

Study Guide: History of Economic Thought

Chapter I: Introduction

Pre Chapter II:

Classical Economics: The state as a big house.....

Medieval Economics: Just price theory

Neither of these topics is covered in the book. The state as a big house is important, but only as it relates to other topics.

Be SURE to understand just price theory, why they had it, and why they couldn't see what a market price was (thick/thin markets). Just price theory has a very long history, and is still believed by the majority of non-economists

Chapter II: Mercantilism

Know the historic background of Mercantilism (I covered this in more detail in class than the book did), including specism and bullionism, the rise of the nation state and professional gunpowder armies, etc.

Know all the tenants of Mercantilism. Also know the underlying philosophical basis of it (zero-sum trade, the state, etc.)

Know the policies that flowed from it, and the results.

Know Davenant, Colber, and Petty. You can skip Malynes and Mun.

Know why Mercantilism is still a powerful idea in Political Science, International Relations, and for practicing politicians.

Chapter III: The Physiocrats

Know the historical background – what the French physiocrats saw that the English Mercantilists did not

Know the Tenants of the physiocrats

Know the basics of Quesnay and Turgot

You may skip the circular flow they developed (know that they did so though)

Know the tenants that became lasting contributions.

Chapter IV: The Classical School – Forerunners

Know the basics of the history of the time: Versailles and the French revolution, and the English reaction to it

The influence of Newtonian Physics, and the Early Industrial Revolution

Know the Major Tenants of the school

You do not need to know any of the figures for this period, or much about their theories, it was all superseded by Smith. I went over this chapter quickly, the main thing is to know how the physiocrats, industrial revolution, Newton and the French Revolution all served to move English towards classical thinking, as exemplified by.....

Chapter V: The Classical School, Adam Smith

Know everything I said about Smith, and everything in the chapter.

Also, know everything in the chapter, as well as everything I said about Smith in class.

Chapter VI: The Classical School, Thomas Malthus

Know the corn laws

Know the intellectual settings, Godwin and Condorcet (I went over this part fast in class, be sure to know it for the exam)

Know Malthus's Population Theory,

Why population grows, productivity diminishes, and population must be "checked". Why we can't control population voluntarily. The law of diminishing returns.

You may skip the theory of "Gluts", I will take it up again in later chapters.

Chapter VII: The Classical School, Ricardo

Explain the issue, and Ricardo's position on, the currency question

The theory of diminishing return on Rent

Why the price of grain is determined by rent, not vice-versa

Why there is a diminishing

I covered this quickly in class: Know Ricardo's model, go through it as given in the book...

Know about exchange value, and relative Prices

The beaver-deer problem

You may skip Ricardian equivalence for now...

The distribution of income

Wages, Profits and Rents

Be able to explain the graph given in class

What are the policy implications of all this?

Also, know the theory of comparative advantage

Why it was so influential

Chapter VIII: The Classical School – Bentham, Say, Senior and Mill

Bentham

KNOW UTILITARIANISM

Theories of it, (hedonism, pleasure/pain, etc.)

Diminishing marginal utility of Money

Cardinal and ordinal measures of Utility

"the greatest good to the greatest number of people"

Implications of, and criticisms of, utilitarianism

Say

Know Say's law, why he believed it, and others did

Know Say on Monopoly

Senior

Know positive and normative science

Abstinence as Postponed consumption

Productive labor vs. Smith's "unproductive services"

Mill

The intrinsic value of moral laws vs. the pure utilitarian thought

Mills on Production (labor, land, capital)

You can skip Mills on income distribution, the wage fund

Skip him on Exchange

And skip him on everything else as well

NOTE: Mills is an important figure, just getting dropped because of time constraints

Chapter IX: Socialism

Xxx

Xxx

Xxx

Xxx

Xxx

Xxx

Chapter X: Marxism

Know everything I said about Marxism, as well as everything in the chapter.

Also, know everything in the chapter, as well as everything I said about Marx

Sample Questions:

Q. Explain Cournot's (French, 1801 -1877) theory of monopoly. (Hint: the French spring water example: graph the Demand and marginal revenue curves, and the Total revenue curves)

Q. Explain Johann von Thunen's (German, 1783-1850) theory of agricultural location. Give examples of different products, and explain why they will be produced in different regions. Be sure to explain what the important variables are that drive the model.

Q. Explain why the classical school of economics thought that price was determined by supply, and the early marginalists thought it was determined by demand.

Q. Using Friedrich von Wieser's (Austrian, 1851 -1926) theory of "opportunity cost", explain the "Broken Window Fallacy" of Frederic Bastiat (French, 1801-1850). Why does this mean that Japan's recent Tsunami is NOT going to raise Japan's GDP?

Q. Graph out Edgeworth's contract curve, using his version of indifference curve analyses, in a Robinson Crusoe and Friday economy. Be sure to label your graph clearly, and to explain what it represents.

Q. Explain what product differentiation is, and how it led to Chamberlin's theory of Monopolistic Competition. Be sure to graph it out, and clearly explain the graph.

