

Thinking like an economist



Thinking like an Economist Adam Smith is considered the father of modern economic theory. Do you think his ideas are relevant today Explain your reasoning.

Adam Smith is very famous for being the proponent of the "invisible hand" and how it helps maximize the welfare of the whole society. According to him, the whole economy will function most efficiently when the market is left alone and players pursue their best interest. Adam Smith also became closely identified with the laissez-faire market mechanism which asserts that a free market though appearing "chaotic" and "unrestrained" is the best factor which determines the right quantity of goods in a society. The operation of the so-called "invisible hand" is responsible for this mechanism.

I believe that the ideas of Adam Smith are still relevant in our current world economy. It is irrefutable that only a few things changed over the century which implies that older ideas can still be applied in the present. This is even more applicable to social sciences like economics as the past dilemmas still haunt the policy and decision makers of today. The problem of maximizing public good is still a one of the greatest questions in the world economy which can be answered by the ideas of Smith.

The relevance of the ideas of Smith can be seen on how governments are presently trying to deregulate industries and privatize some previously government owned corporations. The countries doing this are coming to the realization that deregulation and privatization triggers a more competitive environment for industries and corporations alike, leading to more efficient operations. It is also notable that these processes ensure that the true value of goods and services in the economy is reflected in the pricing system as

subsidies are now removed. Deregulation and privatization also significantly improves the overall efficiency in corporations' operations thereby maximizing producer surplus. When producers pass this in the form of lower prices, consumer surplus is maximized and the overall economy profits.

2. Give a real world example of the "invisible hand" or another idea from the article above. Explain how your example fits in with the ideas of Adam Smith.

One of the best examples to illustrate Adam Smith's concept of "invisible hand" is free trade. This is an important current economic issue as the world is becoming more and more integrated into a global village. This is true as more and more free trade zones are created and trade restrictions are being eliminated to facilitate more mobility of goods from country to country. Free trade can be referred to as an example of the concept of "invisible hand" as free trade means less protection and regulations from the government. This can be illustrated by an example using a real-world example like the North American Free Trade Agreement among the United States, Canada and Mexico. This agreement has significantly reduced trade barriers as the imposition of the agreement necessitates the elimination of duties on half of all US goods shipped to Mexico. The agreement also paved the way for the gradual elimination of tariff within 14 years. The free trade agreement is an example of the operation of "invisible hand" as government intervention is limited and the economies are left on their own. It is also a form of pursuing the interest of individual as manufacturers would want to get rid of tariffs to maximize profits and consumers will also be better off as prices are lowered and there are more products to choose from. Also, this real world example shows how public good is increased. According to

Wikipedia (5): " since NAFTA was signed, there has been economic growth in all three nations, with an increase in the standard of living in Canada, and especially in Mexico, when compared to that in the United States. NAFTA has helped to integrate the three economies. Canada and Mexico have reaped gains from free trade with the largest economy in the world, while the United States has benefited from unhindered access to their markets and products as well."

References

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