**History of Economic Thought**

Economic thought goes back thousands of years. The ancient Greek, Xenophon, used the word *oikonomikos* (from oikos, meaning *family, household, estate,* and nomos, for *usage, law*). He was talking about skilful or clever ways to manage land and households. We could call many of Aristotle’s political writings *economics,* although he did not use the word. The English word *economics* first appeared in the 19th century – two and a half thousand years after Xenophon.

Early economic thought was all about the meaning of wealth or being rich.These early thinkers asked, “what makes a state or a country wealthy?” For nearly 2000 years, the answer was very simple: gold. A country or nation’s wealth depended on its owning precious metals. This simple view of the economy remained until medieval times.

During medieval times – roughly the period between 1100 and 1500 AD, trading between nations grew, and a new social class appeared. These were merchants, people who made their money through the buying and selling of goods, and they began to write their own thoughts on the economy. They saw the economy as a way to make the state strong. For them the nation’s wealth depended on stocks of gold and the size of the population. More people meant bigger armies and a stronger state.

These were still simple ideas. However, daily experience had also taught people many basic economic concepts. For example, they understood the importance of trade with other states. They realized that scarcity makes things more expensive and abundance makes them cheaper.

Modern economics was really born in the 19th century. At this time, thinkers like Adam Smith wrote down ideas that are still important today. Adam Smith is often called *the Father of Modern Economics,* although the science was called *political economy* then. Smith realized that a nation’s wealth depended on its ability to produce goods. The value of these goods depended on the cost of production. The cost of production depended on the cost of workers, raw materials and land. This was really the first example of macroeconomics.

Smith and other classical economists were writing at a time of great change. The industrial revolution had begun. Paper money began to replace precious metals. The middle classes were growing stronger. Economists’ theories echoed these changes. They wrote about the division of labour (each worker taking their part in the production process). They discussed the problems of population growth. They influenced thinking about social classes.

For classical economists, the value of goods depends on the cost of production. However, the price of goods is not always the same as their real cost. Later economists developed new theories to explain this *weakness* in classical economics. These are known as the *neoclassical* economists and they were writing at the end of the 19th and early 20th centuries.

In neoclassical economics, supply and demand make the economy work. In other words, the price of goods depends on how much people want them and how easily they can be found. Consumers want satisfaction from their resources (time and money). Firms want profit. In neoclassical economics this is the basic relationship in the economy. These ideas are still the basis of economic thinking today.