Q. Give a brief discussion of what various economists thought interest rates were, and how they were important in the economy. (Hint – Classical economists and rent, "surplus value and exploitation", Austrians and inter-temporal substitution, and the neoclassical views of Wicksell and Fischer)

Q. According to Marshal, what determined SUPPLY? **THEN EXPLAIN, WHAT,** according to Marshal, determined DEMAND?

Q. Explain Oscar Lange's (American/Polish, 1904 – 1965) theory of how a centrally planned economy could efficiently allocate resources and set prices even when the means of production (capital) was not privately owned, and why this would be more

fair to workers, **THEN EXPLAIN** Ludwig von Mises's (Austria/America, 1881 – 1973) criticism of socialist planning – i.e. why Mises thought central planning *necessarily* could not work.

Q. Explain Wicksell's (Swedish, 1851 – 1926) theory of monetary theory – be sure mention his views on price changes, the “natural and bank interest rates”, and how they create cycles, **THEN EXPLAIN** Irving Fisher's (1867 – 1947) theory of Monetary policy. Be sure to mention the quantity theory of money, his theory of interest, Demand deposits, and the Fisher effect.

Q. Why did the Mercantilists favor large populations and low wages? Colonies? Bullionism?

Q. What problems did Colbertism have in practice? (be sure to describe some of its policies, before you talk about how they caused problems). How did Colbertism contribute to the thinking of the Physiocrats?

Q. Compare and contrast the thinking of Colbert and Turgot. On what things did they agree, and on what ones did they disagree (mention both phylisophy, and policy, if you can)

Q. In what respect were the classical economists similar to the physiocrats, and in what way were they different?

Q. Why did Smith argue that wages could vary in society? What were the five things he listed as making wages differ. Also, why did he argue that higher wages could make society **MORE** productive, and firms **MORE** profitable?

Q. How, according to Smith, does the pursuit of private gain lead to the social good. Why did Smith argue that this meant that private market economics made people **MORE** moral, instead of less so.

Q. What were the Poor laws? What arguments were their for or against them, from the standpoint of **RICARDO**, **MALTHUS**, the **SOCIALISTS**, and the **MARXISTS**.

Q. What was Malthus's theory of Population? Why did he argue that it had always held, and would always hold – and how did it lead to the **IRON LAW OF WAGES**.

NEW QUESTIONS

Q. Why did Smith argue that more trade would lead to greater specialization, and more capital, and thus more wealth. How did this differ from Ricardo's theory of why trade was good?

Q. Why do many people argue that the modern Environmental Movement is “neo-malthusian”?

Q. Why is Mercantilism still so influential in Political Science? What difference do mercantilists have in their view of trade from mainstream economics?

- Q. According to Ricardo, who got the surplus, and why? According to Marx, who got it, and why?
- Q. Are market interests harmonious or conflictual, and why? Why did the economists and socialists disagree about these things?
- Q. Explain the wage fund, and be sure to be able to explain why it was backwards looking, instead of forward looking.
- Q. Why did the physiocrats believe that all value came from land. Marx believed from Labor. What other theories of value were out there?
- Q. Why did everybody try and develop a theory of value. Do people (non-economist) believe in a fixed or true value, or in market prices?
- Q. What changed in France between Colbert and Turgot, that one was a mercantilist, and the other a physiocrat.
- Q. Why did Marx believe “the worse, the better”?
- Q. What were Marx’s six stages of history. How did they come about.
- Q. Why did the mercantilists favor a large population, low wages, and NO social spending to help the poor? This answer depends both on what the mercantilists believed about the economy, and their value system.
- Q. What was bullionism? What role did exports, imports, colonies, wars, tariffs, and taxes in this doctrine.
- Q. Why did the physiocrats speak of a “natural order” in the economy, yet they were strongly supportive of an absolute monarchy?
- Q. How is the physiocrat concept of “circular flow” similar to the surplus?
- Q. What was Smith’s theory of value in a primitive, and an advanced, economy?
- Q. What determined price, according to Ricardo (There are several things that did so)
- Q. What was the history of the world, before Malthus, that caused him to believe what he did?
- Q. Why did Malthus support tariffs on imported grains, why did the Mercantilists. Explain their differing views on population
- Q. What is a normative science, and what is a positive science.
- Q. What was Ricardo’s theory of diminishing returns, and rent. Why did he conclude that all income from a rise in the price of grain would go to landlords?
- Q. Explain Exchange value and relative prices, according to Ricardo.

Q. Know the theory of comparative costs. Really, know it well....

Q. What is Utilitarianism. What were/are the major objections to it? Why has utilitarianism died as an economic theory, but it is still influential in politics.

Q. What is Say's law?

Q. Socialists were concerned with class interests, government, cooperation vs. conflict, and historic inevitability. How did the different socialists take different views on all these questions, and what different policy prescriptions did that lead to.

Q. "Private property is a social construct, and eliminating it will lead to happiness". Discuss.

Q. Compare and contrast the socialism of Foriaiu and Owens.