

Lecture 14

Six famous economists

Why study economic history? John Maynard Keynes said it best:

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist.

Sox influential economists:

1. Adam Smith (1723-1790)
 - Best-known founder of modern economics.
 - His book “The Wealth of Nations” was and still is very influential.
 - Key phrase: “Markets are guided as if by an invisible hand to promote the public welfare.”
2. Karl Marx (1818-1883)
 - Defined the words “capitalism” and “capitalist.”
 - Based his exploitation theory on the labor theory of value.
 - Inspired the worldwide communist revolutionary movement.
 - Key phrase: “capitalists exploit the workers.”
3. Ludwig von Mises (1880-1972)
 - The best-known advocate of Austrian economics which emphasizes verbal logic over mathematics.
 - Showed that central planning of economic activities cannot work because there are no market prices for production goods to guide the planners in deciding how to allocate those goods.
 - Key phrase: “socialism cannot work.”
4. Friedrich Hayek (1899-1994)

- A student of Mises. Emphasized the fact that knowledge is dispersed, incomplete, and sometimes tacit. Central planning cannot work because this knowledge cannot be concentrated in a single mind or group of minds. Price signals in free markets act to coordinate dispersed knowledge.
- Key phrase: “Price signals coordinate dispersed knowledge.”

5. John Maynard Keynes (1883-1946)

- An intellectual opponent of Hayek.
- Published a book in 1936 that offered answers to the Great Depression.
- Key phrase: “Free markets are inherently unstable and require government intervention to correct this instability.”

6. Milton Friedman (1912-2006)

- Died last week, age 94.
- Did a great deal to reverse the tide of Keynesian economics after World War II.
- Emphasized the importance of monetary policy in macroeconomics.
- Key phrase: “Inflation is always and everywhere a monetary phenomenon.”