International Journal of Research
e-ISSN: 2348-6848 & p-ISSN 2348-795X Vol-5, Special Issue-9
International Seminar on Changing Trends in Historiography: A Global Perspective
Held on 2nd February 2018 organized by **The Post Graduate Department of History. Dev Samaj College for Women, Ferozepur City, Punjab, India**

History of Economic Thoughts: From Evolution to Revolution

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Abstract

The study of the History of Economic thoughts (HET) is generally held in low esteem by mainstream economists. However, there are many reasons for teaching students of economics the history of their own discipline. This paper surveys the main reasons for studying and teaching among the reasons discussed are keeps alive research paradigms that are alternatives to the prevailing orthodoxy. According to earliest that 'dead men tell no tales' - that there is nothing of value in the history of economic thought (or at least nothing of value that isn't already distilled into modern works) - to the other end of the spectrum: the scriptural view that all the great works of economics were created in previous decades or centuries and that the task of present-day economists is merely to interpret, teach and apply them. There are of course, many views along the spectrum between these two extremes. This paper on history of economic thoughts exposes students to the comprehensive, holistic systems of economic and social thought constructed by Marx, Smith, Keynes, Marshall and the other great figures in HET. There is quite a variety of views on the relevance of the study of the history of economic thought to an education in economics.

Keywords- HET,orthodox,spectrum,holistic,paradigms,constructed,interpret,**praxeology**

Introduction

History of economic thought can be regarded as a collection of highly subjective, opinionated and personal economic ideas of great economists. It may also include opinions of the different schools of economic thought. It is the sum total of all opinions concerning economic discipline, especially with respect to public policy on different economic issues at any given time and place. Economic thought may reveal class relation, production, distributuion, value, economic growth development and a host of many other aspects concerning the economic life of a society. it is an account of the development of economic ideas and also a study of their impact on economic institutions and human activities. it is a systematic compilation of economic ideas of human beings which aim at analyzing some economic problems, or explaining the origin and mechanism of some economic institutions. History of economic thought also contains plans, programmes and speculation about institutions and their future development .it is a systematic, chronological and critical study of the economic ideas and sources of some of these ideas.

History of economic thought includes all human ideas relating to economic problems. Economic thought is a record of economic thinking of different authors from the ancient time to the present day. The idea on economics have to be traced from customs, traditions, institutuions, laws, practices and so on of a particular community prevailing in a particular period of history. Economic thought is concerned with the interpretation of production,

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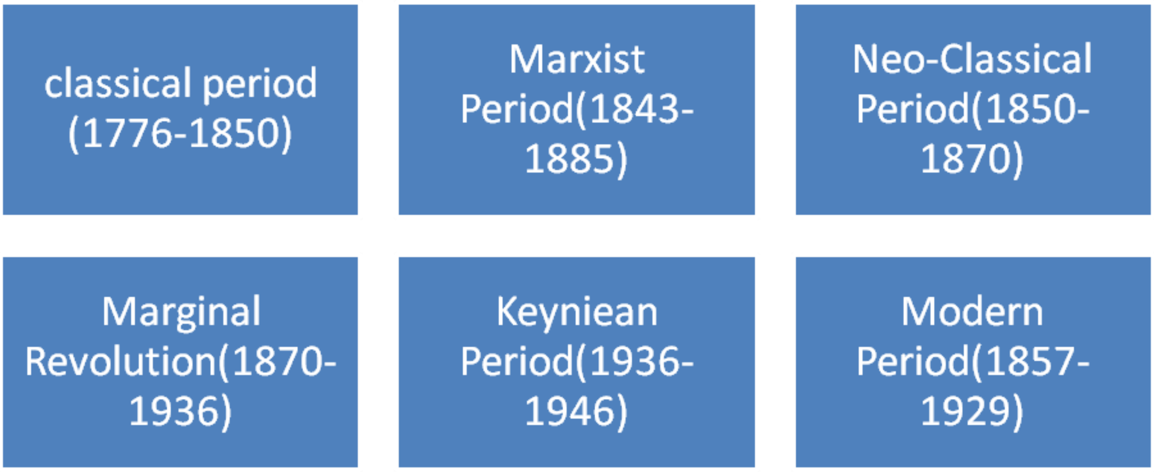
distributuion,value ,growth, trade ,development,commerce,industries and so many others related to economic matters and problems.

