

Econ 821
Fall 2015
Tuesday 4:30-7:00

History of Economic Thought II
Professor Peter Boettke

This class has been designed as a history of price theory throughout the 20th century and into the 21st century. The core of economic as a scientific discipline is to be found, I contend, in the development of price theory and its components – the theory of choice, the theory of the competitive market economy, and the role of the price system in coordinating the plans of various actors throughout the system so that the production plans of some mesh with the consumption demands of others, and mesh is such a way that individuals can realize the gains from productive specialization and mutually beneficial trade, as well as experience the vibrancy associated with innovation and technological improvements.

The discipline of economics, or political economy, may have been born with the systemic treatment of the subject matter in the 18th century Scottish Enlightenment – namely, David Hume and Adam Smith – but it evolved over the next century with contributions by Italian, French, Germany as well as English authors. By the late 19th century, there was an international scientific community of scholars committed to the advancement of economic science. This development intensified throughout the 20th century even as the intellectual center of gravity in economic science relocated from Europe to the United States after WWII. Intellectual and financial resources were devoted to the discipline, and instruction of the discipline at the college and university level became wide-spread. Moreover, various international policy agencies devoted to economics were constituted, along with various domestic agencies tasked with regulating, managing, and fine-tuning the economic system. Economics was everywhere. But ironically, the spread of economics in the modern era over coincided with the denial of the core teachings of economics. Since 1950, as we will see there has been an explosion of creativity associated with refocusing professional attention on price theory, and the operating principles of a competitive market economy.

My goal in this course is to expose you to the core arguments in price theory – its evolution, the points of contestation, the subtle distinctions, and its potential for rending human action and interaction intelligible and for assessing alternative institutional arrangements for the consequences on human well-being. To learn price theory is to learn what it means to “think like an economist”.

Required Texts

I have chosen for your required reading classic texts and also texts that were at one time or another part of the common-knowledge of the curriculum of the trained economic thinker, but which have too often faded from memory with the passage of time. An interesting project could be to study the history of economics as a history of textbooks at the Principles of Economics level, and at the Graduate Price Theory level. We are focusing on Graduate Price Theory level, but not exactly. Still, that each of these works are still available either in print form or electronically should signal something to you about the staying power of the works.

Alfred Marshall, *Principles of Economics* (1891)

Phillip Wicksteed, *The Common-Sense of Political Economy*, 2 volumes (1910)

Frank Knight, *Risk, Uncertainty and Profit* (1921)

Frank Knight, *The Economic Organization* (1933)

George Stigler, *The Theory of Price* (1946)

Ludwig von Mises, *Human Action* (1949)

F. A. Hayek, *Individualism and Economic Order* (1948)

T. Koopmans, *Three Essays on the State of Economic Science* (1957)

Armen Alchian, *Collected Works*, 2 volumes

James Buchanan, Vol. 1 of *Collected Works*

Ronald Coase, *The Firm, The Market and the Law*

Israel Kirzner, *Market Theory and the Price System* (1963)

Paul Milgrom and John Roberts, *Economics, Organization and Management* (1992)

James Buchanan, Vol. 6 of *Collected Works*.

GLS Shackle, *Epistemics and Economics* (1973)

Vernon Smith, *Rationality in Economics* (2009)

Other readings will include my *Living Economics* (2012) and selected journal articles that are directly relevant to the discussion that week. The main reading is marked on this syllabus in **bold** are should be the primary reading for that week, other readings not marked in bold are

secondary. It is my hope, however, that you will look at both in your preparation for the class discussion.

