

Ethical Behavior in Business

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Morals and Markets

The Market in Classical Political Economy

- **The market** as a system of heterogeneous relationships between social classes with competing interests
- Markets as **socially embedded institutions**
- Markets promote **equality of opportunity, freedom,** and **efficiency** only under certain conditions, which can be regulated
- Markets influence individuals' preferences
- Distinction between markets for **goods, labor, credit,** and **land**

David Ricardo (1772–1823)



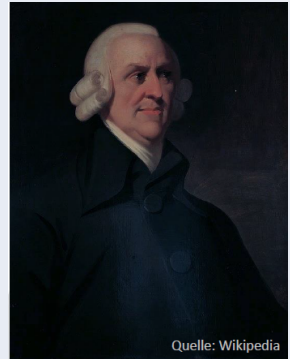
Karl Marx (1818–1883)



In *The Wealth of Nations*, Adam Smith discusses two concepts of value:

- **Classical concept of value:** The value of a good is determined by the amount of labor required to produce it.
- **Neoclassical concept of value (production side):** The value of a good is determined by the costs incurred in its production (wages, returns to physical capital, and land).

Adam Smith (1723–1790)



Quelle: Wikipedia

In *The Wealth of Nations*, Adam Smith presents the following idea:

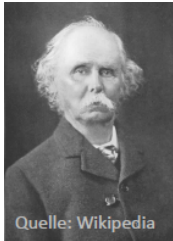
"Every individual... neither intends to promote the public interest, nor knows how much he is promoting it... he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention."

(IV.ii.9)

- This idea was **politically** very influential, as it provided a **moral justification** for a free (laissez-faire) market economy.
- This idea was also **scientifically** influential, as it paved the way for the **mathematization** of economics.

Core Beliefs of Neoclassical Economics after 1870

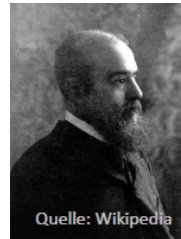
- **Preferences and abilities** are assumed to be given.
- **Markets** are viewed as a collection of transactions between independent individuals.
- Markets allow individuals to optimally satisfy their preferences, given certain constraints.



Alfred Marshall (1842–1924)



Arthur Cecil Pigou (1877–1959)



Vilfredo Pareto (1848–1923)