

He further mentions or adds that objects which have a greater value in exchange, would have little value in use. The meaning behind 'people have value because people need to die for them'. Cost of production determines the value of exchange.

2 Malthus's explanation for the failure of Say's law pg 45 86

Thomas Malthus's theory of market gluts & reason why lack of demand consistent's growth, was as following:
① Aggregate demand for goods is paid out of wages payments by firms
② Wages payments are a cost of production for firms. a demand for goods = cost of production of goods
③ Firms can't best earn back what they paid wages. Profit = 0
④ As a result of not making profit firms would not be able to invest. Economic activity would stand still.

(TURN OVER)

3 The commonalities of socialism (i.e. what all forms socialism have in common) Marx & Social

They have the following commonalities:

- ① Rejection of classical view of permanent interests. Believed society composed of different classes.
- ② Rejection of classical view of laissez-faire
- ③ Rejection of Say's law (supply creates its own demand.)
- ④ Rejected the classical view of the concept of humanity. Perfectibility of people given the right social system - people will back a good.
- ⑤ Need a collective action & public ownership of either price to bind conditions of masses.

(TURN OVER)

4. Rent is price determined but not price determining.

Ricardo's pgs 53.

David Ricardo's theory of rent enters like the corn laws; rent is price determined but not price determining, meaning high rent = high grain prices, not high prices determine high rent.

How to get to this was the opportunity cost of grain production equals zero & rent is also zero; price not determined. Opportunity costs do not influence price.

5. Marginal utility and its role in marginal economics - Marshall/Marginalists pgs 245

According to Alfred Marshall demand is based on the law of diminishing marginal utility. Furthermore, marginal utility of a commodity to anyone diminishes with successive increments of it he already has. The role of major tenants of marginalists was the following:

- (1) Focus on margins
- (2) Rational economic behaviour
- (3) Abstract & deductive method (away from perfect competition (no gov))
- (4) Demand - orientated price theory.

(TURN OVER)

(6) Equilibrium approach - when goods or market not balanced, will always return to an equilibrium.
(7) Merger of land & capital.

6. Consumer and producer surplus

(TURN OVER)

7 Collectivism (or dogmatic state socialism)

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It is a type of form of socialism
Not believed that firms should be in
the hands of government or the state
& no privatisation of firms allowed.
It regards private ownership as the
root of the capitalist problem.

8 Partial versus general equilibrium analysis

[TURN OVER]

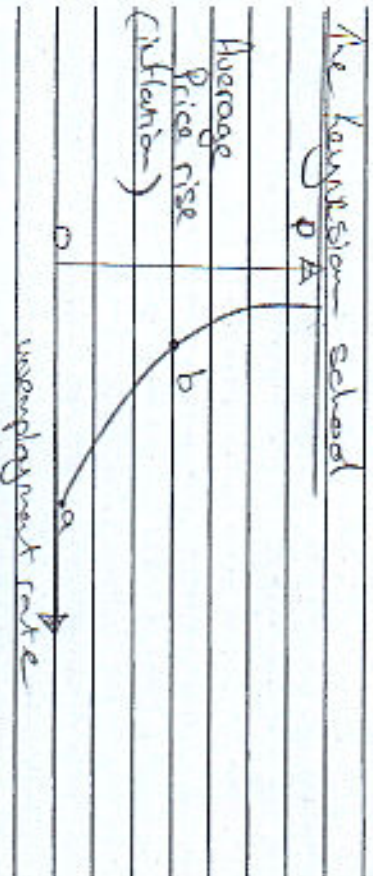
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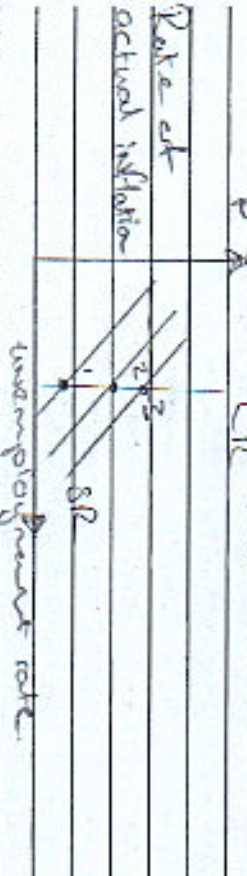
9 Friedman's modern quantity theory of money

[TURN OVER]

10 The long-run Phillips curve pg 491



The Chicago school pg 537



Milton Friedman believed that the natural rate of unemployment (NR) is where actual rate of inflation = expected rate of inflation or equal.

SECTION B

Answer any TWO of the following THREE questions, each of which carries 25 marks. A total of 50 marks can thus be earned in this section.

- 1 What is productive labour and what is unproductive labour in the eyes of
 - (a) Mercantilists,
 - (b) Physiocrats,
 - (c) Smith, and
 - (d) Marx
- 2 Write an essay on the German historical school and the Institutionalist school
- 3 Write an essay on the economics of John Maynard Keynes. To what extent have the Post Keynesians and the New Keynesians carried forward the main elements of Keynes's message?

....

[TURN OVER]

[TURN OVER]

1. What is productive labour and what is unproductive labour in the eyes of

- (a) Mercantilists,
(b) Physiocrats,
(c) Smith, and
(d) Marx

(25)

a) Mercantilists. pg 17 PB

→ Some mercantilists believed that low wages were necessary to reduce illnesses & promote participation in the labour force. ∴ being productive labour.

→ Mercantilists also believed that should wages be higher, then some labours, including children, would exit the labour force or reduce their hours of work. They also highlighted the income effect of wages, as income per hour rises, they would be able to buy more leisure. The more leisure they buy, the more unproductive labour.

b) Physiocrats. pg 37 PB

→ The Physiocrats thought that only agriculture & woolly mining/labour was productive as it produced a surplus, and productive labour the value of resources used in production. It being a more productive labour. They gave more emphasis to agriculture.

