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## NEOCLASSICAL THEORY IN MODERN MICROECONOMICS

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**Abstract:** Neoclassical economic theories form the basis of modern economics, along with the principles of Keynesian economics.

As part of economic theory, the main direction that reveals the functioning mechanism of a market economy is the neoclassical direction.

In this regard, identifying the peculiarities of the relationship between the subject and method of the neoclassical direction is an urgent task, since it will make it possible to more clearly define the place of the neoclassical direction in modern economic thought, identify the theoretical basis and applicability of practical recommendations of neoclassics, in particular, more clearly define its capabilities as a theoretical basis for the formation market economy in different countries.

In this article, the authors analyze the difference between neoclassical macroeconomics and microeconomics. It is shown that the microeconomic aspects of neoclassical theory have much greater theoretical and applied significance than neoclassical macroeconomics. They largely reflect real economic processes and determine the economic behavior of economic entities.

The work examines, in a microeconomic aspect, the theoretical approaches of the main representatives of neoclassical theory, such as A. Marshall, L. von Mises and other representatives, to the analysis of economic processes. The authors note the importance of limit analysis, which has not only theoretical but also practical significance. The work also examines the approaches of representatives of neoclassical theory to assessing the value and price of goods and economic resources. In the real economy, markets of imperfect competition predominate, which are characterized by their own characteristics that influence the economic behavior of firms in commodity and resource markets, as evidenced by the use of marginal analysis to substantiate the position of the authors. The article assesses the views of representatives of the neoclassical school on the differences between market and planned economies. Their approach to the process of economic monopolization is characterized.

**Keywords:** neoclassical theory, macroeconomics, competition, monopoly, cost, price, market economy.

### 1. INTRODUCTION

The neoclassical economic school stands for the further development of the ideas of the classics of market economics; it sets as its task the study of the economy as a system of functional connections of many constituent elements—price, demand, supply, competition, production costs, scientific and technological progress, factors of production as categories of rarity .

Prominent representatives of the neoclassical school - A. Marshall (1842-1924) ( Petar Groengevegen , 1996), who published “Principles of Political Economy” in 1890, and V. Leontiev (b. 1906), who created the theory of economic analysis for the study of intersectoral economic relations and the formation of intersectoral balance.

A distinctive feature of the neoclassical methodology was economic and mathematical modeling, unfamiliar to representatives of classical political economy.

Neoclassical economics emerged in the 1870s.

The others representatives: Carl Menger, Friedrich von Wieser, Eugen von Böhm-Bawerk (Austrian school), Eigen von Böhm-Bawerk (Austrian school), W. S. Jevons and L. Walras (mathematical school), J. B. Clark (American school ), Irving Fisher, A. Marshall and A. Pigou (Cambridge School) etc.

### 2. FUNDAMENTAL BASICS ODF NEOCLASSICAL THEORIES

The neoclassical direction studies the behavior of the so-called. an economic person (consumer, entrepreneur, employee) who seeks to maximize income and minimize costs. The main categories of analysis are marginal values (marginal utility theories and marginal productivity theories) (Hargreaves-Heap and Varoufakis, 2004). Neoclassical

economists developed the theory of marginal utility and the theory of marginal productivity, the theory of general economic equilibrium, according to which the mechanism of free competition and market pricing ensures fair distribution of income and full use of economic resources, the economic theory of welfare, the principles of which form the basis of the modern theory of public finance (P Samuelson), theory of rational expectations, etc. (Mason Gaffney).

By the mid-20th century, neoclassical economics had become the mainstream of economic thought. Representatives of this theory assume that the market itself is concentrated in one point in space and exchange occurs instantly. All agents are clearly aware of their preferences and at the same time exchange their goods and money. Therefore, making an exchange requires no effort other than spending a certain amount of money. Prices are the main tool for the optimal allocation of resources, that is, in order to choose the optimal line of behavior, you do not need to know anything other than prices.

At the same time, it should be remembered that neoclassical economists do not claim that people are truly rational. They assume that the economic agent behaves as if he were rational, and build their models on this premise (Christian Arnsperger and Yanis Varoufakis, 2006).

Neoclassicists believed that money, as opposed to goods, is not wealth. Money plays only the role of an intermediary in the exchange of goods and serves as a scale for measuring all goods.

