Economics

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Economics

**How does Marshal deal with some of the more difficult aspects of utility theory? (Kuhn would call them anomalies).**

The theory of utility is based on individual preferences. The theory is used in economics to explain individual behavior based on how they rank order and choices depending on their preferences. The theory recognizes that each individual show different preferences. Utility theory is recognized as a positive theory since it seeks to provide insights into people's observed choices and behavior. This is the opposite of normative theory, which indicates the way people should behave. Marshal was the first to discuss the role of the theory of utility in the theory of value. In his approach, he viewed the concept of utility as cardinal. Thus, the utility of a good to a consumer is determined by the price the consumer is willing to pay. On the other hand, “Total utility is the sum of the utility, which a consumer derives from the consumption of the different units of a good.” (Hess, Daly & Batley, 2018) The approach is vital in calculating marginal unitality and diminishing marginal utility.

The first anomaly is man as a variable and varied entity. The anomaly can be noted in the question raised by Marshall on the future of the working class. There is an introduction of a conception of a path that improves human labor. Previously, most reliance was on improving human labor and enhancing it through technical and accumulation progress. According to Marshall, enhancement can be achieved by refinement in the average man and greater intellectual complexity. Through this, Marshall introduces the concept of productive consumption. Through the concept, he explained how utility and marginal propensity to consume change due to an increase in salary and income (Gimenez-Nadal & Molina, 2017). Marshall concludes that a man does not act as a puppet that maximizes a utility function. The Marshallian anomaly views humans as variable and plastic entities. Through this, a man is capable of generating his social environment. Through this, Marshallian moves towards the theory of social-economic changes. Through this, Marshallian was able to separate his construction on canonical marginalization and classical economics. By pursuing the human development path, Marshall would have been isolated due to the epistemological shift. The shift is attributed to the advancing forces of neoclassical economic throughout.

The second anomaly is the industrial district. Several statements differ from the predominant views of Marshall's time. The differences are based on the crucial theme of the theory of production. Marshall challenged the standard conclusion of production whereby the theory claimed that the factory system was superior to production methods and less integrated. The factory system in his argument is based on the concentration of all production operations. There is also a concentration on the concept of vertical integration. Marshall introduced a new concept in production where he states certain types of production have two routes to production efficiency. The first route is based on the concertation of small firms, while the second one is based on vertical integration in a single establishment.

“How far these advantages are dependent on the size of the factories in which the work is done. (…) We shall find that some of the advantages of the division of labor can be obtained only in very large factories, but that many of them, more than at first sight appears, can be secured by small factories and workshops provided there are a very great number of them in the same trade. The manufacture of a commodity often consist of several distinct stages, to each of which a separate room in the factory is devoted. But if the total amount of the commodity produced is very large, it may be profitable to devote separate small factories to each of these steps. If there are many factories, large or small, all engaged in the same process, Subsidiary Industries will grow up to meet their special wants. (…) But small factories, whatever their numbers, will be at a great disadvantage relatively to large unless many of them are collected together in the same district. We may then consider the advantages of the Localization of Industry. The localization of industry promotes the education of skill and taste, and the diffusion of technical knowledge (…) Thus both large and small factories are benefited by the localization of industry and by the assistance of subsidiary trades. But these benefits are most important for small factories, and free them from many of the disadvantages under which they would otherwise labor in competition with large factories.” (Becattini, 2000) Evaluation of this argument made by Alfred and Marshall shows that they are not economically backed. However, the concepts are used by Marshallian in the utility theory to reflect the functioning of the human mind. Through this, Marshallian considers individual intellectual powers based on dynamic and social conception of the growth. The concept of charolity introduced considers that employees transform based on the social context in an organization. Thus, both moral and technical climate are considered significant influencers. This approach helped Marshall develop a counterargument on economists who clung to the factory system, the economics of scale, and wage funds. Lastly, Marshall took advantage of the district formula whereby Marshall shows how production can be boosted through the use of man's characteristics and interior nature towards competition. The approach helped Marshall to move towards the multiplicity of industrial development.

The third anomaly is compact social groups. Marx described the Britain economy in the 1980s as a decade of the vulgar economy. Various economists in Britain tried to assess classical economics science during the period to determine social relations. There was also the use of economic theories as a way of unraveling the puzzles in society. During the period, people embraced a concept Marshall referred to as “the more circumspect inductions of Smith” rather than Ricardianism (Dardi, 2021). Towards the theory of social conflict, Marshall noted the conflict between master, men, and powerful cohesion. The last anomaly is proper economic science; according to Marshall, there are three characteristics inside every economist. The three characteristics are the philosopher, the modeler, and the investigator. The investor or character helps an economist become a specialist, while the remaining characteristics help an economist become a generalist. Through this approach, Marshallian states that the work of an economist to "to disentangle the interwoven effects of complex causes."

