AP Euro   Mr. Trombetta   Adam Smith - Wealth of Nations

Book I, Chapter 7. *Of the Natural and Market Price of Commodities*

There is in every society or neighborhood an ordinary or average rate both of wages and profit in every different employment of labor and stock. This rate is naturally regulated, as I shall show hereafter, partly by the general circumstances of the society, their riches or poverty, their advancing, stationary, or declining condition; and partly by the particular nature of each employment.

There is likewise in every society or neighborhood an ordinary or average rate of rent, which is regulated too, as I shall show hereafter, partly by the general circumstances of the society or neighborhood in which the land is situated, and partly by the natural or improved fertility of the land.

These ordinary or average rates may be called the natural rates of wages, profit, and rent, at the time and place in which they commonly prevail.

When the price of any commodity is neither more nor less than what is sufficient to pay the rent of the land, the wages of the labor, and the profits of the stock employed in raising, preparing, and bringing it to market, according to their natural rates, the commodity is then sold for what may be called its natural price. . . .

Though the price, therefore, which leaves him this profit is not always the lowest at which a dealer may sometimes sell his goods, it is the lowest at which he is likely to sell them for any considerable time; at least where there is perfect liberty, or where he may change his trade as often as he pleases.

The actual price at which any commodity is commonly sold is called its market price. It may either be above, or below, or exactly the same with its natural price. . . .

When the quantity of any commodity which is brought to market falls short of the effectual demand, all those who are willing to pay the whole value of the rent, wages, and profit, which must be paid in order to bring it thither, cannot be supplied with the quantity which they want. Rather than want it altogether, some of them will be willing to give more. . . .

When the quantity brought to market exceeds the effectual demand, it cannot be all sold to those who are willing to pay the whole value of the rent, wages, and profit, which must be paid in order to bring it thither. Some part must be sold to those who are willing to pay less, and the low price which they give for it must reduce the price of the whole. . . .

When the quantity brought to market is just sufficient to supply the effectual demand, and no more, the market price naturally comes to be either exactly, or as nearly as can be judged of, the same with the natural price. The whole quantity upon hand can be disposed of for this price, and cannot be disposed of for more. . . .

Such fluctuations affect both the value and the rate either of wages or of profit, according as the market happens to be either overstocked or understocked with commodities or with labor; with work done, or with work to be done. . . .

When by an increase in the effectual demand, the market price of some particular commodity happens to rise a good deal above the natural price, those who employ their stocks in supplying that market are generally careful to conceal this change. If it was commonly known, their great profit would tempt so many new rivals to employ their stocks in the same way that, the effectual demand being fully supplied, the market price would soon be reduced to the natural price, and perhaps for some time even below it. If the market is at a great distance from the residence of those who supply it, they may sometimes be able to keep the secret for several years together, and may so long enjoy their extraordinary profits without any new rivals. Secrets of this kind, however, it must be acknowledged, can seldom be long kept; and the extraordinary profit can last very little longer than they are kept. . . .

A monopoly granted either to an individual or to a trading company has the same effect as a secret in trade or manufactures. The monopolists, by keeping the market constantly understocked, by never fully supplying the effectual demand, sell their commodities much above the natural price, and raise their emoluments, whether they consist in wages or profit, greatly above their natural rate. . . .

The exclusive privileges of corporations, statutes of apprenticeship, and all those laws which restrain in particular employments the competition to a smaller number than might otherwise go into them, have the same tendency, though in a less degree. They are a sort of enlarged monopolies, and may frequently, for ages together, and in whole classes of employments, keep up the market price of particular commodities above the natural price, and maintain both the wages of the labor and the profits of the stock employed about them somewhat above their natural rate.

Such enhancements of the market price may last as long as the regulations of policy which give occasion to them. . . .

- Read carefully.
- Use a dictionary if necessary.
- Answer each question in your notebook.
- "Copy and paste" is not evidence of critical thinking. Write in your own words and use textual evidence for support.

Questions are on the Smartboard.