In the neoclassical economic model there are only three markets: labor, capital (securities) and goods (goods and services). And Marie Esprit Leon Walras introduced a general criterion for market equilibrium and proposed the concept of general economic equilibrium in four markets, including the financial market in the model, while proving that in all markets equilibrium is achieved simultaneously.

However, neoclassical theory has been harshly criticized since its inception.

Representatives of the classical economic school believed that a person's economic interest is realized only in his selfish motives (to obtain pleasure and avoid suffering). Within the framework of neoclassical economic theory, it is assumed that the main operating force is "sober calculation" (maximizing utility, minimizing costs). A person is viewed through the model of a "competent egoist":

- the person is independent. He makes autonomous, independent decisions;
- the person is selfish. He cares about his own interest and maximizing his own benefit;
- the person is rational. He has stable preferences and consistently chooses means to achieve his goals;
- the person is informed. He has enough information about goals and means of achieving them.

Alfred Marshall (1842-1924)

He was a professor and head of the department of political economy at the University of Cambridge. A. Marshall summarized the results of new economic research in the fundamental work "Principles of Economic Theory" (1890).

In his works, A. Marshall relied on both the ideas of classical theory and the ideas of marginalism. Marginalism (from the English marginal - limit, extreme) is a movement in economic theory that arose in the second half of the 19th century. Marginal economists in their studies used marginal values, such as marginal utility (the utility of the last, additional unit of good), marginal productivity (products produced by the last hired worker). These concepts were used by them in the theory of price, the theory of wages and in explaining many other economic processes and phenomena. In his theory of price, A. Marshall relies on the concepts of supply and demand. The price of a good is determined by the relationship between supply and demand. The demand for a good is based on subjective assessments of the marginal utility of the good by consumers (buyers). The supply of a good is based on production costs. The manufacturer cannot sell at a price that does not cover its production costs. If classical economic theory considered price formation from the position of the producer, then neoclassical theory considers pricing both from the position of the consumer (demand) and from the position of the producer (supply).

Neoclassical economic theory, just like the classics, is based on the principle of economic liberalism, the principle of free competition. But in their research, neoclassicists place greater emphasis on the study of applied practical problems; they use quantitative analysis and mathematics to a greater extent than qualitative (substantive, cause-and-effect). The greatest attention is paid to the problems of efficient use of limited resources at the microeconomic level, at the enterprise and household levels (Ahmedova, 2019). Neoclassical economic theory is one of the foundations of many areas of modern economic thought.

Among modern neoclassical theories are monetarism (M. Friedman), new institutional theory (R. Coase), etc.

Vasily Leontyev (1905 - 1999)

American economist, creator of the theory of cross-sectoral analysis, winner of the 1973 Nobel Prize in Economics "for the development of the input-output method and its application to important economic problems." V.V. Leontiev taught political economy at Harvard University in the USA.

The input-output method is the calculation of the cost coefficient, the change of which must be monitored first. On its basis, Leontyev calculated the production volumes necessary to satisfy final demand. All industries are interconnected. The theory of inter-industry balance determines the proportions in which all sectors should be. Here Leontiev was close to another great economist, John Keynes, who believed that it was necessary to use both private initiative and government regulation.

Inter-industry balance (IOB, input-output method) is an economic and mathematical balance model that characterizes inter-industry production relationships in the country's economy. Characterizes the connections between output in one industry and the costs and consumption of products from all participating industries necessary to ensure this output. The inter-industry balance is compiled in cash and in kind.

The interindustry balance is presented in the form of a system of linear equations. The intersectoral balance (IB) is a table that reflects the process of formation and use of the total social product in a sectoral context. The table shows the cost structure for the production of each product and the structure of its distribution in the economy. The columns reflect the value composition of the gross output of economic sectors by elements of intermediate consumption and added value. The lines reflect the directions of use of resources in each industry. The MOB model has four quadrants. The first reflects intermediate consumption and the system of production links, the second reflects the final use structure of GDP, the third reflects the value structure of GDP, and the fourth reflects the redistribution of national income. The need to solve problems that arise both on the macroeconomic scale and at the microeconomic level requires the use of certain areas of economic theory as a basis.

