

# *Tinbergen Institute*



*2010/11 quarter II*

## *Recent History of Economics*

*Prof. dr. J.B. Davis*

Amsterdam School of Economics  
University of Amsterdam  
Roetersstraat 11  
1018 WB Amsterdam  
Room E9.04  
tel: 020-5254187  
[j.b.davis@uva.nl](mailto:j.b.davis@uva.nl)  
<http://www.fee.uva.nl/hme/>

Department of Economics  
Marquette University  
Milwaukee, WI 53217 USA  
[john.davis@mu.edu](mailto:john.davis@mu.edu);  
<http://business.marquette.edu/faculty/directory/john-davis>

Time: Wednesday, 13:30 – 16:00  
Place: [Tinbergen Institute Amsterdam \(TIA\)](#)  
Roetersstraat 31, 1018 WB Amsterdam

### ***Course description***

Most history of economics examines the work of past economists and theories which are no longer the focus of current research. In contrast, this course examines the on-going work of living economists, and employs an historical method of investigation that involves taking the present as history. Thus 'recent history of economics' refers not to a particular historical period but to a historical method involving the examination of on-going economics. There are three important advantages to this historiographic approach:

1. it requires that we see economic research as always being in a state of development, thus as both emerging from problems more or less successfully addressed in the past while yet also tending toward often vaguely grasped broad strategies of solution;
2. it encourages us to understand economics research 'laterally' or in the context of an overall development of the field that includes competition between different research program and also interrelationships between economics and other disciplines;
3. it highlights economic methodology issues in the development of economics, since researchers' attention to past problems and broad strategies of solution generally takes them beyond particular theories, and leads them to frame their research in terms of general methodological goals and scientific rationales.

A further premise of this course is that there has been a broad and deep transformation of economics since the 1980s when the neoclassical research program began to cease to dominate the mainstream economics research frontier. The new competing research programs in economics include game theory, the 'new' behavioral economics, experimental economics, evolutionary economics, complex adaptive systems theory, neuroeconomics, market design theory, the subjective well-being approach, and the capability approach. All are being investigated by mainstream economists disenchanted in various ways with neoclassical economics. Economics since the 1980s has consequently become relatively more pluralistic in the sense of including a considerable number of competing research programs. An interesting question, then, is whether the current period is a transitional one between periods when different dominant approaches prevail – with neoclassicism as the postwar dominant approach until the 1980s and a future dominant mainstream approach yet to emerge, or whether the current disciplinary pluralism will be sustained. This course examines this question as well as others specific to how economics should be understood in a period of pluralism.

### ***Course organization***

This course is not organized on a lecture/survey basis but in seminar style with a discussion format. I will introduce the readings, provide background, raise issues, and pose questions for discussion. The goals of the course are for students to discuss the material generally, and investigate issues specific to their own interests. The Background readings are for student papers and further research, and will not be

discussed unless students draw special attention to them. Students need only prepare the main readings scheduled by date.

Approach to the readings: (1) focus on their main arguments to the exclusion of technical issues; (2) ask yourself what their authors seek to accomplish with the approaches which they employ, and whether they are successful; and (3) think about how the strategies they adopt relate to the nature of economics as a discipline. Remember that this course aims at producing an historical and methodological understanding of recent developments in economics, so that many specific research results and technical issues are beyond the scope of the course. The goals of the course are rather to clarify what the new research programs involve, how they may evolve, and what the controversies and debates between them tell us about the changing nature of economics.

Readings not on the internet will be emailed in advance.

### ***Assessment***

The final grade for the course is a weighted average of the course final paper (75%) and the course homework assignments (25%). The homework assignments part of the grade is to write *brief* notes on the week's scheduled readings to be turned in at each meeting. The notes should be organized according to the approach to the readings set out above – (1), (2), and (3). The notes can be in the form of several sentences on each point for each reading. Their purpose is to provide a basis for discussion in the course meeting, and help you organize your reading of the articles.

