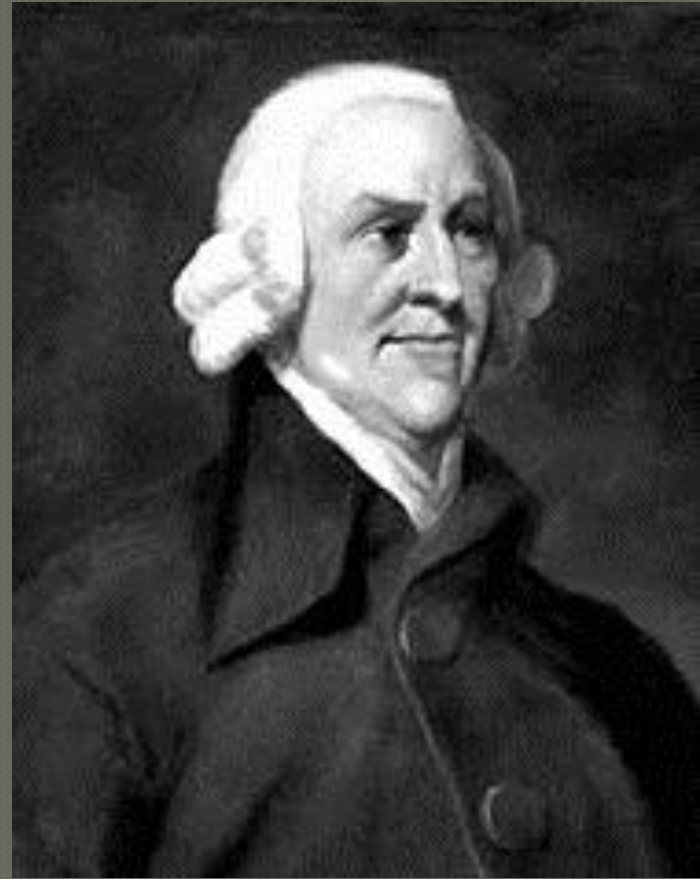


The Foundations of Economics

Where it all began

Adam Smith

- ◉ “Father of Modern Economics”
- ◉ Born in Scotland ca 1723
- ◉ Famous for writing book “The Wealth of Nations”

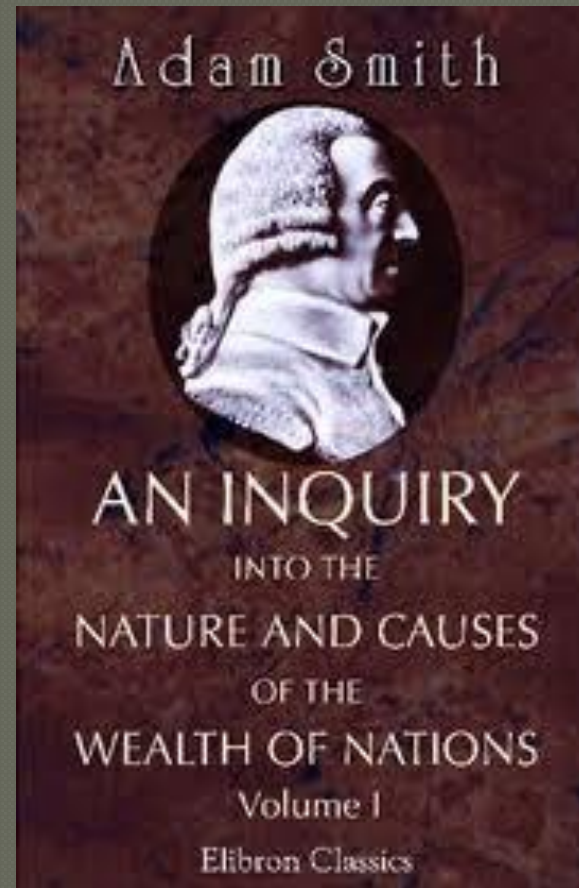


Background

- ◉ Adam Smith lived during the Enlightenment
 - Era of philosophical changes
- ◉ The rule of kings was being replaced with the rule of logic and reason

The Wealth of Nations

- ◉ Published in 1776 in London
- ◉ Laid the foundation for modern economics
 - Established econ as separate subject



Economics Defined

- Economics is the study of the production, distribution, and consumption of goods and services — the economy.

Smith's Observations

- ◉ Recorded observations of Market economy
 - Structure and workings of market economy
- ◉ Came up with idea of *Laissez Faire* Economics
 - Invisible hand of market would control it
 - Supply and Demand

Role of Government

- ◉ Maintain Legal Framework
 - Banking and Business Laws
 - Make it possible for businesses to do business
- ◉ Maintain Competition
 - NO MONOPOLIES!
- ◉ Keep the Peace
 - Maintain Law and Order