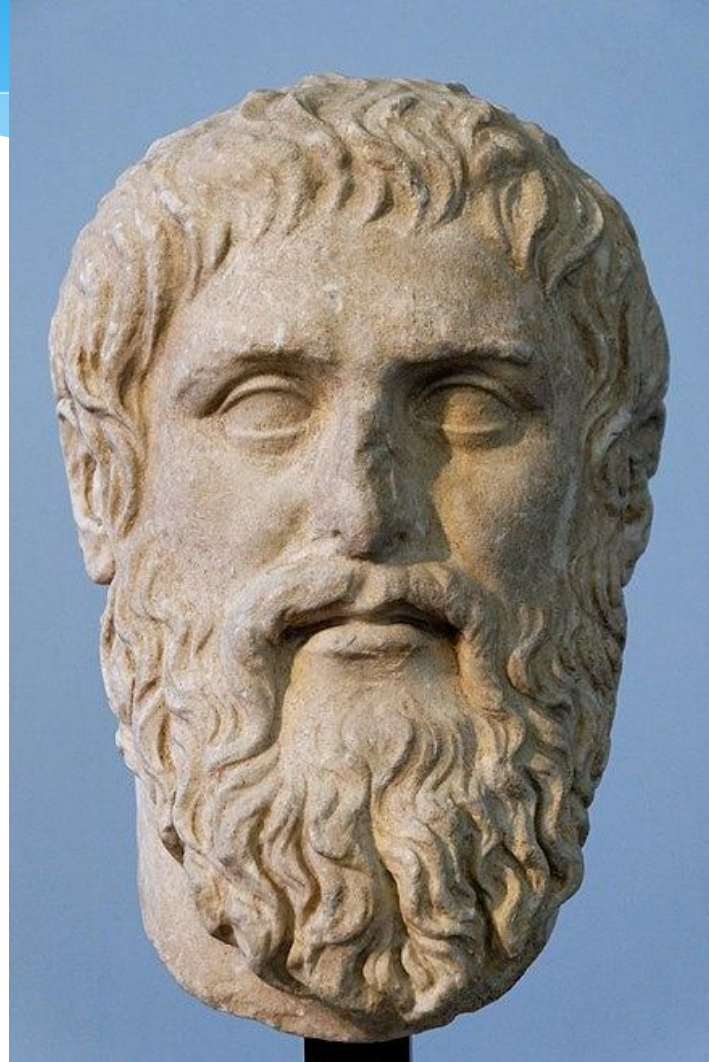
The discussion of **estate management** he observed that

“the same things are wealth and not wealth, according as one understand or does not understand how to use them. **A flute** for exemple, is wealth to one who is competent to play it, but to an incompetent person it is no better than useless stones... unless he sells it...”

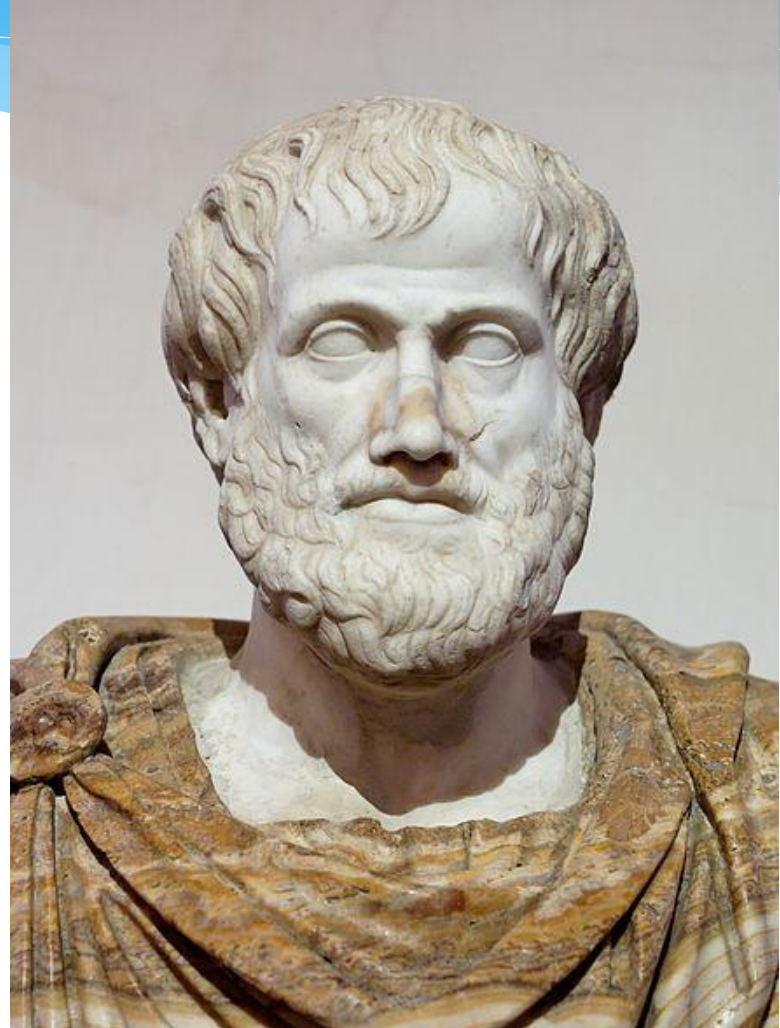
in which ease,
“it becomes wealth”.

Thus, in the end, “wealth is that from which a man can derive profit”, but “it causes him harm, it is not wealth”. “Even land is not wealth if it makes us starve instead of supporting us”.

Plato (427-347 B.C.)



Aristotle (384- 322 B.C.)





Roma, Italy
September 2025

Muzeo Nazionale Romano
Palazzo Altemps

Bible



Scholastic thought

An amalgamation of three different intellectual traditions.

- * Aristotle's philosophy
- * Bible and Church Fathers
- * Roman law

ex: Thomas Aquinas (1225-1274)

=> Just price, the rate of interest, and natural law.

Just price

The price that would appear spontaneously on the market if nobody was deceived or exerted coercion against anybody else, and if the situation was also normal in other respects.

For Thomas Aquinas, natural law was that part of the eternal law of God which is knowable by humans by means of their powers of reason.

Summary of economic thought from the ancient Greeks to scholastics in a few words:

- ✓ In the economic thinking of this period, there is more about ethics and justice than about economic causal relations.
- ✓ The discussion is generally connected with trade or other forms of exchange.
- ✓ Production is of minor importance in economic texts before the industrial revolution, but as we found in Plato's and Xenophon's treatment of the division of labour, production was not completely neglected.