Biography

- Alfred Marshall was born on July 26, 1842, in London, England
- Died July 13, 1924, in Cambridge, lived a total of 81 years
- Attended the Merchant Taylors' School in London always showing an interest in mathematics
- He entered St. John's College, Cambridge, in 1862
- There he graduated from Mathematical Tripos, Cambridge University's most prestigious degree competition, and received Second Wrangler (meaning he was the second highest scoring student in the class)
- In 1865 he received a fellowship from the university (a fellowship is a grant given by a university or foundation to a scholar for research or study)
- He gave up the fellowship in the mid-1870s when he got married, violating one of its conditions.
- Became Professor at the University in 1885, Professor of Political Economy, and kept this position until 1908
- Marshall founded the Cambridge School of Economics
- Created the Economic Tripos in 1903
- Was John Maynard Keynes', and A.C. Pigou's professor at the university of Cambridge

Most Important Works:

1. The Principles of Economics (1890) (his best work) → After his book he was regarded as the "father" of neoclassical and microeconomics https://eet.pixel-online.org/files/etranslation/original/Marshall,%20Principles%20of%20Economics.pdf (a pdf of his book)
2. Industry and Trade (1919) → Looks at how firms grow, how technology and organization change industries, and how international competition shapes jobs, wages, and national prosperity.
3. Money, Credit, and Commerce (1923) → He connects everyday business decision with the broader monetary system and explains why monetary stability matter for growth
4. The Economics of Industry (1879) (with Mary Paley Marshall) →written as an accessible textbook, introduces idea of production, value, wages, profits, and markets
5. The Pure Theory of Foreign Trade and The Pure Theory of Domestic Values (1879) → looks at how prices are set domestically and how countries gain from trade. He shows how costs, productivity, and demand determine trade patterns and the terms at which nations exchange goods under free competition.

Most noteworthy points from his book:

Supply and Demand

- Quantity and Price are determined by the interaction between consumers and producers
- The equilibrium point is where demand meets supply
- Marshall compared this interaction to the blades of scissors; both are necessary when determining price

Price Elasticity of Demand

- He coined the term "elasticity of demand" and introduced it, but not first to suggest the idea
- Responsiveness of quantity demanded to a change in price

Consumer Surplus

- The difference between what the consumers actually pay and what they were willing to pay

- The consumer surplus is the area between the demand curve and the market price. Generally a triangle → (base x height)/2

The Representative firm:
- hypothetical/theoretical average firm in an industry with average production technology, efficiency, and cost structure
- Marshall used this to show how, in the long run, equilibrium
    - Inefficient firms leave the market/efficient ones survive
    - All remaining firms earn normal profit (break-even point)
    - Price = Minimum Average Cost → they cover all costs, and produce at maximum efficiency. Earn a minimum profit, which is the minimum return they need to keep them in the industry
- It simplifies analysis, instead of studying every firm, economists can focus on this "average" one

Marginal Utility and Diminishing Returns
- As consumption increases, each additional unit gives less satisfaction
- Each additional unit of a product is less valued (demand curve slopes downward)
- As more of a variable factor (like labour) is added to fixed resources, after a point, the increase in the total product will diminish
- Producing more becomes costlier (supply curve slopes upward)

Time Periods and Market Adjustment
- Market period: this is the very short run, supply is completely fixed because the goods are already produced. Prices depend almost entirely on demand.
- Short run: Some inputs can change (generally labour), at least one input must remain unchanged (generally capital or land). Prices depend on both demand and short-run supply
- Long run: All factors of production can be varied. Supply becomes much more elastic, prices tend to move toward the normal cost of production (explicit + implicit)
- Secular Period: very long run, structural factors, like technology, population, can change.

Value to Society/Economy
- Consumer Surplus → measures how much consumer benefit from an exchange
- His definition and work in economics is centered around human welfare →the study of man in the ordinary business of life, economics is not only the study of wealth but also the well-being and behavior of humanity.
- Set the groundwork for subsequent economists such as A.C. Pigou

Influence on modern economy
Key concept → change
- Introduced the idea of short run vs. long run, showing how time affects prices, production, and firm behavior
- Elasticity → measures the responsiveness of quantity to **change** in price. For firms, the main use is for predicting the effects of their pricing decisions on quantity demanded and also on total revenue.

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