

# I. INTRODUCTION

## & A BRIEF HISTORY OF ECONOMIC THOUGHTS

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Thanasak Jenmana

Principles of Macroeconomics

Semester 2/2019-2020

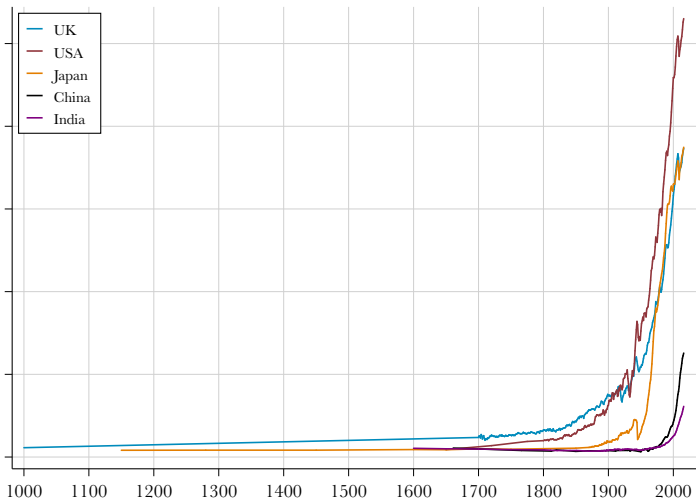
Faculty of Economics, Thammasat University

Version: January 13, 2020

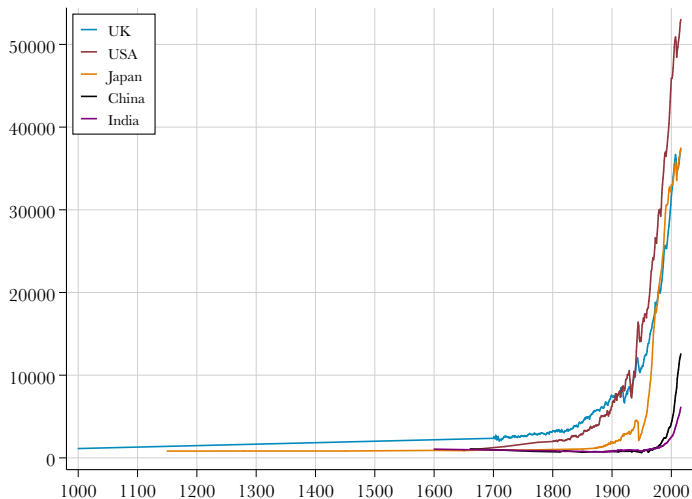
# Introduction

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# What does this graph describe?

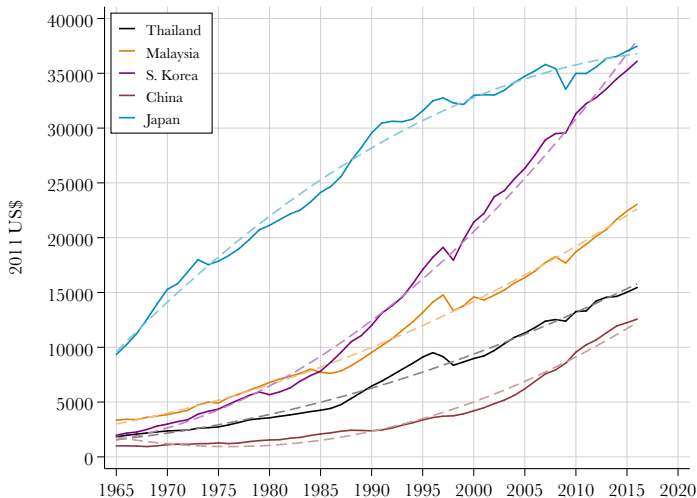


# It's a hockey stick! Long-run GDP per capita, 1000-2016



Source: The Maddison Project. See document: [Bolt et al. \(2018\)](#). Levels are in 2011US\$.

