

# The three economists on value theory economics essay

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## **Introduction**

The topic that will be discussed within this essay is the value theory. We will explain the topic and the development of the ideas, highlight the key ideas of the three economists on the topic and describe why the topic is important in the development of economics as a discipline.

## **Explain the topic and the development of the ideas**

Value theory is all about how we value things. When we think of our values, we think of what is important to us in our lives (e. g. security, independence, wisdom, success, kindness, pleasure). Each of us holds numerous values with varying degrees of importance. A particular value may be very important to one person, but unimportant to another. (Essedunet,. 2013)." The theory of value, must begin with a careful analysis of what the word means in the mouths of ordinary people. A man values food, clothing, shelter, and the like, because they minister to his physical life, and he values music and books because they minister to what he calls his " higher life". (Smart, w ,(2007), pg: 9 – 10). Looking at the above research value theory is all about how we value things. We all value things differently, everyone has different wants and needs which is why we value something more than others. As stated in the research value theory must begin with a careful analysis of what the word means in the months of ordinary people, what smith is trying to explain here is that everyone values things different, some people may value things differently then others. The value theory consists of many ideas. The physiocrats were the first economists to begin analyse of production rather than simply circulation in the attempt to find the source of surplus value.

Adam Smith (1723-1790), the first to complete a comprehensive theory of political economy, saw labour as the sole source and measure of value. David Ricardo (1772 - 1823) attempted to construct a political economy consistently centred upon this labour theory of value. (Marxists,. 2013). The above research shows how value theory was developed and which economist at the time developed it using other values within value theory such as measure value and labour theory value etc. John Stuart Mill in his Principles of Political Economy presents the concept of value which are stated below: There are two kinds of value, use and exchange value, but these are commensurable. Use value is what you would be prepared to pay for something, and exchange value is the average market value; Use-value is not of concern to political economy. Value is distinguished from price because of the variable " purchasing power of money" and may be measured against an overall general average of other commodities rather than just one (i. e. money).

### **Key ideas of the three economists on value theory**

According to researches, Marx had a theory stating that the value of a product is determined by the labour behind it. [Econlib, 2008] In simple terms, an example of this theory would be if a product has a numerous number of labour hours behind it; then the product would have high value. On the contrary, if the product did not take numerous numbers of labour hours then the value of the product would be low or may not have any value at all. Marx stated that some people may think if the value of a product is based upon the amount of labour hours spent on it; then that makes the labourer idle and unskilful. Therefore making his product more valuable

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because of the labourer would require more hours for its production. (Karl Marx, 1999, *Commodities In: David Mclellan Capital: An Abridged Edition*. Oxford University Press, USA, pg. 5) analysing his research, Marx believed that people may accumulate the thought of a labourer being unskilful based on the fact that he requires more time to produce a product, therefore making the product high in value. Furthermore Marx went onto say, products that consist of equal amount of labour hours or can be produced simultaneously hold the same value. Marx also said, the value of one product is equal to the value of another and the labour hours required for one product is equal to the labour hours required for another. (Karl Marx, 1999, *Commodities In: David Mclellan Capital: An Abridged Edition*. Oxford University Press, USA, pg. 6) analysing his research, he stated in simple terms if two products can be produced at the same time or have the same labour hours for its production, then them products are worth the same amount. Adam Smith's approach to the theory of value was quite different from Marx because Marx's focus was on the measurement of value of a product based on the labour hours invested in its production, whereas Smith focused on the term " value" itself. According to researches, Smith believed that the term " value" could defined in two different ways, he also believed that term " value" can express the benefits of a product along with the expression of the power behind the purchasing of goods, where the possession of the goods conveys. (Adam Smith, *An Inquiry Into The Nature And Causes of the Wealth Of Nations*, 2009, pg. 20) looking at this research, Smith expressed his views about the value theory in more of a detailed way instead of expressing it as something obvious; he focused on a single term to

