Lecture 1a: Introduction - Physiocrats

- Economic Theories
  - 3 main bodies of economic theory;
    - Classical economics
      - Begins with French physiocrats
      - Adam Smith
      - David Ricardo
      - Culminates with Karl Marx
    - Neoclassical economics
      - All aspects of economic activity are centred on price determination viewing equilibrium as a theoretical outcome.
      - Distribution is part of price formation.
      - If wages go down, employment should go up.
    - The Economics of Effective Demand (Keynes and Kalecki, the Cambridge School)
      - Micro decisions do not determine aggregate outcomes.
      - Although in equilibrium, an economy may still have plenty of unutilized resources such as unemployment.
      - The overall level of activity and employment is determined by the aggregate level of investment, which is tied to expectations and uncertainty.
      - Distribution is determined by the market power of firms.
- Predictive aspects of each these theories;
  - Classical
    - There are long run forces operating in the economy through competition and growth, which determine prices.. Distribution will determine the final outcome. In Ricardo's view it is a stationary state.
    - Marxist view is similar however with a dynamic cyclical process in it…
  - Neoclassical;
    - If perfect competition is assumed to prevail the outcome is predictable; a general equilibrium will ensue.
    - However neoclassical economics by and large (except for Theory of Rational Expectations 1980) recognizes that markets do not operate on the basis of the perfectly competitive model. This is because there are market imperfections.
  - Economics of Effective Demand of Keynes and Kalecki has no long term predictive outcomes.
    - The economy is always looked at in terms of the short term because the future cannot be known.
    - The present level of demand determines expectations within the reasonable bounds of human knowledge.
- LTV elucidates the fact that the value of a commodity is only relative to the labour needed to produce or obtain that commodity.

Lecture 1b: Adam Smith

- Labour Theory of Value (Smith)
    - Smith accepted the LTV for pre-capitalist societies but saw a flaw in its application to contemporary capitalism.
        - Pre-capitalist society;
            - Exchange value of a good determined by the amount of labour that went into its production (wages), note that exchange value means the amount of labour a good can command.
        - Capitalist society;
            - The market price is no longer proportionate to labour cost since the value of the good now includes compensation for the owner of the means of production (the capitalist).
            - Pointed out that if the 'labour embodied' in a product equalled the 'labour commanded' then profit was impossible.
- Smith defined value as determined by whatever labour a good would command in others (value in trade) and/or whatever labour it would 'save' the self (value in use). However, this is subject to supply & demand at any time.

Lecture 2a: David Ricardo

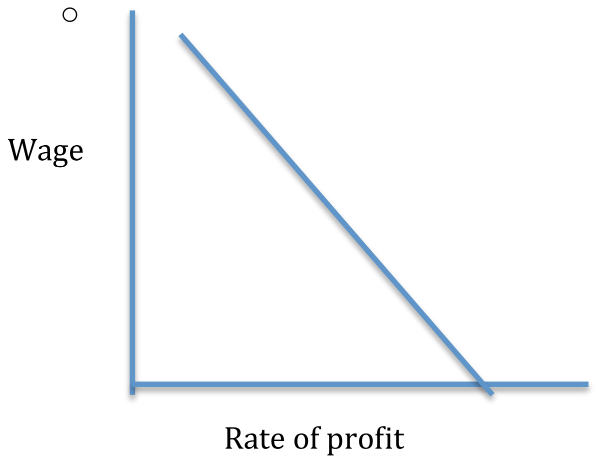
- Labour Theory of Value (Ricardo)
    - Followed Adam Smith in utilising the LTV as a foundation for his reasoning.
        - However, disagreed with Adam Smith, arguing that Smith had confused labour with wages.
            - The value of a good is proportional to how much labour was required to produce it, including labour required to produce raw materials and machinery (indirect) as well as direct labour used in the process.
            - Argued that 'labour commanded' would also be greater than the labour needed to sustain itself (wages).

