



Magadh Mahila College
Patna University, Patna

M A Economics
Semester II

Paper: Growth and Development (CC 06)

Topic: Adam Smith

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Adam Smith -

Adam Smith is known as Father of Economics. He got his ideas about economic development from his well known book, 'An enquiry into the nature and causes of wealth of Nations' which has tremendously influenced the thinking about economic growth and development.

Physiocracy came into existence because of Mercantilism. They believed in science of natural laws and emphasize the significance of agriculture and contended that it is the only industry that can make country wealthy.

He advocated the policy of laissez-faire, i.e., non-interference of government in economic activities of the individuals. He laid stress on individual freedom in conducting their economic affairs without any restrictions by the government.

$$Y = f(N, L, K)$$

passive element = Land

Active element - Labour

* Production function - Adam Smith

recognise three factors of production,

i.e., land, labour, capital

$$Y = f(L, K, N)$$

N = land

K = Capital stock

L = labour

Among all these factors of production, land is passive element of production. Adam Smith regarded labour as father and land as mother.

Smith also recognises the importance of technology for improvement in productivity.

* Division of labour - The rate of economic

growth is determined by the size of productive labour and productivity of labour. The productivity of labour depends upon technological progress of a country and which in turn depends upon the division of labour.

Adam Smith concentrated upon the social division of labour which emphasize the

Cooperation of all for satisfaction of the desires of each.

* Capital Accumulation - The growth is functionally related to the rate of investment. Any increase in capital stock in a country generally leads to more than proportionate increase in output on account of continuously growing division of labour. Capital stock consists of -

a. goods for the maintenance of productive workers.

b. goods for helping the workers in their productive activities.

"Investments are made because the capitalists want to earn profits on them." When a country develops and its capital stock expands, the rate of profit declines. "The increasing competition among capitalists wages raises wages and tends to lower profits."

* Agents of growth -

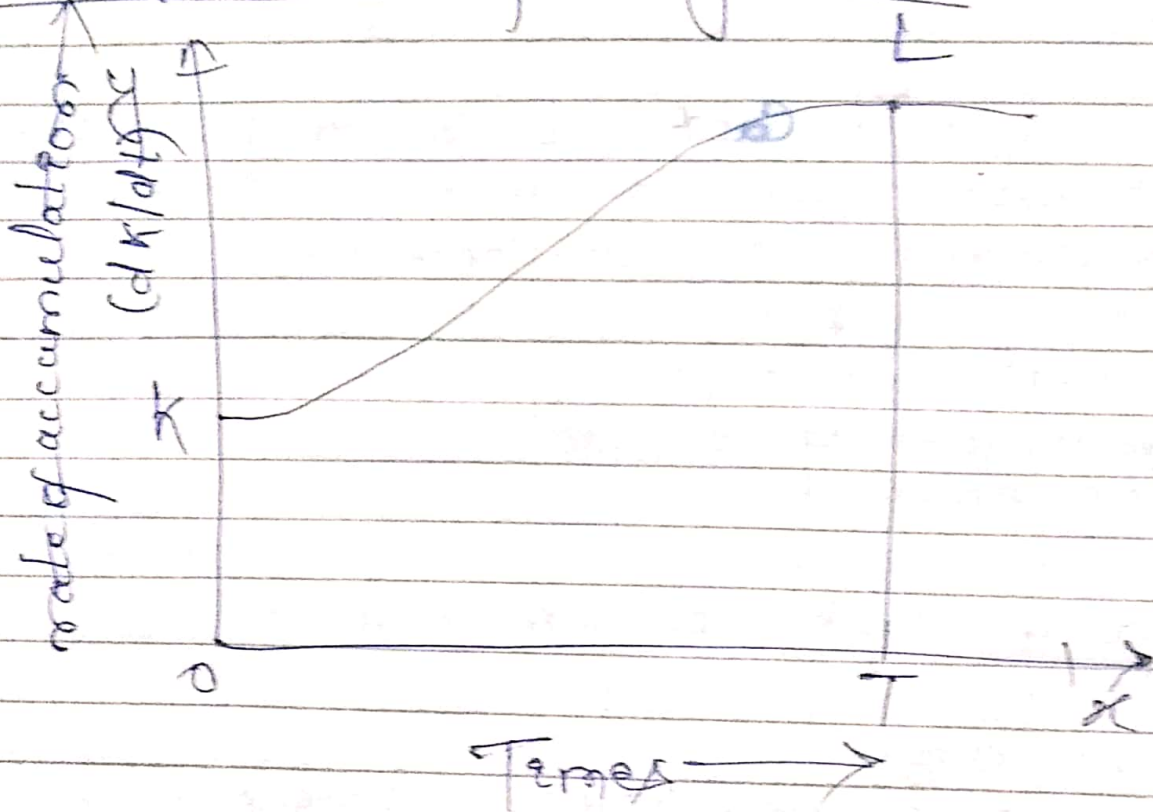
Smith has observed that farmers, producers and business men are the important agents of economic growth. The development of agriculture leads to increase in construction works and commerce. When agricultural surplus arises as a result of economic development, the demand for commercial services and manufactured articles arises.

* Process of growth - The process of growth

is cumulative. Division of labour may possible by accumulation of capital and expansion of market increases by national income and output, which in turn facilitates saving and further investment and in this way economic development rises higher and higher. But this progressive state is not endless.

It is the scarcity of natural resources that stops growth. An economy in stationary state is characterized by unchanged population, constant total income, elimination of profit etc. Once profit falls, it continues to fall, investment also starts declining. As a result, capital accumulation stops, profits are

minimum. There is no change in per capita income and production and the economy reaches the state of stagnation.



* Criticism →

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|--------------------------------------|--|
| 1. Neglectance of entrepreneurs | 8. Unrealistic assumption of perfect competition |
| 2. State Stationary State | |
| 3. Static period | |
| 4. equilibrium | |
| 5. Rigid division of society | |
| 6. One-sided saving base | |
| 7. Ignores the role of State | |