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Static and Dynamic Economics

Introduction:

The economic theory is divided into two main branches, viz., **economic statics** and **economic dynamics**. These terms were first introduced by **August Comte** in social sciences. **Stuart Mill** made use of these concepts in economics. These concepts were further explained by **Ragnar Frisch**.

Economic Statics:

Literally the word 'static' implies causing to **stand** or **unchanged**. Static position is a position of rest or unchanged position. However, economic statics does not imply absence of movement, rather it denotes a state in which there is a continuous, regular, certain and constant movement without change.

According to **Clark**, static state is the absence of five kinds of change:

The size of population, the supply of capital, the methods of production, the forms of business organisation and the wants of the people.

Harrod is of the view that static analysis is concerned with a state of rest. State of rest does not signify a state of idleness but simply lack of investment with the result that the economy repeats itself over time. Unlike other predecessor economists, he does not confine the concept of statics to a rigidly defined state of affairs. He also includes in it the once-for-all change whereby the economy shifts from one state of rest to another.

Professor Hicks has a somewhat different notion of statics. According to him, economic statics studies stationary situations which are devoid of any change and which do not require any relation to the past or the future. Thus, the static economic of his vision is a timeless economy in which the various phenomena and their effects are analysed without reference to time. **For instance**, when we say that if price is lowered by 5% demand rises by 3%, we are in the field of static analysis.

According to **Frisch**, in economic statics we do not study anything about the connection between conditions at various points of time, e.g., sequences, lags, etc. The ordinary theory

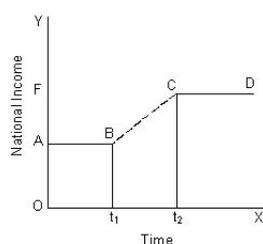
of demand and supply is an illustration of the static analysis. It builds up a relationship between demand and supply as they are supposed to be at any moment of time.

The economic statics is based on the concept of a stationary state where everything churns steadily like a gramophone repeating itself endlessly. It is an economic process which goes on at an even rate or which merely reproduces itself. The tastes, resources and technology, etc, are not supposed to change over time. The factors which control production, distribution, exchange and consumption are assumed to be constant, yet there is movement, though at a uniform rate.

Economic Dynamics:

The word 'dynamics' means causing **to move**. In economics, the term 'dynamics' refers to **the study of economic change**. It aims to trace and study the behaviour of variables through time, and determine whether these variables tend to move towards equilibrium.

According to **Harrod**, economic dynamics is chiefly concerned with continuing change, and therefore, necessitates the study of an economy wherein the rate of change of income (output) is itself changing. The continuing acceleration and deceleration is the essence of Harroddian Dynamics. His point can be further illustrated with the help of following diagram:



Let us assume that OF is the level of full of employment. Starting with the income level at A for the time interval at Ot1, the rate of growth is zero. The study of the economy from point A to B, according to Harrod, is static. With the push up of the economy, the income level rises from B to C at the time interval Ot2. According to Harrod, the dotted path between B and C is the subject matter of economic dynamics because, during this interval, the rate of change of income is itself undergoing a change. The rate of growth again becomes zero and analysis of the economy becomes static when moving from point C to D.

Statics vs. Dynamics

- Economics unique amongst mathematically-oriented disciplines in reliance upon static methodology (simultaneous equations rather than differential equations)
- Reliance on statics not limited to Neoclassicals
 - Many Keynesian/Kaleckian theorists (including the masters) use simultaneous equations
 - "Sraffian" economists criticise all other schools using advanced equilibrium-oriented methodology
 - Why?
 - Belief that economic system will settle down to equilibrium "in the long run"
 - "Dynamics simply describes transients"