The starting point must be Alfred Marshall (even though Keynes called Malthus ‘the first of the Cambridge economists’ and Keynes’s successors were increasingly to draw on classical political economy and Marx for inspiration). Marshall though was responsible for the foundation of the Economic Tripos (in 1903) and also, in large measure and at least until very recently, for the approaches to economics in Cambridge even as we know them today. The Marshallian tradition has it that economists should explain how the world works and then, if it does not work well or fairly, do something about it (within well-defined limits). This should be done by theorising, doing applied work and formulating plausible policies. The approach to applied economics emphasises the importance of relevance in economics, incorporating the lessons of history, the institutional context and previous social and political conditions, gathered under the rubric of the ‘rules of the game’. Theory and measurement are interdependent, feeding back and modifying and expanding one another. This tradition has characterised the contributions of the Faculty’s Department of Applied Economics, a research institute which started in 1945 with Richard Stone (one of four Cambridge recipients of the Nobel Prize) as its first Director. Shockingly, it no longer exists, following an internal coup and takeover.

Marshall’s major contribution was his huge *Principles of Economics*, first published in 1890. It went through eight editions in his lifetime, as volume I for the first five as he initially intended to write two or three more volumes. What would have been the structure of Marshall’s

ideal Principles? In the first volume he wrote about the nitty gritty of economic life – what determines the prices and quantities of commodities produced, what determines the wages, salaries and employment of different sorts of labour, what determines the rates of profit in various industries, i.e. a theory of relative prices and quantities. He introduced systematically into economics the use of supply and demand functions and curves in order to analyse the formation of prices and quantities in, principally, freely competitive markets.

His second great contribution was to recognise in a deep way that time is the most elusive, difficult yet relevant concept affecting economic life. To try to capture this insight Marshall used three analytical concepts: the market, short and long periods. The first deals with existing stocks, the last two with flows. The short period is an analytical device which takes in a period long enough for employment and production but not for the number of firms, amounts of machinery available and numbers of skilled labour to change; the long period is long enough for firms to enter or exit and for amounts of machinery available and supplies of labour to change (the methods of production known at the start of the long period, however, are not allowed to change). These are not one-to-one descriptions of real life, but analytical devices which exploit the concept of ceteris paribus. The economist decides what may or may not vary, in order to get a grip on intricate interconnecting processes and so develop theories of prices and quantities of commodities, and of the services of the factors of production. Money does not get a mention except as a ticket – something in which to measure things; it has little to no analytical role. Everything is done in real, relative terms. Though Marshall understood general equilibrium analysis and had a general equilibrium model in an appendix, he preferred to use partial equilibrium analysis, examining one firm or one industry only, in order to make the analysis manageable and obtain definite results (the limitations of which were explicitly stressed).

Money entered the scene properly when Marshall (in a never properly spelt-out second volume) developed the quantity theory of money in order to describe what determined the general price level. He argued that, at least in the long period, what was happening in the real sector and what was happening in the monetary sector of the economy – banks and the financial sector generally, the formation of the general price level – were independent of one another. Money was basically a veil. In the short period it was admitted that monetary matters could have real effects, though this was not worked out systematically because of the constraint of the dichotomy between the real and the monetary. The role of monetary institutions, including central banks, was to so control the monetary