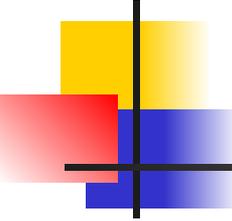


# Early Preclassical Economic Thought

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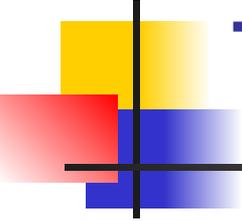
Chapter 2  
January 22, 2007



# PreClassical Economic Thought

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- Addressed limited aspects of the economy
- Did not expand their analysis into a comprehensive economic system
- Ideas were strongly affected by the state of society, e.g., feudalism moving to merchant capitalism



# Non-Western Economic Thought – Guan Zhong

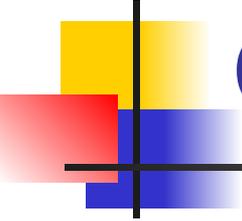
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- How does Zhong's "light/heavy" theory serve as a statement of the laws of supply and demand?
- When a good is "light," this is equivalent to an increase in supply (rightward shift in the supply curve) which results in a decrease in the price of the product
- When a good is "heavy," this is equivalent to a decrease in supply (leftward shift in the supply curve) which results in an increase in the price of the product
- Goods moved in and out of the market based on their "lightness" or "heaviness" with a tendency toward equilibrium price.

# Non-Western Economic Thought - Guan Zhong (continued)

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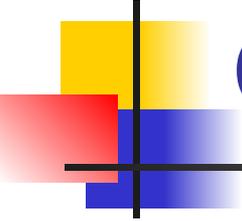
- How does Zhong's "light/heavy" theory correspond to the Quantity Theory of Money?
- The quantity theory of money is an *interpretation* of the equation of exchange. This equation is an identity, that is, it is true by definition
- $MV = PT$  where  $M$  = money supply,  $V$  = velocity of money,  $P$  equals = price level and  $T$  = volume of transactions (real GDP)
- According to the quantity theory of money,  $V$  and  $T$  are fixed so a change in  $M$  results in a corresponding percentage change in increase in  $P$ .
- <http://www.ingrimayne.com/econ/Money/Equation.html>



# Non-Western Economic Thought - Guan Zhong (continued)

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- When money is heavy, its price will rise (real value of money will increase) due to a fall in the price of goods and services
- When money is light, its price will fall (real value of money will decrease) due to a rise in the price of goods and services.

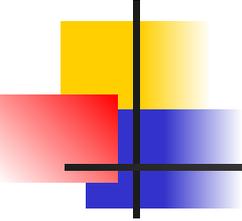


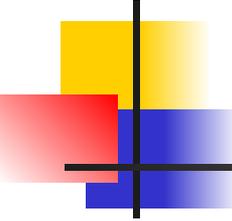
# Non-Western Economic Thought - Guan Zhong (continued)

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- According to Zhong, the government should buy goods when their prices fall and sell goods when their prices rise in order to stabilize the price level and make money for the government.

# Greek Thought (continued)

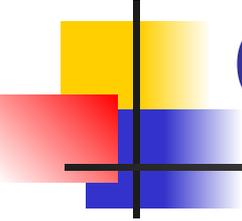
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- Is efficiency, as seen by Hesiod and Xenophon, a microeconomic concept or a macroeconomic concept? How is the concept of division of labor related to efficiency?
  - Efficiency is a microeconomic concept. The division of labor increases efficiency, that is, there is more output per unit of input



# Greek Thought (continued)

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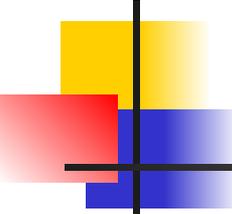
- What were Aristotle's views on the appropriateness of economic activity?
- Aristotle made a distinction between “needs” and “wants.”
- Needs are moderate but wants (desires) are limitless.
- Production to satisfy needs is “right and natural” but production to satisfy wants is unnatural.
- Barter is assumed to satisfy needs while monetary transactions is assumed to satisfy wants.
- Aristotle condemned any activity that resulted in monetary gain (profit).



