

The Two Pillars of Classical Economics



Listen to the lecture and do the activities below.

The pictures will help you understand some of the ideas covered in the talk.

Running time: 6'54

Questions 1 – 2

What are the two pillars of classical economics?

Fill in the gaps with a missing word.

1. Say's _____

2. _____ Theory of Money

3. What did Jean Baptiste Say and David Ricardo postulate?

4. What does the following mean in the lay man's English: *there must be enough aggregate demand for the available aggregate supply.*

5. What is the major problem with Say's Law?

6. Why is Thomas Malthus sometimes referred to as the *original Dr Doom*? How does his population theory affect the science of economics?

7. According to Say and Ricardo, what happens with people's savings?

8. What is aggregate supply?

AS =

9. What is aggregate Demand?

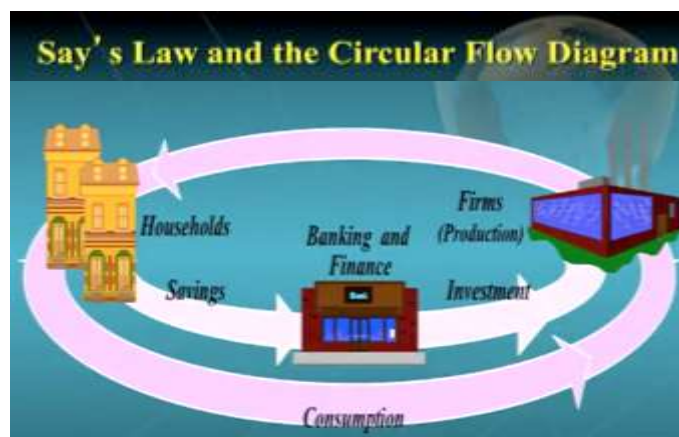
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Malthus' Theory of Population Growth

- In 1798 Thomas Malthus published his views on the effect of population on food supply. His theory has two basic principles:
- Population grows at a **geometric** rate i.e. 1, 2, 4, 16, 32, etc.
- Food production increases at an **arithmetic** rate i.e. 1, 2, 3, 4, etc.



Thomas Malthus



Authentic Listening

10. What is the following equation called?

$M \cdot V = P \cdot Q$: _____

11. In the following equation ***M*** stands for money, or money supply, ***V*** stands for Velocity of money, or amount of income generated each year. What do ***P*** and ***Q*** stand for?

P =

Q =

12. What is another term for ***P \cdot Q***?

13. According to the Quantity Theory of money, what's the relationship between ***P*** and ***M***?

14. According to the Quantity Theory of money, which part of the equation is constant and which is not influenced by money supply?