# Asia, 1965-2016. Divergence, convergence?



Source: The Maddison Project. See document: [Bolt et al. \(2018\)](#). Levels are in 2011US\$.

# The Emergence of a New Economic System

It would not matter much as today which part of the world you were born prior to the 16th century. Since 1700, the world's economy can be characterised by rapid improvements in terms of living standards.

- What we call "*the Capitalist Revolution*"
- Different dimensions: access to necessities of life, national income, wealth, along with their distributions.
- Economic well-being has increased rapidly, but inequalities as well.
- Economics as a study of how human beings and their institutions *act* and *interact* amongst themselves and the more natural part of the world.

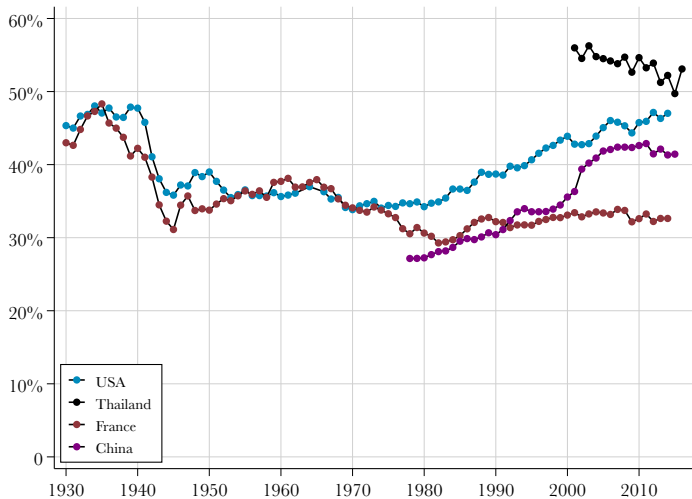
# Is it all about growth?

Year-on-year growth rate is calculated by:

$$g_t = \frac{y_t - y_{t-1}}{y_{t-1}} = \frac{y_t}{y_{t-1}} - 1$$

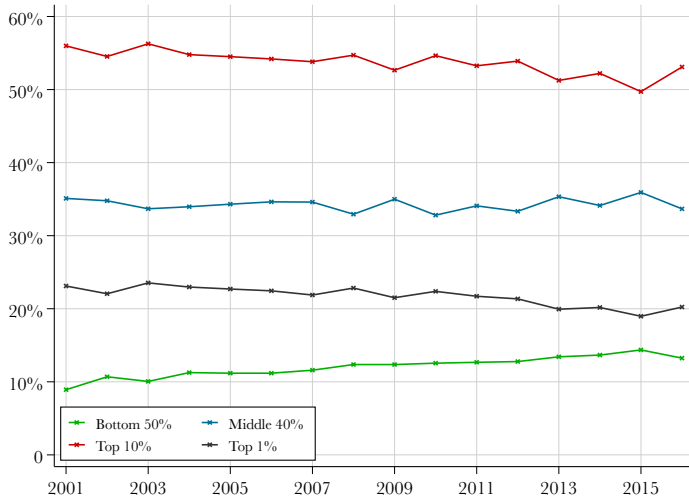
If you are a social scientist, what other concerns might you have?

# What about this one?



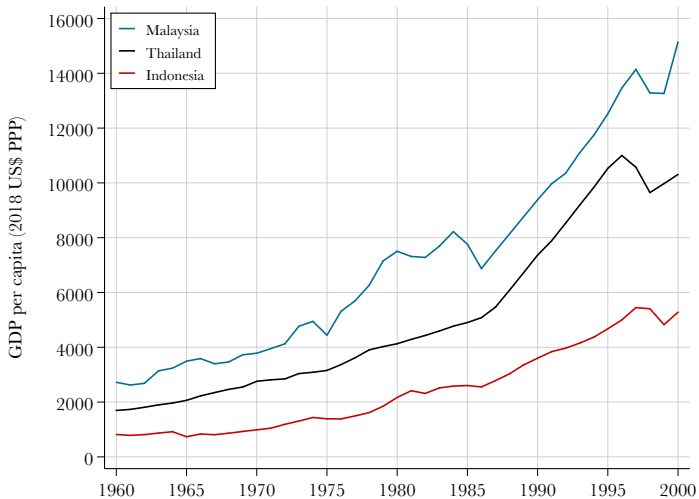
Source: WID.world.

