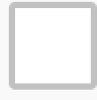
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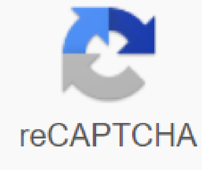
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The classical theory of inflation is

The classic theory of economics exists because of Adam Smith. In the 18th century, this Englishman developed the basics of classical economics, asking questions such as what are the basic principles of capitalism? Smith's basic idea was that players in the economy were acting for self-interest and that this actually produced the best result of all. Smith's theories were the beginning of the modern discipline of the economy. Although followed and challenged by the neoclassical economy and then Keynesian theories, Smith's ideas are still impressive. The classic theory of economics is that self-interest benefits everyone. Companies benefit from selling goods and services to people who need them. Competition for goods or customers naturally determines the right price. As Smith and his fellow classical economists, such as David Ricardo and John Stuart Mill, have identified, the economy is a self-regulating system. You don't need the king or the board of trade to decide what prices they should be or what products are for sale. Do not rely on generosity or compassion to work. They produce good results because good results are in everyone's interest. As Smith saw it, the interactions of all buyers and sellers create something spontaneous, invisible hand that forms the economy. Ironically, it was the 19th-century philosopher Karl Marx who coined the term classical economy. The irony is that Marx had little use for the capitalism that Smith and Ricardo espoused; He is the author of the Communist Manifesto, one of the most influential critics of the economic system of the 19th century. Suppose John Jones and Jane Smith are both furniture makers. They want to earn a living from their craft. Suppliers want to make money by selling oak or hickory to Jones and Smith to create furniture. Buyers want furniture without having to make it themselves. Everyone gets what they want how smith and Jones know the right price for their goods? It depends on what they need to support themselves and what furniture buyers are willing to pay them. If the makers ask for more than the buyers want to pay, Smith and Jones will not sell any furniture. They will have to drop their price and this in turn requires either accepting less income or making less furniture. In Smith's mind, that wasn't unfair. There is no compulsion involved, just the power of the free market at work. If Smith and Jones have different business strategies – Smith makes the best quality furniture but asks for a higher price – that complicates things. Both may succeed by catering to different buyers. If Smith's furniture is too expensive or Jones's quality is too bad, someone might get out of work. Instead, they may re-operate their business approach to suit what the market wants. If demand increases, Smith and Jones may be able to increase their prices, or else May open, soak some of the extra demand. The market in classical economics theory does not follow a predictable steady path. It's dynamic, turning as the invisible hand of competition and self-interest guides events in new directions. While some people may lose, the invisible hand gives the largest number of people more than their satisfaction. The classical economist Ricardo suggested the same principles that work with international trade. If one country makes the wine better and another makes a better cloth, it makes more sense to trade wine than for both to make wine and cloth. If the invisible hand is running things, do we need the government to intervene? The classical economy is linked to the Lauphyro economy, the idea that the economy works best when the government is limited or uncontrollable. This term, coined by a French merchant, fits much of Smith's thinking but not all. Smith did not want the government to set prices or tariffs; he wanted to set prices. Free trade has always been the best way. However, it was also believed that companies have a vested interest in manipulating the game against free trade: to expand the market and narrow competition, it is always the interest of traders. Creating a monopoly or trade union to restrict competition has benefited sellers and traders because by raising their profits above what they would naturally be, they will be able to charge for their own benefit and impose a ridiculous tax on the rest of their fellow citizens. Smith said the government has played an important role in keeping the market open to free trade and competition. When they work against this end by regulating companies that can do business, for example, they protect traders and manufacturers from competition. This is great for businesses and bad for consumers. In a free-market economy, some people must lose. Some economists see this as a matter of personal failure. The invisible hand is perfectly fair, so if someone ends up poor, it's his own fault for not being a strong enough competitor. Adam Smith himself did not see it that way in Smith's eyes, poverty was unjust: they are the ones who feed, dress and bring down the entire body of the people, they must have such a share of the production of their own work to the extent that they themselves can feed well, dress, and descend. Economic inequality was not a big problem if even the poor had a decent lifestyle. Smith did not worry that with the rich rich, people would glorify them and despise the poor. This is bad for the poor and has had a disruptive effect on society. A few theories last forever without being revised by someone, and the classical economy is no exception. By the end of the 19th