History of Economic Thought
Re-exam 11.2.2021 – 25.2.2022

# Outline of solution

**1.** Wages and their determination appear in the writings of all the classical economists and even some of the precursors (e.g. Petty and Cantillon). For the classicals, the idea of subsistence wages and the wage fund theory were the main ingredients. The Marxian theory of exploitation and surplus value was conceived as a description of the contemporary capitalist economy and largely followed the idea of subsistence wages. An alternative theory of wages came only with the neoclassical economists applying basically the same tools to the labour market as to commodity markets.

(a) While the notion of price determination in the market remained somewhat rudimentary with the classicals, the subsistence theory could be considered as a long-run version of a market determination of wages. This goes also for the natural wage theory of von Thünen. However, a theory of wages based on markets came only with the marginalists, in the form of the marginal productivity theory.

(b) While the main authors of the classical school posed considered the wage theory as descriptive, there were underlying tendencies of seeing subsistence wages as an arrangement which served the best interests of society. This was formulated most directly by Bastiat but could be found occasionally with other authors. Also the marginal productivity theory, which initially could be seen as a simple application of the neoclassical price theory to the labour market, was given normative content by some authors, notably John Bates Clark.

**2.** (a) The classical authors were aware that certain commodities and services could not reasonably be allocated through markets, and there were repeated discussions of this situation and what should be put in the place of markets. Although many authors considered this problem, the exact description of what constitutes a public good or a public utility good did not materialize before the marginalist revolution. In particular, the fundamental characteristic in Walras' concept of a public utility good, namely that as a good which is not consumed directly by individuals but by the state as an independent agent, cannot be found in the writings of earlier authors.

(b) The modern treatment of public goods as commodities and services consumed by the individuals but with specific properties such as non-rivalness was introduced by Samuelson but already hinted at bt Wicksell and in particular by Lindahl. This does not quite correspond to the concept of a public interest good as discussed by Walras, where they are considered not belonging to the individual consumption bundle. This Walrasian concept, connected with a special role by the state as taking care of such goods, was not further developed by subsequent authors.

**3.** (a) The quantity theory of money is a very old one and it may be difficult to trace its very first appearance. It had become a fundamental part of classical economics after John Locke and David Hume, arguing in the context of observable consequences of the inflow of precious metals from overseas colonies.

(b) The quantity theory of money had obvious implications for monetary policy, in the sense that increasing the quantity of money at constant velocity would imply a rise in the level of prices. This remained the basis of monetary policy until the changes brought about by he Keynesian macroeconomics.

(c) The most noteworthy novelty relating to the quantity theory of money is Irving Fisher's works on the theory of interest rates, in the context of which a dynamic version of the quantity theory was first formulated.