→ Professions like trade industry were useful but sterile. ∴ seeing it of in their eyes, unproductive labours.

[TURN OVER]

PB = Proscribed Book

c) Smith. pg 72 PB

→ Smith started at discussed the division of labour in his book "The Wealth of Nations". Here he use the example of the trade of a pin maker. Should the pin maker not be educated, he could only be able to make one pin a day. Also it'd be only do one task as a pin maker, ∴ being unproductive labour.

→ Further more, Smith wrote that should labour perform two or three tasks in the pin factory, the output of production could increase to 18k pins in a day, ∴ making the labour productive.

→ He said only labour is productive.

d) Marx. pg 168 PB

→ In Marx's labour theory of value, he points out a products value is measured in units of simple average labor. A skilled worker counts as multiple units of unskilled labor. Eg. ie. 1hr of an engineers productive effort compared with 5hrs of an unskilled labor.

∴ skilled labour would be productive & unskilled labour would be unproductive.

[TURN OVER]

2 Write an essay on the German historical school and the Institutionalist school

① German historical school. pg 206-207.

- After the Napoleonic wars & peace treaty, Germany was divided into 39 states.
- The German struggle against Napoleon, their became surrounded of patriotic & nationalistic emotions.
- Germans wanted unifications & constitutional reforms, quest for national unity & democracy.
- Germany gave birth to the historical school. They divided work & agriculture
- Nationalism, patriotism, militarism & government intervention - all combined to change pattern & promote growth.

①① Major tenets of historical school.

- ① Evolutionary approach to economics
 - Coercion rather than cumulative growth & development. Drawn to Darwin with emphasis in biology.
- ② Emphasis on the positive role of government
 - Germany was nation with
 - State endorsed industry, transport.
- ③ Inductive/historical approach - importance of studying economics history as part of integrated whole.

④ Advantages of conservative form.
- not just on economic activity but also useful to compare moral merit of these actors & outcomes.

⑫ Whom did the historical school benefit?

It benefited the members of the German historical school itself, government officials & rose to dominant position in a cademic life. Austrian marginalist were excluded from any papers of university position. It also benefited the historical economist of business & industry.

⑬ How was the historical school valid in its time?

The evolutionary approach (Permin) to society & economic thought provided to be useful to abstract thinking to classical & marginalist schools. It was also correct in that economists needed to have knowledge or familiarize with changing history & environments with economic evolution.

(TURN OVER)

⑭ Which texts became lasting contributions?

It became accepting & complementary to the changing times. Today economist search for historical data to test their theories & scrutinizing data gleaned from a past. Another contribution was the attack on laissez faire. Became a trend for future. It evolved into a crazed militarism. Their ideas, conventionally contributed to the climate in Germany to lead to WWI & WWII.

(TURN OVER)

2 Institutional school

It is an American contribution to Economic thought.
Period between the Civil War & World War I
had rapid growth which made USA the power house of the industrial system.
With living conditions improving, fell short of aspirations as the distribution of income fell out of order and getting job security was non-existent.
The institutionalist were for social change & reform.
Two major social methods of change: 1) Reorganize society lines of undesirable social reform.
The American institutionalist were not liberal & democratic outlook.

2.1 Major tenets of the institutionalists

- 1) Historic & broad perspective - explained on a whole.
- 2) Focus on institutions - schools, prisons
- 3) Darwin's evolution approach - change.
- 4) Rejection on normal equilibrium

3) Classes of interest - Reconcile or override classes.

liberal & democratic - outlook

7) Rejection of pleasure pain psychology - behaviour ideas into thinking.

2.2 When did the institutionalist branch?

It was the school for middle class who wanted reform.

2.3 How is the school still valid?

2.3 How was the school valid in its time?

Development of rigid orthodoxy. Stressed looking at economy as a whole. Reform that removed capitalisms

2.4 Which tenets were lasting contributions?

Reform movement are still well & alive today as steps to help with full employment & capitalism.

3 Write an essay on the economics of John Maynard Keynes. To what extent have the Post Keynesians and the New Keynesians carried forward the main elements of Keynes's message?

Economics of John Maynard Keynes.

→ Keynes wrote the General Theory of employment, interest & money in 1933 in the middle of the Great Depression.

→ Keynes ideas were stimulated by the Great Depression, both political & economic side & theoretical side.

→ Keynes's major tenants were the following:

- ① Macroeconomic emphasis
- Focusing about agg. demand rather than microeconomics (individual).
 - ② Demand-orientation
- Demand determines output
 - ③ Instability in economy
- cyclical phase to investments being created
 - ④ Wage & price rigidity
- Wage \rightarrow Demand \rightarrow Output \rightarrow Demand \rightarrow Output
- Nominal \rightarrow debt deflation \rightarrow debt repayment
- More on the marginal side TURN OVER

Post-Keynesianism School

→ Debated with Keynes theory free from neo-classical equilibrium.

→ Major tenants were the following:

- ① Neo-ricardo view
- Suppliers determine prices
- Factor prices do not influence output.
 - ② Endogenous money
 - ③ Cyclical instability
- economy unstable
 - ④ Need for income policy
- due to 'class struggles' for income shares & markup pricing
- needed a permanent income policy.
- TURN OVER

Neus Keyness's School

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→ Rejected Neo-Ricardo theory & post-Keynesians call for income policies.

→ The downward price & wage instability was caused by factors like monopolies, insider relationships.

→ insider relationships → insider → insider relationships

→ unemployed, unstable res → posses some market power

→ under bid wage rate

[TURN OVER]

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[TURN OVER]

ROUGH WORK

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ROUGH WORK

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