Marco Gonzalez

Midterm Review Assignment

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Theories/Arguments

1. Gluts and Recession
2. Rents
3. Labor Theory of Value
4. Utility Theory of Value
5. Laisse Faire
6. Supply and Demand
7. Conflict vs Harmony
8. Theory of Value? (***explains what determined the exchange value or price of the goods/services sold in markets)***
9. Production vs. exchange perspectives
10. Class vs individual as the unit of analysis

**Labor Theory of Value**

The labor theory of value that the exchange value of a commodity is determined by the amount of labor embodied in that commodity, plus the relative allocation at different points in time of indirect labor and direct labor used in production. Smith argued that labor was the only original creator of value. He insisted that the necessary prerequisite for any commodity to have value was that it be the product of human labor. Advances in human productivity have been associated with the labor processes that have resulted in the creation of new tools. Some economists argued that the tools produced are the reason behind subsequent production. Smith however, recognized that tools are simply the products of labor and their contribution is really the contribution of the creators of these tools. It was by labor which all the wealth in the world was originally purchased. Smith saw labor as the determinant of exchange value in precapitalist economies. To further explain his arguments on labor value, Smith used a deer vs. beaver market example. In this example, he explains that among the nation of hunters, it usually costs twice as much labor to kill a beaver than to kill a deer. It is therefore reasonable to conclude that one beaver should naturally exchange for or be the worth or two deer. Although Smith never presented a consistent labor theory of value, his ideas where later used by Ricardo in order to present his LVT. Like Smith, Ricardo also advocated that labor reflected the prices of commodities; more importantly, freely reproducible commodities. Ricardo strengthened the LVT principle by dismissing a few objections. Unlike Smith, he believed that the beaver vs. deer argument was also relevant in a capitalist society. *Talk about the objections made and how he dismissed those 2 objections (page 100).*

Gluts/Depressions

Malthus’ theory of gluts or depressions is his most important and lasting contribution to economic theory. Malthus’ exchange viewpoint was most likely a factor that led him to investigate the circulation of money and commodities. Malthus explained that the general cause of a general glut of commodities was the periodic insufficiency of effectual demand. In order for effectual demand to equal the value of all commodities produced, all three classes had to be willing and able to spend all of their collective income on the commodities produced in each production period. The issue was that laborers of necessity spent all of their incomes on their subsistence and capitalists were driven by a passion to accumulate capital and had neither the inclination nor the time to spend much of their profits on consumption or personal services. Landlords, however, were gentleman of leisure. Their continual income from rents, allowed them to spend their income on comfortable surroundings, servants, and patronizing the arts, universities, and other institutions of culture. They spent their income on consumer goods. Malthus pursued policies that would alter the distribution of income, leaving the capitalists with lower profits and some other call with more income to spend on consumption! Jeremy Bentham shared a similar concern with Malthus. In a laisse faire government, Bentham came to see that saving might not always be matched by new investment. In this event, production, profits, investment and prices would decrease, unemployment would be created, and the free market would not function in the best interest of the public. It is therefore reasonable to say that Bentham’s concern ties in with Malthus’ arguments on gluts.

Rent

Conflict vs Harmony

Government intervention