I. Theory

A. Definition: a set of propositions that explains certain phenomena.

1. natural science theories: explain the natural world.

a. physics: atomic theory

b. biology: evolution and genetic theory

2. human science theories: explain the human world.

a. economic theories: economy

b. political theories: political systems

c. psychological theories: mind or psyche

3. social theories: explain human societies.

1. structural functionalism

“ A theoretical approach that emphasizes social order and views society as a system of interconnected parts that function together to maintain stability.”

b. conflict theory

“A theoretical approach that emphasizes the struggle between various groups within society for the control of social institutions and society’s resources.”

c. symbolic interactionism

“A theoretical approach that focuses on micro interactions between persons in a society.”

B. Characteristics of theories

1. consist of propositions that explain phenomena and are coherent and logically consistent

2. instrumental value, a tool for practical use

a. Bacon: power over nature

b. natural science

i. genetic theory

ii. atomic theory

iii. theory of gravity

iv. electromagnetic theory

c.social theories allow human beings to shape the social world in which they live, or understand and adapt to it.

“a certain type of behavior will in a certain social framework bring about perfectly foreseeable results “

3. theory construction is rule-governed

a. knowledge upon which to build theories is discoverable by applying scientific method: empiricism

b. assumptions of the scientific method

i. mind independent reality: objective world

ii. objective reality governed by universal laws of cause and effect

iii. observation leads to discovering knowledge in the form of facts about the objective world

iv. factual knowledge leads to understanding universal laws

v. theory is the coherent statement in propositional form of universal laws

c. theory must be verifiable

i. hypothesis formation

ii. experiment

iii. peer review

II. Smith’s Theory of the Free Market

A. Assumptions

1. “truth” about human nature

a. psychology: human beings are greedy

b. human beings motivated by self-interest

c. self-interest = pursuit of profit and wealth

2. free market creates conditions to maximize pursuit of profit

a. private property

b. competition

c. governed by laws therefore predictable results

“a certain type of behavior (self-interest) will in a certain social framework (capitalism) bring about perfectly foreseeable results (fulfillment of individual and social needs) “

B. Laws of the Market Place

1. First law: supply and demand

a. needs create market place demands

b. market responds by creating supply

i. individuals (entrepreneurs) create products to meet demand

ii. guarantees competition

c. competition guarantees

i. consumer demands will be met

ii. high quality

iii. low price

iv. rewards individuals

innovative

highly motivated

efficient

risk taking

v. monopolies a threat

d. competitions supply that social needs will be

met

e. competition progress

2. Second law: accumulation of profits

a. capitalist will accumulate wealth

b. competition guarantees reinvestment

i. means of production

ii. increasing division of labor

c. increasing national wealth=social progress

3. Third Law: good for the capitalist is good for the worker

a. free labor

b. competition between capitalists forces employer to keep wages up

c. wages will necessarily be above subsistence

4. Fourth law: laissez-faire or no government intervention

a. disrupt laws of market place

b. negatively affect incentive

c. reward losers