

## History of Economic Thought

Re-exam 10.2.2025

### Outline of solution

1. The survey should contain a brief description of the views upon overproduction of Adam Smith. This should be followed by a discussion of Say's law in its early formulations as well as its acceptance and use by the subsequent economic authors. On the other side, the thoughts of Malthus about possibility of overproduction should be mentioned, and also the contributions of Sismondi comes in here. To this could be added the possibility of a compromise between the two lines of thought as sketched by Mill. Finally, the contributions of Marx should be mentioned.

Throughout the discussion, the applications of the theoretical viewpoints should be indicated, ranging from justification of the iron law of wages to the the overthrow of the capitalist method of production.

2. The general notion of utility has been around for centuries but its systematical use in connection with economic theory comes in a later stage. Early economic writers recognize the role in price formation played by the usefulness of the commodity but tend to focus on the production side of the economy. A more distinct role of utility for the decisions in society was given by Bentham whose thoughts influenced the subsequent economic writers.

(a) Most writers mention utility at least in general terms, but a more precise use was introduced by Dupuit and other forerunners of the marginalists such as Gossen. The derivation of demand from utility as known today was given by Marshall.

(b,c) Treating utility as a subjective measure of individual implies that sums utilities of different individuals are meaningless. The approach to welfare considerations with subjective utilities was introduced by Pareto.

3. The early theories of value attempted at explanations of an underlying value which was approached by the prices in everyday trades, and for this they emphasized the production side, placing weight on use of either labor or land or both. The demand side was acknowledged but was treated systematically only after Cournot. The marginalists introduced an explicit treatment of both sides of the market, and they completed rather than rejected the approaches of the earlier authors. However, the interest in an underlying value of commodities diminished as the treatment of the pricing in actual markets was developed in more detail.

As a result of this shift in interest, value has almost disappeared from economic theory, even though some revivals, notably that of Sraffa, have been attempted.