

## MATHEMATICAL SCHOOL:

Leon Walras (1834 - 1910)

Walras was a French economist. He was a contemporary of Veron and Menger. He was famous and was known as the great pure theorist. Walras contributed several books including 'Elements of Pure Economics (1877)', 'Theory of Exchange (1874)' and 'Studies in Applied Economics (1898)'.

## Walras and Marginalism:

Marginalism is a kind of revolution which was adopted in France and other western countries in 1870 for the first time. More specifically, Marginalism developed in the hands of all the prominent writers of Mathematical School and Austrian School. Among them Walras occupied a place of pride, and he enunciated the principle of Marginal Utility in 1874. Later this trend in economics became very popular in economic analysis which made it quite elementary today. The marginalist used both

deductive as well as inductive method of economic analysis. They followed subjectivism, which was nothing but the objectivism of the classical writers. The marginalist promoted the use of mathematics, algebra, statistics in the field of economic analysis. They made use of the concept of marginal utility in economic analysis in dealing with the theories of exchange and distribution.

Although the marginalist revolution started in 1870, the marginalist cannot claim to be the original writers of this concept. The marks of marginalism were also available in the early history of economic thought. Even David Ricardo and others were aware of the concept of 'margin.' Thus, the marginalist also had their predecessors, who had lacked the clarity on their part.

## The doctrine of Marginal Utility:

As a contemporary of Jevons and ~~Menger~~, Walras propounded the doctrine of Marginal Utility quite independently. He has contributed his economic ideas in his famous book, Elements of Pure Economics. It is divided into two parts - Theory of exchange and Theory of ~~production~~. Like the other writers of the Mathematical School, Walras says that the exchange value of a commodity is based on its utility and supply.

## Analysis of General Equilibrium: Walras

developed the process of General Equilibrium more systematically than his predecessors. He mathematically proved that the general equilibrium in a economy of perfect competition should be equal to marginal utility. In other words, under perfect competition, Walras says, the price of the commodity in the long run must be just equal to its cost of

production. He notes that it takes place under static conditions i.e. when the quantity of a commodity and the period of time are limited, and the transactions take place under conditions of perfect competition. The buyers and sellers continue their transaction till the equilibrium price is achieved.

In this regard, Walras theory of General Equilibrium is rather hypothetical and it does not apply to all conditions. Moreover it does not apply to all conditions.

Theory of Production: Walras has also tried to analyze the general equilibrium of the production of goods. According to him land, labour and ~~real~~ capital are supposed to be capital goods and services. He recognised 13 types of capital or revenue resources. With such a classification, he presented a comprehensive picture of the productive system.

and circular flow of money in the modern free market economy. He holds that the producer obtain the three types of production resources i.e. land, labour and capital from the public, and on the other side, the people get consumer goods for them. To him therefore, two general markets - the resource market and the consumer goods market which undertake the entire process through money transactions.

Walras also propounded the Cash Balance Theory. He maintained that the consumers needed the cash balances because they could not wait for the commodities which were immediately available in the markets. However, his concept of cash balance was unscientific and incomplete.