Guide for grading of student papers, History of Economic Thought, Winter 2011-12, Exam 25-27 January 2012, 48 hours take-home paper

A top-level paper should contain:

In classical economics, money is only created on the basis of foreign trade. Wealth does not depend on money, but on the quantity of goods available for either necessities or enjoyments. It is explained how Ricardo then demonstrates that foreign trade increases the quantity of commodities available, not their value.

The numerical example Ricardo gives regarding the role of value in foreign trade is presented and explained by his theory of labour value. His explanation for the advantages of trade is then presented: capital is freed for employment elsewhere within the home country, the market is extended, and the basic condition for this in his assumption about limited mobility of capital is discussed.

The labour theory of value only works between home country goods, not between countries. The principle of comparative advantage is then explained: capital will flow to the home country production where it is relatively most advantageous relative to the quantity of goods, which this production can buy from abroad.

The famous example with Portugal and England, cloth and wine is presented and discussed. The connection is made that the comparative advantage principle in effect leads to indifference curves, which outline a role for global demand. There comes a role for demand that breaks with the supply-side oriented model of classical economics.

It is explained how the indifference curve technique later was applied by neoclassical economists such as Walras and Pareto. The supply of one good is interpreted in terms of the supply of another. It leads to the idea of market equilibrium, which tended to be seen by classical economists as mainly accidental in contrast to the role of long-term production costs determining supply.