Adam Smith's theory of Growth

Part -A

Introduction

- Adam Smith was an 18th-century Scottish economist, philosopher, and author who is considered the father of modern economics
- He contained all his ideas in his Famous Book, “An Inquiry into the Nature and Causes of Wealth of Nations” (1976)
- The most important aspect of this book was a Theory of Economic Development
- Physiocracy came into existence due to mercantilism

Main Ideas of Adam Smith

Smith's ideas–

- The importance of free markets (Policy of Laissez-Faire)
- Assembly-line production methods, and
- Gross domestic product (GDP)

formed the basis for theories of classical economics

Continued…

- Adam Smith’s ‘Wealth of Nations’ was scientific not because it contained the absolute truth but
- Because it came as a turning point, the beginning of all that came after, as it was the end of all that came before
- Smith argued against mercantilism and was a major proponent of laissez- faire economic policies

Theory of Economic Growth

- The crucial aspects of development theory as propounded by Adam Smith are:

1. Division of Labour
2. Capital Accumulation

Division of Labour

- A very important contribution made by Smith was the concept of 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
- This division of labour becomes the true dynamic force in Adam Smith’s theory of growth

Benefits of Division of Labour

- Adam Smith in his book 'Wealth of Nations' pointed out three benefits of division of labour:

1. Increase of dexterity of workers

2. Saving time required to produce commodity

3. Invention of better machines and equipment

Thank You