

## Adam Smith and the Invisible Hand

Use your notes to help you with this assignment

Adam Smith, *The Wealth of Nations*, Book 1 chapter 2 and Book 4 chapter 2

Excerpts from Smith's <i>Wealth of Nations</i>	What is the main idea or point of this passage? re-write in one sentence
<p>But man has almost constant occasion for the help of his brethren (<i>fellow men</i>), and it is in vain (<i>ridiculous</i>) for him to expect it from their benevolence (<i>goodness</i>) only</p>	
<p>He will be more likely to prevail (<i>get what he wants</i>) if he can interest their self-love (<i>self interest</i>) in his favour, and show them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind, proposes to do this. Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices (<i>things, goods</i>) which we stand in need of.</p>	
<p>It is not from the benevolence (<i>goodness</i>) of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love (<i>self interest</i>), and never talk to them of our own necessities but of their advantages.</p>	
<p>As every individual, therefore, endeavours (<i>tries</i>) as much as he can both to employ (<i>use</i>) his capital in the support of domestic industry (<i>things produced in his own country</i>), and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render (<i>works to make</i>) the annual revenue (<i>total money made by a society - GDP</i>) of the society as great as he can.</p>	
<p>He generally, indeed, neither intends to promote the public interest (<i>common good</i>), nor knows how much he is promoting it. By preferring the support of domestic (<i>local</i>) to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.</p>	

By pursuing his own interest he frequently promotes ( <i>the interests of</i> ) of . . . society more effectually than when he really intends to.	
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(Econlib.org. Accessed on 1-1-10 at <http://www.econlib.org/library/classicsauS.html#smith>)

1. What does Smith mean by the invisible hand? Explain.

2. Using the main ideas of each section above, summarize Smith's argument in one paragraph.

3. Think of an example from the modern world (or your experience) that illustrates the point that Smith is making. Describe this example and explain how it demonstrates Smith's point.

4. Can you think of any examples where the legal pursuit of self interest harms and does not benefit society? Explain your example.