# Distribution of National Income in Thailand, 2001-2016



Source: Jenmana (2018).

# What happened here?



Source: WID.world

# Economics as a social science

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What is *economics* to **you**?

- How we come to acquire the things that we enjoy everyday: food, clothing, shelter, or free time.
- How we interact with each other: employees and employers; buyers and sellers; citizens and public officials.
- How we interact with the natural environment: examples?
- How these have changed over time.

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- How we interact with the natural environment: examples?
- How these have changed over time.

**Economics** is a study of how *people* interact with *each other* and with their natural resources, in order to create their livelihood, and how this has changed over time.

# What this class is about

This course will be a little different from the previous ones offered at BE. The textbooks are not catching up with what we *know today*.

Important points:

- Real world issues are important, and it is crucial that we try to link what we learn here to it.
- *Economists do it with models*, but they are riddled with assumptions – and sometimes they are not realistic or outdated based on what we know from *data*.
- Data-driven course with real-world applications.

# What this class is about

We will introduce the concepts of:

1. Tools in economics: *measurements* and models (incl. their contexts and limitations)
2. "Equilibriums" (as a state of mind) – both short run and long run.
3. Fiscal policies: the role of government
4. The money market and monetary policies
5. International macroeconomics

# Positive & Normative Economics

**Positive economics** ‘describes’, quantifies, and explains economic changes, phenomena, events, or development. This is the ‘objective’ side of economics – our attempt to establish facts or characterise relationships.

**Normative economics** is ideological, and demands value judgements. Discussions about whether to do something about a social issue, and how to do it, demands a judgement whether these issues are important.

Disagreements can come within both type of analysis! Why?

## Are they *positive* or *normative*?

- On average, Americans are working much more than the Europeans;
- We should not care about inequality as a macroeconomic goal;
- As Thailand grew rapidly between 1950-1990, inequality increased as well;
- Minimum wage is undesirable because it causes unemployment;
- Minimum wage affects different type of household differently.
- “Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion, is to focus on questions about distribution”.

▶ Skip to course organisation

# A Quick History of [Macro]economic Thoughts

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# Why should you care about HOET?

J.W. Goethe, 1817, *Principles of Natural Science*.

*Every school of thought is like a man who has talked to himself for a hundred years and is delighted with his own mind, however stupid it may be.*

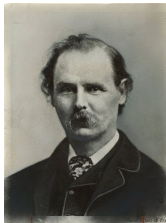
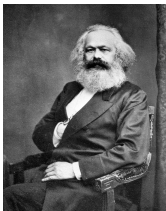
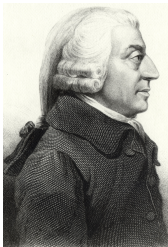
"Economic knowledge is path-dependent."<sup>1</sup> And in order to understand economics *well*, you need to understand the *history of economic thoughts*.

HOET course is offered by Brian Kennedy – I recommend you to take it if you want to take economics seriously.

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<sup>1</sup>See [Blaug \(2001\)](#), a part of mandatory reading list.

# Name these guys



Many considered that it all started from *Adam Smith* (1723-1790). He posed the question: *How can society coordinate the independent activities of large numbers of economic actors often unknown to each other and widely scattered across the world?*

- It can spontaneously arise without any institution attempting to create or maintain it.
- Even when people are pursuing *self-interests*.
- The notion of *division of labour* or *specialisation*.
- But his ideas are more nuanced than that: he published *The Theory of Moral Sentiments* 17 years before *The Wealth of Nations*.

But it would be Ricardo (1772-1823) that formalise *the theory of comparative advantage*.

