

History of Economic Thought

Ordinary exam 16.12.2022 – 2.1.2023

Outline of solution

1. (a) Government spending and in particular taxes have been considered by economic writers since the mercantilists (and even before), and among the central economic theorists it would be natural to comment on the writings of main classicals Adam Smith, Malthus, Ricardo and John Stuart Mill, supplemented with the viewpoints of selected marginalist writers, e.g. Walras, Marshall and in particular Wicksell and Pigou.

(b) The term "classicals" may be understood as those economists against which Keynes debated during and after the work on his General Theory. The main representatives of this group were Pigou, arguing that unemployment was caused by disequilibria in the labour market and should be cured by changes in real wages, and von Hayek arguing against government intervention in general. The objections against the Keynesian approach was resumed in the afterwar period by the New Classical.

If "classicals" is interpreted as the economists of the classical school in general, there should be a discussion of the viewpoints on government expenditures of Adam Smith, Malthus, Ricardo and possibly also John Stuart Mill, all of which propose that government expenditure should be confined to a narrow field of public needs, since otherwise it would upset the functionings of the market and ultimately cause even more misery.

2. The article gives a picture of Sismondi as a follower of Adam Smith, updating some of his statements in view of the later economic development following first the French revolution and later the economic downturn following the end of the Napoleonic wars. Sismondi did however differ considerably from Adam Smith in his views upon agriculture as the most important branch of the economy, being here more in accordance with Malthus. The main objections of Sismondi were directed against Ricardo, not only with respect to the theoretical content but also regarding his method, which Sismondi considered as overly abstract.

The main point of disagreement with the classical writers was the possibility of overproduction, which was mentioned by Malthus but otherwise discarded. Here Sismondi was much more outspoken than the classicals, also including Malthus. It may also be mentioned that Sismondi was among the first writers pointing to well-being rather than wealth as the ultimate purpose of economic activity, something which gave rise to his skepticism towards the benefits of industrialization.

3. (a) The survey should mention the considerations of the classical writers, in particular Adam Smith and Ricardo, who were mainly concerned with profits and rents, and for whom capital was considered as a quantity of money or commodities which should be forwarded in order to initiate production. A specific theory of interest rates and their determination

came with the marginals, in particular with the second-generation marginalists. Here Böhm-Bawerk should be mentioned for the theory of determination of interest rates as a result of the higher productivity of roundabout methods of production, and Irving Fisher for the integration of interest rate determination into the microeconomic theory of markets.

Except for the general proposals for low interest rates as beneficial for investors, there were few theoretical considerations of the importance of interest rates before the marginalists. With the cumulative process introduced by Wicksell, interest rates as balancing savings and investments become explicit in the literature, and in the following period, the determination of interest rates were seen as the main, and indeed only, appropriate field for economic policy. This would change markedly after Keynes, who however maintained the importance of the money market and interest rates for economic policy.