Origin and Growth of Economic Thought

The entire universe of the history of economic thought can regarded as consisting of some epochs. The epochs stand for the periodisation of economic thought. For the convenience of analysis, periodisation of economic history is very essential but it is at the same time very difficult too, because it can be done by a number of different criteria without any common outcome. According to Kuhn, a problem solving normal science can be regarded as a rule and revolutionary science. A science progresses through the changes of paradigms, in the course of which there may be a sudden change over from a ruling paradigm to an entirely new paradigm. On the basis, a distinguishing and a distinct history. Considered this way, there are the following five main periods in economic history.



Classical Period (1776-1850)

The word 'classic' has been used in the economic literature to convey three different meanings. Firstly it is used to refer to the economic writings of the period from "Adam smith to J.S Mill" the leading member of the school were: Adam Smith (1723-1790), Malthus (1766-1834), Ricardo (1772-1823) and J.S.Mill (1806-1873).The classical economists set out to deal with the problems relating to the market economy which was rapidly emerging in England on the eve of the industrial revolution.

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An Overview of Classical Economics

Economic Philosophy:

The classical economists were basically concerned with the activities of the individuals. It is basically concerned with the activities of the individuals. It is the welfare of each individual that leads to the welfare of the society and not the other way round. There is no conflict between the interests of the individual and those of the society. The well being of the society does the sum total of the well being of all the individuals comprise it.

Adam Smith called his individualism an outcome of his belief in the principle of natural liberty. He maintained that each individual maximizes his and his society's welfare when he acts, unchecked, according to the natural laws operating with him and in the physical world.

Economic Policy:

In the field of economic policy, the classical economists were the followers of the doctrine of laissez-faire or the system of economic liberty. According to them, economies function best under private initiative and competitive conditions rather than under state control. individual action motivated by enlightened self –interest and regulated by competition tends to promote individuals as well as social welfare .The classical economists ,therefore ,opposed all kinds of restrictions on economic activities as they hamper competition ,and thus, interfere with the automatic working of the market economy.

Economic Growth:

The classical economists were primarily concerned with the dynamic problem: what determines economic growth of a capitalist economy? In their view, population growth and capital accumulation are the necessary conditions of growth.

The classical theory of economic growth can be summed up in the following equational system:

Total output, O, depends upon the size of the labor force, L, the stock of capital, Q, the amount of land available, K, and the level of technology, T.

$$O= F (L, K, Q, T)$$

The level of technology, T, depends upon the level of investment, I.

$$T=T (I)$$

Investment, I, which is considered equal to the increase in stock of capital, dQ, depends on profit, R.

$$I= dQ=I (R)$$

Profit, R, depends upon labor supply, L, and the level of technology, T.

$$R= R (L, T)$$

Lab our supply- L, depends upon the size of the wage bill- W.

$$L= L (W)$$

The Wage bill, W, depends upon the level of investment, I.

$$W=W(I)$$

Closing the system, we have an identity, total output, O, equals profits R, and wages, W.

$$O=R+W$$

The long-run equilibrium condition is given in equation

$$W=wL$$

W= Minimum wage rate which is assumed to be constant

Say's law of Markets

Say's Law of market is basic to all classical reasoning .Almost all the classical economists accepted Say's formulation that supply created its own demand and whatever was produced would be automatically sold in the market. Say's law implies two things: Money is a veil; its only function is to serve as a medium of exchange. (b) General over-production is impossible.

