
Understanding The Key Issues In Classical And Neoclassical

Classical and Neo-classical Perspectives on Capitalism

Classical and neoclassical economic theories provide key perspectives on capitalism. The classical economic theory is considered to have laid the foundation of modern economics and dominated in the eighteenth and nineteenth 19th century. It is associated with key classical economists such as Adam Smith, John Stuart Mill, Thomas Malthus and David Ricardo. These classical thinkers developed their theories as alternatives to the inflationary and protectionist policies that existed in mercantilist Europe (Black 2011). The perspective was related to economic and afterward political freedom. Today's mainstream economics is dominated by the neo-classical economic theory, which originated from the classical theory (Kry?ska & Kopyci?ska 2015). Neo-classical economics emphasizes outputs, prices, and distribution of incomes in markets determined by supply and demand (Agarwal 2013). This essay provides a discussion of the classical and neoclassical analyses of capitalism to identify the similarities and the differences between the two economic theories. The Chinese economy helps in illustrating these similarities and differences in the two economic theories.

According to Black (2011) the beginnings of classical perspective on capitalism are marked by Adam Smith's conceptions that reorient the economy focus from the protection of one's own interests to the support of the entire country. Black (2011) further explains that this begins from the premises that wage, price and interest rate flexibility results in the conditions needed to equilibrate the markets, at full employment. The market is able to self-adjust to provide economic stability and state intervention is only required to facilitate free operation of markets and a balanced budget. The classical perspective provides the existence of a market dominated by perfect competition, that lacks protectionist restrictions and any kind of monopole or unfair competition. The economy is capable of continuously attaining the natural level of GDP and uses the self-adjusting mechanisms to lay the ground for quick rebalancing in the event of steady-state deviations arising. Classicism also provides full employment as one of its key element that is considered to be associated with any freely functioning economy.

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