History of Economic Thought
EC 4405
1st hourly
Fall 2000
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Section I. Multiple Choice  (10 points)

1. The intellectual “gestalt” of a thinker refers to:
   a. The education of the thinker.
   b. The generation in which the thinker wrote.
   c. The point of development as compared to the chain of biological development.
   d. The framework of ideas handed from one thinker to another.

2. The word “economics” comes from the Greeks and means:
   a. business management
   b. growth management
   c. household management
   d. financial management

3. David Friedman has argued that the Scholastic notion of just price was a substitute for ________________ at a time when markets were not yet sufficiently developed to guarantee socially efficient results.
   a. the regulated market price
   b. fairness
   c. unregulated, competitive market prices
   d. monopoly pricing

4. Ekelund, Hébert, and Tollison’s analysis of the medieval Church’s policy on usury concludes that the Church selectively enforced the usury doctrine because
   a. it was able to keep its own cost of funds low
   b. it served as a barrier to entry
   c. it aided in preserving the Church’s monopoly status
   d. all of the above
   e. none of the above

5. The expenditure of scarce resources to capture a pure transfer is known as
   a. monopoly
   b. vertical integration
   c. franchising
   d. rent seeking
   e. dead weight loss

6. One of the flaws of mercantilism was the failure to understand the connection between
   a. an increase in the domestic money supply which usually followed a trade surplus.
   b. a decrease in the domestic money supply which usually followed a trade surplus.
   c. imports and exports.
   d. exports and bullion.
7. _________________ was cited by Smith as the first to propound the market system and entrepreneurial capitalism.
   a. Boisguilbert
   b. Cantillon
   c. Petty
   d. Quesnay

8. Physiocracy is defined as:
   a. the rule of the market.
   b. the rule of logic.
   c. the rule of nature.
   d. the rule of physics.

   a. is a logical extension of
   b. is in conflict with
   c. is completely unrelated to
   d. none of the above

10. The two fundamental ideas that prevailed throughout the classical period include:
    a. division of labor; economic growth to better man’s existence
    b. economic growth to better man’s existence; laissez faire
    c. laissez faire; division of labor
    d. use of the price system; laissez faire
    e. none of the above

11. In Smith’s Theory of Moral Sentiments, ______________ holds self-interest in check, whereas in The Wealth of Nations, ______________ serves this purpose.
    a. morality / division of labor
    b. sympathy / division of labor
    c. morality / competition
    d. sympathy / competition
    e. sympathy / production

12. The discrepancy between value-in-use and value-in-exchange was not solved by the classical economists because they
    a. overlooked marginal valuations
    b. only focused on marginal valuations
    c. didn’t believe in value in use
    d. believed value was derived from the demand for a good

13. According to Smith, natural price is determined by
    a. the interaction of supply and demand
    b. the prevailing market price
    c. the long-run costs of production
    d. the short-run costs of production
14. -run supply curve as being
   a. positively sloped
   b. negatively sloped
d.

According to Smith _______________ produces a tangible good of market value whereas ____________
   a. the wages fund / natural price
   b. productive labor / the wages fund
c.
d. market price / unproductive labor

16. which in turn allows a larger number of workers to be engaged in productive activity, thereby increasing the
   a. wages fund / division of labor / wages
capital accumulation / wages fund / national output
c.
d. national output / wages fund / division of labor

17. In Smith’s analysis, effectual demand is the demand of buyers who are willing to
   a. pay the natural price.
b.
c. pay the market price.
c. pay the real

Malthus’s argument that population growth pressures the survival of the species influenced in a very direct
   a. Jevons.
b. Bentham.
c.
d. Smith.
c. none of the above

19. The classical theory of rent assumes:
   a. land produces a variety of agricultural products.
capital is not required in agricultural production.
d.

