

AUSTRALIAN NATIONAL UNIVERSITY

Second Semester Examination – November 2004

**HISTORY OF ECONOMIC THOUGHT
(ECHI2005/2015/ECON4004)**

Study Period : 15 minutes

Time Allowed : TWO Hours

Permitted Material: None

Answer THREE questions

1(A). What did Adam Smith mean by the invisible hand? Explain how he saw the invisible hand operating and manifesting itself in an unregulated market for grain.

Or,

1(B). Recount Adam Smith's account of the 'Mercantile System'. Outline Smith's objections to the 'Mercantile System'.

2(A). State clearly the claim of the Labour Theory of Value. Give Ricardo's case for the Labour Theory of Value. How did he qualify the theory? Did he think the qualifications were significant? Should he have thought the qualifications were significant?

Or,

2(B) Consider the Ricardian 'corn models' developed in lectures. Suppose all grades of land experience the same absolute increase in their productivity.

(a) With the help of one diagram, explain what Ricardian analysis predicts will be the immediate impacts of this shock on

- (i) rents
- (ii) profits and the rate of profits
- (iii) the wage
- (iv) the size of the labour force

(b) With the help of another diagram, explain what Ricardian analysis predicts will be the long run impacts of this shock on

- (v) rents
- (vi) profits and the rate of profits
- (vii) the wage
- (viii) the size of the labour force

3. 'Marx's economics is classical in conception, drawing as it did on the economics of Adam Smith and, more particularly, the economics of David Ricardo.' Do you agree? Give reasons for your answer.

4. It is sometimes claimed that both Jevons and Marshall, in their theories of value, compromised between the cost of production and the utility explanations of the determination of value. Do you agree? Give reasons for your answer.

5(A). Examine the major proposals for monetary reform that Keynes advanced in his book *A Tract on Monetary Reform*. What were his arguments in support of these proposals?

OR,

5(B). 'Keynes's main objective in *The General Theory of Employment, Interest and Money* was to refute what he believed to be the central premise of the 'classical school', namely, that the economic system tended spontaneously to produce a state of full employment. Assess the arguments Keynes used in his attempt to refute this premise.

6. Discuss the basis of Hayek's contention that the quantity theory of money is inadequate for the purpose of explaining the nature of trade cycles. Why did he believe that intervention by government aimed at restoring full employment was likely to be worse than doing nothing at all?

7. 'Monetarism is only one of Milton Friedman's contributions to economic thought and not necessarily the most important one'. Do you agree? Give reasons for your answer.

8. Examine the reasons why Schumpeter accorded a vital role to the entrepreneur in his explanations of the process of economic development.

9. With respect to both the development of macroeconomic theory and the theory of economic growth, do you agree with the view that the significance of the work of the Stockholm School has been exaggerated? Give reasons for your answer.
