

Jean-Baptiste Say

Say's Law



# Economic environment in Say's lifetime

(early 19<sup>th</sup> century)

- industrial revolution
- strong technological progress
- demand was volatile
- overcapacity: Britain inundating countries with goods at low price

## Say thought :

- some goods can be over-supplied
- but goods in general cannot!

## Say's Law

supply creates its own demand

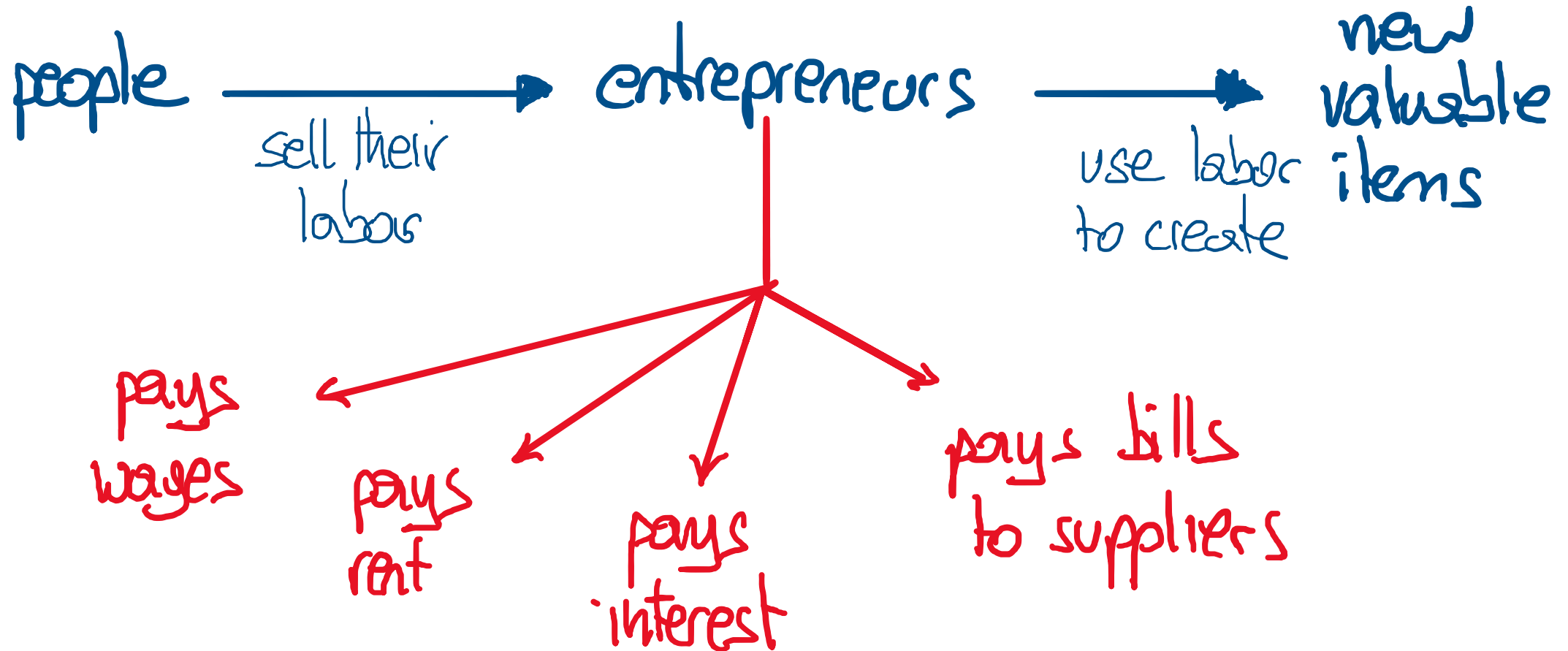
In order to understand Say's view:

- ignore money
- consider macroeconomic perspective

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→ labor, capital, ... devoted to oversupply the one market must have been denied to another more valuable industry, leaving it under-resourced.



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sell \$100 worth of shoes  
to buy equivalent amount  
of hats

Plan 2: produce hats

sell \$80 worth of hats to  
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→ excess demand for hats: cobblers must cut production

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→ prices must be adapted!

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initial GDP :  $\$100 + \$80 = \$180$

because of excess demand :  $\text{GDP} = \$80 + \$80 = \$160$

\$20 below potential

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In a free market: shoe prices would fall and hat  
prices would rise:

$\$90 + \$90 = \$180 \rightarrow$  reach full potential