The relevance of the article is due to the fact that neoclassical theory can be accepted as such a basis. In this regard, it is advisable to analyze its most important provisions both in theoretical and applied meaning. The purpose of the article is to study the microeconomic aspects of neoclassical theory, which have significant practical significance for the development of the real economy. The article sets the following objectives: to distinguish between neoclassical macroeconomics and microeconomics from the position of their significance for solving real problems of economic policy; show the role of limit analysis in the activities of subjects of microeconomics; make a scientific contribution to the study of the theory of value and exploitation of wage labor; consider the approaches of supporters of neoclassical theory to market and planned economies; assess their position in relation to the monopolization process.

### 3. MICROECONOMICS ASPECTS OF NEOCLASSICISM

Neoclassical theory can be described in both macroeconomic and microeconomic terms. Neoclassical macroeconomics is represented mainly in the works of supporters of monetarist theory, the theory of rational expectations, and the neo-Austrian school. The main disadvantage of the monetarist theory lies in its main difference from the theory of economists of the classical school, or more precisely, in the fact that, as its representatives claim, the money supply determines the level of inflation.

In the microeconomic aspect, neoclassical theory reflects the principles of a competitive market economy in relation to the activities of entities at the micro level, i.e. firms and households. Neoclassical microeconomics was most fully reflected in the works of A. Marshall, in the works of representatives of the neo-Austrian school Ludwik von Mises, Friedrich von Hayek and other authors who developed classical and marginalist theories.

What is the significance of marginal analysis in modern economics? Let's take a closer look at this!

Representatives of the neoclassical school at the micro level were based on marginalist theory. The significant contribution of marginalists to the development of microeconomic theory is associated with the use of mathematical apparatus and limit values. As is known, the founders of marginalist theory were G. Gossen (Gossen, 1854), W. Jevons (Jevons, 1871), K. Menger.

The use of limit values has important theoretical significance not only for microeconomic analysis, but also for substantiating macroeconomic processes. For example, the second principle for determining the optimal volume and market price by a company, based on the use of the rule of equality of marginal revenue and marginal costs ( $MR = MC$ ), can be used to theoretically substantiate cost inflation in the economy. This is due to the fact that the price level, which is formed both in a perfectly competitive market and in imperfectly competitive markets, depends on the value of marginal costs.

The practical significance of the second approach for firms is that they have the opportunity to choose the optimal volume of production and determine the price if the firm operates in conditions of imperfect competition, which allow them to obtain maximum gross profit when selling products.

Representatives of neoclassical theory emphasize the important theoretical and practical significance of limit analysis (Иваницкий, 2024).

For example, A. Marshall, considers the marginal utility of a product as the main factor that determines demand, emphasizes that the marginal price of demand is a measure of utility that puts an end to purchases of a given product. Marshall also says that the price of a product and the demand for it are also influenced by the buyer's

assessment of the marginal utility of money, i.e. when a person becomes richer, the less marginal utility of money becomes for him and as a result of this the person decreases and the price a person is willing to pay for a product.

J.B. Clark characterizes the law of diminishing marginal utility as a universal law in economics, on the basis of which purchases are made on the market. He also connects with this law the law of diminishing marginal productivity, based on marginal analysis. Clark says that as the stock of goods increases, consumer goods become less and less useful, and productive goods or forms of capital, if they are to be used by one person, become less and less productive. Clark also calls marginal productivity final and specific productivity.

Clark also in his reasoning does not separate rent from interest, saying that rent and interest are identical in essence, although they are considered and calculated differently. In his opinion, specific means of production provide not interest, but rent. Interest depends on rent and represents the total amount of rent reduced to a percentage of the total capital. If we consider economic rent in the narrow sense as income from the provision of land and other natural resources, then it differs from interest as income from the provision of capital. In a broader sense, rent is income from the provision of any property resources to someone for use (Yagdagarov, 2023).

Mises also believes that the price of resources, for example, the wage rate as the price of labor, is determined by its marginal productivity.

A. Marshall, as the founder of the neoclassical school, made a great contribution to the development of the theory of value. From the point of view of supporters of the classical and Marxist economic schools, the value of a product is determined by the labor costs for its production, and from the position of marginalist theory, it is determined by the buyer's assessment of the marginal utility of goods.

