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Understanding the Economy

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Warming Up



1

Discuss the following questions in groups.

- 1 How would you differentiate “economy” from “economics”? Provide examples to illustrate your understanding of each concept.
- 2 In your own words, define an economy and discuss its key components. How do various sectors interact within an economy?
- 3 Explain the significance of studying economics. Why is it important to understand economic principles and theories today?



2

Watch a video clip entitled “What Is an Economy?” and complete the following paragraph with the expressions you hear.



Resources are things we can use to make what we need and want. They can include land, (1) _____ like wood or iron ore, machinery, and people. Resources are (2) _____. We can't have all of the things we want all of the time. We have to make decisions about how our limited resources are used. So an economy can be thought of as a(n) (3) _____ where a group of people, businesses or governments (4) _____.

What are the parts of our economy?

- The (5) _____ sector is made up of millions of people making choices about what they buy, who they buy from, how much they save, and where they work.
- (6) _____ are another sector of our economy. This sector includes all the companies we work for and whose goods and services we buy. Businesses pay (7) _____ to households so they can buy things from other businesses, helping money flow around the economy.

- Next, we have the (8) _____. When households and businesses earn money, they pay a part of it to the government. This is called (9) _____.
- The trade with other countries is called our (10) _____ sector.
- (11) _____ are a type of business that deals in money. When you save money with a bank, the bank pays you a little bit extra, known as (12) _____. The amount of interest charged or received is given as a percentage of the amount borrowed or saved, called the (13) _____.

When we put all of this together, we get our whole economy.



Watch a video clip entitled “What Is Economics?” and complete the following chart.



Terms	Definitions
economics	
positive economics	
normative economics	
microeconomics	
macroeconomics	
econometrics	



The Evolution of Economics¹



1 How the science of economics itself has **evolved** over time is the result of a singular natural selection. It has produced a beast that seems to have found it very difficult to **navigate** its way out of the native forest where the species first arose. It is this characteristic which makes it very different from the so-called “natural” sciences of physics, chemistry, astronomy, and others.

2 Robert A. Solo, in *The Philosophy of Science and Economics*, wrote: “There is this paradoxical contrast of economics and physics. The nature of the physical world has not changed in all the time and space within the scope of human observation but during the past two centuries, there have been numerous revolutionary transformations in physics. During the past two centuries, there have been revolutionary changes in the character and organizations of society but no transformation of the economics paradigm. In one case, the reference universe remains the same but the word concerning it and our understanding of it through physics has been fundamentally transformed. In the other, there have been fundamental transformations of the reference universe but the word concerning it and our understanding of it through establishment economics has for the past two centuries remained unchanged.” Solo gets it more or less right when he talks about the economics paradigm although, as I hope to demonstrate below, I cannot agree with his characterization of physics.

¹ The text was adapted from Cleaver, T. (2013). *Understanding the World Economy* (4th ed.). New York: Routledge, 2–5.

3 In 1776 Adam Smith wrote what is generally credited as the very first book on economics¹. In this text he set out the first systematic analysis of how a modern market economy operates and, in introducing perhaps the most famous idea in all economics, he explains it thus: “Every individual **endeavors to** employ his capital so that its produce may be of the greatest value. He generally neither intends to promote the public interest nor knows how much he is promoting it. He intends only his own security, only his own gain. And he is in this led by an ‘**invisible** hand’ to promote an end which was no part of his intention. By pursuing his own interest he frequently promotes that of society more effectually than when he really intends to promote it.” The argument that society is best served by allowing individuals to conduct their own business without **interference** from any higher authority, that a market economy **automatically** organizes itself and is self-**equilibrating**, is one that has been extensively developed over the years and is the dominant paradigm that Solo refers to above. The growth of Western industrialized nations and the **eclipse** of the **alternative** of central planning as embodied in the old Soviet Union is **cited** as evidence of the **superiority** of the market model.

4 From the Industrial Revolution; from the Great Depression² to the Great Recession³; and up to modern concerns of environmental **degradation** and climate change; through all that—the dominant view on the best way to organize the world economy has come back time and time again to the view that free trade and **unfettered** markets are best. There are, however, undoubted problems with market systems and some are of immense significance as we shall later consider. As a result of such concerns, critics have periodically driven the free market animal back into the woods from which it wishes to emerge...but the problems of alternative forms of economic organization have proved in the end to be even greater, indeed **terminal**. Thus the paradigm of market economics still **reigns supreme**.

5 Natural sciences, in comparison, appear to have made a steady **progression** from the earliest philosophers through distinguished contributors such as Galileo, Newton, Marie Curie, and Einstein, up to the present day. The current theories of the make-up of the universe, and of the opposite, sub-atomic world, bear little relation to what was earlier held to be true. We no longer believe the world to be flat, or that light travels in straight lines.

