

Understanding of adam smith's ideas

Economics



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Benefits of Specialization

In most economies, specialization allows more products to be created in less time than if everyone decided to create everything for themselves. In Nepal, many citizens decide to learn how to do a variety of tasks, in exchange for keeping some of the money they would otherwise have to pay an experienced worker to do for them. Economists have agreed that this system does not work, and that poverty is a result of this behavior, not the cause. In a modern economy, specialization trumps citizens that learn to do everything for themselves. Many factories will divide labor into groups of people doing the same thing over and over to the output product. One man may weld the body of a car together, while another may program the software. These tasks are completely unrelated, so one person trying to do all of them would have a hard time producing a few cars a week. However, with division of labor, 10 men may be able to produce hundreds or thousands of cars a week.

In order for specialization to work, there needs to be an excellent system for trading the goods that one person creates for the goods they need from others. In the past, trade and barter were used in a voluntary exchange of goods so that everyone got what they wanted. However, in this system, the items you want have to come from the people who want the items you have. This is inefficient and can lead to huge problems in a large scale economy. However, using a medium of exchange like money, an economy can thrive. You can sell all your products to a distributor, who will give you money. This money can then be used to buy essentially whatever you want, and leads to economic independence. The distributor can then sell to other people who

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would like your product, and he will make money as well. All this new trade will lead to a healthier economy and overall a better quality of life, all started by specialization.

Attitude Towards Adam Smith

In this article, the author has a positive attitude towards Adam Smith's ideas, but an understanding towards people that don't want to read his book. Peter begins by saying that the creation of the book, *The Wealth of Nations*, is on par with the American Revolution. However, he realizes that most people will not read the book, because of its daunting length and extremely hard to understand content. So instead of recommending people read it, he begins to explain some of the quotes from the book. He talks about the invisible hand and its effects. He also talks about the pin story that he uses to explain the benefits of specialization and division of labor. Peter's attitude towards Smith and his writings are obviously positive.