The Theory of Value

The classical economists distinguished between value-in-use or utility and value-in-exchange or price and concentrated their attention on the former. The level at which the price of a commodity will settle down in the long run is called natural price. Thus, the natural price equals cost of production .The classical theory of value was based on the assumption that the production was carried out under constant cost conditions. It is only under those conditions that a neglect of demand forces in the determination of prices can be justified.

The Theory of Distribution

The classical economists also discussed the determination of the natural prices of different factors of production .The systematic theory of rent was given by Ricardo .According to him, rent is paid to the landlord for the use of the original and indestructible power of the soil .Cost of production of the marginal land determines the price of the produce. The price determines the surplus which all intra-marginal lands enjoy. Rent appears both in extensive and intensive cultivation: in the former case due to differences in fertility, while in the latter due to the operation of the law of diminishing returns. Considered in this sense, rent, the price of land, does not enter into the price of the product. Price-determining cost consists of wages and profits.

The Theory of Population

The Malthusian theory of population formed the essential part of the classical system. According to this theory, population tends to exceed the available food supply. But, in actuality, this tendency is prevented by certain checks. These checks are: positive checks (those raising the death rate) and preventive checks (those reducing the birth rate). These checks were further resolved into misery (war, famine, plague), vice (contraceptive, abortion) and moral restraint (restraining from marriage). The ultimate check on the

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population growth is limited food supply. Thus, to conclude, (a) whenever the combined effect of these checks is less than that of procreation, population will increase; (b) whenever the combined effect of the checks is greater than that of procreation, population will fall; and (c) whenever the combined effect of the checks and that of procreation cancel each other; population will remain unchanged.

Marxist Period (1843-1885)

Karl Marx (1818-1883) was the author of the great work Capital (1867) and the architect of a great system, Marxism. Capital is widely talked of, frequently quoted, but seldom read. It has been variedly interpreted. It has equally inspired both those who believed in Marxism and those do not. Marxism is not merely a body of economic ideas; much more than that it is a comprehensive system of thought and politics. The chief merit of Marxism as a system lies in it organic unity.

Marxian Philosophy

That Marxism, as a system, is a unity and has to be understood as such is indisputable. But the internal logic of the system requires the starting of its study with Marxism philosophy.

Dialectical Materialism

Marxism philosophy has been technically termed as Dialectical Materialism. Marx's philosophical disposition was greatly influenced by, and at the same time rebelliously opposed to, the German Philosopher Hegel. The influence of Hegel is clear in Marx's adoption of Hegel's Dialectical Method. Dialectical Method assumes a definite logical position which maintains that by a negative judgment we reach a higher concept which because of the negation is richer than the original one. Any finite concept when considered as a predicate of relity (thesis) will lead us to the opposite (antithesis). but as a contradiction is repulsive to thought, we cannot stop here and are led to the third stage (synthesis) which reconciles the mutually opposed concepts and gives us a better description of reality.

Historical Materialism

Marx applied his philosophical ideas to society and gave a materialistic (or economic) interpretation of history. Historical Materialism is the study of society and the laws of its development. The historical materialism as a philosophical science has the following broad features. The historical Materialism is a philosophical study which deals with objective laws of social development. In other words, these laws are independent of man's consciousness. It deals with social laws as distinct from laws of nature. There are essential distinctions between the laws of social life and the laws of nature. It studies the general objective laws governing the development of society. It investigates the most general phases of world history, socio-economic formations and the objective causes of their appearance and disappearance. It is more than a method of investigation social phenomena. It has a theory of its own, which can explain the historical tendencies

Neoclassical School (1850- 1870)

The year 1871 marked a turning point in the history of economic thought. It witnessed the end of classical economics and the rise of a new school of economic thought, which later on became popular as the neoclassical school. The characteristics feature of the new school was introduction of marginal analysis. Jevons, Menger, and Walras were the founders of the new school. Theory of Political Economy (1871) appeared in England, Menger's Principles of Economic (1874) in Austria and Walras' Elements of Pure Economics (1871) in Lausanne. Another unusual thing about these writers is the fact that their theories did not get recognition until after the turn of the century.