**What is Veblen’s critique?**

Some of the well-known works of Thorstain Veblen include his theory on business enterprise and the theory of the leisure class. In the theory of leisure class, Thorstain Veblen provides insights on the concept of conspicuous consumption and leisure. Through this, he offered different approaches that show the effect of leisure and conspicuous consumption on the role of women and the impact of the concept on society. In the theory of business enterprise, the clash between the industry (enhance the making of goods) and business motivation (enhance the level of profit) is explained.

The first critics are towards government failure. The critic by Veblen was based on political economy and the maximization of economic welfare rather than the procedural basis of representative and the structural forms of governments. In the critic toward government, Veblen emphasizes maximizing distribution and production of goods. Previously, there was more emphasis on procedural and traditional institutional. Veblen recognizes that representative governments in modern industrial democracies implement policies that affect the material welfare of 90% of the population negatively without enough wealth pool to make it possible (Gürkan, 2020). Through this, he tries to redefine the relationship between the government and society and helps to diagnose and present the structure of the capitalist system based on social theory. Veblen uses the development of capitalism in the United States to develop insights and understand capitalism.

The subsequent criticism is based on neoclassical economics. The first is based on a neoclassical methodology based on the general theory of representative governments working towards benefiting businessmen contracts. Veblen states that political failure is attributed to a lack of proper channels on rational self-interest decisions through the political mechanism. This argument can be located in the letter*; the assumption of rational utility-maximizing individuals is cardinal*. Through this, representatives make self-interest decisions and view them as optimal collective decisions. This also creates an opportunity whereby special interests are used to influence the policymaking process. Veblen states that the opportunity is created by a failure to force an accurate weighting of social benefits and costs in the final decision. In the critic, Veblen rejects the neoclassical methodology. He also denies the usefulness of individual rational utility maximization (Romagnoli, 2017). Through the two approaches, Veblen is able to provide insights into the true nature of the modern socio-economic system. Through this, he acknowledges that social welfare is less contributed by rational business behaviors. In the analysis of government, Veblen notes that voters are irrational in their political and consumption behavior. According to Veblen, equitable distribution and maximum production have a major influence on social welfare. However, the modern political economy approach views social welfare in terms of individual utility and views it in terms of the market price. Using market (pecuniary) value can lead to insufficient in the modern economy since market value can easily be sabotaged hence incompatible with the contemporary world of technology and science.

There is also a critic of capitalism through the factors of production; land (rent), labor (wage), and capital (interest). His critic is based on the fact that the money economy only emerged through the institution of property. The institutional property allowed people to monopolize ownership. The neoclassical approach to land as a natural right was rejected by Veblen and stated that production was not an individual process but rather a social and cooperative process (Abreu, 2021). Veblen argues that the government is owned by literal owners who can be viewed as capitalist. Through this, he concludes that the government represents the interest of businesses and, despite the ability to vote, capitalist-controlled politics and corrupted politicians. Thus, according to Veblen, capitalism can be viewed as absentee owners.

The next critics are on the orthodox theory. Veblen's main point of view is that economic theories should deal with the way scarce resources are allocated in society among alternative users. The attack on orthodox theory is based on the equilibrium assumptions by neoclassical and classical (Wood, 1993). The next attack is on the assumption of rationality of economic actors in terms of behaviors. Veblen required an assessment of the institutional structure. The review, according to Veblen, is vital since it indicates how individuals are influenced in terms of economic activities and how individual operation changes their behaviors. Thus, the first critic is based on a lack of acceptance by classical and neoclassical that the economic system is subject to constant evolution and changes. Through this, he indicates that the economic system and science should define institutions as social and belief customs of a general and hence the need for studying the evolution of the institutional structure. There is also the need to understand the interrelationships existing between institutions and human nature and criticize the orthodox view. The analysis of capitalism as an institutional structure helps create a clear scope of economics (Wood, 1993). Through this, Veblen argues that the orthodox theory is misleading in stating that an economic system controlled and directed by businessmen with self-interest can promote social welfare. He also states, "An evolutionary economics must be the theory of a process of cultural growth as determine as the sequence of economic institutions stated in terms of the process itself.” (Veblen, 1898) Therefore, the crits are based on the taxonomic nature of orthodox theory, teleological and animistic nature, and the theory failed to explain concrete reality. Through this, he concluded that economics should become an evolutionary science.

**How is modern behavioral economics similar to Veblen’s vision for economics?**

Veblen and Simon’s theories of human behavior have common references. Bothe Veblen and Simon both use human behavior in creating a new economic scope. For example, they both use William James and Darwinian Revolution psychology as references. Some of the differences in the approach are based on the background whereby Veblen discusses economy and philosophy in the 1870s while Simon discusses the modern world. Another similarity is in the nature of habit, whereby Veblen stresses the vital role played by habit in governing human behavior. This can be noted in *the Theory of the Leisure Class*, where he presents his view on habit. Through the use of the concept, Veblen is able to analyze the pattern of consumption between different social-economic classes. In 1914, Veblen provided an accomplished analysis of habitin *The Instinct of Workmanship and the State of the Industrial Arts*. On the other hand, in the article *Administrative Behavior*, Simon references Dewey and James to define habit. There is also the similarity based on the concept of *The Habit Life Cycle (*Brette, Lazaric & Vieira da Silva, 2017)*.* The basic reasoning from Simon and Veblen indicates that habit influences human behaviors. According to them habits helps humans to save intellectual resources and solve problems. They also both consider inertia as a key feature of habits. The next comparison is on habit, organization, and institutions. Both Simon and Veblen's theories indicate that shared habits fulfill a crucial function in the coordination of individuals. Also, the two agree notes that the concept of shared habits is a critical foundation of the social nature of man underlies organization and institutional routines.

