

Hand-in 1: Economic systems and classical political economy

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Economic systems

1. Give 5 examples of economic systems.

Capitalist, communist/socialist, fascist, state-capitalist, slave-based, agrarian, colonial/extractive, plantation, feudal

2. Find an **academic** article online (google scholar, oria or equivalent is helpful), and summarize some of its theoretical arguments.

Classical political economy

1. Explain the reigning theory of value in classical political economy.

Goods have value **in** exchange based **on** labor. In a long run equilibrium the price will tend toward its natural price. Think of this as an *innate* value.

2.
 - What are the marginal opportunity costs of planes and in this beautifully drawn example?

Ger: 50p or 1000c, cost of 1p = $100c/5p = 20c$ Swe: 2p or 800c, cost of 1p = $800c/2p = 400c$

- What are their respective comparative advantages?

Lowest opportunity cost!

Ger: Planes (absolute advantage in both) Swe: Cars

- What (if anything) should each of them specialize in according to Ricardo's theory of comparative advantages, and why? Demonstrate and explain! What terms of trade benefits both countries?

Ger: $p = 20c$, $c = 5/100 = 0.05p$ in internal market Swe: $p = 400c$, $c = 2/800 = 0.002p$ in internal market

They should specialize according to their comparative advantage. Any trade in the range of 1 (German built) plane for 21-399 Volvos.

3. Why is growth slowed down by rents over time according to a Ricardian view?

Bringing more real estate into the system increases the value of the real estate. This allows the landlord to raise the rent, the payment of which will have to come out of either wages or capital. Growth = capital accumulation, and because wages can never go below subsistence level (for long), profits (i.e. growth) gets squeezed between rents and wages. Poor capitalists...