

K.D. Hoover
ECN 201B
Fall 2002

History of Economic Thought

Seminar: Thursdays 6:10-8:40 PM 90 SS&H.
Office Hours: 10:00-11:30 AM, Wednesday, Thursday
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Course Requirements: The course is text based. The class will be divided into four groups (even A, even B, odd A, odd B). In alternate weeks, each student in either the even or odd group will be required to write a short essay (4 to 10 pages (maximum)) on set topics. While these may involve reading in secondary literature, they are not meant to be fully documented, polished research papers; rather they should be efforts to master the reading and should provide a basis for class discussion. In the off week, each student will be required to do a set of gobbets. (Gobbets are short passages of text for which one has to identify the context and briefly explain the meaning (one paragraph maximum). Each student will also write a research paper on a topic chosen in consultation with me. Papers may be related to reading from class, but I prefer that be either on aspects of the authors studied that are neglected in the syllabus or on different authors (from roughly the same period) altogether. . Please choose a topic early and get to work on it. There will also be a final examination. It will have one section of gobbets as well as essay questions.

Grading: Grading will be according to the Economics Department's Preliminary Examination grading scale with the following conversions to letter grades:

A+ = 4.0,	A = 3.0,	A- = 2.7
B+ = 2.4,	B = 2.0,	B- = 1.5
C = 1.0,	D = 0.5,	F = 0.0

Essays, gobbets and class discussion will count for 40% of the final grade; the research paper for 30%; and the final examination for 30%.

Required Texts:

Jevons, *The Theory of Political Economy*, chs. 1-8.
Walras, *Lectures in Pure Economics*, Parts I-III (Lessons 1-28) + Lessons 38, 39.
Marshall: *Principles of Economics*, Books I-III, Book IV, chs. I-III, VII-IX and XIII, Book V, chs. I-V and XV, Book VI, chs. I, II and XI.
Keynes, *The General Theory of Employment, Interest and Money*, Preface, Chapters 1-15, 18, 19, 21, 24.

Additional Background Reading:

Roger Backhouse *History of Modern Economic Analysis*

Roger Backhouse *The Ordinary Business of Life*

Mark Blaug *Economic Theory in Retrospect*

Phyllis Deane *The Development of Economic Ideas*

Ekelund and Hebert *History of Economic Theory and Method*

Robert Heilbroner *The Worldly Philosophers*

Landreth and Colander *History of Economic Theory*

Joseph Schumpeter *A History of Economic Analysis*

Schumpeter *Ten Great Economists from Marx to Keynes*

The principal journals dedicated to the history of economic thought are *History of Political Economy*, *Journal of the History of Economic Thought* (formerly *Bulletin of the History of Economics Society*), *History of Economic Thought Newsletter* (UK). These are well worth consulting for ideas for research papers. (Student subscriptions are available to *HOPE* (see me); membership in the History of Economics Society is cheap and comes with a subscription to *JHET*. There is also a new *European Journal of the History of Economic Thought* - it is so new that I really don't have an assessment of its quality.

Weekly Assignments:

Essay Questions for Jevons

Week 2

- A. What is the role of Bentham's utilitarianism in the foundation of Jevons's theory of political economy? For Jevons what is "value"? Why, in his view, had earlier political economists been confused over its meaning?
- B. What is the role of "final utility" in the process of exchange? Does Jevons have a coherent theory of the formation of market prices?

Week 3

- A. What is Jevons's theory of labor? To what extent is it integrated into his general theory of exchange?
- B. Explicate and criticize Jevons's theories of rent and capital.

Additional Readings for Jevons

Useful background reading, especially for week 3, would be chapters on Ricardo's labor theory of value and the classical theory of rent in one of the standard textbooks on the general reading list. Also see the following:

Schabas *A World Ruled by Number*, ch. 3.

Blaug *Economic Theory in Retrospect*, chapter on the "marginal revolution" (ch. 8 in the 2nd edition; but may vary in other editions.)

Stigler *Production and Distribution Theories*, ch. 2.

Keynes *Essays in Biography*, essay on Jevons.