According to the text, Ricardo’s __________
is the most important empirical factor.
   a. iron law of wages
   b. theory of rent
c. theory of growth
Matching (Select the one best lettered item to match with each numbered item—lettered items may be used more than once.) (10 points)

_____ 1. 18th century expectations-adjusted Phillips curve
_____ 2. The "first economists"
_____ 3. "early and rude state of society"
_____ 4. Malthusian wage theory
_____ 5. land theory of value
_____ 6. bawdy books in library
_____ 7. early 18th century influence of Newton
_____ 8. biological analogy
_____ 9. diminishing returns
_____ 10. Father and forger

a. \( \lambda = 0 \)
b. linear production possibilities frontier
c. J. K. Galbraith
d. Physiocrats
e. concave to origin production possibilities frontier
f. classical rent theory
g. David Hume
h. Smith
i. Cantillon
j. Malthus
k. Ricardo
l. \( \lambda > 0 \)
m. Mercantilists
n. Scholastics
Section III. Short essay. Choose three. (30 points)
Indicate whether the statement is TRUE or FALSE and explain WHY (employing diagrams or other tools of analysis where appropriate):

1. The critique of mercantilism which focused upon the "lack of a price theory" is illustrative of the absolutist approach.
2. Adventitious statements must be employed in revealing the real theoretical insight in early works.
3. The "triumph of materialism" is illustrated in the works of Scholastic economics.
4. In Cantillon's analysis we see the influence of Newton.
5. In the Physiocrat's development of "economics as physics" we see the influence of Newton.
6. Ricardo's rent theory was clearly superior to that of Smith.
7. According to Ricardo, there was no way to slow the economy's movement toward the stationary state.
8. According to the classical view of Say's Law a permanent depression was impossible.
9. Senior's value theory was more advanced than that of Ricardo.
10. The wages-fund was simply the marginal revenue product of labor multiplied by the number of laborers (or man-hours).
Section IV. More short essay. Choose three. (30 points)
Indicate whether the statement is TRUE or FALSE and state WHY (employing diagrams or other tools of analysis where appropriate):

1. In Hume's analysis a specie-inflow could result in short-run increases in real output.
2. Adam Smith supported an analysis consistent with a backward-bending supply curve to predict labor's reaction to a wage increase.
3. In his defense of the mercantilists Keynes focused on seasonal-structural unemployment.
4. Smith's "early and rude state society" may be illustrated with a production-possibilities-frontier with increasing opportunity cost.
5. Smith's value theory is a "labor theory of value."
6. For Smith the division of labor is "practically the only [important] factor in economic progress."
7. The classical model (system) owes nothing to Malthus, i.e., his contribution to the model was nil.
8. Economic science owes far more to Ricardo than Malthus.
**Bonus** (5 points)
For each of the following quotations a) identify the author and b) reveal the place of the idea or sentiment in the history of economic thought:

i. “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.”

ii. “Of the two sorts of money-making one, as I have just said, is a part of household management, the other is retail trade: The former necessary and honourable, the latter a kind of exchange which is justly censured; for it is unnatural, and a mode by which men gain from one another.”

iii. “As long as Men have the same Appetites, the same Vices will remain. In all large Societies, some will love Whoring and others Drinking. The Lustful that can get no handsome clean Women, will content themselves with dirty Drabs; and those that cannot purchase true Hermitage or Pontack, will be glad of more ordinary French Claret. Those that can’t reach Wine, take up with worse Liquors, and a Foot Soldier or a Beggar may make himself as drunk with Stale-Beer or Malt-Spirits, as a Lord with Burgundy, Champaign or Tockay. The cheapest and most slovenly way of indulging our Passions, does as much Mischief to a Man’s Constitution, as the most elegant and expensive.”

iv. “In my opinion, it is only in this interval or intermediate situations, between the acquisition of money and the rise of prices, that the increasing quantity of gold and silver is favourable to industry.”

v. “... I shall greatly regret that considerations for any particular class, are allowed to check the progress of the wealth and population of the country. If the interests of the landlord be of sufficient consequence, to determine us not to avail ourselves of all the benefits which would follow from importing corn at a cheap price, they should also influence us in rejecting all improvements in agriculture, and in the implements of husbandry...”
Please sign the following: I have neither given, nor received unauthorized aid on this piece of work, nor have I knowingly tolerated any violation of the Honor Code.  ______________________