Semester Schedule

DATE	TOPIC	READING
1-Sep	Neoclassical Economics Historically Contemplated	<p>Marshall, Book I and Book V</p> <p>William Baumol, "What Marshall Didn't Know: On the Twentieth Century's Contributions to Economics," <i>The Quarterly Journal of Economics</i> Vol. 115, No. 1 (Feb., 2000) 1-44</p> <p>Blaug, Mark. (2001). "No History of Ideas, Please, We're Economists." <i>The Journal of Economic Perspectives</i> (15) 1: 145-164</p> <p>Boettke, <i>Living Economics</i>, chapters 1, 4</p>
8-Sep	We are all doing it, though none of us know we are doing it	<p>Wicksteed, Vol. 1, with emphasis on chapters 3 & 5</p> <p>Lionel Robbins, Introduction to Wicksteed, <i>The Common Sense of Political Economy</i> (1932)</p> <p>Frank Knight, "The Common Sense of Political Economy (Wicksteed Reprinted)," <i>Journal of Political Economy</i> 42, no. 5 (1934)</p> <p>Boettke, <i>Living Economics</i>, chapters 2</p>
15-Sep	The Chicago School: Version 1	<p>Knight 1921, chapter 1, 3, 5-6, 7-9 Knight 1933, "The Price System"</p> <p>Melvin W. Reder, "Chicago Economics: Permanence and Change," <i>Journal of Economic Literature</i>, Vol. 20, No. 1 (Mar., 1982), 1-38</p> <p>George Stigler, "Perfect Competition, Historically Contemplated," <i>Journal of Political Economy</i>, Vol. 65, No. 1 (Feb., 1957), 1-17</p> <p>Boettke, <i>Living Economics</i>, chapter 7</p>
22-Sep	No Class	Essay 1 Due September 29th
29-Sep	The Competitive Market Process	<p>Mises, chapters 1-2; 6-8, 11-16; 23-26 Hayek, chapters 2, 4, 5, 7-9</p> <p>Caldwell, Bruce. (1997). "Hayek and Socialism." <i>Journal of Economic Literature</i> (35) 4: 1856-1890</p> <p>Kirzner, Israel. (1997). "Entrepreneurial Discovery and the Competitive Market Process." <i>Journal of Economic Literature</i> (35) 1: 60-85</p>

		Boettke, <i>Living Economics</i> , chapters 14-16
6-Oct	No Class	Essay 2 due October 20
13-Oct	The Chicago School: Version 2	<p>Stigler, Part 1 and Part II</p> <p>Paul McNulty, "Economic Theory and the Meaning of Competition," <i>The Quarterly Journal of Economics</i> Vol. 82, No. 4 (Nov., 1968), 639-656</p> <p>Ross Emmett, "De gustibus est disputandum: Frank H. Knight's reply to George Stigler and Gary Becker's 'De gustibus non est disputandum' with an introductory essay," <i>Journal of Economic Methodology</i>, 13 (1) 2006: 97-111.</p> <p>Boettke, <i>Living Economics</i>, chapter 18</p>
20-Oct	Economic Science	<p>Koopmans</p> <p>Backhouse, Roger E. 2015. "Revisiting Samuelson's <i>Foundations of Economic Analysis</i>." <i>Journal of Economic Literature</i>, 53(2): 326-50.</p> <p>Roger Myerson, "Perspectives on Mechanism Design in Economic Theory," <i>The American Economic Review</i> Vol. 98, No. 3 (Jun., 2008), 586-603</p> <p>Samuelson, Larry. (2004). "Modeling Knowledge in Economic Analysis." <i>Journal of Economic Literature</i> (42) 2: 367-403</p> <p>Boettke, <i>Living Economics</i>, chapters 19, 20-21</p>
27-Oct	The Chicago School: Version 1a	<p>Alchian, Vol. 1, 3-17; 53-77; 161-179; Vol. 2, 52-68; 151-178</p> <p>Buchanan, Vol. 1, 28-42; 45-59; 191-209</p> <p>Coase, 1-2, 4-5; Coase 1959</p> <p>Furubotn and Pejovich. (1972). "Property Rights and Economic Theory: A Survey of the Recent Literature." <i>Journal of Economic Literature</i> (10) 4: 1137-1162</p> <p>Mueller, Dennis. (1976). "Public Choice: A Survey." <i>Journal of Economic Literature</i> (14) 2: 395-433</p> <p>Boettke and Candela, "Alchian, Buchanan and Coase: A Neglected Branch of Chicago Price Theory," <i>Man & Economy</i>, 1 (2) 2014</p> <p>Boettke, <i>Living Economics</i>, chapters 9, 10, 17</p>
3-Nov	Neoclassical Austrianism	<p>Kirzner, chapters 1, 3, 7, 10, 11, 13</p> <p>Gary Becker (1962) "Irrational Behavior and Economic Theory," <i>Journal of Political Economy</i>, 70 (1): 1-13</p> <p>Israel Kirzner. (1962) "Rational Action and Economic Theory," <i>Journal of Political Economy</i>, 70 (4) 380-385</p>

