Capitalism

Adam Smith

- Adam Smith was a professor of economics at Scotland's Glasgow University. His work, *Wealth of Nations* (1776) is considered the first work of modern economics.
- As a figure of the Enlightenment, Smith looked for natural laws -- in this case, natural laws that governed economies. His work became the basis of capitalism.

Aspects of Capitalism

- A capitalist economy is known as a free market economy because private citizens own the Means of Production (businesses, agriculture, transportation, communication), and compete for profits without restriction.
- Smith actually advocated a Laissez-faire capitalist system. Laissez-faire was the idea that government should not interfere with the economy. He argued that the three natural laws acted as a sort of invisible hand, guiding the economy. It was unnecessary for government to either aid or hamper businesses.
- A capitalist economy typically yields a huge number of products and a wide variety of prices. It also is very consumer-oriented, or focused on the needs of the consumer.
- It should be noted that completely unregulated capitalism (laissez-faire) creates terrible greed, selfishness and abuse. It was this unregulated capitalism that led to many of the labor abuses early in the Industrial Revolution. Humanity is at core, selfish.

Three Natural Economic Laws

- The first was the Law of Supply and Demand. Smith believed that supply and demand worked together to set prices.
- He argued that if demand were high, and if supply was limited, then the price would go up. Likewise, if there were a large supply, and limited demand, the price would go down.
- Ebay provides a good example of the law of supply and demand. When a product is rare or hard to get, the price is often very high. When products are common, the price is low.
- The second was the Law of Competition. Smith believed that the competition to create products yielded a better quality and a cheaper priced product for consumers.
- If there were no competition in the creation of a specific product, there would be no reason to focus on creating a quality product. Price could remain high, regardless of quality, because there would be no substitutes. The one company creating the product would have a monopoly and could charge whatever they wanted.
- The third was the Law of Self-Interest. This is also known as "profit motive", and it suggests that people act in their own financial best interest.
- Basically, people start their own businesses because they seek profits for themselves. They develop businesses to meet a need (or demand) for a product in the economy. This self-interest ensured that there would be ample competition in the market place.
Global History
Capitalism

1. Who was Adam Smith?

2. What was Smith’s contribution to history?

3. What did the Law of Supply and Demand do?

4. How did this law work?

5. Give your own example of Supply and Demand in action.

6. What is the idea behind the Law of Competition?

7. What did Smith say happened when there was no competition?

8. What is behind the Law of Self-Interest?

9. Why does this law help ensure competition in the economy?

10. Define: Means of Production --

11. Why is capitalism known as a free market economy?

12. What is laissez-faire capitalism?

13. What are the advantages and disadvantages of capitalism?