century, neoclassical theories had taken control of this. The neoclassical economy did not reject Smith, Ricardo and other classicists; Instead, i built it. Part of the change was Increased use of scientific analysis and fine measurements since the 19th century. Neoclassical economics is trying to study economics scientifically. The neoclassical economist not only monitors the market and reaches conclusions; it does not even make markets more common. They form a hypothesis about how the economy works and then find evidence to prove it. The aim is to draw out general rules and principles on how companies and consumers behave. Neoclassical economists assume that the use of mathematical models to study economics generates the most reliable results. The neoclassical economy covers a lot of different schools of thought. Most neo-classicists assume that economic factors are rational; The logical goal for companies is to sell products that maximize their profits. The logical goal for consumers is to buy any product that gives them the greatest benefit. Among these two opposing objectives, neoclassical laws of supply and demand stand out. However, where the classical economy focuses on the objective benefits of consumers, the neoclassical economy is subjective. For example, let's say that the consumer should choose between car A and Car B. Car B needs fewer repairs and has better gas miles, but car A is a mode code that will make the buyer happier. This makes buying a car A a perfectly rational decision. Marginality is another part of the neoclassical economy. This approach considers the costs and conduct of purchasing or making additional goods. If your company does five tools a week, the cost of increasing up to 10 may be significant; The marginal costs and the decisions that result vary. Neoclassical theories also offer a different view of poverty than the classical economy. Rather than being seen only as the result of individual failures, neoclassical economists believe that some poverty is caused by market failures that individuals have no control over. The great cadaver of the 1930s, for example, left many people devastated. It was not a personal failure but a systematic failure that lost the neoclassical economy to 20th-century Keynesian theories, but enjoyed a resurgence in the late 19th century. The John Maynard Keynes School of Economic Theory, named after John Maynard Keynes, represents a sharper separation with Adam Smith than neoclassical thinking. In classical and neoclassical thinking, demand growth drives free markets to full employment. Even if business is bad, full employment is possible; wages only go down low enough that companies can afford workers. Keynes didn't agree. If the goods do not sell, he is a cause, and companies will not hire anyone to make them. This leads to unemployment, which is a major cause of poverty. It's not that the workers are unable. Competing in the market, is that there is nothing to compete. Self-interest business decisions do not automatically create a healthy economy or develop the economic cake. This gives the Government an important role. In Keynesian thinking, investing in business leads to more jobs. The Government could boost investment through targeted public spending and by setting the right tax rates. Keynesian theories became common in the 1930s when governments worked actively to counter the impact of the recession. They have also had some success in dealing with the financial crises of the 21st century. The 1970s were a tough period for the U.S. economy. It was suffering under what was sometimes called the inflationary recession, an economy in which demand was stagnant, but inflation was rising. The two were not supposed to happen together. Keynesian economists have had difficulty explaining why. This led to the development of the neoclassical economy, yet another take on Adam Smith's thinking. Neo-classicalists argued that some people would voluntarily withdraw and stop working, something that Keynesian theories ignored. If you rule out leakage, then the free market does not actually move towards full employment. The neoclassical school also argued that government policies cannot change anything because market players take them into account. Let's say, for example, that the government increases the cash supply, wages and prices go up. This may initially encourage companies to hire more people and encourage dropouts to return to the workplace. But because inflation also reduces purchasing power, nothing has really changed. Once workers and companies realize that their higher income does not mean anything, they will return to the previous situation. The only thing that can produce change is an unexpected shock. This can be anything from a financial meltdown to something positive, such as the sudden demand for a particular product or service. When change occurs out of nowhere, workers or companies are often forced to re-adjust their plans and move in a completely different direction. However, this is not something the Government can arrange. The unexpected shock consequences cannot be predicted, so the government cannot use it to steer the economy in a different direction. Different schools of economics have been built since the classical school on Smith's work, but they have taken it in different directions and recommended different policies. This may reflect the fact that different generations face different problems. The recession and recession of the 1970s were different crises, which inspired economists to see different solutions. In the twenty-first century, Governments are using variations in both Keynesianism and neoclassical approaches to keep the economy in a state of volatility. 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