The use of Mathematics

The marginal reasoning gave mathematics a prominent place in economic analysis. In fact, marginal analysis is closely related to differential calculus. Economic functions are assumed to be differentiable continuous functions. If two variables x and y have functional relationship so that y = F(x), then the first derivative, i.e., $dy/dx = 0$ maximizes this relationship. This is the necessary optimality condition. The second derivative. i.e., dy^2/dx^2 refers to the slope of dy/dx curve or the behavior of the marginal effect. Negative dy^2/dx^2 is nothing but the mathematical version of the law of diminishing marginal effect.

The theory of Value and Distribution

Marginal analysis provided logically strong basis on which the theoretical structure of the neoclassical school was founded. The theories of value and distribution of the new economics stand in sharp contrast with those of traditional economics. In the classical economics, the theory of distribution is separated from the theory of value. The prices of commodities in the product market are determined by the natural prices of the three factors of production, land, labor, and capital in factor market. The natural prices of these factors are, in turn, not determined by some general law but by three special theories.

Modern Economic Thoughts (1857-1929)

Veblen's Economic Ideas

As an institutionalist ,Veblen believed that economic institutions were the mainspring of economic changes.His analysis was purely in the light of economic motives and institutions .He criticised the classical school mainly on two grounds: (i)its concept of economic man and (ii) its belief in the harmony of interest .He found that the interest of the capitalist class was opposed to the interest of the community .In many respects ,Veblen was like Marx. Both are institutionalists.However veblen was basically concerned with human motives and instincts. Veblen's in- stitutionalism was based on idealist philosophy.

According to Veblen, the striking feature of the leisure class is to maintain the superiority over their fellow.The rich people ,Veblen finds ,indulge in conspicuous consumption ,conspicuous waste and conspicuous leisure .His analysis of snob values and conspicuous consumption earned him immense fame as,a social economist. In his famous work ,Theory of business Enterprise ,Veblen distinguised between profit-making and goods-making.He observed that business people are interested not so much in making goods as in making

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money by hook or by crook.Thus, the ordinary people do not get the advantage of efficiency or technological improvement.

The Theory of Leisure Class:

Thorstein Veblen's first and best -known work challenge man's standards of behaviour ,and with devastating satire,exposes the hollowness of taste ,education,dress and culture.according to Veblen ,the leisure class sets the standard followed by every lvel of society .The sign of membership of the leisure class is exemption from industrial toil and the mark of sucess is consicuous consumption.

The institution of leisure class is found in its best development **at** higher stages of barbarian culture .This class takes up some employment ,e.g, army,which is honourable.The leisure class is a stable and conservative class .And this is a mark of respectability.According to Veblen ,this class exerts a retarding in-fluence upon social development .This class retains much of the habits and ideals of the earlier barbarian period .Their martial spirit is of a very high order.Duel is a leisure class institution.

American Economic Thought

Francis A. Walker (1840-1897)

Francis Walker was one of the founder members of the American economic association .He was the president of this association for seven years.He was also associated with many economic organisations of America.He got his primary lesson on economics from his father ,Amasa Walker,who was also himself an economist by profession.

Francis A. Walker wrote many books on economics, the renowned of which are: The Wages Question,(1876),Money (1878) ,Political Economy(1883), Land and its Rent (1883) ,and International Bimetallism(1896).

Political Economy: In this book on Political Economy ,Walker discussed the nature ,meaning and method of Political Economy.According to him,"Political Economy or Economics is the name of that body of knowledge which relates to wealth : it has to do with no other subject,whatever,than wealth".His conceotualisation of Political Economy is almost the same as the Marshallian concept of Economics.He took into account three factors of production such asland ,labour and capital.