The final paper is due at the end of the term, the time to be determined. It should be a short paper of 6000-7000 words related to either the student's intended area of research or a topic that is otherwise of interest. Please provide paper topic proposals by December 1. Discuss your proposals with me in advance if you wish. The format of the papers is open. As one model, see former student Nick Vikander's paper at the end of the reading schedule.

## ***Course schedule and readings***

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### ***The turn in economics***

***November 3***

David Colander, Richard Holt, and J. Barkley Rosser, "Introduction," in Colander, Holt, and Rosser, eds., *The Changing Face of Economics*, Ann Arbor: University of Michigan, 2004: 1-25. Blackboard

John Davis, "The turn in recent economics and return of orthodoxy," *Cambridge Journal of Economics*, 32 (May), 2008: 349-366. Blackboard

Uskali Mäki, "Economics Imperialism," *Philosophy of the Social Sciences* 39 (September 2009): 351-380.

John Davis, "Mäki on economics imperialism," Marquette University working paper, 2010-04 (September 2010).

#### *Background readings:*

S. A. T. Rizvi, "Postwar Neoclassical Microeconomics," in W. Samuels, J. Biddle, and J. Davis, eds., *A Companion to the History of Economic Thought*, Oxford: Blackwell, 2003: 377-394. Blackboard

Mark Blaug, "The Formalist Revolution of the 1950s," in W. Samuels, J. Biddle, and J. Davis, eds., *A Companion to the History of Economic Thought*, Oxford: Blackwell, 2003: 395-410. Blackboard

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### ***Behavioral economics and neuroeconomics***

***November 10***

Angner, Erik and George Loewenstein, "Behavioral Economics," in U. Mäki, eds., *Philosophy of Economics*, vol. 13, Dov Gabbay, Paul Thagard, and John Woods, eds., *Handbook of the Philosophy of Science*, Amsterdam: Elsevier, forthcoming.

Colin Camerer, "Neuroeconomics: Using neuroscience to make economic predictions," *Economic Journal* 117 (519), 2007: C26-C42.

Nathan Berg and Gerd Gigerenzer, "As-if Behavioral Economics: Neoclassical Economics in Disguise?" *History of Economic Ideas*, 18 (1), 2010: 133-165.

Don Ross, "Two Styles of Neuroeconomics," *Economics and Philosophy*, 24 (3), 2008: 473-483.

*Background readings:*

Daniel Kahneman, "Maps of Bounded Rationality: Psychology for Behavioral Economics," *American Economic Review*, 93 (5), 2003: 1449-1475.

Daniel Kahneman, Jack L. Knetsch, and Richard Thaler, "Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias," *Journal of Economic Perspectives*, 5 (1), 1991: 193-206.

Colin Camerer, George Loewenstein, and Drazen Prelec, "Neuroeconomics: How neuroscience can inform economics," *Journal of Economic Literature*, 43 (1), 2005: 9-64.

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***Experimental economics***

***November 17***

Vernon Smith, "Constructivist and Ecological Rationality in Economics," Prize Lecture, December 8, 2002.

Vernon Smith, "Theory and Experiment: What are the questions?" *Journal of Economic Behavior and Organization*, 73, 2010: 3-15. Blackboard

Herbert Gintis, "Towards a renaissance of economic theory," *Journal of Economic Behavior and Organization*, 73, 2010: 34-40. Blackboard

Werner Güth and Hartmut Kliemt, "Comments on Vernon Smith's 'Theory and Experiment: What are the questions?'" *Journal of Economic Behavior and Organization*, 73, 2010: 44-48. Blackboard

Elinor Ostrom, "Revising theory in the light of experimental findings," *Journal of Economic Behavior and Organization*, 73, 2010: 68-72. Blackboard

*Background readings:*

Vernon L. Smith, "Theory, Experiment and Economics," *Journal of Economic Perspectives*, 3 (1), 1989: 151-169.

Charles R. Plott, "Will Economics Become an Experimental Science?" *Southern Economics Journal* 57, 1991: 901-919.