		<p>Gary Becker (1963) "Rational Action and Economic Theory: A Reply," <i>Journal of Political Economy</i>, 71 (1) 82-83</p> <p>Israel Kirzner (1963) "Rational Action and Economic Theory: Rejoinder," <i>Journal of Political Economy</i>, 71 (1) 84-85</p> <p>Makowski, Louis, and Joseph M. Ostroy. 2001. "Perfect Competition and the Creativity of the Market." <i>Journal of Economic Literature</i>, 39(2): 479-535.</p> <p>Boettke, <i>Living Economics</i>, chapter 15</p>
10-Nov	Austrian Neoclassicism	<p>Buchanan, <i>Cost and Choice</i></p> <p>Gary Becker, "The Economic Way of Looking at Behavior," <i>Journal of Political Economy</i> Vol. 101, No. 3 (Jun., 1993), pp. 385-409</p> <p>Karen Vaughn, "Does It Matter That Costs Are Subjective?" <i>Southern Economic Journal</i> Vol. 46, No. 3 (Jan., 1980), 702-715</p> <p>Boettke, <i>Living Economics</i>, chapters 3, 17</p>
17-Nov	Subjectivism of Value, Expectations and the Process of Exchange and Production	<p>Shackle, chapters 1-16; 21-22; 23-26; 33-38</p> <p>Buchanan, Vol. 1, 246-259</p> <p>Alan Coddington, "Creaking semaphore and beyond: A consideration of Shackle's 'epistemics and economics'," <i>British Journal for the Philosophy of Science</i> 26 (2):151-163 (1975)</p> <p>Ludwig M. Lachmann, "From Mises to Shackle: An Essay on Austrian Economics and the Kaleidic Society", <i>Journal of Economic Literature</i> Vol. 14, No. 1 (Mar., 1976), 54-62</p> <p>Boettke, <i>Living Economics</i>, chapter 7</p>
24-Nov	NO CLASS	<p>SEA and Thanksgiving Essay 3 due 1 December</p>
1-Dec	Institutional Neoclassical Economics	<p>Milgrom and Roberts, chapters 2-9, emphasis on 3, 5, 9</p> <p>Rutherford, Malcolm. (2001). "Institutional Economics: Then and Now." <i>The Journal of Economic Perspectives</i> (15) 3: 173-194</p> <p>Williamson, Oliver E. (2000). "The New Institutional Economics: Taking Stock, Looking Ahead." <i>Journal of Economic Literature</i> (38) 3: 595-613</p> <p>Boettke, <i>Living Economics</i>, chapters 6, 8</p>
8-Dec	Rationality of the Individual and Rationality of the System	<p>Smith, chapters 1-2, 4-5, 8-9, 10</p> <p>Lester, R. A. (1946) "Shortcomings of Marginal Analysis for Wage-Unemployment Problems", <i>American Economic Review</i>, 36, 63-82.</p>

		<p>Machlup, F. (1946), "Marginal Analysis and Empirical Research", <i>American Economic Review</i>, 36, 519-554</p> <p>Della Vigna, S. (2009) "Psychology and Economics," <i>Journal of Economic Literature</i>, 47 (2): 315-372</p> <p>Shleifer, Andrei. (2015). "Matthew Gentzkow, Winner of the 2014 Clark Medal." <i>The Journal of Economic Perspectives</i> 29 (1): 181-192</p> <p>Boettke, <i>Living Economics</i>, chapter 22</p>
15-Dec	FINAL EXAM	Turn In Essay 4 and Research Paper at 4:30pm

Grading

This is an advanced elective course in your PhD studies. That "fact" has influenced the way that I will grade in this class. And I am teaching this class differently than I have in the past, which will also be reflected in the method of grading. So the first point of emphasis will be that you will be expected to do all the reading and to be an active participant in the discussions on the material. I will hand out 4 essay assignments throughout the semester --- these will be 4 to 6 double spaced type pages. You will also be responsible for a turning in a research paper in the history of modern economic thought.