

Adam Smith

2 concepts:

- Division of labor/Specialization (doing a particular task)
- Invisible hand (when society benefits from your specialization, where your interest is personal).

Greatest improvement in the productive powers of labour is the division of labor.

The great increase in the quantity of work is due to: the increase of dexterity in every particular workman, the saving of the time which is commonly lost in passing from one job to another and lastly, the invention of machines, which facilitate labor.

Smith perceived that the condition of nations is principally dependent on the sum of their productive powers. He was possessed by the idea of “universal freedom of trade” and by his own discovery “the division of labor”. His investigations are limited to that human activity which creates material values (does not assign a productive character to the mental labors of those who maintain laws and order, science, art, religion etc. *theory of productive powers).

According to Say, the prosperity of a nation is not greater in the proportion in which it has amassed more wealth (values of exchange), but in the proportion in which it has more developed its powers of production.

'Say's Law Of Markets'

An economic rule that says that production is the source of demand. According to Say's Law, when an individual produces a product or service, he or she gets paid for that work, and is then able to use that pay to demand other goods and services.

David Ricardo (19th century)

-Comparative advantage

	Wine	Cloth	Ratio
UK	3 workers	7 workers	3/7
Portugal	1 workers	5 workers	1/5

Step 1. Figure out who has the comparative advantage in what?

Ricardo says what matters is the ratio. Thus, in this example, Portugal has an absolute comparative advantage. In Portugal, wine is relatively cheaper to produce compared to cloth. In the UK, cloth is relatively cheaper to produce compared to wine. Therefore, Portugal should produce wine and the UK should produce cloth and both countries should trade.

Criticism: no guarantee that people will spend more

Reaganomics: when doing monetarism and Keynesianism (state spends more) at the same time.

If a country's GDP decreases or remains the same 3 semesters in a row, it is a recession

Inflation: when increase in price is higher than economy growth rate

3 assumptions:

1. The real wage is equal to the marginal disutility of the existing employment.
2. There is no such thing as involuntary unemployment in the strict sense.
3. Supply creates its own demand in the sense that the aggregate demand price is equal to the aggregate supply price for all levels of output and employment.

Mercantilism (strategic trade theory/about the trade) - the oldest theoretical approach

3 groups:

1. Classical mercantilism (oldest theory 16-17th century): when a country is entirely economically dependent on another
2. Economic nationalism (early 19th century: Hamilton & List): relationship between less developed countries and industrialized countries

National productive powers: what does a state have to do in order to become productive?

- a) Education
- b) Become industrialized (infant industry)
- c) Shelter your infant industry from custom duties

Eventually this leads to free trade because custom duties go away once countries are competitive

*Terms of trade: how many units (raw materials) should a less developed country export in order to import one unit of a product (machinery). The point is that less developed countries must become industrialized

3. New Mercantilism (20-21st century)

Neo-mercantilism → defensive (protecting one's economy because other side isn't playing by the rules) Ex: Health standards; accusing another country of health hazards, this way they stay out of the market.

NTBs:

Subsidies

Sub-prime mortgage rate

2/3 to 3/4 of world trade is done between MNC's (multi-national corporations)

Kindleberger:

1. National firms with foreign assets
2. MNC's – subsidiaries (typically independent)
3. International corporation

3 kinds of corporations: US (pluralism-several ways to access the political system), EU (corporatism-roof organization [hierarchical structure] for all employers in a given country and the states mediates between the 2) & JAPAN (statism)→MITI-determines what the next big thing for Japan will be. Companies get together to develop the next big thing under MITI, and once it is developed, they market it separately [ex semi-conductors].

What matters is the location of the headquarters

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Page 15 of 20

Part 3 Globalization

Economic aspect-increase in tradeables

Political aspect-OECD vs. LDCs

Social aspect-winners/losers

Cultural aspect- cultural differences/how connected people are

Question: Convergence? Are states becoming more alike?

Regulation (money, time zones etc.), distribution (full/partial ownership of state in certain companies), redistribution (take from rich and give to poor)

Welfare state becomes competition state [institutional (institutions become more autonomous)/policy (environmental protection)] (idea of autonomy and autarky)

Autonomy: political concept of whether or not a country can provide goods to its citizens