NAME: Rohin Arya

History of Economic Thought

Economics

Guided notes

Thoughts, Reflections, Lingering Questions

Adam Smith – Classical Economics

- Scottish philosopher and economist who wrote:

  The Wealth of Nations in 1776

- Believer in laissez faire, which means that gov't leaves the economy alone and allows it to function naturally
- Believed in the importance of self-interest in guiding economic decisions
- "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest."

  -**Adam Smith**

The Invisible Hand

- The forces of Self-interest and competition act as an *invisible hand* that regulates the economy
- The profit motive ensures that consumer demands are met and that production benefits society
- Competition means that businesses who overcharge will bankrupt
- Government is not needed to guide the market economy

Adam Smith – Impact

- Smith continues to influence politicians today that profit motive and Self-interest produce beneficial outcomes
- Inspires culture of entrepeneurship
- Encourages policy makers to allow markets to function freely so long as they remain competitive

19th Century Neoclassical Economics – Alfred Marshall

- In his most important book, ***Principles of Economics***, Marshall emphasized that the price and output of a good are determined by both supply and demand: the two curves are like scissor blades that intersect at equilibrium

- Marshall also believed that people make economic decisions at the margin – that is, they make decisions based on the balance between marginal benefits and marginal costs

- He created the concept known as consumer surplus – when consumers purchase an item for less than they were willing to pay they receive consumer surplus

19th Century Classical Economic Theory: Say's Law

- Say's Law of Markets (named after French economist Jean Baptiste Say) argues that the ability to purchase something depends on the ability and thereby generate income.

- People have demand for items when their past production provides them with money to have demand

- Thus, money is not the source of wealth; Production is the source of wealth.

- "Supply creates it's own demand"

- Money is just a medium of exchange for goods and services

IMPLICATIONS OF SAY'S LAW

- The production and accumulation of goods over time constitutes prosperity; consuming without producing eats away the wealth and prosperity of an economy

- Government policy should focus on increasing production; increasing production while cause a cycle that leads to more consumption and more production

- Say's Law has influenced Supply-side economists who believe that tax breaks to businesses are the best way to generate wealth and prosperity

KARL MARX

- German author of The Communist Manifesto

- Witnessed the negative effects of the (next page →)

industrial revolution firsthand (18 hour days, child labour, unsafe conditions, low pay despite excessive profits)

- Called for industrial workers to rebel against the exploitative capitalist system

THE ECONOMIC INTERPRETATION OF HISTORY

- Human history has been a series of class struggles between exploiters (factory owners) and exploited (factory workers)

- Workers should rebel, seize the means of production and overthrow the capitalist system

LABOUR THEORY OF VALUE

- Value of an item is equal to the labour and materials that went into producing it

- Difference between the item's price and the value of the labour and materials represents exploitation and greed

- All profits should belong to the workers!

MARX'S INFLUENCE – COMMAND ECONOMIES

- Marx advocated for abolishing private property

- Government would control all of the means of production on behalf of the people

- Production shared equally

- No division between classes

- No role for profit or self-interest

- Provides the basis for modern command economies (Soviet Union, China, Cuba)

20TH CENTURY - JOHN MAYNDARD KEYES

- British economist John Maynard Keynes wrote his "General Theory on Interest, Employment and Money" in the 1930's

- He formulated his policies based on the need for government intervension during the economic catastrophe of the Great Depression

KEYNES' IDEAS

- The prolonged recession of the 1930's would not correct itself

- Government needed to engage in "deficit spending" to create employment and cut taxes in order stimulate "aggregate demand" in the economy

- He also wrote about the "multiplier effect" – when government spends money to build a bridge that money goes to laborers who then re-spend their income. The original gov't injection is multiplied to create a bigger addition to GDP.

KEYNES' INFLUENCE

- Governments all over the world engage in deficit spending

- In response to the 2008 financial crisis, the Canadian gov't spent billions in stimulus projects to create employment

- Currently, governments are providing their citizens with temporary income support to prevent an even worse covid-related recession

MONETARIST/ NEW CLASSICAL COUNTER REVOLUTION

- New Classical school proposed a return to free market principles and Laissez-faire.

- They said that government should not interfere in markets as periods of recession and high inflation are self-correcting

- As opposed to spending creating economic growth, it is savings that leads to future production that drives economic growth

MILTON FRIEDMAN – MONETARISM

- US Economist Milton Friedman wrote that inflation is always a "monetary phenomenon"

- Rising prices are always a product of a rising money supply

- This influences central banks to raise the money supply by the same % as the growth in GDP

- In the long run, an increased money supply will do nothing to increase output and employment.

21ST CENTURY ECONOMICS -INTERDISCIPLINARY THINKING

- Behavioral economics – Intersection of psychology and economics to better study how and why people make economic decisions

- The ideas of behavioral economics have upended the idea that people behave rationally when making economic decisions

- People often act based upon their lack of self control as well as lack of information

- People also have inherent biases that prevent them from making correct decisions

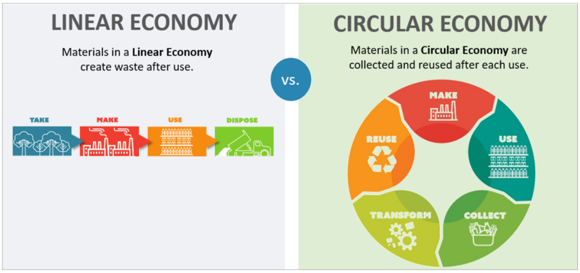
INFLUENCE OF BEHAVIOURAL ECONOMICS

- The belief that consumers always make a rational decision is not necessarily true

- People are influenced by their environments and personal biases

- Psychological principles can be used by governments to "nudge" people's behavior towards beneficial outcomes

THE CIRCULAR ECONOMY

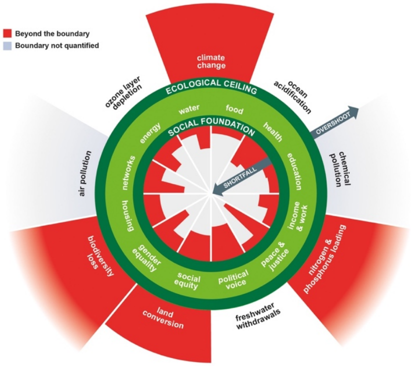


"DOUGHNUT ECONOMICS"

- Economist Kate Raworth's argues: traditional economics preoccupied with growth --> has disregarded extreme inequalities of income and wealth and environmental destruction

- Goal must change: need to discover balance and focus on human rights

- UN Sustainable Development Goals are aligned with this


Beyond the boundary
Boundary not quantified
climate change
ozone layer depletion
ocean acidification
ECOLOGICAL CEILING
water
food
energy
health
SOCIAL FOUNDATION
OVERSHOOT
chemical pollution
air pollution
networks
education
SHORTFALL
housing
income & work
gender equality
peace & justice
social equity
political voice
biodiversity loss
nitrogen & phosphorus loading
land conversion
freshwater withdrawals