

Note that these notes are NOT the scope of the examination. We provided this notes in order to highlight the points that most students struggle with.

A: Mercantilism

- Placed emphasis on trade and industry.
- Its doctrines were based on the notion of bullionism, according to which wealth of the nation was equated to the amount of gold and silver that a nation had.
- For the sake of accumulating excess bullion (gold and silver), the mercantilists introduced policies that aimed at encouraging exports and discouraging imports.
- This was because all payments were made using gold and silver; hence an increase in exports implied an inflow of bullion. Conversely, an increase in imports implied an outflow of bullion – something that the mercantilists did not favour!
- Mercantilists introduced different laws that regulated internal trade too, plus a myriad of indirect taxes that were applied in their market economies.
- You have to note the validity of mercantilism in its time, as well as the relevance of the mercantilists' theories. Make note of the weaknesses of mercantilism, as this is important in understanding the "entry point of physiocracy."

B: Physiocracy

- Emerged as a strong opposition to mercantilism.
- The physiocrats differed in their conceptualisation of nature of wealth – according to them, wealth of the nations was not determined by gold and silver as was the case with the mercantilists' belief.
- Instead, the physiocrats argued that wealth of the nation was determined by the produce of the primary sector, with more emphasis on agriculture
- The physiocrats' emphasis on agriculture was driven by their belief that only agriculture was productive in the economy as it produced surplus - other sectors like manufacturing were considered to be sterile as they only reproduced what had already been produced by the primary sector.
- It is important to note the physiocrats' attack on mercantilism for its economic regulations and its heavy emphasis on manufactures and international trade.
- You will see that the physiocrats' emphasis on laissez faire (free trade) was later carried forward in a more profound way by the classical economists, who were strongly against heavy government intervention in the economy.

C: The classical forerunners - Hume

- You must be able to explain why Hume did not regard international trade as a zero-sum game.
- You must also explain why Hume used his price-specie-flow mechanism to explain why the mercantilist idea of bullionism was somehow self-defeating. The study guide explains this argument very well.