

Economics 493

Fall 2008

Midterm 1 Solution

① The factors are

The three field system of agriculture. This replaced the two field system around 1000 and resulted in a doubling of population by 1300, an increase in urban concentration, and more oats/fodder for horses (replaced less efficient oxen)

Increase in long-distance trade

The increase in urban production, and the increase in ag productivity (surplus ↑) → an ↑ in commerce, by 15th century trade fairs replaced by permanent cities. Workers became dependent upon trade to survive

Putting out system

This created a workers class. The means of production, over time, became concentrated in hands of capitalists

In the early period workers still owned their own buildings, tools, and processed raw materials provided to them, but in later period they owned nothing but their own labor. All else provided by the capitalist.

Decline of Manorial System

A combination of the 100 years war and the plague led to a decline in population and older social relationships were broken. As a result, more of a landlord-tenant relationship developed.

Enclosure

This helped to create a working class. The feudal nobility needed cash, and they started raising sheep for wool to do it. The fences (enclosure) displaced peasants who went to the cities to find employment.

Additional factors

Accumulation of Capital

- ↑ in trade (wealth ↑)
- ↑ in putting out system (tools, cap T)
- Enclosure (labor accumulates)

Emergence of Nation States

Nation states emerge as feudal power declines, and the nations lead to mercantilism.

② The development of money and credit was not yet complete, so much had to be financed out of accumulated wealth (e.g. to fight wars). So it was natural to see wealth accumulations of gold/silver as a key to strength and survival. In addition, manufacturing was largely by inefficient guilds and there was little value added, so seeing exchange rather than production as the source of wealth and strength was also reasonable. This is also the reason they focused on exchange as a source of wealth.

Mercantilists believed in a large, poorly paid working class. Their focal point was the nation, not the individual, and their policies and attitudes toward workers reflected this. By putting the idle to work, by paying low wages, etc., more goods can be produced \rightarrow exports \uparrow \rightarrow gold inflow \uparrow . So their attitudes reflected their policies.

③ The physiocrats were a group of French social reformers and disciples of Francois Quesnay. They wanted to reform France, which was experiencing social disorder from the presence of the worst features of capitalism and feudalism
Taxes unjust, inefficient
Ag still uses feudal technology.
Extensive tariffs, subsidies, restrictions, etc.
Guilds lasted longer in France than elsewhere

Advocated

Political reform

Abolition of guilds

Removal of all taxes, replace with single tax on Ag (based upon tax incidence argument that all taxes fell on Ag anyway since only source of surplus)

Remove all other regulations, etc. inhibiting internal flow of goods

Replace small scale farming with large-scale Ag

Reduce influence of Gov.

Reduce unproductive labor

Reduce consumption of luxury goods

④ The main message of Moral Sentiments is that ethical forces such as benevolence, sympathy, reason, principle, and conscience shape the maximization of individual interests to coincide with the social interest. Competition regulates behavior in the economic arena, these forces act upon social interactions generally

The four stages are

hunting: This is the lowest, rudest stage. The economic base is too small to allow privilege and power, essentially equal dist. of goods, subsistence living.

Pasturage: Next highest stage, this supports larger social groupings. Production is mainly domesticated animals, herding (Nomadic).

This is the first accumulation of wealth (animals) → power and classes, Need for gov. to protect property

Agriculture: As in medieval, feudal Europe. People are predominantly settled in one area, Ag is the most important activity, → ownership of land differentiates classes.

Thought two features were important
(i) limited in how they could use wealth since there was little manufacturing and trade, wealth must be spent on the court.

(ii) Very little freedom, rights for the majority of people

Commerce: highest form. ↑ in freedom and rights under this system important to Smith. As with Agriculture, ownership of property differentiates classes.

Here, 3 classes labor: sole creators of wealth

power comes from ownership.
Cap most powerful class

capitalists: own means of production

landlords: own land

⑤ The division of labor increases productivity for 3 reasons. (i) dexterity ↑ as task is repeated again and again, (ii) there is time saved from not changing tasks, (3) once tasks are divided up and identified, machines can be invented to do the tasks → prod ↑.

[Dark side: warps personality, dulls mind to do same thing all day, every day]

The most fundamental division was between rural Ag and urban manufacturing
(prod ↑ → surplus → cities, manuf, trade)

productive labor: he had two defs

(i) results in revenue to capitalist sufficient to cover costs and leave enough to cover capitalist profit

(ii) labor on tangible, vendable goods

Everything else is unproductive (Goal was to reduce unprod. gov. servants, etc).

[cont.]

Ultimately, the wealth of nations depends upon

Productivity of labor
division of labor \uparrow
 \rightarrow more products

Capital accumulation

\rightarrow more productive

Extent of the market

The quantity of productive
vs. unproductive labor

\rightarrow minimize