Lecture 1: Introduction
Forerunners, Medieval Economics; Accounting

The present overview of the lecture is the first of a series of similar messages, which can be downloaded from the homepage at

`https://web.econ.ku.dk/keiding/underv/HET/HistTheory.html`

where they will appear some days before the lecture.

The outlines give a brief summary of what happens in the lecture, with brief comments on what is important in the textbook and what is not.

Occasionally (actually, quite often) I shall move away from what is written in the textbooks, and references will be given in the outlines. In some cases, the topics discussed will be presented also in a *lecture note,* which will be available at the course homepage. All such material is voluntary (not assumed known at the exam).

All first lectures begin with some general considerations of what it is all about – what are we studying and why? Our textbook (Vaggi and Groenewegen, in the following VG) is agreeably brief on this, going directly into the treatment of mercantilist economic thinking. Nevertheless, we shall make a few comments – and a major digression – before we follow VG in the next lecture.

It might perhaps be appropriate to begin with the problem of defining economic science: The by now classical attempts by Robbins (economics is the science of using scarce resources to satisfy human needs) and Marshall (economics is the study of ordinary business) are not particularly good, and they are becoming outdated with the appearance of many specialized fields of economics (such as health economics, development economics, tourist economics, you name it...). The boundaries to other social sciences, such as Operations Research and Game Theory are not well-defined, and what about Accounting? Is it an economic discipline (we return briefly to Accounting below)? So we leave the question of what constitutes economics unsettled and move on.

According to Sandmo (2010), there are (at least) three possible approaches to the History of Economics,

(i) seeing the development of economic theory in the context of general social and economic development,

(ii) interpreting economic theory against the general background of philosophical development, and

(iii) considering the internal development of economic theory as a consequence of observed shortcomings of previous theories, and Sandmo opts for the third alternative. This sounds reasonable, but what is meant by internal development may need clarification. Following here Negishi (N in the following, remember that N is *not* curriculum, just extra), one way of considering the evolution of science is that of Popper, according to which scientific theories are maintained until falsified by empirical evidence, after which new theories are put forward. This is not exactly how things have evolved, so an alternative is Kuhn's idea of scientific paradigms, whereby one body of ideas is wholly transplanted by another one rather then just adapted to empirical facts. A compromise between the two views has also been proposed (Lakatos).

An example of the evolution over time of the economic science is that of a *just price:* It can be traced back to Aristoteles and considerations of justice, and it is found again in Thomas of Aquinas, the main point is *exchange of equivalents,* so it seems to be a labor theory of value and as such a forerunner of Ricardo and Marx. However, the context is quite different, the medieval theory deals with *imperfect competition* (no markets available) proposing a reasonable price, whereas Marx treats the situation of more or less perfect markets.

The idea that equivalents should be exchanged also lies behind the ban on taking interest for loans: Money is considered as a fungible, disappearing when used, as different from non-fungibles (horses, cattle, buildings). The latter can be leased whereas fungibles cannot. The problem was solved in practice through partnership (as it is today in Islamic banking).

The idea of a just price has kept resurfacing, in recent times for example when considering income policies, where the argumentation uses the equation

$$w = sP\frac{V}{L},$$

with w the money rate of wages, s the share of labour, P the price level, V real GDP and L the labour force. According to this argument, ("just") changes in wages should equal changes in productivity V/L. We shall see repeatedly that the ideas with which economists were concerned in the past almost never are totally abandoned, but show up in new contexts.

Beginning our treatment of the history of economics with the mercantilists, as does VG, is somewhat unfair, so we supplement with a very brief discussion of forerunners. For this (and many other topics), one may with great advantage consult the SBD (see the bibliographic details at the course homepage). My comments will be based on the first two chapters in this book, dealing with (1) ancient and medieval economics and (2) moslim scholars, the latter belonging to a the large body of theorists that have been systematically overlooked in contemporary texts.

We conclude the lecture with a detour dealing with *Accounting,* although it may not be considered as economics. On the other hand, one never knows, and there are many examples where progress in economic thinking was inspired by impulses from elsewhere.

Accounting is an old discipline, having roots in medieval times, where it became essential for keeping track of the business carried out by merchants trading in the orient. This goes also for one of the main tools of accounting, namely *double-entry bookkeeping*.

We read: VG, chapter 1 (supplemented at will by SBD chapters 2 and 3, and Lecture Note 1).

References

Sandmo, A.: Economics Evolving: A History of Economic Thought, Princeton University Press, 2010.