Chandana Ghosh • Ambar Nath Ghosh

An Introduction to Economics

Economic Theory and Society



Contents

1	Intro	oduction	1
	1.1	Economics and Class Division	2
	1.2	Capitalist, Socialist and Communist Societies	2 2
	1.3	Capitalism and Democracy	4
	1.4	Socialism: A Move to Form a Humane Society	7
	1.5	Conclusion	8
	Refer	rences	12
2	Neo	classical Economics and Capitalism	13
	2.1	Introduction	13
	2.2	Theory of Consumer Behaviour	14
		2.2.1 Budget Equation of the Consumer	15
		2.2.2 Tastes and Preferences of the Consumer	17
		2.2.3 Consumer's Choice and Derivation of His Demand	
		Functions	22
	2.3	Neoclassical Theory of the Firm	26
	2.4	Markets of X and Y and Determination of Equilibrium	
		Quantities of X and Y	34
	2.5	Welfare Economics: A Capitalist Economy Establishes	
		Efficient Allocation of Resources	38
	2.6	Critique of Neoclassical Microeconomics	42
		2.6.1 Theory of Consumer Behaviour	42
		2.6.2 Theory of The Firm	43
		2.6.3 Theory of Perfectly Competitive Markets	45

	2.7	Motivation for the Neoclassical Definition of Optimal	1.0		
	2.0	Allocation of Resources	46 ces 48		
	2.8 2.9	The Correct Definition of Optimal Allocation of Resource Conclusion	ces 48 50		
			50 52		
	Appe	nuix A Note on How to Take Total Differential of a Function	52		
		How to Represent an Equation in a Diagram (Roughly)	54 54		
3	Marxian Economics				
	3.1	Introduction	57		
	3.2	Capitalism and Exploitation: Marx's Theory of Surplus			
		Value and Profit	59		
		3.2.1 Commodity Fetishism	61		
		3.2.2 Methods of Extraction of Surplus Value: Absolute			
		Surplus Value and Relative Surplus Value	62		
		3.2.3 Exploitation, Surplus Value and Profit	64		
	3.3	Capitalism and Crisis	66		
		3.3.1 The Crisis of Underconsumption or Overproduction	n 67		
		3.3.2 Disproportionality Crisis	80		
	3.4	Performance of Capitalist Economies and Marx's Crisis			
		Theories	83		
		3.4.1 Trade Cycles in a Capitalist Economy	84		
	3.5	Primitive Accumulation and the Theory of Imperialism			
		The Ideas of Hobson, Luxemburg and Lenin	88		
		3.5.1 Transition from Feudalism to Capitalism:			
		Primitive Accumulation	88		
		3.5.2 Imperialism	91		
	3.6	Conclusion	92		
	Refer	rences	93		
4	John Maynard Keynes and Stabilization Measures		95		
	4.1	Introduction	95		
	4.2	Keynesian Theory of Trade Cycles	96		
	4.3	Keynesian Stabilization Measures	97		
		4.3.1 Fiscal Policy	97		
		4.3.2 Monetary Policy	101		
	4.4	Conclusion	104		
	Refer	rence	104		

5	Neoclassical Economics, Marx and Keynes, and the Global Financial Crisis			
	5.1	Introduction	105	
	5.2	The Crises in the US, Europe and Japan	108	
		5.2.1 Asset Price Bubble and Speculative Activities in the		
		Asset Market	110	
		5.2.2 Explanation of the Formation and Collapse of the		
		House Price Bubble in the US	114	
		5.2.3 Nexus Between the Global Financial Capital and		
		the US Government and Fed	117	
	5.3	Collapse of an Asset Price Bubble and Recession	118	
	5.4	Stabilization Measures	119	
		5.4.1 Unconventional Monetary Policy	119	
		5.4.2 Conventional Monetary Policy	120	
		5.4.3 Appropriate Policies for Tackling Recession	123	
		5.4.4 Inappropriate Policies Adopted in Recent Periods		
		for Countering Recession	124	
		5.4.5 Motivation for Keeping an Economy in a Desired		
		Level of Recession Indefinitely in the Post-Crisis		
		Period	126	
	5.5	The Indian Scenario	128	
	5.6	Fair Real Rate of Return on Savings, Inflation and Price		
		Indexation of Wage Rates and Interest Rates	130	
		5.6.1 What the Central Bank Can DO	132	
	<i>5.7</i>	Economic Reforms and the Poor	133	
	5.8	Conclusion	134	
	Refer	rences	135	
5	Capi	talism Versus Socialism: A Few Country Studies	137	
	6.1	Introduction	137	
	6.2	Economy of the Soviet Union: Introduction	138	
	6.3	Formation of the Soviet Bloc	138	
	6.4	The Spectacular Rise of the Soviet Union	139	
		6.4.1 World War II and the Post-War Period	142	
	6.5	The Fall of the Soviet Union	143	
		6.5.1 The Model	144	
	6.6	People's Republic of China: Introduction	148	
	6.7	China's Growth Performance	149	

xii CONTENTS

	6.8	Foreign Trade in China	155		
	6.9	Conclusion	156		
	6.10	Economy of Cuba: Introduction	158		
	6.11		158		
	6.12	Post-Soviet Cuban Economy	160		
	6.13	Concluding Observations	162		
	Refer	rences	163		
7	Survi	ival of the Common Man Under Capitalism: A			
	Plaus	sible Strategy	165		
	7.1	Introduction	165		
	7.2	Giant Capitalists and Workers: The Mechanism of			
		Exploitation	168		
		7.2.1 Extraction of Labour at the Minimum Possible Price	? 168		
		7.2.2 Extraction of Savings at the Minimum Possible Price			
		7.2.3 Religion and Neoclassical Economics: The Two			
		Instruments of Mass Hypnosis	176		
	7.3	The Way Out of Capitalist Exploitation and Moving	1,0		
	, 10	Towards Establishing Socialism	178		
	7.4	The State of the Erstwhile Colonial Countries like Ind			
	7.5	India Under the New Economic Policy (NEP)	184		
	7.6	The Way Out	186		
	Refer	•	188		
_			189		
Index					