

SYNOPSIS*

The subjective approach to value theory pioneered by Jevons and the Austrian economists, caused the widespread application of the marginal principle to the solution of economic problems. On this principle was built a coherent system of economic thought, often referred to as "marginalism". One part of this system is the theory of the firm which seeks to explain the price and output policies of firms, by using marginal concepts. For a long time this methodological approach was accepted as adequate for providing an explanation of the problem of price. But doubts with regard to the general validity of the fundamentals of price theory began to grow and spread as a result of refinements to and reconsiderations of the theory, especially in the late 1930's.

Since 1939 there have appeared economic writings on aspects of business behaviour which can be characterised as an attack upon the marginal analysis of the firm. These writers have in common: (a) an empirical approach and (b) an attempt to discover and formulate some theoretical propositions about business behaviour, which seem to be at variance with the conventional analysis. Acute controversy arose between those who upheld the new hypothesis and the defenders of the orthodox analysis.

The significance of this controversy lies beyond just providing an adequate explanation of business behaviour, for the marginal analysis is part of a coherent system of economic thought. The new doctrine threatens the whole deductive system of economic thought, unless it can be made to co-exist and/or be complementary to the orthodox theory. The new hypothesis, should it prevail, may invite the use of Occam's Razor (the principle of economy in thought which says that entities must not be multiplied unnecessarily) in which event the whole of the rest of economic theory would have to be re-examined and worked over to put it in a form consistent with this part and forming with it a consistent whole - just as the use of the razor in distribution theory of Classical Economics came in the form of the marginal principle itself.

This exercise describes the controversy which has been taking place and attempts at an evaluation of the debate.

* This is largely a "potted" version of excerpts from the graduation exercise.