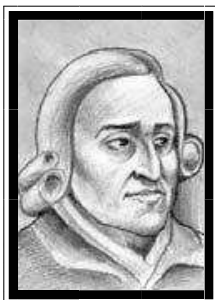


3. The History of Economic Thought

3.1. ADAM SMITH (1723 – 1790)



Author of the first systematic study of capitalism, eighteenth – century Scottish economist Adam Smith is generally known as the “Father of Economics.” Smith’s most famous theory – that an “**invisible hand**” guides the free-market economy – argues that individuals who pursue their own self -interests actually produce economic results **beneficial to society as a whole**. Smith’s general thesis that free markets are the most efficient allocators of scarce resources remains at the heart of **mainstream** economics today.

Adam Smith was born on June 5, 1723, in Kirkcaldy, Scotland, a tiny fishing and mining village near Edinburgh. His father, a lawyer and government official, died 2 months before his birth. In school Smith **immersed** himself in mathematics and the classics. His scholastic ability was such that he was accepted at the age of 14 into Scotland’s Glasgow College. At 17 he graduated with the master of arts degree and a scholarship to Oxford University.

OXFORD

At Oxford Smith was **miserable**. The University seemed to him to suffer from a lack of intellectual spirit: Professors often **skipped** lectures, tutors **shirked** their responsibilities and university officials offered students little guidance. Still worse, Scottish students suffered **blatant** discrimination. Smith’s fellow students and even faculty members laughed at his accent and called him names. As a result, he grew depressed and his health suffered at Oxford. He complained of “**inveterate scurvy**” and developed a nervous tic-an **involuntary** “shaking of the head”. In addition he suffered from **blackouts**. Such neurological disturbances **plagued** him throughout his adult life.

Despite his difficulties at Oxford, Smith remained there for 6 years, most of the time studying on his own in the University’s grand library. In 1746 Smith left Oxford, returning first to Kirkcaldy and, failing to find a regular job, moving to Edinburgh 2 years later. There he gave a successful series of public lectures on such topics as philosophy, jurisprudence, and political economy. His lectures attracted

the attention of several of Edinburgh's leading intellectuals; their sponsorship allowed him to continue lecturing for several years.

PHILOSOPHY AND TEACHING

In 1751, Glasgow College officials offered him the newly created post of professor of Logic. Smith accepted and within the year was promoted to the Chair of Moral Philosophy. He became well respected as a philosopher, and his lectures were popular among students. His first book, **The Theory of Moral Sentiments**, published in 1759, made him well known among other intellectuals. One statesman who was particularly impressed by the book was Charles Townshend. He sought Smith as a teacher for his teenage stepson, the duke of Buccleuch. In 1763 Smith left Glasgow to accept the position and spent next three years in Toulouse, France, with the young duke. To **alleviate his boredom**, Smith used his spare time to make a **thorough investigation** of economics, and began to **commit** some of his ideas on the subject to paper.

THE WEALTH OF NATIONS

Smith returned to Scotland in 1766, **endowed** by the duke with a generous pension for life. At home in Kircaldy, he continued to develop the economic ideas he had begun to explore during the time abroad. Ten years later, he completed and published his most famous book on the subject, entitled **An inquiry into the Nature and Causes of the Wealth of Nations**. In *The Wealth of Nations* Adam Smith **emerges** as a free – market economist we recognize today. Here he expressed belief that private enterprise, operating in an unmediated **competitive manner**, is the most **efficient** and **equitable** economic system. Moreover, he argued that individuals in such a system who **pursue** their own self – interests will, as if guided by an invisible hand, produce results beneficial to all of society. Smith sharply criticized the existing British government's interventions into domestic colonial, and international economic matters, maintaining that such acts **upset the natural equilibrium** of a free – market economy. Today we refer to this notion as “**laissez – faire**” economics.

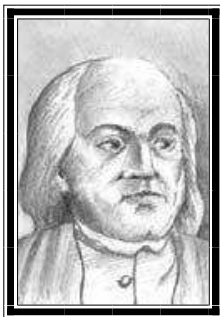
The *Wealth of Nations* was enormously successful; five editions were published during Smith's lifetime, winning him international acclaim as an economist. His influential ideas spread quickly among the many **disciples** who developed them into what we now regard as the classical tradition of economics.

Smith passed his remaining years **industriously** in Scotland. In the last year of his life, in spite of the fact that he was severely ill, he undertook a thorough revision of his **Theory of Moral Sentiments** for the sixth edition. As death drew near, he had his unfinished manuscripts burned without explanation. A week later, on July 17, 1790, he died, leaving the **legacy** of his theories, which gave birth to modern economics.

Task:

1. Why is Adam Smith known as the “Father of Economics”?
2. What is the idea of his most famous theory?
3. Say a few words about his life before Oxford University.
4. Why was Smith miserable at Oxford?
5. What was the University life at that time?
6. Did all these difficulties break his desire to study?
7. What was his life after the University?
8. Explain the meaning of the underlined words.
9. What was Adam Smith occupied with?
10. What book made him well known among other intellectuals?
11. Where did he begin to make a thorough investigation of economics?
12. When did he complete and publish his most famous book?
13. What ideas did he express in his book?
14. Why did he sharply criticize the British government?
15. Was this book a success?
16. Where did he spend the remaining days of his life?
17. When did he die?
18. What legacy did he leave?
19. Explain the meaning of the emphasized words.
20. Discuss the text with your groupmates.

3.2. JEREMY BENTHAM (1748 – 1832)



The **assumption** that individuals act in ways that maximize their level of satisfaction is one of the most basic ideas economists use to analyze human behaviour. The notion was introduced by eighteenth – century British economist Jeremy Bentham, who developed it in an effort to **encourage** changes in economic policies. Today it forms the **crux** of our analysis of consumer behaviour.

Born February 15, 1748 in London, young Jeremy **gave his parents little ground for complaint**. At age three he was reading, by five he wrote phrases in Latin, and by the time he was seven he wrote as well in French as in English and could play the piano and the violin. At the activities that would have earned him the companionship of other boys, however, Jeremy proved a disap-