Barreto

Hist Econ

A Window into Smith via Education

1. Education as investment
2. Equilibrium and Adam Smith’s *theory of compensating wage differentials*
3. Marginal Productivity
4. Signaling

1. Education as *human capital* ROR remains quite high

2. Compensating Wage Differentials

The whole of the advantages and disadvantages of the different employments of labour and

stock must, in the same neighbourhood, be either perfectly equal or continually tending to

equality. If in the same neighbourhood, there was any employment evidently either more or

less advantageous than the rest, so many people would crowd into it in the one case, and so

many would desert it in the other, that its advantages would soon return to the level of other

employments. This at least would be the case in a society where things were left to follow

their natural course, where there was perfect liberty, and where every man was perfectly free

both to chuse what occupation he thought proper, and to change it as often as he thought

proper. Every man’s interest would prompt him to seek the advantageous, and to shun the

disadvantageous employment.

Smith, WN, Book I, Chapter X, Of Wages and Profit in the Different Employments of Labour and Stock

<http://www.econlib.org/library/Smith/smWN4.html#I.10.1>

Translate this into Modern Garb: Supply and Demand

Nurse Pay for Day and Night

There’s a BIG debate in Economics:

3. Marginal Productivity Theory

4. Signaling Theory