Famous Figures and Diagrams in Economics

Edited by Mark Blaug and Peter Lloyd. Edward Elgar Publishing Limited, 2010; 468 pages; £120
Reviewed by Patricia Hughes

Famous Figures and Diagrams in Economics describes the role of our most important visual tools in the development of economic theory. The goal of the book is to provide an account of each of the most prominent diagrams in economic analysis along with the history of each discovery. Each topic is presented by an expert in the field, providing a variety of approaches emphasising the origins, controversies, graphical representations, applications and extensions of each subject. The coverage of topics is exhaustive including basic demand and supply analysis, welfare economics, general equilibrium analysis, open economies, macroeconomic analysis and stabilisation, growth theory, and specialty topic areas. All told, 58 topics are described in 468 pages.

'Figures are part of the basic toolbox of the modern economist' (p.5). Diagrams are used in investigation and exploration leading to discovery. Diagrams illustrate a discovery arrived at by other means: observation, intuition, logic, mathematics. This book provides the history, development, and controversies that surround the most famous diagrams in economics. The approach highlights the complexities of the research, the beauty of the graph in illustrating the idea and enlightening the student, and the extensions in the field using more sophisticated mathematical techniques. While the graphs are staples in all economic textbooks, understanding the development of the model reveals the intricacies and complexities of the ideas behind the graphs.

The book opens with the most widely used model in economics, the demand-and-supply or Marshallian cross diagram. From today's perspective, we tend to see the axes as reversed in terms of the dependent and independent variables. Originally Marshall viewed the market in terms of quantity adjustments to discrepancies between demand price and supply price, yielding the current diagram with price as the dependent variable. The Marshallian cross is used to illustrate different perspectives on market stability, and the debate between Marshall and Walras on market disequilibrium adjustment.

A perfect illustration of the complexities of theory often overlooked is contained in the chapter on long-run and short-run cost curves. The chapter introduces the notion of costs curves and the assumptions made in developing the standard set of short-run and long-run average cost curves. As an insight into the development of cost theory, the authors trace an interesting dilemma in reconciling the short-run and long-run average cost curves, and confusion about the respective equilibria. Intuitively it was thought that the LRAC curve should coincide with the minimum points on the various SRAC curves, since these are all long-run equilibrium points. As it turns out, mathematically/graphically it is impossible to draw the LRAC to connect these points and be forever below the SRAC curves. The confusion arises with the definition of long-run equilibrium and the assumptions imposed on reaching that equilibrium.

The book also illustrates the lighter side of graphical origins, as with the Laffer curve, which emerged from the interactions of 'a Californian professor of business economics (Arthur Laffer), two presidential aides, a Washington restaurant and a cocktail napkin' (p.412). While a number of economists had presented a similar proposition for various kinds of taxes, Laffer is given credit as the populariser with the first, hand-drawn diagram.

The chapters vary in their emphasis, but there is a common approach of introducing the 'famous' diagram in a historical context, summarising the applications of the tool in the context of economic debates or paradoxes, providing extensions of the basic graph, and outlining advancements made in the algebraic analysis. The chapters are brief by design, yet provide an amazing amount of relatively advanced material across multiple subjects. Such an approach does require the reader to be well schooled in economics to appreciate the progression of theory through graphs and diagrams. The text assumes a relatively high level of knowledge, and for those individuals the book provides a wealth of information as to the historical developments and seminal works in the field. For those that are unacquainted with a particular topic, the graphs may seem overly complicated and the text incomprehensible.

This book will be a wonderful reference manual for those well versed in economic theory. It can be used by instructors as a supplement to contemporary textbook material, which tends to be presented in a clear, concise, targeted fashion. In a history of economic thought course or any theory course, this text can provide a richness of material to expand and contextualise the presentation. As texts become more mainstream, they tend to exclude or minimise the original works that are then lost to the next generation of students. While it is conjectured that 'Mordecai Ezekiel's 1938 paper made "The Cobweb Theorem" and his famous diagram well-know to every student of economics' (p.184), I suspect this is no longer the case.

Contact details

Patricia Hughes,
Economics Department,
St. Cloud State University,
386 Stewart Hall,
720 Fourth Avenue South,
St. Cloud, MN 56301-4498

Email: pahughes@stcloudstate.edu