

An Inquiry into the Causes of the Wealth of Nations
Adam Smith
Chapters V-VII
Discussion Questions

We next study prices and the rate of interest, concepts that are essential to understanding the development of money and banks. In chapters V-VII, Adam Smith explains the fundamental forces that determine price and the relationship between money and price.

1. What, according to Smith, is the difference between the nominal price of a commodity and the real price of the commodity?

Why is labor the "...real measure of the exchangeable value of all commodities"?

What is the significance of Smith's observation that the "labor content" of some commodities is difficult to measure?

What, according to Smith, determines the real price of gold and silver money?

Is it important for non-economists to understand the difference between nominal and real price? Why?

Why, according to Smith, is corn a better measure of value from century to century while silver is a better measure of value from year to year?

2. What, according to Smith, are the component parts of price?

Why are the "profits of stock" very different from the wages of the entrepreneur?

What accounts for the division of the produce of labor between labor and the entrepreneur?

According to Smith what are the commodities for which price divides only into wages and profits?

3. What, according to Smith, is the difference between the natural and market price of a commodity?

Does it appear to be Smith's view that the natural price (Chapter VII) of a commodity and the real price of a commodity (Chapter V) are the same thing? Why or why not?

What accounts for cases where the market price departs from the natural price?

Why do fluctuations in market price "...fall chiefly upon those parts of its price which resolve themselves into wages and profits."? What forces explain whether wages or profits are more affected by the fluctuations?

Are Smith's distinctions between natural and market prices useful for understanding how prices are set in a modern market economy such as our own?