

# History of economics term paper

[Business](#), [Marketing](#)



## - Mercantilism

What was the ultimate goal of the mercantilist philosophy and why this goal was considered radical at the time. What type of exports/imports did they encourage/discourage and what was the impact on the domestic working population?

The mercantilist philosophy was a policy that was enacted by the European colonists with the aim of increasing wealth in their country. Thus, the main way to increase their wealth was to entice its colonists to pay the supplied goods from the European nation using gold. This is because gold was considered more valuable than the colonists' money. As a means of accomplishing their theory, trade was formed but the country sold more than it bought from the colonists' nations. Selling more of their goods meant that the country created a surplus in terms of gold in their treasury. This was because the European nation integrating this idea believed that a nation's wealth can only be measured by the precious metals such as gold.

Mercantilist theory was considered as being radical because England aimed at being a self-sufficient nation, hence the country focused on having more exports than the imports. In addition, the country aimed at mass production where the state would produce all the goods that were needed by the entire population (Heilbroner 34-37). This was the goal so that the state cannot import any food material in the country as a way of curbing any form of competition from the foreign nations. In the long run, the country brought about trade deficit because the country dwelt on more exports than imports, which led to exploitation of other countries. As a way of satisfying the whole population by producing all its goods, it increased the cost of production for

certain goods. The European countries encouraged the importation of certain raw materials into the country that were a key source in the production of goods. On the other hand, the Europeans dwelt on supplying finished products to its colonists. The overall impact of the working population was that there were more jobs available as a result of the emerging ship industry. Thus, more jobs were created as a result of this trade.

- Adam Smith

What is the role of self-interest, according to Smith in setting capitalism into motion? What is the meaning of the “invisible hand”? Why Smith objected to the motion of an activist government and what specific functions did he envision as being appropriate?

Adam Smith believes that self-interest is a key motivator for people to work in that they are the beneficiary to the society that is willing to pay. This is because merchant are impelled by the idea of making more profits from their goods. As a way of curbing economic exploitation of the people from the merchants, Smith believes that there will be competition that will stabilize the market prices. Competition is a key factor in ensuring that the merchants do not overcharge their prices for the goods because their competitor will charge lower prices, which means he will get more customers compared to the merchants overcharging their goods (Heilbroner 60-61). Thus, all merchants may have to charge the market price for their item as a means of ensuring that they sell all their goods, which will bring income to the merchants. This is known as self-regulation in that the invisible hand drives the market prices to equilibrium without the government interference. This will ensure that the merchants maximize their profits but sell their products

at an affordable rate as a way of undercutting its competitors. Smith was objected to an active government in trade because in England, the government regulated everything. It is crucial to note that the government composed of wealthy people in that society at that time and the policies enacted by the rich in government stripped away the little wealth the middle and lower class people had. Thus, the government did not help the greater public but was driven by self-interests which hurt the public in general. Smith believed that the market forces would regulate the market in general without the interference of the government (Heilbroner 68).

### **Describe Smith's logic in regard to the determination of wages, profits, and rents**

Smith believed in the law of accumulation where merchants would gain profits, which would create a driving force to formation of new businesses (Heilbroner 64). Through profits drawn from other places in the society, the business capitalist would use the funds to buy more machinery with the aim of increasing production. When more machinery is purchased as a means of boosting productivity, labor is needed. This shows that the manufacturing companies would have to hire more workers as a way of increasing efficiency and maximizing their overall returns to scale through production (Heilbroner 66-67). As a result of high labor demand, wages will tend to be high as a mean of enticing people to join the labor force in the industries. High wages indicate that there will be an increased number of working class. However, if there is a high demand of labor from the people, wages will eventually go down till it reaches the equilibrium. Due to high demand in terms of labor, there will be low wages, which mean that the capitalists benefit for paying

low wages and increasing their profits at the same time. Due to the accumulating profit, the capitalist will buy more machinery and employ more people thereby, creating more profits. This law of accumulation is a vicious cycle in that for them to get labor, population has to keep rising to provide labor to the capitalists. In the long run, the economy flourishes as a result of increased number of people in the working class and the increased productivity through the use of factors of production.