Gobbets for Jevons

Week 2

1. "To me it seems that *our science must be mathematical, simply because it deals with quantities.*"
2. "Practically, however, it is quite impossible to detect the operation of general laws of this kind in the actions of one or a few individuals."
3. "We live in time, and think and act in time; we are in fact altogether creatures of time."
4. "By far the greater part of what we hold might be allowed to perish at any moment, without harm, if we could have it re-created with equal ease at a future moment, when need of it arises."
5. "A student of Economics has no hope of ever being clear and correct in his ideas of the science if he thinks of value as at all a *thing* or an *object*, or even as anything which lies in a thing or object."
6. "Speculation complicates the action of the laws of supply and demand in a high degree, but does not in the least degree arrest their action or alter their nature."

Week 3

1. "That same water, then, which in moderate quantity would have been of the greatest possible benefit, has only to be supplied in greater and greater quantities to become injurious, until it ends with occasioning the ruin, and even the death, of the individual."
2. "The subject is too complex to allow of our expecting any simple precise law like that of gravity."
3. "A great undertaking like the Great Western Railway, or the Thames Tunnel, may embody a vast amount of labour, but its value depends entirely upon the number of persons who find it useful."

4. "A few hours' work per day may be considered agreeable rather than otherwise; but so soon as the overflowing energy of the body is drained off, it becomes irksome to remain at work."

5. "In America it is not uncommon for people to live all their lives in hotels or boarding houses; and we might readily conceive the system to advance until no one would undertake housekeeping except as a profession."

6. "In matters of philosophy and science authority as ever been the great opponent of truth. A despotic calm is usually the triumph of error."

Essay Questions for Walras

Week 4

A. What is Walras' vision of the economy? For Walras, what is the place of economics among the sciences? What is the role of mathematics in economics (compare to Jevons)?

B. Explain the key elements of Walras' theory of price formation, paying special attention to the role of *rareté* and *tâtonnement* ("groping"). What convinces Walras that market clearing prices exist in his system? To what extent does he mean his model to be taken as an accurate description of the actual economy?

Week 5

A. Explain the importance of the distinction between income and capital in Walras' theory. Does Walras' theory of production explain production or merely describe it?

B. Compare and contrast Jevons and Walras as critics of the theories of rent, wages and interest passed down from the classical English political economists (especially Smith and Ricardo)?

Gobbets for Walras

Week 4

1. "The superiority of the later forms of organization over the earlier forms [the wage system as opposed to slavery, serfdom or guilds] lies not in their greater naturalness (both old and new are artificial, the newer forms more so than the old); rather in their closer conformity with material well-being and justice. The proof of such conformity is the only justification for adhering to a policy of *laissez-faire*, *laissez-passer*. Moreover, socialistic forms of organization should be rejected if it can indeed be shown that they are inconsistent with material well-being and justice."

2. "Everyone who has studied any geometry at all knows perfectly well that only in an abstract, ideal circumference are radii all equal to each other and that only in an abstract, ideal triangle is the sum of the angles equal to the sum of two right angles. Reality confirms these definitions and demonstrations only approximately, and yet reality admits of a very wide and fruitful application of these propositions."
3. "Economists, generally speaking, have fallen all too frequently into the error of studying value in exchange under unusual circumstances. They are always talking about diamonds, Raphael's paintings, and concert recitals given by famous singers."
4. "Anyone who has the slightest acquaintance with economics will agree that there is an essential difference between a *metre* and a *franc*."
5. "[Say] tells us that air, sunlight and the waters of streams and rivers are useful and therefore have value. They are, indeed, so useful, so necessary and so indispensable that their value is immense - in fact infinite. And that is exactly why we get them for nothing. We do not pay for them, because we could never pay the price."

