Main epochs of economic thought

• **Pre-classical economics** (8th century BC – 1776)
  - early pre-classical economics (8th c. BC – ca. 1500)
    - Ancient Greeks, Scholasticism
  - late pre-classical economics (ca. 1500 – 1776)
    - Mercantilism (16th – 18th c.)
    - Physiocracy (ca. 1750- ca. 1789)

• **Classical economics** (1776 – ca. 1870)
  - Adam Smith, David Ricardo, John Stuart Mill

• **Neoclassical economics** (ca. 1870 – ca. 1930)
  - Alfred Marshall, Leon Walras

• **Modern economics** (ca. 1930s until today)
Pre-classical economics (Ancient Age, Middle Ages)

- Non-formal analysis of the economy (pre-analytical)
- Non-systematic studies
- No grand analytical economic systems; no big, general theories
- Focus on non-market mechanisms of allocation (force, authority, power, tradition)
- Focus on justice (not on economic efficiency)
- Very slow change in economic conditions of social life
- People are rather self-sufficient, not dependent on markets
- Economic thought not interested in markets
- Economics not separable from other activities (like philosophy)
- Economics dominated by ethical considerations
Economics of Ancient Greeks

• Hesiod, *Works and Days*, c. 800 BC
• Xenophon, 4th century BC
• Plato, *The Republic*, c. 400 BC
• Aristotle, *Politics*, c. 310 BC
Hesiod, ca. VIII century BC

- Interested in efficiency in the household
- Focused on the scarcity of the resources
- Idea that competition can stimulate production
- Poetry, not abstract scientific reasoning
Xenophon, 5th and 4th century BC

- Writing 400 years after Hesiod
- Focused on the efficiency at the level of the household
- ‘Oikonomikos’ = ‘oikos’ (household) + ‘nomos’ (law, science, management) = household management
- Division of labour increases efficiency
Plato, 5th/4th century BC

• *The Republic*, c. 400 BC
• Vision of the ideal state (3 social classes: soldiers, farmers, philosophers-kings)
• No private property in the highest class of the society
• Private property leads to corruption or envy
• First argument against private property in history
Aristotle, 4th century BC

- *Politics*
- Focused on:
  - the status of private property
  - justice,
  - the nature of the household and
- Private property gives incentives to efficient use of resources; common property involves some waste
Aristotle on justice

• Distributive justice – goods supplied to people in proportion to people’s merit
• Rectificatory justice – compensate to those, who had lost something
• Commutative justice – just price is the harmonic mean of the seller’s and buyer’s price

\[
\text{Just price} = \frac{2}{\left(\frac{1}{p_S} + \frac{1}{p_B}\right)}
\]
Aristotle on the household management

• Distinction between economics and chrematistics
• Economics = science of household management
• Chrematistics = science of wealth-getting
• Examples: fishing, hunting, bee-keeping, farming, natural trade (barter exchange), money making, exchange with the use of money, usury etc.
• Natural versus unnatural chrematistics
Aristotle: Natural vs. unnatural chrematistics

• Natural chrematistics = fishing, hunting, bee-keeping, farming etc., and also natural trade (barter exchange). Belongs to economics.

• Unnatural chrematistics = money making, exchange with the use of money and usury. Does not belong to economics.
Aristotle on unnatural chrematistics

- Unnatural chrematistics is morally bad

- Unnatural chrematistics is not constrained by needs, it is a way of satisfying unlimited desires, and hence it is morally bad

- Distinction between needs (basic and non-basic) and desires (preferences)
Scholasticism – the economic thought of the Middle Ages

• Scholastics = educated monks, who tried to provide religious guidelines for secular (e.g. economic) activities
• Scholastics did not try to analyze economic activity, but rather to prescribe rules of economic conduct compatible with religious dogmas.

The economics of scholastics = scholasticism or scholastic economics
Facts about economies during the Middle Ages

• markets still not very important, societies bound by tradition, power, and custom
• economies based on agriculture
• feudal economies
• feudalism – society divided into four groups: serfs, landlords, royalty and the church
• all land owned by the Church or the king
• serfs tied to the land, paid the lords for the use of the land
St. Thomas Aquinas

- Lived in 13th century AD
- *Summa Theologica*, c. 1273
- 3 interesting economic moments:
  - Private property
  - Just price theory
  - Usury
- Almost all of his ideas are Aristotle’s ideas transformed in line with requirements of Christianity
Aquinas on private property

- Early Christian thinkers were suspicious toward private property
- It was assumed to be inconsistent with natural law given by God
- According to Aquinas private property is not natural, but can be treated as an extension of natural law
Aquinas on the just price

• Various meaning of ‘just price’ in Aquinas’ writings
  – 1) just price is equivalent in terms of received utility
  – 2) just price is equivalent to labour cost
  – 3) just price is equivalent to cost of production

• Impossible to say, which interpretation is correct (pre-analytic writings)

• Most interpretations point to the 4th meaning
  – rice is market price
Aquinas on usury

• Taking interest on money loans is morally wrong, unethical and therefore prohibited
• In the Middle Ages all rates of interest were treated as usury (excessive interest)
• Later, Catholic Church slowly started to accept interest rates especially if loans were taken for business (investment) purposes