Frank H.Knight(1885-1973)

Knight is famous for his theory of profit which is based on consideration of risk and uncertainty .Knight has written many books .His main publications are:Risk , Uncertaintyand Profit,(1921), The Ethics of Competition and other Essays (1935),Freedeom and Reform(1947) The Economic Organisation(1951) ,On the history and Method of Economics(1956).Knigh has distinguished between static and dynamic .The idea of statics has been taken from theoretical mechanics.Static is found to exist in those forces that tend towards equlibrium .However ,his concept of equilibrium is not one of the state of rest but it is simply a process .In the analysis of this process we start from a static economy ,where resources have already been utilised and commodity supplies exhausted .Dynamic problem arises from the acts of saving and investments, which are very necessary for increasing the supply of goods and services .Knight has found that there may not always be a tendency of the economy to move towards equilibrium.

Aruthur Cecil Pigou(1877-1959)

Pigou and Pareto have actually founded the modern welfare economics.Pigou's Economics of welfare is a magnum opus.It represents the welfare tradition of neo-classical economics.Pigou was basically a neo-classical economist.In his work ,the emphasis shifted from happiness to welfare .Most of the important theoretical terms applied by Pigou are obtained from Marshallian analysis. But there are many important ways in which Pigou has not followed the Marshallian traditions.Marshall was basically concerned with the marginal analysis which deals with balancing the advantages and disadvantages of very small changes in the output of different industries.

Pigou ,in his analysis ,made many assumptions ,such as:

1. Each indivisdual tries to maximise his own satisfaction.
2. Interpersonal comparisons of utility are possible.
3. Welfare will increase if wealth is transferred from rich people to poor prople.
4. Welfare analysis is normative in character.
5. Man's capacity for satisfaction is equal.
6. Persons having more real income will enjoy satisfaction than those having less real income.

New Classical Economics:Rational Exectation Theory

The new classical economics (NCE) is a recent challenge to the structure of orthodox and contemporary macro-economics theory. NCE is based on two theories,namely,theory of continuous market clearing (CMC) and the theory of rational expectations(RE) .CMC is based on the ideas of Walrasian general equilibrium and theory of efficient market.Efficient market hypothesis is basically concerned with prices and equilibrium in commodity market and financial market.Walrasian general equilibrium technique can determine equilibrium prices in all markets simultaneously. All these prices,there would be absence of excess demand or excess supply .The market would be completely clear.

RE is the application of the principal of rational behaviour to the collection and processing of information and to the formation of expectations. RE can be used for making predictions about many macroeconomic variables on the basis of given stock of information.

Many economists have developed the theory of RE .Among others ,they are J.F. Muth, Rebert Lucas, Sargent and Wallace.Muth observed that some expectations are rational in the sense thta they are the same as given by predictions .But expected situation may of course differ from actual situation only by random forcasting error. In the theory of RE ,the stock of available information can be thought of as some kind of resources which can be allocated in the best possible way.

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Margnalist Revolution(1870-1936)