#### 4. NEOCLASSICAL LABOR THEORY

The disadvantage of the views of supporters of the labor theory of value and the theory of marginal utility is the one-sided approach to assessing the value and price of a product as its monetary expression: either from the supply side or from the demand side. Under the conditions of the market mechanism, interaction and influence on the price of goods is carried out both on the demand side and on the supply side. Marshall overcame the one-sidedness of both approaches by emphasizing the influence of both supply and demand factors. Having analyzed the statements of Ricardo, Mill, Smith, Marx and Jevons, Marshall noted that the principle of production costs and the principle of final utility are components of one universal law of supply and demand. At the same time, assessing the influence of marginal utility on demand, and production costs on supply, Marshall concludes that the shorter the period that is analyzed, the more it is necessary to take into account in this analysis the influence of demand on value, and the longer this analyzed period, the greater the importance of the influence. production costs to value.

As for Mises, he has a negative attitude towards Marxist theory. K. Marx believed that the cost of labor power, like any product, is determined by the labor time required for its production. Mises believes that this statement is not logical and considers the theory of value of the classical school, which held a similar point of view regarding the determination of the value of a product by labor time, to be unfounded (Бондарь А., Чуракова А., Яхницкая Н, 2022).

Mises disagreed that products are created only by living labor and that profits are unearned income, noting that suppliers of "capital and entrepreneurial ideas" also participate in the production of a new product. Considering the current level of productive economic resources, the development of complex automated production, when products are created with minimal direct use of labor, it is difficult to argue with Mises on this issue. Marxist theory to a certain extent reflected the state of the productive forces that was observed in that period, taking into account its class orientation.

However, theoretically, the presence of labor exploitation in modern conditions can also be explained from the point of view of marginalist microeconomic theory. The fact is that the income of suppliers of economic resources corresponds to their marginal profitability only in conditions of completely competitive resource markets. In reality, imperfectly competitive resource markets largely prevail.

Therefore, if the wage rate is equal to the marginal profitability of labor in a perfectly competitive labor market, then in monopsony and oligopsony markets it is set at a lower level.

This means that the employee receives a salary that is less than it adds to the firm's gross revenue. It logically follows from this that the remaining part is appropriated by capital owners and entrepreneurs. In essence, this is also recognized by Clark, who writes that the worker would receive his entire share in the created product if competition could perfectly perform its function. Therefore, Mises's assertions that the wage rate is determined by the marginal productivity of each type of work and wage rates are always equal to the total product of labor do not correspond to the process of establishing the price of labor in real resource markets of imperfect competition. As a result of studying the situation on the labor market in marginalist microeconomic theory, a paradoxical situation seems to

arise, because both the theory of surplus value of K. Marx and the marginalist theory come to the same conclusion and ultimately recognize the existence of exploitation of hired labor.

Mises argues that the goals pursued by a large portion of people are best achieved where the free market system is not constrained by government, and the free state of production leads to better provision for the people than the dictates of the state. Mises associates the impracticability of socialism as a system of organizing society both with the lack of economic calculation in it, and with a more complete account under capitalism of the natural properties of man, in particular selfishness, and personal economic interests. According to Mises, a mixed economy does not exist. He noted that production is controlled either by the market or by “the decrees of a production king or a committee of production kings.” Obviously, it is historically incorrect to categorically deny the existence of a mixed economy, since state ownership and state regulation through economic policy exist in all developed countries with the determining role of the market and private property.

As for A. Marshall, he also, having previously considered the cooperative system in his work, when members of the cooperative have the right to vote and receive a share of the profits, noted the shortcomings of this system, linking them with the characteristics of human nature, due to which the team may quarrels, envy, intrigue, etc. will arise, which in turn will hinder the effective operation of the cooperative.

Another representative of the neo-Austrian school, Hayek, connects economic freedom with individualism. He writes that the main feature of individualism is respect for the individual, that is, recognition of the absolute sovereignty of a person’s views and inclinations in the sphere of his life, no matter how specific it may be, and the belief that each person should develop his inherent talents. He believes that the rapid development of science became possible thanks to individual initiative and freedom of entrepreneurship (Войтов А., 2023).

Hayek is even more categorical than Mises in relation to a planned socialist economy. At the same time, Hayek recognizes the need to regulate economic activity in a market system: firstly, this is necessary for the formation of an appropriate legal system, the protection and development of competition; secondly, for a more equitable distribution of income in accordance with modern ideas about social justice (Абаев А., Боровикова Т., 2022).

