

**Economics AP/ECON 4059 History of Economic Thought I**

**TAKE-HOME FINAL EXAMINATION**

**Due: 20 December 2013**

**QUESTIONS**

There are two essay questions. Question 1 is worth 25% of your final course grade. Question 2 is worth 10%. You must answer both.

1. The classical economists we have studied – Steuart, the Physiocrats, Smith, Ricardo, Marx – shared, to a large extent, a vision of the emerging capitalist economic system.

Thomas Kuhn defines normal science as a period of steady refinement within an accepted theoretical framework or paradigm. Problems or contrary evidence do not lead to the rejection of the basic theory, but instead serve an impetus for modifying and improving the theory through the development of additional, secondary hypotheses.

If we call the combined works of Steuart, the Physiocrats, Smith, Ricardo and Marx the classical political economy “school,” **discuss the development of classical political economy as normal science. Focus on A) the shared elements of the vision or accepted theoretical framework, and B) the refinement or extension of the theory over time, sometimes through the overcoming of earlier problems.**

This question is related to the Learning Objective:

- By engaging with primary texts, learn the main ideas of each author, and the shared characteristics of the “school” in which the author is situated.

2. In their *New York Times* (6 November 2011) article, “Wanted: Worldly Philosophers,” Backhouse and Bateman describe modern economics as focused on detailed, technical problems and “hardly ever discuss[ing] its fundamental subject, ‘capitalism.’” They argue that the global financial crisis has undermined 20<sup>th</sup> century visions of capitalism, and what is needed are more worldly philosophers like Smith, Marx and other thinkers who include normative, ethical issues in their visions – “what the economic system is for and in whose interests it is working.”

Heilbroner makes a similar argument in chapter 11 of his *The Worldly Philosophers*. He calls the modern vision of economics, *economics as science* and the disappearing classical vision, *economics as the study of the capitalist economic system*. Heilbroner offers two criticisms of the *economics as science* vision – concerning the ethical and political aspects of any economic system.

In conjunction with the previously assigned chapters (1-4) in Heilbroner’s *The Worldly Philosophers*, read his brief concluding chapter 11.

Based on Heilbroner and any other course readings, **describe what you found to be different about the classical political economy vision of economics (as the study of capitalism) compared to the vision of modern economics (as a science) that you have learned in other courses. Have those differences changed your perspective about modern economics, its strength and weaknesses, inclusions and exclusions? If so, how? If not, why not? Your answer must include a reaction to Heilbroner's position about the role of ethical and political issues in both visions.**

In answering this question, you can refer to your answer to Question 1, without having to repeat what you wrote there.

This question is related to the Learning Objectives:

- Understand the diversity of economic thinking and how ideas that emerged at any point in the past were a product of a swirling array of forces including: the actual economy, social interests at work in the economy, prevailing views on what constitutes science, prevailing views on justice and fairness, dominant ideas in the natural and other social sciences, available tools/techniques and individual personality.
- .... use differences across schools to think critically about the underlying assumptions and focus of economics learned in other courses.

## **INSTRUCTIONS**

Answers must be typed in 12 point font with 1 inch margins all around. Include a cover page with your student number on it. Your name should not appear anywhere. Use page numbers.

Wisdom and practicality dictate succinct and concise answers. As a guide, 2,000 words is the maximum for Question 1. Fewer words are required for Question 2.

The quality of the thinking and writing of your answers is most important. Within your answers, well-chosen quotations from course readings are evidence that you have actually done the readings. Include a bibliography at the end of your exam that covers sources cited in both questions. See the attached "Instructions for Contributors" for Cambridge University Press. Following a quotation, put in round parentheses the author's last name, year of publication and page numbers – (Blaug 1990, p. 29). If you use an internet source – such as for Adam Smith – include the URL in the bibliography. If there are no clear page numbers, reference instead by Book and Chapter. For example: As Adam Smith says, "As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market" (Smith 1776, Book 1, Ch. 3). This is history. You must provide the reader – that's me – with a map to your sources. Do not use footnotes or endnotes.