Marginal economists introduced a new technique in the analysis of economic phenomena. The new technique, known as marginal analysis, is the heart of marginal economics. According to some economists, the real story of the growth of economics as a science is the improvement of its technique. Marginal revolution was a revolt which was in favour of a genuine liberation, a shift from compiled literary generalisations to precise logical formulation. The basic objective of Marginal economics was to search for the conditions under which optimum results could be obtained by the allocation of scarce resources. Te marginal principle was applied in the case of value, production and distribution. The classical theory of value based on the concept of labour-embodied stood changed as a result of the introduction of the marginal utility theory. The marginalists paid little attention to the cost of production and laid more emphasis on utility. However, it was Marshall who combined the classical notion of cost of production and marginalists notion of utility demand. Marshall, in fact, was adhering to the new marginal analysis. Marginal Economists put emphasis on the attainment of equilibrium. Economic discussion shifted from total quantity to small changes in these totals. The contribution of the Marginal Economists to the development of macro-economic was almost nil. The marginalists argued for the welfare maximising effects of perfect competition. Marginalism is a new paradigm in economic science. However, this is not a new principle. Even Ricardo and others were aware of the Margin. The concept of Margin was brought from the earlier economists. Be that as it may, some economists consider marginalism as the economics of the rentier class, as Bukharin did. Marginal utility analysis is regarded as nothing but the bourgeois answer to the Marxism. The whole structure of the micro-economic analysis has been developed through marginalism. On the basis on marginal analysis, the old puzzle about the pricing of diamond and water is easily solved, and the tail wagging dog demonstrated. The importance of the marginal lies in the fact that the proper attention to the margin will enable to the consumers and producers to get the best out of their limited resources. Marginal analysis has been employed in macro-economic theory. Keynesian concepts of marginal efficiency of capital and marginal propensity to consume are based on marginal analysis. The concept of margin has also been used in the modern theory of distribution, which is called marginal productivity theory. The Austrian school of thought has used Ricardian marginal analysis. A distinction is made between pricing of output and of the factors of production. Here again, marginalism is the technique which facilitates the achievement of the result. Ricardian theory of distribution is partly based on marginal principle which seeks to explain the share of rent. Rent is nothing but the difference between the average and marginal products. The marginal productivity theory of distribution which is essential a neo-classical theory developed by Marshall is partly derived from the marginal principle of the Ricardian theory.

In the simplest form, the marginal productivity theory states that the price of a factor is equal to the marginal productivity. Marginal analysis has been empirically challenged by studying the actual behaviour of the firms. Thus, Hall and Hitch have shown that producers determine their selling prices on the basis of full average cost, rather than marginal cost and marginal revenue. Pricing is generally based on average cost plus some profit margin.

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To sum up: Marginalism can be said to have the following characteristics : (1) emphasis on resource allocation, (2) application of distinct technique of analysis, (3) introduction of static method, (4) emphasis on relative prices and not on absolute prices as the classical did, (5) consumption so emphasized, (6) distribution is based on imputed values (marginal productivity of factor), (7) emphasis on micro analysis, (8) absence of class conflict, and (9) possibility of factor substitutability in production.

The Economic Point of View and Praxeology

Our discussion thus far in this paper has made no attempt to distinguish a specifically economic point of view from the general praxeological outlook. We set out, in this paper, to examine the various points of view held to characterize economic science and through which an "economic" aspect of social phenomena has been distinguished. Our search has led us in this chapter to consider the filiation of ideas that have found the specifically economic point of view to be merely part of a broader perspective, the praxeological view. To be sure, the praxeological perspective embraces a range of human action far wider than that usually treated in economic theory. All human actions, motivated though they may be by the entire range of the purposes that have inspired and fired men to act, come within the sway of the ideal praxeological discipline. The constraint that men feel to fulfil their purposes in spite of obstacles pervades all aspects of life. It is the position of praxeology that the common category that embraces the entire range of human efforts is the key to economic science. We have seen at various points in this book that economists have again and again searched for something in economics that should differentiate it from the rest of human action. These thinkers were deterred from expounding the praxeological character of economics for the very reason that this character is common to other aspects of social life. The praxeological view sees economic science as the branch of praxeology that has been most highly developed.Perhaps other branches will one day attain a similar stage of development. The important point is that distinctions between various "branches" of praxeology must be arbitrary. Economics is a "given pie"; it is not a pie that every economist can make at will or for which he can prescribe his own recipe. Economic theory has a "nature of its own" that must be respected; certainly it must be recognized if its distinctive contribution is to be made at all. But the pie that is the economic aspect of affairs is bigger than that traditionally treated by economists; it embraces all human action. The slice that makes up economic theory may—so long as it is cut from the correct pie—be cut in any arbitrary way. "It is impossible to draw a clear-cut boundary around the sphere or domain of human action to be included in economic science." The scope of praxeology, the general theory of human action, can be precisely defined and circumscribed. The specifically economic problems . . . can only by and large be disengaged from the comprehensive body of praxeological theory. Economic theory has traditionally dealt with the phenomena of the market, prices, production, and monetary calculation. In these spheres of human activity, theorists have developed constructions that help to explain the regularities these phenomena evince and to bring into clear focus the tendencies for change in these phenomena consequent upon given autonomous changes in the data. Writers on economics have striven to present precise definitions of the scope of this discipline. From the point of view of praxeology, the earlier attempts suffered from their tendency to seek for the defining criteria in the nature of the