## **5. VIEWS OF REPRESENTATIVES OF THE NEOCLASSICAL SCHOOL ON MONOPOLY**

Representatives of the neoclassical school, being supporters of the competitive market mechanism, in their works characterize the trend of developing monopolization of the economy in different ways.

A. Marshall connects the process of formation of monopolies both with the advantages of large-scale production over small-scale production in using more productive equipment and reducing average costs, and with the merger of enterprises as a result of competition.

At the same time, Marshall recognizes that the quantity of goods that provides maximum monopoly income is always significantly less. However, he does not believe that the monopoly price will be higher than the competitive price, suggesting that the situation will be the opposite. Marshall explains this by the fact that under monopoly conditions, the supply of products will be greater than in competitive markets in the conditions of small enterprises, due to lower average costs. However, it does not take into account the fact that the monopolist is interested in producing such an optimal volume of products and at such a price in accordance with the demand for it in order to obtain maximum profit, and not in increasing supply (Ягдагаров, 2023).

The volume of market supply will be greater in competitive markets, and therefore the market price may be lower, despite relatively higher average costs for small and medium-sized firms in many industries than for a large monopolized enterprise.

Clark notes that the natural price is a competitive price. However, it can only be established where competition operates with ideal perfection - and this does not happen anywhere. But it approaches the competitive level where prices are not regulated by the government and are not distorted by a monopoly. According to Clark, prices set at the level of production costs do not provide net profit to the entrepreneur. However, under the conditions of a legal monopoly, an entrepreneur can make a profit. He associates this with the fact that the mobility of labor and capital, which exists in a competitive economy and allows them to move to those industries that are in more favorable conditions, is being destroyed (Холопов А., 2021).

Mises speaks more definitely regarding the profit of entrepreneurs, saying that it is the desire of entrepreneurs for profit that is the driving force of a market economy. He identifies two meanings of monopoly - the first meaning is when it denotes a state of affairs in which the monopolist has sole control of the circumstances that ensure human survival. Mises believes that such a monopoly is possible only under the conditions of a socialist state and has nothing to do with a market economy. The second meaning of monopoly according to Mises is when a monopolist is an individual or group of individuals who are completely united in a joint activity and who solely control the supply of a particular product. This type of monopoly is compatible with the conditions of a market economy. However, in

his opinion, monopoly in the second meaning of this term becomes a factor determining price only if the demand curve for a given monopoly product has a certain shape.

Hayek also primarily connects the formation of monopoly with a planned economy and argues that the tendency towards monopoly and planning is not at all the result of any objective circumstances, but the product of the propaganda of a certain opinion. He writes about the desire of monopolists to enlist the support of the state to exercise control over the market. However, in the future it recognizes the objectivity of the process of strengthening monopolies and limiting the scope of free competition, linking it with the technical superiority of large enterprises.

## 6. CONCLUSION

Summarizing all of the above, we can conclude about the important theoretical and applied significance of neoclassical theory in the microeconomic aspect, in contrast to neoclassical macroeconomics, which can be considered in theoretical terms, but poorly reflects real economic processes. A significant contribution to economic theory should be considered the use of marginal analysis, which plays a significant role in determining the rational and effective behavior of subjects of microeconomics. The use of marginal values is important not only in the development of the theory of value and price; it allows one to scientifically evaluate the relationship between wages and the marginal profitability of a worker in imperfectly competitive labor markets, but also to justify and characterize some important macroeconomic processes, in particular, cost-push inflation.

Having considered the neoclassical movement, we can say that all of them made a great contribution to the economic relations of our time. If you think about it, everything that happens around us is supply and demand, consumption and profit, which constantly revolve around us, but we could never have imagined that the theories of the neoclassics of the 19th and 20th centuries. will be applied today. Each of them sought to prove the usefulness of their theory or method so that in the end the consumer would be satisfied. The only thing that changes is development; newer and more modern concepts are being developed, but their meaning in economic relations does not change.

Representatives of the neoclassical school, while defending the advantages of a competitive market economy, have a negative attitude towards the planned system, underestimating the economic role of the state. They characterize the process of developing monopolization of the economy in different ways. At the same time, its objectivity is not always recognized when it is associated with government intervention in the activities of entrepreneurs.

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