The Gains from the Division of Labor

1. The multiplication of knowledge; the ability to produce products that would otherwise be impossible
2. The benefit from geniuses and other rare talents
3. Concentration on all individual advantages—the Crusoe-Friday example of deer and salmon
4. Economies of learning and motion

   a. ratio of application time to learning time—more learning
   b. subconscious automatizing of motions
   c. elimination of wasted motions in changing positions and operations
   d. specialization in dissemination of knowledge

5. Geographical specialization
6. The gains from machinery attributable to division of labor

   a. sufficient fund of knowledge and materials
   b. science and invention as specializations
   c. simplification of design
   d makes use of machinery pay

   Why the Industrial Revolution began in England

A. Some Implications of the Division of Labor

1. Appropriateness to Man's mind, body, and nature-given environment—accomplish more with the same
2. The individual and society
3. Self-interest and ethics: objective value of other people—their existence and freedom

B. Criticisms of the Division of Labor and Rebuttal

1. The alleged narrowness and one-sidedness of the worker
2. "Alienation" and boredom—rebuttal:

   a. how the division of labor creates the opportunity for everyone to *be* a "Renaissance Man"
   b. how it operates against alienation via providing wealth and leisure and thus education—the means to understand and control one's environment; anti-intellectuality of the alienation charge
   c. anti-boredom: housewives and money motivation; how practically every job could be made challenging (piece-work and team competition), and what prevents it (i.e., unions: anti-piece-work, anti-worker competition, prevent firing bad workers—create split between work and worker's self-interest)

The Dependence of the Division of Labor on the Institutions of Capitalism

A. The Dependence of the Division of Labor on Private Ownership of the Means of Production

1. The direct dependence: separate, independent minds and knowledge; need separate, independent action—separate, independent production—and thus separate, independent wealth holdings—i.e., private property and private ownership of the means of production.

2. The indirect dependence of the division of labor on private ownership of the means of production: the need for a price system as the foundation of economic planning.

a. the unseen economic planning of capitalism: its existence all around us; its basis in prices; the coordinating function of prices: the harmoniously integrated planning of the capitalist system by tens of millions of separate, independent planners.
b. the dependence of the price system on the profit motive and competition; the dependence of these on the institution of private ownership of the means of production

B. The Dependence of the Division of Labor on Exchange and Money

1. The need for exchange in a division-of-labor society.

2. The need for *monetary* exchange.

a. the radical increase in the extent of the division of labor
b. the ability to make economic calculations and thus comparisons—between input and output, different methods of production, and different industries

C. The Dependence of the Division of Labor on Saving and Capital Accumulation

1. The initial rise in the productivity of labor in agriculture.

2. The division of payments.

D. The Dependence of the Division of Labor on Economic Competition and the Freedom of Competition

1. The organization of the division of labor with respect to persons for jobs, products for markets, and technological methods of production.

2. The protection against the exercise of arbitrary power by the companies or workers of any given vital industry.

E. The Dependence of the Division of Labor on the Freedom of Economic Inequality

1. Forced equality and the destruction of causality in production.

2. The destruction of causality in cost—e.g., socialized medicine.

3. Great achievers and great inequality as the means to great achievement.

4. The connection between economic inequality and differences in the degree of saving.

5. Economic inequality and the ability of the less able to compete against the more able.

Demand and Supply

A. Classical Demand and Supply

1. Expenditure and quantity sold; price as the ratio of the demand to the supply.

2. Makes clear the relationship between the direction of price changes and the direction of demand and supply changes. Valuable in "macroeconomics," where competitive factors cancel out.

B. Contemporary Demand and Supply.

1. Schedules or curves: *the set of quantities buyers are prepared to buy or sellers to sell at varying prices, arranged in descending (ascending) order, all other things equal.*

2. A hypothetical demand and supply schedule: See *Capitalism,* Table 5-1, p. 152.

3. Diagram of the first two of the schedules: See *Capitalism,* Figure 5-1, p. 153.

4. The law of demand: *other things equal, the quantity demanded increases as the price decreases, and decreasesas the price increases; to sell a larger quantity requires a lower price, while a smaller quantity for sale will bring a higher price.*

5. Reasons for the law of demand:

a. Marginal utility must be above the price; a drop in price puts the price below the marginal utility of additional units and so makes their purchase advantageous. Marginal utility and price "sandwiching."
b. Substitution effect.
c. Income effect.

6. Change in quantity demanded versus change in demand.

7. Reasons for changes in demand: changes in: quantity of money, money income, prices of substitutes or complements, knowledge, tastes and preferences; development of new substitutes or of substitutes for complements.

C. Elasticity of Demand

1. Meaning: *the percentage change in the quantity demanded divided by the percentage change in price.*.

2. The total revenue test.

3. Examples of elastic, inelastic, and unit elastic demand.

a. Elastic: close substitutes, luxury goods.
b. Inelastic: poor substitutes, necessities.
c. Unit elastic: aggregate spending.

4. Applications of concept of elasticity: employment effects of machinery, the profitability of charging a different price where there is little or no competition.

5. The elasticity of demand for a particular company under freedom of competition almost always much greater than for the industry as a whole.

6. Income and cross elasticity.

7. Elasticity changes even over the length of the same demand curve.

8. No constancy of elasticities.

D. Supply Curves

1. Basic case is vertical supply curve—reflecting a given quantity that sellers are prepared to sell at best price they can obtain.

2. Reasons for supply curves sloping up and to the right.

a. The marginal utility of sellers—actually not a significant reason.
b. Riding up other demand curves (case of broader fixed supply—e.g., wheat, gasoline in different partial markets).

3. Partial equilibrium

Because of influence of this approach, upward sloping supply curve typically thought to reflect law of diminishing returns. Most prominent in agriculture and mining. And here not usually relevant in the short run, in which supplies of agricultural commodities are simply given.

4. The confusion between cost of production and supply and demand as the determinant of price.

a. *Horizontal* supply curve (the most common case, prevailing throughout manufacturing and retailing) actually represents determination of price by sellers, *based on consideration of costs of production.* Equilibrium price only apparently determined by the intersection of the supply and demand curves here.

b. Economies of scale and a downward sloping supply curve—again, price actually based on consideration of cost of production.
c. Ricardo and Böhm-Bawerk on the comparative influence of the buyers and sellers in determining prices—each correct in a different context.

E. Some Errors to Avoid

1. Why it is incorrect to try to derive S and D curves by observing prices and quantities bought and sold over time: all we observe are intersection points of any number of possible S and D curves; with any price change, at least one of them must be different; the curves highly volatile; no reason to assume even one of them the same one over time.

2. The existence of a rising price accompanied by a rising quantity demanded does not invalidate the downward slope of the demand curve: a change in the curve present.