# Greek Thought (continued)

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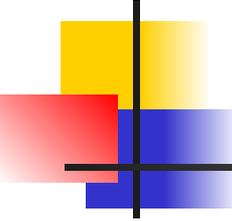
- Orthodox economists do not make such a distinction; needs and wants are not separable in a market economy
- Producers respond to what consumers desire (need or want)
- Profit maximization is a primary goal in modern microeconomics
- The question is, how do we distinguish (or can we distinguish) needs from wants?



# Arab-Islamic Thought

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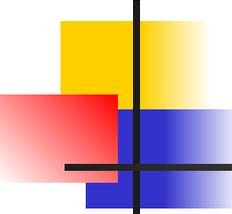
- How can the ideas of early Arab-Islamic thought help us to understand some of the conflicts in the world today?
- They do not separate economics from other aspects of life and economic issues are analyzed within the broader context of their religious views.
- For example, charging interest is prohibited according to Islamic Law. If we look at Islamic finance, my understanding is that the lender becomes a “partner” in the economic activity for which the funds were loaned. The lender only receives a return if the project is successful and profitable.
- <http://islamic-world.net/economics/>



# Scholasticism

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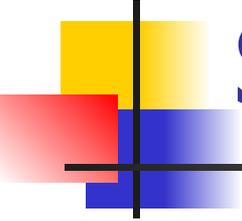
- How did the changes that were occurring in society affect the ideas of St. Thomas Aquinas?
- Scholasticism can be defined as the philosophy and theology of Western Christendom in the Middle Ages (approximately 5th century to 15th century)
- The Catholic Church was very powerful during this time
- Aquinas was concerned about the increasing importance of economics and materialism that was growing in the late feudal period
- Basic to all scholastic thought is the conjunction of faith and reason. For the greatest of the scholastics, this meant the use of reason to deepen the understanding of what is believed on faith and ultimately to give a rational content to faith.



# Scholasticism (continued)

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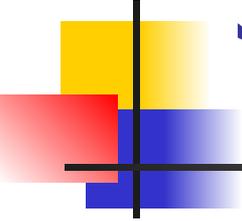
- What do scholastics mean by the concept of a “just price?”
- Price here is not allocative, but a moral concept based on justice or fairness
- Writers in the Scholastic school do not agree on what constitutes a just price
- One interpretation is based on the golden rule - “Do unto others as you would have them do unto you”; therefore, a person should not charge more for a good than what he would be willing to pay for it himself.
- Another interpretation was that price should equal the cost of production – a forerunner of Marx’s labor theory of value
- Still another that markets yield just prices, a forerunner of neoclassical thought



# Scholasticism (continued)

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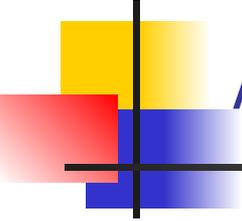
- What about usury?
- In 1139, the Second Lateran Council denied all sacraments to unrepentant usurers and, in an 1142 decree, condemned any payment greater than the capital that was lent
- Non-Christians were exempt from ban
- In 1311, Pope Clement V at the Council of Vienna prohibited usury outright and condemned as "heretical" any secular legislation that tolerated it.



# Scholasticism (continued)

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- According to Aquinas, money has no “intrinsic worth” therefore a lender of money loses nothing of worth when lending it out
- Thus, by the Golden Rule, he should not ask for compensation for doing so
- Today, we still use the idea of usury, defined as an excessive rate of interest. It is no longer a purely normative concept. An excessive rate of interest will tend to stifle investment and growth. If the poor pay higher interest that can be seen as an issue of justice



## Contrast and compare Plato, Aristotle and St. Thomas

### Aquinas on the desirability of private property.

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- Plato believed that the ruling class of his ideal society, the soldiers and philosophers, should not possess private property but should hold communal property to avoid conflicts over property that might divert attention from more important issues.
- Aristotle believed that private property was acceptable and served a useful function in society; no limits should be placed on ownership of private property.
- Aquinas believed that private property is not contrary to natural law. Saint Thomas argued that to be naked was in accordance with natural law and that clothing was an addition to natural law and devised for the benefit of man. He applied the same reasoning to private property. He approved the regulation of private property by the state and accepted an unequal distribution of private property. Aquinas believed, however, that communal living was the ideal for those of deep religious commitment.