Week 5

1. "Trees, for example, are capital when they bear fruit, but are income when they are cut down for fuel or lumber. Animals, too, are capital when they work or give milk or eggs, but are income when they are slaughtered for food."
2. "Of course, economists have been saying all along that they advocate *laissez-faire, laissez-passer*. Unfortunately, it must be said that up to the present economists have been less concerned with establishing proofs for their arguments in favour of *laissez-faire, laissez-passer* than they have been with using them as weapons against the socialists, new and old, who for their part are equally negligent in establishing proofs for their arguments in favour of State intervention."
3. "Personal faculties are also natural capital goods."
4. "Now Mill admits that land exists in limited quantities only. If that is also true of human faculties, how can products be multiplied without limit?"
5. "The theory of interest, especially that of the English School, starts out with an error that beclouds the whole issue. It fails to distinguish between the role of the capitalist and the role of the entrepreneur."
6. "Very few of us are capable of reading Newton's *Philosophiæ Naturalis Principia Mathematica* or Laplace's *Mechanique celeste*; and yet, on the word of competent scientists, we all accept the current description of the universe of astronomical phenomena based on the principle of universal gravitation."

Essay Questions for Marshall

Week 6

A How does Marshall conceive of utility? What is its personal and social significance? To what extent does he regard individual tastes and desires as malleable and therefore subject to economic analysis? What is the connection between utility and demand?

B Explain Marshall's taxonomy of industry into firms with increasing and decreasing returns. What is the role of the "representative firm." To what extent does Marshall's understanding of industrial structure justify his preference for (dynamic) biological analogies over (static) physical analogies? Compare Marshall's conception of economics as a science to that of Jevons's and Walras.

Week 7

A Describe Marshall's analysis of production (supply) and consumption (demand). Why does he reject Jevons's idea of the primacy of demand? What is the significance of alternative time horizons in Marshall's analysis of markets? Contrast Marshall's understanding of the market mechanism with that of Walras.

B Explicate Marshall's theory of distribution. How does Marshall analyze the problem of poverty. Why is Marshall not a socialist?

Gobbets for Marshall

Week 6

"If we know, for instance, that a bank failure has taken £200,000 from the people of Leeds and £100,000 from those of Sheffield, we may fairly assume that the suffering caused in Leeds has been about twice as great as in Sheffield. . . ."

"The fact is that nearly all the founders of modern economics were men of gentle and sympathetic temper, touched with the enthusiasm of humanity. They cared little for wealth for themselves; they cared much for its wide diffusion among the masses of the people."

"In addition, perhaps, some consumption of alcohol and tobacco, and some indulgence in fashionable dress are in many places so habitual that they may be said to be *conventionally necessary*, since in order to obtain them the average man and woman will sacrifice some things which are necessary for efficiency."

"A person of high musical sensibility in a large town will avoid bad concerts: though he might go to them gladly if he lived in a small town, where no good concerts are to be

heard, because there are not enough persons willing to pay the high price required to cover their expenses.”

“This tendency to a diminishing return was the cause of Abraham’s parting from Lot, and of most of the migrations of which history tells.”

Week 7

“The whole Western World may, in a sense, be regarded as one market for many kinds of stock exchange securities, for the more valuable metals, and to a less extent for wool and cotton and even wheat. . .”

“So again it may be pardonable, but it is not strictly accurate to say that the varying prices which the same rare book fetches, when sold and resold at Christie’s auction room, are governed exclusively by demand.”

“In thus deciding what is the best distribution of his resources between various commodities, he is dealing with substantially the same problem as the primitive housewife, who has to consider the most economic distribution of her yarn between the various needs of her household.”

“The persistency with which many writers continue to attribute to him a belief in the ‘iron law’ can be accounted for only by his delight ‘in imagining strong cases,’ and his habit of not repeating a hint, which he had once given, that he was omitting for the sake of simplicity the conditions and limitations that were needed to make his results applicable to real life.”

“It may be admitted that the industrial development of Japan is tending to show that some of the more expensive conventional necessities might conceivably be given up without a corresponding diminution of efficiency: but, though this experience may be fruitful of far-reaching results in the future, yet it has little bearing on the past and the present.”

“The plot of one settler turns out better and that of another worse than was expected; the good find of one dive of the pearl-fisher compensates for many others that are fruitless: and the high income one barrister, or engineer, or trader earns by his natural genius has to be counted with the comparative failures of many others; who perhaps appeared of no less promise when young and received as costly an education and start in life, but whose services to production were less than his in proportion to their cost.”

Essay Questions for Keynes

Week 8

A Are Keynes’s two definitions of involuntary unemployment mutually consistent? What is the significance of Keynes’s emphasis on the monetary nature of the wage bargain?