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specific affairs with which market phenomena are concerned. The consequence of these searches was the series of formulations examined in the earlier chapters of this book. The subject matter of economics came to be connected with the material things that are the objects of traffic in the market; it came to be linked peculiarly with the use of money in market transactions or with the specific social relationships that characterize the market system. Where writers came closest to the recognition that these criteria were only accidental characteristics of the affairs upon which economic analysis could be brought to bear, where they were able to glimpse the congenerousness of the specifically economic type of analysis with the underlying actions of men, they were unable to follow this clue to the conclusion to which it pointed. Precisely because those features in action that made it susceptible of economic analysis seemed common to all human activities, these writers were driven back to look for some other defining characteristic. And this meant again the search for some arbitrary quality to justify selecting the particular slice of pie that made up economic theory; but it meant in addition the relegation yet further into the background of the true recipe of that larger pie from which their conception of economics was being arbitrarily hacked. From this point of view the formulation of the nature of the economic in terms of the allocation of scarce means among competing ends occupies a rather special position. This definition, discussed at length in the previous chapter, differs from the rest in its approach to the problem. It defines an aspect of human activities in general; it does not look for the key to economic phenomena in the specific kinds of activity with which they are mostly concerned. In finding the economic aspect of activities in general to consist in concern with the ends-means relationship, this Conception too includes within its scope kinds of actions with which economics has had traditionally little to do. From the praxeologicalstandpoint, in fact, the idea of economizing scarce means in allocating them among alternative ends, when used as a criterion for defining the domain of the economic, is nothing but a convenient, though artificial, framework in which human actions can be analyzed.

It is not to be denied that the ends-means formulation seems to fit with remarkable neatness the phenomena treated by economic theory. But this neatness has been achieved at the cost of a failure to press on to the very crux of the economic point of view. We are not thereby apprised, as the expression of this economic point of view is able to apprise us, how an analysis of human affairs by economic science is made possible by the very perspective from which the economic theorist views them. The ends-means dichotomy does not show how the recognition of the principle that governs the allocation of means conduces at the same time to a recognition of the possibility of scientific analysis and explanation of economic phenomena. Only when the economic point of view is conceived as focusing attention on the nature of human action is it able to provide the key to economic science. And in this sense it can indeed be contended that the definition of economics in terms of the economizing of scarce means (like others before it) "fails to convey an adequate concept of its nature," until this definition is superseded by the fully developed conception of economics.

However , It can be explained, that is, that the controversy has an economic aspect because the assumed copyright laws affect the conditions of human action in either or both of two ways. In the first place, as they render the use of the plays scarce, the laws will have altered the pattern of action on the part of prospective producers. An additional obstacle has been placed in the way of persons desiring to produce the plays; and it will be obvious that a prospective producer will be constrained to forgo some less highly prized gratification in order to fulfil his dramatic purposes. On the other hand, it will be clear that this state of affairs opens up a new avenue by which the legal owner of the plays may possibly be enabled to fulfil his own purposes more completely, through taking advantage of the producers' attitudes. Either of these two influences of the controversy on human actions is sufficient to invest it with interest for the economic point of view. This way of expressing the nature of this point of view, however, reveals at the same time the very nature of the analysis that it makes possible.

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