

Adam Smith, *An Inquiry into the Nature And Causes of the Wealth of Nations*, book I, cha. I-III; and book IV, cha. II (only up to the paragraph IV.2.16, inclusive).

Questions for chapter I – ‘Of the Division of Labour’

1. What are the effects of the division of labour in the society according to Smith? (sections I.1.1 and I.1.10)
2. In the example of pin manufacture, what is the increase of productivity of labour (‘productive powers of labour’) resulting from the introduction of the division of labour?
3. What are three (or maybe even four) specific kinds of advantages, which are caused by the division of labour? (sections I.1.5-I.1.10)

Questions for chapter II – ‘Of the Principle which gives Occasion to the Division of Labour’

1. What are the causes of the division of labour according to Smith?
2. What is the motivation behind the propensity to exchange? (I.2.2)
3. Are people rather unequal in natural talents, or not, according to Smith? (I.2.4)

Questions for chapter III – ‘That the Division of Labour is Limited by the Extent of the Market’

1. What is ‘the extent of the market’?

Questions for chapter II (in Book IV) – ‘Of Restraints upon the Importation from Foreign Countries of such Goods as can be Produced at Home’

1. What is the general attitude of Smith toward restrictions in international trade and home-market monopolies in England that result from those restrictions? (IV.2.1-IV.2.2)
2. Describe using modern economic terminology the argument from the section IV.2.3 (let’s call the argument - Smith’s thesis).
3. Smith’s thesis is analyzed in detail in sections IV.2.4-IV.2.10. Find the premises of the argument and the conclusion.
4. What does the invisible hand metaphor mean (used in section IV.2.9)?
5. Identify two supporting arguments for Smith’s thesis, that can be found in section IV.2.10.

A problem for investigation.

Let’s consider the following statement from a leading modern textbook on advanced microeconomic theory: ‘the first fundamental theorem of welfare economics (FFTWE) is, in a sense, the formal expression of Adam Smith’s claim about the ‘invisible hand’ of the market’ in: (Mas-Colell A., Whinston M. D., Green, J. R. (1995), *Microeconomic Theory*, Oxford University Press, Oxford, p. ).

FFTWE states that any equilibrium in perfectly competitive economy is necessarily Pareto-optimal (you can not improve the situation of anybody without worsening the situation of other people).

Similar judgments can be found in the works of such eminent economists like Kenneth Arrow, Paul Samuelson, Robert Solow, Joseph Stiglitz etc.

After reading Smith's text, do you agree with the opinion of Mas-Colell et al. and others? Is FFTWE a formal proof of the intuition contained in Smith's invisible hand metaphor? Are the premises and conclusions of those two arguments identical or similar?