- Malthus argued that you couldn't separate value from distribution.
    - Ricardo argued the opposite.
- Labour
    - Direct
        - People in factories constructing, people mining etc.
    - Indirect
        - That which has gone into the production of capital, i.e. machines utilised by people in factories etc.
- Ricardo believed the rate of profit would fall by way of rent…
    - Marx believed everything was relative to capital, and declining rate of profit was caused by the…?

Lecture 2b: Marx

- Labour theory of value→ The value of a commodity is only determined by the labour necessary to its production.
  - In Marx, the value or real price of a good was determined by all labour components that went into its production. This includes the labour required to build the commodity, as well as the labour necessary to the development of any real capital employed in the production (indirect + direct labour). Thus he invented 'constant' capital.
    - Conversely, Smith defined value as determined by whatever labour it would command in others (value in trade) and/or whatever labour it would 'save' the self (value in use). However, this value is subject to supply & demand at any point in time.
  - Marx's LTV expanded on previous ideas by arguing that workers work for a part of each day adding the value required to cover their wages, while the remainder of their labour is performed for the enrichment of the capitalist. Thus Marx's LTV was inextricable from the theory of exploitation.
- Declining rate of profit;
  - Technological innovation leads to more efficient means of production and as such, greater physical productivity. However, technological innovations also replace people with machinery, so Constant Capital increases and Variable Capital decreases → increasing the organic composition of capital. Assuming only labour can produce *additional* surplus value from that invested (if a worker works for 10 hours and 5 of them cover his wages, the other 5 produce SURPLUS VALUE for the capitalist, i.e. labour power is the only source of new value in LTV), this greater physical output would embody a smaller value and surplus value. The average rate of profit would therefore tend to decline in the long term.
- Total value (M) of a commodity is made of 3 elements;
  - Constant capital (C)
    - Capital that does not add value, but adds to production. In the past capital has gone into the production of machinery that is utilised in a factory, and thus constant capital transfers its value from what it has been used for in the past to the end product.
  - Value capital (V)
    - The wage expressed in terms of the hours
  - Surplus value (S)
    - The amount of time that workers work that doesn't go back to them in wages.
- Rate of profit in Marxist theory;
  - $C + V + S = M$
  - $r = S/(C + V)$
  - Organic composition of capital = C / V
    - C = Constant Capital
    - V = Variable Capital (Labour)
    - As growth and profits increase, the organic composition of capital also increases without limit and the process of production becomes more and more capital intensive.

.ecture 3a: Marx & Cycles

- Marx's business cycle was derived from the assumption that the labour theory of value works.
  - Marx thought he had solved the problem of Ricardo (The transformation problem, see Lecture 3b).
- The Phillips Curve reproduces the business cycle of Marx
  - Became a major microeconomic policy reference point, highlighting the modernity and relevance of Marx.
- Wages
  - For Marx, wages fluctuate because of the business cycle, however are always at subsistence.
  - Marx argued that wages and prices are not related, however changes in wages affect the distribution of income
  - Wages and rate of profit move inversely.
  - Rate of exploitation = surplus value / wage
  - 

- Profits
  - Smith, Ricardo & Marx all assume that all profits are reinvested, none are wasted.
    - Competition compels the capitalist to constantly expand his business.
    - R=growth=ælpha-wn-1
- Labour force
  - When land was privatised, serfs and lower-class people that were previously living by subsistence suddenly have no land and nothing to sell but their labour power, leading to the generation of a huge labour force. Competition between the labour force leads to decreased wages and subsequently increased profits for the aristocracy.
- Cycle
  - Unemployment is the solution to the crisis of the capitalist system.
    - Unemployment brings wages down, increasing employment
- What is the importance of Marx?
  - An economic theory contingent upon unemployment.
    - Unemployment is not a random mistake in economies, and whilst Keynes argues that unemployment can exist for decades, Marx argues that the 'Reserve army of Labour' ('unemployment' meant nothing at the time) follows a cyclical pattern.
    - When wages are high → low unemployment.