- The first to raise the concerns of over-production and the *natural environment*.
- Context: growing capitalist society with large agrarian sector.
- Diminishing returns of land  $\Rightarrow$  higher price (and thus wages)  $\Rightarrow$  lower profits  $\Rightarrow$  economic stagnation
- *On the Principles of Political Economy and Taxation*, he introduced the theory of comparative advantage – the best argument in support for international trade (Ricardo, 2015).
- As well as, the labour theory of value.

*Karl Marx* (1818-1883) watched capitalism and its ill effects on industrial towns in England, and became one of its biggest critics.

- *Inequality* is not unique to *Capitalism*
- But the nature of Capitalism means *perpetual societal changes*. Why?
- This leads to conflicts between *workers* and *employers*: free transaction in the labour market as an illusion.
- This inherent power over workers is the main concern of Capitalism — atomised individuals over integrated communities
- Political conflicts arose from the issue of distribution of income, and the political economy that sustains it.

*Alfred Marshall* (1842-1924)

- Introduced the concept of *homo-economicus*, the economic man.  
*Discuss: do they really exist?*
- Yet, he would have been distressed that *homo economicus* have found home in most neo-classical economic theories.
- Formalise the theory of *marginal costs* and *marginal utilities* using calculus (i.e. father of EE211).
- Nonetheless, gave new rise to the emphasis on the 'market' as being efficient and self-regulating.

*“In the long run, we are all dead.”*

## Keynes vs. Hayek: Keynes

John Maynard Keynes (1883-1946)'s full quote from *The Tract on Monetary Reform* includes

*“Economists set themselves too easy, too useless a task if in tempestuous seasons then can only tell us that when the storm is long past the ocean is flat again.” (Keynes, 1978)*

- Major contribution during the Great Depression.
- Quite conservative prior to 1919. Then came the end of WWI, the end of the Gold Standard, and the Great Depression.
- Presented in *General Theory of Employment, Interest and Money*, markets are not close to adequate in dealing with economic fluctuations.
- We will cover many of his contribution: *multiplier*, money market, and role of fiscal policies.

*Friedrich Hayek* (1899-1992), meanwhile, was against big government roles in the economy, and even against the notion of social justice as a whole.

- In *The Road to Serfdom*, he argued that well-intentioned planning will eventually lead to totalitarian outcomes (Hayek & Caldwell, 2007).
- Argues that fluctuations are due to government intervention, especially through excessive credit expansion.
- Less concerned about distribution, and strongly believe in market forces for making decentralised decisions.

# Do not forget History of Economic Thoughts

- For many years to follow, many 'school of thoughts' have began and persisted: *the monetarists, the Chicago school, etc.*
- The rise of post-war *neo-liberalism*
- Question: does positive or *value*-free economics really exist?
- Is *value* judgement escapable?

# Course organisation

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- 45 hours = 1.5 hours per sessions x 2 sessions per week x 15 weeks
- Lecture slides uploaded on Sunday evenings on the moodle.
- Print the slides beforehand. Take notes on them. There will be loads of graphs, figures, and equations.
- **Midterm:** Tuesday 3 March 2020: 9-11 am
- **Final:** Monday 18 May 2020: 9-12 am

**Compulsory readings over the semester** are noted on the course website under each topic. *You need to read them.* Problem sets and home assignments will have questions on them.

**Suggested readings** can also be found under each topic on the website.

- 4 problem sets: 20%
- Midterm: 30%
- Final: 50%

- My office hours: Monday 9-11 am. Must pre-register on the slot ([link](#)). I might be away on research trips.
- Office: TBD
- Email: [jenmana@econ.tu.ac.th](mailto:jenmana@econ.tu.ac.th)

Questions?

# References

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- Blaug, M. (2001). No history of ideas, please, we're economists. *The Journal of Economic Perspectives*, 15(1), 145–164. Retrieved from <http://www.jstor.org/stable/2696545>
- Bolt, J., Inklaar, R., de Jong, H., & van Zanden, J. L. (2018). *Rebasing 'maddison': new income comparisons and the shape of long-run economic development* (Vol. 10).
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