What role does the heterogeneous nature of the labor force play in Keynes's analysis of labor markets?

B How does Keynes use the labor market in his analysis of aggregate supply? What is Keynes's distinction between aggregate supply and aggregate demand? In what way does it challenge Say's Law? How successful is Keynes at providing a theory of output and employment as a whole?

Week 9

A What is the role of expectations in Keynes's analysis of consumption, investment, money, and wages? Explain and evaluate Keynes's account of the nature of cyclical fluctuations (for this question additional reading in chapter 22 may be helpful).

B. To what extent is Keynes a true disciple of Marshall? What policy prescriptions does Keynes support in the *General Theory*? Speculate on why the policies commonly called "Keynesian" today are largely absent from the the *General Theory*.

Additional Reading for Keynes

Aside from Keynes himself and any secondary texts, I highly recommend the first two volumes of a projected three volume biography of John Maynard Keynes by Robert Skidelsky: it is very readable, fascinating and will convince you that the lives of economists are not intrinsically desiccated.

Gobbets for Keynes

Week 8

"The classical theorists resemble Euclidean geometers in a non-Euclidean world who, discovering that in experience straight lines apparently parallel often meet, rebuke the line for not keeping straight - as the only remedy for the unfortunate collisions which are occurring."

"The celebrated *optimism* of traditional economic theory, which has led to economists being looked upon as *Candides*, who, having left this world for the cultivation of their gardens, teach that all is for the best in the best of all possible worlds provided we will let well alone, is also to be traced, I think, to their having neglected to take account of the drag on prosperity which can be exercised by an insufficiency of effective demand."

"The reconciliation of the identity between saving and investment with the apparent 'free-will' of the individual to save what he chooses irrespective of what he or others may be investing, essentially depends on saving being, like spending, a two-sided affair."

"We are reminded of 'The Fable of the Bees' - the gay of to-morrow are absolutely indispensable to provide a *raison d'être* for the grave of today."

“Pyramid-building, earthquakes, even wars may serve to increase wealth, if the education of our statesmen on the principles of the classical economics stands in the way of anything better.”

“If we speak frankly, we have to admit that our basis of knowledge for estimating the yield ten years hence of a railway, a copper mine, a textile factory, the goodwill of a patent medicine, an Atlantic liner, a building in the City of London amounts to little and sometimes to nothing; or even five years hence.”

Week 9

“The social object of skilled investment should be to defeat the dark forces of time and ignorance which envelop our future. The actual, private object of the most skilled investment to-day is ‘to beat the gun’, as the Americans so well express it, to outwit the crowd, and to pass the bad, or depreciating, half-crown to the other fellow.”

“. . . a monetary policy which strikes public opinion as being experimental in character or easily liable to change may fail in its objective of greatly reducing the long-term rate of interest . . . ”

“It is only in a highly authoritarian society, where sudden, substantial, all-round changes could be decreed that a flexible wage policy could function with success.”

“For the importance of money essentially flows from its being a link between the present and the future.”

“It is the great fault of symbolic pseudo-mathematical methods of formalising a system of economic analysis, such as we shall set down in section VI of this chapter, that they expressly assume strict independence between the factors involved and lose all their cogency and authority if this hypothesis is disallowed; . . . ”

“Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.”

2 HOUR RESERVE READING LIST

Backhouse *History of Modern Economic Analysis*
Backhouse *The Ordinary Business of Life*
Barber *A History of Economic Thought*.
Blaug *Economic Theory in Retrospect*
Deane *The Evolution of Economic Ideas*
Ekelund and Hebert *History of Economic Theory and Method*
Heilbroner *The Worldly Philosophers*
Hicks *Classics and Moderns* (vol. III of *Collected Essays on Economic Theory*).
Keynes *Essays in Biography*.
Landreth and Collander *History of Economic Theory*
Roll *A History of Economic Thought* (revised edition 1973 or later).
Schabas *A World Ruled by Number*
Schumpeter *History of Economic Analysis*.
Schumpeter *Ten Great Economists from Marx*
Stigler *Production and Distribution Theories..*