- Thomas Malthus

### **Present a complete and analytical account of Malthus's population theory.**

Malthusian doctrine explained that the human race will come to an extinct as a result of the rising population levels. As a result of high population that superseded the agricultural output in the world, resulted to people dying of hunger and starvation. This pessimistic view presented by Thomas Malthus was invalidate by many economists because he did not put into consideration the high technological rates and that people could use birth control measures as a means of slowing the fast population growth rate (Heilbroner 91). The book notes that there has been population explosion in countries where there are not technologically advanced such as India, Latin America, and China. It is crucial to note that the improved healthcare service has resulted to low mortality rates thereby, increasing the population level. Malthus believed that the world would be doomed if population goes unchecked in that there will be food scarcity (Heilbroner 85). However, over the years the population has been checked in that people die because of chronic diseases, increased warfare among nations, poverty, malnutrition

and starvation, and homosexuality. These are the modern factors that have reduced the population growth in many different countries. This shows that if these calamities did not increase the mortality rate in the modern world, then the world's population would have been almost twice as much now thereby, validating Malthus theory (Heilbroner 90). In addition, classical economists such as Adam Smith believe that population is a significant element in providing source of labor to promote the growth of a country's economy. Malthus did not believe in using birth control measures as a means of controlling population growth but he asserted that people need to be morally upright to reduce the fast population growth. It is significant to note that Malthus opposed birth control measures as a means of reducing the fast population growth because he was a reverend.

### **Present Ricardo's theory of rent.**

Unlike Adam Smith who supported capitalism as a means of earning profits, David Ricardo believed that land, being a factor of production, was the villain. Ricardo believed that economic rent should be charged according to the quality of land the crops are being planted. Economic rent meant that the landlord's income would vary according to the richness of nutrients in their soil and their capability to be productive. This meant that the yield obtained from the productive land was greater than the less-productive land in that the cost of production differed between both cases (Heilbroner 100). This difference in cost apprehended from the difference in productivity between lands determined the selling price of the product. The sellers could benefit from selling at a high price as a result of mass production and that through the Corn Laws legislated by the government, there was less

competition. There was little to no competition because the government forfeited any importation of grains. It is crucial to note that Ricardo believed that land was a monopoly, given the fact that land that was used as a factor of production was owned by a single seller.

- Karl Marx

Provide an account of Marx's theory of historical materialism. What is the precise relationship of the superstructure with the economic base? How these three elements interact in bringing historical change?

The historical materialism is based on Hegel who believed that history was as a result of dialectic or opposing market forces. Marx believes that there was a prime distinction between factors of production and social relations of productions. The factors of production entailed land and technology among others whereas the social relations of production refer to how production changes as a result of high standards of living. Marx believes that history encompasses people's strive to survive through working to buy food for sustenance and improve their living standards (Heilbroner 142).

Marx believed that capitalist can accentuate profits, which gives them a financial incentive to invest their profits to new forms of technology. This cycle of investing profits to new technologies meant that the labor market was being revolutionized. This form of relationship between economic base and superstructure will bring about social disruption by bringing conflict. Thus, invention of new technologies replaces the labor market thereby, bringing about layoffs in various industries (Heilbroner 163). Marx believed that labor results from the profits earned by capitalist. However, if there are less profits earned despite a growing economy, the market will collapse

leading to recession. Thereby, the price of labor would eventually fall making profits rise gradually again, which will bring about investment of new technologies and growth of the overall economy as a means of healing from recession.

The three elements that interact in any economy is the cycle of growth, collapse and the recovering economy from the economic crisis (Heilbroner 162). Marx believed that this cycle would result to the capitalist class enjoying power. However the middle and lower class families will be severely affected due to loss of jobs and that they have little power in the growth of the economy. The proletariat would be impoverished as a result of the collapse in the economy. Thus, to avoid this hierarchical social structure based on economic power, Marx asserted that everyone in the society should be equal as a means of protecting the proletariat from the capitalist ideologies.

### **Present Marx's theory of value and theory of exploitation**

Marx believed that capitalist ideologies represented an economy with perfect competition. This indicates that there will be many sellers and many buyers and that there is free entry and exit of the market. In addition, the products sold are marked at market price or the value price. This means that the value of the product is based on the different types of costs used in producing a given product. Given that the price of the product will be sold at a value price, there is zero economic profit, which is contrary to the capitalist ideology. Thus, capitalist believe in the essence of monopolies as a way of increasing their profits in that they can set price above the value price (Heilbroner 162). Thus, profits will be easily enjoyed by the capitalist



whereas they pay little price for the labor used to produce given products. Through labor, the capitalists can enjoy their profits. This means that the capitalist end up exploiting its workers by recommending them to work longer hours as a way of increasing the products produced. Through the workers are being overworked, they are paid low wages despite the fact that capitalists can sell the produce higher than the value price (Heilbroner 166). This form of economic exploitation from the capitalists brings about a wide wealth gap between the working class and the capitalists. Thus, Marx believes in a classless society that has not social hierarchy as a means of ensuring that one set of group of people are not exploited.

## **Works Cited**

Heilbroner, Robert L.. *The worldly philosophers*. 7th ed. New York: Simon & Schuster, 2011. Print.