1 *An Inquiry into the Nature and Causes of the Wealth of Nations* 《国富论》，全称《国民财富的性质和原因的研究》。

2 Great Depression is a worldwide economic downturn that began in 1929 and lasted until about 1939. It was the longest and most severe depression ever experienced by the industrialized Western world, sparking fundamental changes in economic institutions, macroeconomic policy, and economic theory. 大萧条

3 Great Recession is an economic recession that was precipitated in the United States by the financial crisis of 2007–2008 and quickly spread to other countries. Beginning in late 2007 and lasting until mid-2009, it was the longest and deepest economic downturn in many countries, including the United States, since the Great Depression. 大衰退

Thus modern researchers intent on pushing back the boundaries in physics, medicine, or astronomy do not feel the need to refer back to the founding fathers of their disciplines to add authority to their arguments...which is not the same with modern economists who frequently invoke the names of Smith or Keynes (a towering influence, of which more later) to advance their views: more evidence of the circular evolution of this social science.

6 But a word of warning here: The very fact that all scientific theories have a history should make us aware of their **fallibility**. Philosophers have known for **millennia**, economists have known for the very much shorter period of two centuries, and even physicists (who should have known better) now understand, that none of our beliefs, none of the laws humankind has created, can ever be taken as certain. All knowledge is uncertain.

7 The philosopher and mathematician Bishop Berkeley famously argued that we cannot know anything outside the reach of our senses. All knowledge is based on **perception**. But our perception is necessarily subjective and uncertain. Hence all knowledge is uncertain. The scientist, philosopher, and media presenter Jacob Bronowski characterized knowledge and certainty as opposites—to be knowledgeable is to be uncertain; to be certain is to close your mind to knowledge.

8 The notion that the physical world has not changed throughout all human history is thus false. What is out there is inseparable from us. It changes as we change. The laws that “govern the universe” are in this way like the ones that govern our society. They are invented by us...and we keep changing them! True, the laws of physics are more reliable and have a shelf life longer than those of economics. But that is because atoms, stars, and **galaxies** move in more **predictable** ways (we think) than humans.

9 Western economists, governments, and central bankers thought they had the recipe to ensure sustained economic growth with neoclassical policies derived from Smith’s “invisible hand”...only for such certainty to **collapse** along with that of world trade and incomes in 2008. Ouch! Economic theories, like them or not, have a very real impact on all our **livelihoods**. John Maynard Keynes, the **radical** who challenged classical theory, is responsible for the second most famous quote in economics: “The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite **exempt from** any intellectual influence, are usually the slaves of some **defunct** economist.”

10 Between these two **giants** of economic thinking—Smith and Keynes, and the neoclassical and Keynesian schools of thought that followed them—are **played out** the

contrasting theories of economics that influence all our predictions and policymaking today...and **incidentally** keep turning the subject back to its beginnings as each generation has to decide for itself just precisely how far the market system can be allowed to operate free from any intervention.



Words and Phrases

evolve	<i>v.</i>	When animals or plants evolve, they gradually change and develop into different forms. 进化
navigate	<i>v.</i>	When fish, animals, or insects navigate somewhere, they find the right direction to go and travel there. (鱼、动物或昆虫) 找到正确的行进方向
endeavor to		If you endeavor to do something, you try very hard to do it. 尽力做某事
invisible	<i>adj.</i>	If you describe something as invisible, you mean that it cannot be seen, for example, because it is transparent, hidden, or very small. 看不见的
interference	<i>n.</i>	Interference by a person or group is their unwanted or unnecessary involvement in something. 干涉
automatically	<i>adv.</i>	If a machine or device does something automatically, it does it independently, without human control. 自动地
equilibrate	<i>v.</i>	If something equilibrates, it means it has been brought into a state of balance or equilibrium. 使平衡
eclipse	<i>n.</i>	If someone or something experiences an eclipse, it means they have lost importance, power, or fame, particularly due to being overshadowed by another. (重要性、权势等的) 丧失; 黯然失色
alternative	<i>n.</i>	If one thing is an alternative to another, the first can be found, used, or done instead of the second. 替代品
cite	<i>v.</i>	If you cite something, you quote it or mention it, especially as an example or proof of what you are saying. 引用
superiority	<i>n.</i>	If one side in a war or conflict has superiority, it has an advantage over its enemy, for example, because it has more soldiers or better equipment. 优势
degradation	<i>n.</i>	Degradation is the process of something becoming worse or weaker, or being made worse or weaker. 恶化; 衰退
unfettered	<i>adj.</i>	If you describe something as unfettered, you mean that it is not controlled or limited by anyone or anything. 不受限制的
terminal	<i>adj.</i>	A terminal illness or disease causes death, often slowly, and cannot be cured. (疾病) 晚期的; 致命的
reign	<i>v.</i>	If you say, for example, that silence reigns in a place or confusion reigns in a situation, you mean that the place is silent or the situation is confused. 主宰

