

# Ricardo's theory essay



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David Ricardo (1772 to 1823) was a classical economist, he formulated the labour value theory and the theory of comparative advantage, and these two theories have led to greater understanding of economics issues, however David Ricardo considered Labour as the only factor of production in his labour value theory. The labour theory of value (LTV) is a term given to different accounts of value by various economists with the common element that the "value" of an exchangeable good or service is equal or proportional to the amount of labour required to produce it, including the labour required to produce the raw materials and machinery used in the process.

The labour theory of value prevailed among classical economists through to the mid-19th century with its most developed form appearing in Marxian economics; but among modern mainstream economists it is considered superseded by the theory of marginal utility. The term value takes on many meanings, and it is very important to be clear on what is actually meant when the term is being used. Contemporary LTV theorists, following Karl Marx, distinguish between several key uses of the term value. For any commodity: value "in use" is the usefulness of this commodity, its utility; value "in exchange" is the relative proportion with which this commodity exchanges for another commodity in other words, its price in the case of money; value without any qualifying adjective refers to the amount of labour embodied in commodity.

David Ricardo formulated the theory of comparative advantage in which he considered labour as the only factor of production, the amount of labour used in the production process determines the value of the product, he considered wine and cloth which were products produced by both England

and Portugal, however Portugal had comparative advantage in both the production of wine and cloth over England. However his theory of comparative advantage proves that both countries will still gain by trading. The ratios of capital and labour used in the production process does not destroy Ricardo's principle that labour determines the value of final goods, it only modifies this principle because the capital labour ratio used in the production process means the method of production whether a capital intensive method of production or a labour intensive method of production, the method used in production depends on the availability and cost of the factors and also the type of goods to be produced. Capital and labour determination of final value: The concept that differing capital and labour ratios simply modifies his theory that the value of goods is determined by the amount of labour involved in the production of that good, one reason why this concept only modifies his theory is because the theory of comparative advantage is based on the assumption that there exist only one factor of production, however many scholars have criticised this as a drastic assumption but still the theory has meaning to the economic enquiry of value. Capital and labour are both factors of production, the more the quantity of both factors used in the production process the more the value of the good produced, the cost of these two factors will determine the ratio of both factors of production to be used in the production process, however there are goods that require more of one of the factors of production, those goods that require more capital are termed as capital-intensive goods and an example of this is machinery or electronic production.

Other goods require more labour and they are termed as labour intensive goods and an example of this is agricultural products, in his theory he considered goods that were at that time labor intensive goods and the method used by both England and Portugal was labour intensive methods of production. Also may be interesting Therefore this concept does not destroy his theory but only modifies it considering that capital-intensive means of production have only be recently adopted by countries and each method is adopted depending on the endowment levels of the country. The cost of both capital and labour, therefore, determines the final value of the products produced, different goods, however, require different quantities and different combinations of both factors and therefore this leads to a differing final value of different products. Therefore the principle that differing capital-labour ratios only modifies Ricardo's theory of labour determination of value, this theory has been criticised for considering only one factor of production which is labour but if we considered capital as the only factor that determines the value of goods than the theory would still apply and be relevant also if we considered both capital and labour our theory will still apply that factors of production used in the production process determine the final value of goods produced. Despite the above explanation of the value of goods, David Ricardo did not consider technology as a determining factor in the production process, the level of technology will determine the production process in that if a firm experiences technological progress then we expect the cost of production to be lower. David Ricardo, Adam Smith, Thomas Malthus and John Stuart Mill are considered as classical economists in that later economic theories that have emerged after then have borrowed a leaf from the classical economists' theories, the classical economists also

brought tremendous changes in economic thinking in that they treated economics in scientific way bringing order into the chaotic state of economic enquiry. Conclusion: Both capital and labour will determine the final value of goods produced, different goods have different ratios combinations of both capital and labour used and for this reason this concept only modifies Ricardo's principle, we will also have to consider that Ricardo set his theory with the assumption that there exist only one factor of production which is labour, many theories that have come up after Ricardo's principle have based their theories on his theory and if we are to consider both factors of production we will still come up with the same outcome that Ricardo proved.