Another comparison approach is between Veblen’s Institutional Economics and Daniel Kahneman and Amos Tversky’s Behavioral Economics. Veblen analyzes the evolutionary process based on the capitalist system. He explains how habits and institutional change preserve some interests rooted in society and generate industrial activities. Veblen recognizes that psychological factors played a major change in influencing the transmission of habits and institutions. Through this, preselected patterns have become institutionalized. Veblen also notes that habits are part of the psyche of decision-makers and elements of an institutionalized process. Thus, abandoning habits is a difficult task and can cause institutional changes. Veblen, in his evaluation, uses the rejection of teleology by Darwinian. Through this, he is able to explain social evolution. Lastly, Veblen incorporates the concept of cumulative causality from evolutionary theory.

Daniel Kahneman and Amos Tversky’s Behavioral Economics, on the other hand, question utilitarian rationality. The similarities are noted through the use of the behavior of decision-makers in the experiments by Daniel Kahneman and Amos Tversky. Kahneman and Tversky show that people entrust responses to heuristic shortcuts in decision-making, especially when one is faced with uncertainty. This helps to conclude that many decisions are based on beliefs and facts hence not certain (Taioka, Almeida & FERNÁNDEZ, 2020). During decision making, people tend to look for past experiences or memories that can help in influencing decision making. However, this approach always leads to biases due to personality and individual differences. The assumption made is that individual decision-making is influenced by factors such as culture, tradition, and belief. Kahneman and Tversky used inductive experimentalism to prove the limitation of utilitarian theory. The basis used in the experiment is the substantive rationality of economic subjects. From this, one can note that there are some fundamental differences between the two approaches whereby Kahneman and Tversky's central concern is the development of a conclusion on utilitarian economics through test and experiment. On the other hand, Veblen explains the formation of institutions in modern society by explaining the process of social evolution. However, the phycological conception of Kahneman and Tversky suggests that both approaches towards decision have converging elements.

In Kahneman and Tversky's theory, the decision-making process is influenced by availability. This is because there is reliance on memories and experiences. However, Kahneman and Tversky indicate that less complex decisions do not require much effort. This can be noted in Veblen, whereby habits influence less effort in decision-making. According to Veblen, habits are automated and are similar to biological instincts. An example to explain this similarity can be noted in the purchasing process. From Kahneman and Tversky, a consumer decision is based on knowledge about the brand. This can be influenced by advertisements or references by friends, or brand awareness. On the other hand, Veblen, a consumer's purchasing choice is influenced by consumption habits (Almeida, 2015). Through habits, the decision to choose a product among various alternatives is made simple. However, the decision can also be influenced by availability. Thus, Kahneman and Tversky's availability and Veblen's habit facilitate decision-making in the same way. Taioka, Almeida & FERNÁNDEZ (2020) stated, "understanding Bandura’s and Festinger’s writings as elements that underlie the psychological precepts of K&T allows us to better explore the role of historicity in the behavioristic approach. For Veblen, the importance of history in decision-making is central because the habits of thought carry what has been learned and institutionalized in society.” Thus, there is a presentation of an education process in Veblen's decision-making through the habit of thoughts. On the other hand, Kahneman and Tversky's availability concept also represents the role of history in the decision-making process.

The similarities between the two approaches can be noted in the socialization process. Social interaction is affected by response facilitating effects, inhibiting, and modeling. Accepting Bandurria's views and insights create the psychological basis of K&T’s work. The model recognizes that people can learn from others hence the concept of socialization. On the other hand, Veblen states that social characteristics discussed help in forming habits as people interact with one another. In conclusion, Veblenian concept of habits and availability heuristic is linked to the socialization process, behavior learned throughout life, and previous experience. Therefore, the approach to human behavior is common among the recent theories and Veblenian. There is also a similarity attributed to reliance on psychological research on human behavior.

Another similarity is between Veblen and the New Growth Theory by mainstream economists. Veblen argued that knowledge is the foundation on which the productivity of capital rests. He also stated that knowledge is produced and possessed by a community as a whole. Orthodox economists used the marginal productivity theory and definition of capital defined by John Bates Clark's hence rejecting Veblen's views. Currently, there is a shift towards Veblen's insight as mainstream economists reject Bates' approach (Scorsone, Schulz & Schweikhardt, 2018). Other common elements between mainstream economist and Veblen include the concept of social character and the acceptance that technological development is a process of cultural development.

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