

Topic 5.7 — Economic Developments and Innovations in the Industrial Age

Standards Alignment

AP Theme	Learning Objective	Key Concept
Economic Systems (ECN) As societies develop, they affect and are affected by the ways that they produce, exchange, and consume goods and services.	Unit 5: Learning Objective H – Explain the development of economic systems, ideologies, and institutions and how they contributed to change in the period from 1750 to 1900.	KC-5.1.III.A Western European countries began abandoning mercantilism and adopting free trade policies, partly in response to the growing acceptance of Adam Smith’s theories of laissez-faire capitalism and free markets.
		KC-5.1.III.B The global nature of trade and production contributed to the proliferation of large-scale transnational businesses that relied on new practices in banking and finance.
		KC-5.1 The development of industrial capitalism led to increased standards of living for some, and to continued improvement in manufacturing methods that increased the availability, affordability, and variety of consumer goods.

Learning Objectives

By the end of this lesson students should be able to:

- Explain how economic ideas such as laissez-faire capitalism influenced government policy.
- Describe the shift from mercantilism to free trade in industrializing economies.
- Identify how global trade networks encouraged the development of large businesses and financial institutions.
- Analyze how industrial capitalism changed economic production and consumption.

Lesson Overview

The Industrial Revolution did not only transform technology and production; it also changed economic systems. New ideas about how economies should function emerged as industrial production expanded.

One of the most influential economic thinkers of the period was **Adam Smith**, whose ideas about **laissez-faire capitalism** argued that markets should operate with minimal government interference. Many European countries gradually abandoned mercantilist policies and adopted freer trade policies that encouraged competition and global commerce.

At the same time, industrialization expanded global trade networks. Large corporations, banks, and financial institutions developed to manage the growing scale of production and trade. These changes helped create modern capitalist economies and increased the availability of consumer goods around the world.

Essential Vocabulary

- **Capitalism**
An economic system where private individuals own businesses and compete for profit.
- **Laissez-Faire**
An economic idea that governments should interfere as little as possible in the economy.
- **Free Trade**
Trade between countries without heavy tariffs or restrictions.
- **Mercantilism**
An earlier economic system where governments controlled trade to increase national wealth.
- **Transnational Corporation**
A large company that operates in multiple countries.

Background Reading

Before the Industrial Revolution, many European governments followed **mercantilist policies**, which emphasized government control over trade and the accumulation of gold and silver. These policies often included tariffs, trade restrictions, and colonial monopolies designed to strengthen the state.

During the late eighteenth and nineteenth centuries, new economic ideas challenged mercantilism. The Scottish economist **Adam Smith** argued that economic growth was best achieved through free markets where individuals could pursue profit. According to Smith, competition and market forces would lead to greater efficiency and prosperity.

Industrialization also expanded the scale of global economic activity. As factories produced larger quantities of goods, businesses began operating across national borders. Banks and financial institutions developed new ways to support international trade and investment. These innovations contributed to the growth of global capitalism.

Primary Sources

Primary Source 1

Adam Smith — *The Wealth of Nations* (1776)

Source: Fordham University Internet History Sourcebook

<https://sourcebooks.fordham.edu/mod/1776smith-wealth.asp>

Every individual necessarily labors to render the annual revenue of society as great as possible. By pursuing his own interest he frequently promotes that of the society more effectively than when he really intends to promote it.

The natural effort of every individual to better his own condition is so powerful that it alone is capable of carrying on the society to wealth and prosperity. When markets are allowed to operate freely, individuals can exchange goods and services efficiently.

Government regulation should therefore be limited, as excessive restrictions on trade often hinder economic growth. A system of natural liberty allows competition and enterprise to encourage productivity and innovation.

Source Analysis Questions

1. Identify ONE economic idea presented in the passage.
2. Explain ONE way Smith believed markets should operate.
3. Explain ONE historical development influenced by these ideas.

Primary Source 2

Karl Marx and Friedrich Engels — *The Communist Manifesto* (1848)

Source: Fordham University Internet History Sourcebook

<https://sourcebooks.fordham.edu/mod/1848communistmanifesto.asp>

The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country. Industry has established connections between distant nations through trade and manufacturing.

Modern industry has created enormous productive capacity, producing goods on a scale never before seen in human history. However, this system has also produced new forms of social inequality between industrial capitalists and the working class.

As industrial capitalism expands across the world, societies experience both economic growth and social tension arising from these new economic relationships.

Source Analysis Questions

1. Identify ONE economic development described in the passage.
2. Explain ONE effect of global industrial capitalism mentioned in the text.
3. Explain ONE reason critics challenged industrial capitalism.

Economic Systems in the Industrial Age

Economic System	Main Features	Historical Impact
Mercantilism	Government control of trade	Dominated early modern economies
Laissez-Faire Capitalism	Free markets with limited government interference	Encouraged industrial growth
Industrial Capitalism	Factory production and private ownership	Expanded global trade and production

Change, Continuity, and Comparison

Change

- Economic systems shifted from mercantilism toward capitalism and free trade.
- Large corporations and financial institutions expanded global trade.
- Industrial production increased the supply of consumer goods.

Continuity

- Economic inequality persisted in many industrial societies.
- Governments continued to influence economic policy in some cases.

Comparison

Mercantilism relied on government control of trade, while laissez-faire capitalism emphasized market competition and private enterprise.

Key Takeaways

- Industrialization contributed to the rise of modern capitalist economic systems.
- Adam Smith's ideas encouraged free trade and market competition.
- Large-scale global businesses expanded during the nineteenth century.
- Banks and financial institutions supported global trade and investment.
- Industrial capitalism increased production and the availability of consumer goods.

Practice Activity

Answer each question in **2–3 sentences**.

- A. Identify ONE difference between mercantilism and laissez-faire capitalism.
- B. Explain ONE way industrial capitalism changed global trade.
- C. Explain ONE criticism of industrial capitalism during the nineteenth century.

Primary Source Citations

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