

Wealth of Nations

Study Questions

Introduction – What is the aim of the book?

BOOK I

Chapters 1 – 3 On the Division of Labor. What is the division of labor? What are its effects? What advantages does it confer? How does it arise? Are there any limits to how far the division of labor can be extended?

Chapter 4 – On Money. Why do we use money? How did it arise? What determines what will be used as money? What is the difference between value in use and value in exchange? What is the diamond-water paradox?

Chapters 5 – 7 Smith’s Value Theory. What is the difference between a measure of value and the determinants of value? The standard interpretation is that Smith held a labor theory of the measure of value, and a cost of production theory of the determinants of value. Can you find evidence for this interpretation in the reading?

Chapters 8 – 11 Smith’s Theory of Distribution. This covers the determination of wages, interest, profits, and rents. He also has a discussion of wage differentials in Chapter 10.

Chapter 8 – Wages. What is the wages fund? He begins with a bargaining theory of wage determination, with workers bargaining with masters. Does Smith sound like what you expected here? The standard interpretation is that Smith holds a short run wages fund theory of wage determination, and a long run subsistence theory? What does this mean?

Chapter 9 – Profits of Stock. What is stock? What effects does an increase in stock have? What is the relationship between profits and interest? Does Smith tell us what determines the interest rate?

Chapter 10 – Wages and Profits in Different Employments. Though both are discussed, our focus will be on wages. What would happen to wages in a system of perfect liberty? The market does not appear to equalize monetary returns. Why not? What does the market equalize? What are the causes of wage differentials that he mentions? For net advantages to be truly equalized, three other conditions must also be met. What are these? What has been the effect of the “Policy of Europe”? Describe some of these.

Chapter 11 – Is rent price-determining or price-determined in this chapter? How does that compare to chapter 7? What does this do to Smith’s value theory?

BOOK II – Contains Smith’s discussion of capital accumulation, which goes together hand in hand with the division of labor to improve the productive power of labor.

Chapter 1 – Of the Division of Stock. What is the difference between fixed and circulating capital?

Chapter 3 – Of Productive and Unproductive Labor. What is the difference here? Do we still make this distinction? How does Smith feel about savings? About parsimony versus prodigality? In the “classical model” in your macro class, $S=I$. Did Smith believe that?

Chapter 4 – Does Smith understand the notion of the velocity of money? How does he feel about usury? Is he totally committed to laissez faire here? What do we make of this?

BOOK III – The Different Progress of Opulence in Different Nations

Chapter 1 – What would be the natural course of development for a country? How has the policy of Europe affected this?

BOOK IV – Of Systems of Political Oeconomy

Chapter 1 – What is the chief principle of the Mercantile System? What policies did this lead the nations of Europe to pursue?

Chapter 2 – Restraints on Imports when the balance of trade is favorable. What is the general effect of this policy? What would happen in the absence of this restraint? (see especially pages 477-48) Are there exceptions to his general rule?

Book V – Of the Revenue of the Sovereign or Commonwealth

Chapter 1 – How does Smith’s analysis of paying for roads, bridges, canals, and harbors compare with the standard economic analysis of today? Does he argue for user fees, and if so, on what grounds – efficiency or equity? How does he feel about regulated companies that are granted the privilege by the crown to trade in certain areas? How about joint stock companies? What is the effect of the division of labor on workers, and how does he propose to remedy it? What does he think about public education?