define his views of the theory. As previously stated, Smith believed that the term "value" can be defined in two ways. These two ways were "value in exchange" and "value in use". According to researches, Smith believed that if a product holds a high value of being useful then that same product has little or no value in being exchangeable, on the other hand if a product holds a high value in being exchangeable then that same product has little or no value in being useful. (Adam Smith, *An Inquiry Into The Nature And Causes of the Wealth Of Nations*, 2009, pg. 20) according to Smith, he believes a product cannot be exchangeable and useful at the same time; the product is either highly exchangeable or highly useful. In terms of theory of value, Marshall focused on looking at utility and value. Researches tell us that Marshall looks at how the actual price of a product leads to how the benefits of having possession of that product are represented. (Alfred Marshall. (2009). Chapter VI. In: *On Wants And Their Satisfaction*. 8th ed. USA: Cosimo Classics. Pg. 78) analysing this research, it evidently states Marshall's belief which is the value of a product is based upon the benefit of it. Furthermore, Marshall states that a consumer can never pay a price which surpasses the actual price. This creates an infrequent purchase, which leads to the consumer paying for the product instead of leaving without it. (Alfred Marshall. (2009). Chapter VI. In: *On Wants And Their Satisfaction*. 8th ed. USA: Cosimo Classics. Pg. 78) looking at this research, Marshall believed that a customer never pay for a product that exceeds the price, but he also believed that this purchase links to utility because if product utilise a customer then he will purchase the product instead of leaving without it.

## **Why the topic is important in the development of economics as a discipline?**

According to Smith, Ricardo and Marx "proves" which means the value of product is convinced by the quantity of labour for need to produce the goods. The workers obtain the full value what they contribute towards the product. Labour theory portrays the capitalists providing the sources such as manufacturing works and also the equipment's which is called constant capital. Furthermore, Marx believes the extra amount of profit comes from employees rather than the products produced in the workplace. (Todd Buchholz, 1999. Pg130) Moreover, the Marxist theory also mentions the idea of growth of capitalist production which increases the amount of wealth laid out in the industrial undertaking the competition which makes the laws of capitalist production for each separate capitalist. The "boundless greed" of capitalists forces their destruction to delay the loss in profits and employers delay the labor to avoid the loss of profits which may affect the production. (Todd Buchholz, 1999. Pg133) The other major contender for a contemporary theory of value is the Austrian theory, which touches its roots to Principles of Economics by Carl Menger. This tells us that value is individual. It has nothing to do with anything intrinsic in the thing being valued, and therefore can have no relation to any amount of labor that went into it. It is simply a matter of how much each individual value the particular thing. The other importance of value theory is if there is such a thing as market value and then it becomes likely for products to be sold for more or less than their market value. Similarly, it becomes possible for markets to flop. For example Monopoly, or subsidy and political manipulation, might end up allowing sellers to concise the gleanings of "market failure", inspiring themselves at <https://assignbuster.com/the-three-economists-on-value-theory-economics-essay/>

the expense of the public. This would lead to several kinds of interventions in the free market, to eliminate the unfairness of " market failures". (Lindy Davis,. 1995)

**" The law of supply and demand explains how prices are set for the sale of goods. The process starts with consumers demanding goods. When demand is high, producers can charge high prices for goods. The promise of earning large profits from high prices inspires producers to manufacture goods to meet the demand."**

This quote refers to the law of demand and supply. When demand is high of products the producers raise their prices because there is more demand in the product and the law of supply and demand is important in value theory because it balances the market equilibrium. According to Matthijs Krul one of the importances of theory of value is that it exposes the relationship between this calculus and personal liberty in consumption. Theory of Value will accomplish this by showing that one type of calculation will be enough rather than lots of different ones and if individuals are free to influence the relative outputs of products in order to ensure the combination of goods they prefer and that there will be clearly one that they value rather than the other. (McCain,. 2013). Marx's Theory of value is important because his theory is the foundation of his effort to understand capitalism in a way that is useful to socialists politically. There is an argument about Marx's value theory is the appropriate method of analysis whether the concepts are valid and about the validity of the concepts which are definite to the method of historical materialism. The surplus value is important because it shows us what is needed to survive which is then transferred into profit. Marx believes

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that it is not the capitalism that defines the value of workers but rather the amount of labor gone into it. Meaning the harder you work the more your valuable because you have work hard to earn your wages. Intrinsic value is something that is valuable because it has its own value as opposed to being valuable itself. Intrinsic Value is important in many different areas e. g.: It allows us to make sense of emotions. Love - When we love someone we are willing to go through pain just to protect the person. We think the person we love has values beyond our own desires. Making sure that they live a good life at our own expense. Joy - Having a Child is a cause of Joy, although there's hard work it is rather the assumption that they and their experiences are just good for existence Grief- When the death of someone occurs it generally makes us upset whether we had a strong relationship with them at all. This clarifies that if the person's existence is taken to be good just for existing, and the death of the person is a loss of something " good in itself." If Value Theory wasn't around then these emotion wouldn't make sense. Especially love you cannot really say you love someone and think that they have no real value because it just doesn't make sense. (Ethicalrealism,. 2011)