## **AUDIENCE**

For a change, I am the audience for your exam. You are demonstrating to me what you have read and learned in this course, and how it has affected (if at all) your thinking about economics.

## **GRADING**

For each day your exam is late, there is a 3% penalty.



November 5, 2011

# Wanted: Worldly Philosophers

By ROGER E. BACKHOUSE and BRADLEY W. BATEMAN

IT'S become commonplace to criticize the "Occupy" movement for failing to offer an alternative vision. But the thousands of activists in the streets of New York and London aren't the only ones lacking perspective: economists, to whom we might expect to turn for such vision, have long since given up thinking in terms of economic systems — and we are all the worse for it.

This wasn't always the case. Course lists from economics departments used to be filled with offerings in "comparative economic systems," contrasting capitalism and socialism or comparing the French, Scandinavian and Anglo-Saxon models of capitalism.

Such courses arose in the context of the cold war, when the battle with the Soviet Union was about showing that our system was better than theirs. But with the demise of the Soviet Union, that motivation disappeared. Globalization, so it is claimed, has created a single system of capitalism driven by international competition (ignoring the very real differences between, say, China and the United States). We now have an economics profession that hardly ever discusses its fundamental subject, "capitalism."

Many economists say that what matters are questions like whether markets are competitive or monopolistic, or how monetary policy works. Using broad, ill-defined notions like capitalism invites ideological grandstanding and distracts from the hard technical problems.

There is a lot in that argument. Economists do much better when they tackle small, well-defined problems. As John Maynard Keynes put it, economists should become more like dentists: modest people who look at a small part of the body but remove a lot of pain.

However, there are also downsides to approaching economics as a dentist would: above all, the loss of any vision about what the economic system should look like. Even Keynes himself was driven by a powerful vision of capitalism. He believed it was the only system that could create prosperity, but it was also inherently unstable and so in need of constant reform. This vision caught the imagination of a generation that had experienced the Great Depression and World War II and helped drive policy for nearly half a century. He was, as the economist Robert Heilbroner claimed, a "worldly philosopher," alongside such economic visionaries as Adam Smith, John Stuart Mill and

Karl Marx.

In the 20th century, the main challenge to Keynes's vision came from economists like Friedrich Hayek and Milton Friedman, who envisioned an ideal economy involving isolated individuals bargaining with one another in free markets. Government, they contended, usually messes things up. Overtaking a Keynesianism that many found inadequate to the task of tackling the stagflation of the 1970s, this vision fueled neoliberal and free-market conservative agendas of governments around the world.

THAT vision has in turn been undermined by the current crisis. It took extensive government action to prevent another Great Depression, while the enormous rewards received by bankers at the heart of the meltdown have led many to ask whether unfettered capitalism produced an equitable distribution of wealth. We clearly need a new, alternative vision of capitalism. But thanks to decades of academic training in the “dentistry” approach to economics, today's Keynes or Friedman is nowhere to be found.

Another downside to the “dentistry” approach to economics is that important pieces of human experience can easily fall from sight. The government does not cut an abstract entity called “government spending” but numerous spending programs, from veterans' benefits and homeland security to Medicare and Medicaid. To refuse to discuss ideas such as types of capitalism deprives us of language with which to think about these problems. It makes it easier to stop thinking about what the economic system is for and in whose interests it is working.

Perhaps the protesters occupying Wall Street are not so misguided after all. The questions they raise — how do we deal with the local costs of global downturns? Is it fair that those who suffer the most from such downturns have their safety net cut, while those who generate the volatility are bailed out by the government? — are the same ones that a big-picture economic vision should address. If economists want to help create a better world, they first have to ask, and try to answer, the hard questions that can shape a new vision of capitalism's potential.

*Roger E. Backhouse, a professor of economic history at the University of Birmingham, and Bradley W. Bateman, a professor of economics at Denison University, are the authors of “Capitalist Revolutionary: John Maynard Keynes.”*



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