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## ***Games and Evolution***

***November 24*** Herbert Gintis, "A Framework for the Unification of the Behavioral Sciences," *Behavioral and Brain Sciences*, 30, 2007: 1-61.

*Background readings:*

Robert Axelrod and William Hamilton, "The Evolution of Cooperation," *Science* 211, 1981: 1390-1396.

Colin F. Camerer and Ernst Fehr, "When Does 'Economic Man' Dominate Social Behavior?" *Science* 311, 2006: 47-52.

Ernst Fehr and Simon Gächter, "Fairness and Retaliation: The Economics of Reciprocity," *Journal of Economic Perspectives*, 14, 2000: 159-181.

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## ***Complexity in economics and the economy***

***December 1*** W. Brian Arthur, Steven N. Durlauf, and David Lane, "Introduction," in Arthur, Durlauf, and Lane, eds., *The Economy as an Evolving Complex System II*, Reading: Addison-Wesley, 1997: 1-14. Blackboard

W. Brian Arthur, "Complexity and the Economy," *Science*, April 1999: 107-9.

Leigh Tesfatsion, "Agent-Based Computational Economics: A Constructive Approach to Economic Theory, in Leigh Tesfatsion and Kenneth L. Judd, eds., *Handbook of Computational Economics Vol. 2: Agent-Based Computational Economics*, Amsterdam: Elsevier, 2006.

*Background readings:*

Herbert Simon, "The Architecture of Complexity," *Proceedings of the American Philosophical Society*, 106 (6), 1962: 467-482.

Thomas Schelling, "Sorting and Mixing: Race and Sex," *Micromotives and Macrobehavior*, New York: Norton, 1978: 135-166. Blackboard

W. Brian Arthur, "Complexity in economic and financial markets, *Complexity*, 1, 1994: 20-25 [preprint 1-16].

Paul Krugman, "Complex Landscapes in Economic Geography," *American Economic Review*, 84, 1994: 412-416.

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***Macro after the crisis***

***December 8***

Alan Kirman, "The Economic Crisis is a Crisis for Economic Theory," CESinfo Economic Studies Conference, 6-7 November 2009.

Paul De Grauwe, "Top-Down versus Bottom-Up Macroeconomics," CESinfo Economic Studies Conference, 6-7 November 2009.

Stan du Plessis, "Implications of the financial crisis for models in monetary policy," Stellenbosch Economic Working Papers, October 2010.

Ricardo Caballero, "Macroeconomics after the Crisis," National Bureau of Economic Research Working Paper 16429, October 2010.

*Background readings:*

David Colander *et al.*, "The Financial Crisis and the Systematic Failure of Academic Economics," Working Paper no. 1489, Kiel Institute for the World Economy, 2009: February.  
Blackboard

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***Well-being: capabilities and happiness***

***December 15***

Amartya Sen, "Goals, Commitment, and Identity," *Journal of Law, Economics and Organization* 1, 1985: 341-355.  
Blackboard

Amartya Sen, "Capability and Well-Being," in M. Nussbaum and A. Sen, eds., *The Quality of Life*, Oxford: Clarendon Press, 1993: 30-53. Blackboard

Richard Easterlin, "Income and Happiness: Towards a Unified Theory," *Economic Journal* 111 (July), 2001: 465-484.

Daniel Kahneman and Alan B. Krueger, "Developments in the Measurement of Subjective Well-Being," *Journal of Economic Perspectives* 20 (1), 2006: 3-24.

*Background readings:*

Ingrid Robeyns, "The capability approach: a theoretical survey," *Journal of Human Development*, 2005, 6(1), pp. 93-117.

Anna Alexandrova and Daniel Haybron, "High Fidelity Economics," in J. Davis and W. Hands, eds., *Elgar Companion to Recent Economic Methodology*, forthcoming.

Nick Vikander, "Kahneman's Objective Happiness and Sen's Capabilities: A Critical Comparison," TI paper.

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