

ECO 372

Exam 2: In-Class Component

24 October 2003

50 points

Skaggs

1. In *The Wealth of Nations*, Book I, Chapter 6, Adam Smith presents his theory of “the natural and market price of commodities.” Summarize Smith’s theory, explaining the difference between natural and market prices, how each is derived, and how the complete model illustrates Smith’s theory of resource allocation. (12 points)
2. Ricardo developed a theory of growth and distribution that made use of the recently developed theory of rent and of Malthusian population theory. Illustrate how Ricardo used this theory to explain the distribution of total product among workers, capitalists, and landlords. Also demonstrate the model’s implication for economic growth and use this result to explain Ricardo’s position on the Corn Laws. (12 points)
3. William Jaffé felt it necessary to write an article “de-homogenizing” the “revolutionary trio” of Léon Walras, Carl Menger, and W. Stanley Jevons. Why had 20th-century economists “homogenized” them? What crucial differences among the three led Jaffé to perform this service for the profession? (8 points)
4. Scholars who have closely investigated the work of Carl Menger have concluded that he had a dual (intellectual) personality. In particular, his *Principles of Economics* appears to lay the foundation for two different types of economics theory. Briefly explain the two strands of Menger’s thought and how they differ. (8 points)
5. W. Stanley Jevons saw himself as a revolutionary, rebelling against British classical economics as handed down from Ricardo to J.S. Mill to J.E. Cairnes in the 1870s. Alfred Marshall, who began his academic career around 1870, saw himself not as a revolutionary but as one who continued the progress begun by the classical economists. How did Marshall bring together the “revolutionary” insights of Jevons with the received wisdom of the classical economists? Use Marshall’s basic microeconomic model to explain how he blended the two. (10 points)

Bonus Question (2 points)

Name the economist who, in the 1820s, produced a devastating, utility theory-based, attack on Ricardian value theory.