supreme	<i>adj.</i> Supreme is used in the title of a person or an official group to indicate that they are at the highest level in a particular organization or system. 最高的
progression	<i>n.</i> A progression is a gradual development from one state to another. (从一状态到另一状态的) 逐步发展
fallibility	<i>n.</i> Fallibility is the possibility that someone will make mistakes or that something will not work as it should. 易错性
millennium	<i>n.</i> (<i>pl.</i> millennia/millenniums) A millennium is a period of one thousand years, especially one that begins and ends with a year ending in "000", for example, the period from the year 1000 to the year 2000. 一千年
perception	<i>n.</i> Perception is the recognition of things using your senses, especially the sense of sight. (尤指通过视觉的) 感知
galaxy	<i>n.</i> A galaxy is an extremely large group of stars and planets that extends over many billions of light years. 星系
predictable	<i>adj.</i> If you say that an event is predictable, you mean that it is obvious in advance that it will happen. 可预见的
collapse	<i>v.</i> If something, for example, a system or institution, collapses, it fails or comes to an end completely and suddenly. (系统或制度等) 崩溃; 瓦解
livelihood	<i>n.</i> Your livelihood is the job or other source of income that gives you the money to buy the things you need. 生计
radical	<i>adj.</i> Radical people believe that there should be great changes in society and try to bring about these changes. 激进的
exempt from	If someone or something is exempt from a particular rule, duty, or obligation, they do not have to follow it or do it. 免除 (规则、职责、义务等) 的
defunct	<i>adj.</i> If something is defunct, it no longer exists or has stopped functioning or operating. 不再存在的; 不再起作用的
giant	<i>n.</i> You can refer to someone such as a famous musician or writer as a giant if they are regarded as one of the most important or successful people in their field. 伟人; 卓越人物
play out	When a situation plays out, it happens and develops. 发生; 出现
incidentally	<i>adv.</i> If something occurs only incidentally, it is less important than another thing or is not a major part of it. 附带地

Business Terms

- economics paradigm** a set of basic principles and beliefs that describe how an economy works or should work. Such paradigms define economic and political objectives; they involve the analytical frameworks that lead to explanations of the practical functioning of economic and social policies. 经济学范式
- central planning** an economy system where decisions on what to produce, how to produce, and for whom are taken by the government in a centrally managed bureaucracy 中央计划
- shelf life** the length of time that a product, especially food, can be kept in a shop or at home before it becomes unsuitable for sale or use 保存期
- school of thought** a set of ideas or opinions that a group of people share about a matter 思想流派



Exploring the Text



1

Read the text and answer the following questions.

- 1 What is the main argument regarding the evolution of economics compared with natural sciences?
- 2 According to the text, why is economics described as having difficulty navigating out of its native forest?
- 3 How does the text characterize the development of economic theories over time?
- 4 What is the significance of the references to Adam Smith and John Maynard Keynes in the text?

**2**

Decide whether the following statements about the text are true (T) or false (F).

- ☐ 1 Bishop Berkeley's argument challenges the idea of an objective reality by emphasizing the role of individual perception in shaping knowledge.
- ☐ 2 The text portrays a clear consensus on the debate between market-driven economics and interventionist policies.
- ☐ 3 The text suggests that each generation must reassess and redefine the boundaries of the market system based on contemporary circumstances and challenges.
- ☐ 4 Policymakers are advised to consider both market freedom and intervention in economic affairs when making policy decisions, according to the text.
- ☐ 5 The text argues that knowledge and certainty are fundamentally linked, with one necessarily leading to the other.

**3**

Fill in the blanks with words or phrases from the text to make a summary of it.

The science of economics has evolved differently from (1) _____ like physics and chemistry, facing challenges in adapting to changing societal dynamics. Adam Smith's concept of the "invisible hand" guiding self-interest in a market economy has been a dominant idea, emphasizing (2) _____ and unfettered markets as the best organizing principle. Despite periodic criticisms and challenges to the free market model, alternative economic systems have not proven to be viable alternatives, reaffirming the dominance of (3) _____. In contrast, natural sciences have progressed steadily, with modern theories diverging significantly from earlier beliefs. Scientists in fields like physics and astronomy do not rely heavily on the works of (4) _____ figures, unlike economists who frequently invoke the names of historical figures like (5) _____ and Keynes. The fallibility of scientific theories is acknowledged, with all knowledge being inherently (6) _____. Bishop Berkeley's argument highlights the subjective and uncertain nature of knowledge, contrasting knowledge with (7) _____. The text emphasizes the dynamic

nature of the physical world and societal laws, which are invented and constantly (8) _____. Economic theories have real impacts on (9) _____, as seen in the collapse of economic certainty in 2008. The contrasting theories of Smith and Keynes, along with neoclassical and Keynesian schools of thought, continue to influence economic predictions and policymaking, prompting each generation to reassess the role of the market system and (10) _____ in economic affairs.



4

Discuss the following questions in groups.

- 1 Research and compare the economic theories of Adam Smith and John Maynard Keynes. How do their ideas differ, and what impact have they had on economic thought?
- 2 Investigate a historical event mentioned in the text, such as the Great Depression or the 2008 financial crisis. Analyze how economic theories influenced the response to these events. How powerful are economists' ideas in influencing real-world outcomes and decision-making?
- 3 How does the text challenge the notion of certainty in knowledge and beliefs? Do you agree with the argument that all knowledge is uncertain?