

Foundations Developing Economic Perspectives from Classical Economics to Contemporary Theories

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DESCRIPTION

Economics is the study of how societies use scarce resources to produce valuable commodities and distribute them among different people. Over centuries, several economic perspectives have emerged, each offering unique insights into how economies function and how economic policies can be formulated. This essay explores key economic perspectives, including classical economics, Keynesian economics, monetarism, supply-side economics, and contemporary heterodox theories. Classical economics, originating in the late 18th century, is often associated with economists like Adam Smith, David Ricardo, and John Stuart Mill. This perspective emphasizes the idea of a self-regulating economy, where free markets lead to efficient outcomes. Adam Smith introduced the concept of the "invisible hand," suggesting that individuals pursuing their self-interest inadvertently contribute to the overall economic well-being.

Classical economists like Ricardo argued that the value of a good is determined by the amount of labor required to produce it. Ricardo also introduced the principle of comparative advantage, which explains how countries can benefit from specializing in the production of goods for which they have a lower opportunity cost and trading with others. Classical economics assumes perfect competition and rational behavior, which often does not hold in the real world. It also largely ignores the role of government intervention, leading to criticisms that it cannot adequately address issues like unemployment and economic inequality. Keynesian economics emerged in response to the Great Depression of the 1930s, challenging the classical view that markets are always clear. John Maynard Keynes, in his seminal work "The General Theory of Employment, Interest, and Money," argued that aggregate demand total spending in the economy is the primary driver of economic growth and employment. Keynesians believe that insufficient aggregate demand can lead to prolonged periods of high unemployment. Keynes advocated for active government intervention through fiscal policy government spending and

taxation to manage economic cycles. According to Keynesian economics, government spending can have a multiplied impact on aggregate demand, leading to increased economic activity and employment. Critics argue that Keynesian policies can lead to excessive government debt and inflation. Additionally, some believe that Keynesianism underestimates the importance of supply-side factors in driving economic growth. Monetarism, associated with Milton Friedman and the Chicago School of Economics, emerged in the mid-20th century as a response to Keynesianism. Monetarists emphasize the role of government in controlling the money supply to manage economic stability. Monetarists argue that variations in the money supply have major influences on national output and inflation. Friedman introduced the concept of the natural rate of unemployment, suggesting that there is a level of unemployment that the economy cannot go below without causing inflation. Monetarists advocate for controlling inflation through monetary policy rather than fiscal policy.

CONCLUSION

The field of economics encompasses a diverse range of perspectives, each offering unique insights into how economies function and how economic policies can be formulated. Classical economics laid the foundation for understanding market mechanisms, while Keynesian economics highlighted the importance of aggregate demand and government intervention. Monetarism shifted the focus to the role of money supply, and supply-side economics emphasized incentives for production. Contemporary heterodox theories, including Marxist, institutional, and ecological economics, provide alternative views that address issues of power, institutions, and sustainability.

Understanding these economic perspectives is important for policymakers, economists, and society at large, as they navigate the complexities of modern economies and strive to create a more prosperous and equitable world.

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