

The module will be divided into three parts - 1) Economic Theory and the Economics Profession; 2) Applied Microeconomics; 3) Macroeconomics - that will run concurrently. Each part will be divided into sessions that will mix lecture and class discussion. The following is a brief description of the parts and sessions.

# Part 1. Economic Theory and the Economics Profession

## Session 1.1: General Equilibrium

The formalization of economic interdependence from Walras to Arrow and Debreu.

Readings. Overview: E. Roy Weintraub. (1985) *General Equilibrium Analysis: Studies in Appraisal*, chapter 6.

Primary Sources: von Neumann (1945) "A Model of General Economic Equilibrium" *Review of Economic Studies*, 13, pp. 1-9 (translation from the German 1937 Ergebnisse paper); McKenzie (1954) "On Equilibrium in Graham's Model of World Trade and Other Competitive Systems" *Econometrica* 22, pp. 147-161; Arrow and Debreu (1954) "Existence of an Equilibrium for a Competitive Economy" *Econometrica* 22, pp. 265-290.

Historical Issues: Weintraub (2011) "Lionel W. McKenzie and the Proof of the Existence of a Competitive Equilibrium" *Journal of Economic Perspectives*.

## Session 1.2: Dynamics

The history of the mathematics of economic processes.

Readings. Overview: E. Roy Weintraub (1991) *Stabilizing Dynamics*, excerpts.

Primary Sources: Samuelson, P. A. (1941). "The Stability of Equilibrium: Comparative Statics and Dynamics." *Econometrica* 9: 97-120; Meltzer, Lloyd (1945). "The Stability of Multiple Markets: The Hicks Conditions." *Econometrica* 13(4): 277-292; Kenneth J. Arrow, H. D. Block, Leonid Hurwicz. (1959) "On the Stability of the Competitive Equilibrium, II." *Econometrica* 27(1), pp. 82-109; Negishi, T. (1962). "The Stability of a Competitive Economy: A Survey Article." *Econometrica* 30(4): 635-669.

## Session 1.3: The Neoclassical Synthesis

The reconciliation of micro- and macroeconomics in the post-World War II period.

Readings. Overview: E. Roy Weintraub (1979) *Microfoundations*, chapter 4. E. Roy Weintraub (1991) *Stabilizing Dynamics*, chapter 6.

Primary Sources: Patinkin, D. (1965). *Money, Interest, and Prices*. Chapter XIII, section 3, and Chapter XIV.

## Session 1.4: Economics and World War II

The influence of the war and the rise of the national defense establishment on the development of economics.

Readings. Overview: Robert Leonard (2010) *Von Neumann, Morgenstern, and the Creation of Game Theory*, chapters 12-13; Judy Klein (2011) "How I learned to Stop Worrying and Start Satisficing" Working Paper.

## Session 1.5: Game Theory

The origins and development of game theory and its place in microeconomics.

Readings. Overview: Nicola Giocoli, *Modeling Rational Agents* (2003), excerpts.  
Primary Sources: von Neumann, J. (1928). "Zur Theorie der Gesellschaftsspiele." *Mathematische Annalen* 100: 295-320 (English version: "On the Theory of Games of Strategy," trans. Sonya Bargmann. In *Contributions to the Theory of Games*, vol 4, edited by A.W. Tucker and R. D. Luce (Princeton, 1959), pp.13-42; von Neumann, J. and O. Morgenstern (1944). *The Theory of Games and Economic Behavior*. Princeton, NJ, Introduction, pp.1-43.

## Session 1.6: The Economics Profession in the U.S., Britain, and France

The post-World War II professionalization of economics in the United States and Europe.

Readings. Overview: Marion Fourcade, *Economists and Societies: Discipline and Profession in the United States, Britain, and France 1890s to 1990s* (2009), chapters 1 and 2; chapter by William Barber (pp. 12-30) and chapter by Roger Backhouse (pp. 33-60) in A. W. Coats (ed.) *The Post-1945 Internationalization of Economics* (1997) Annual Supplement to Volume 28, *History of Political Economy*.

## Session 1.7: Neoliberalism

The history of the ideological conflict over state intervention and free markets.

Readings. Overview: Roger Backhouse, "The Rise of Free Market Economics" in Medema and Boettke, *The Role of Government in the History of Economic Thought* (2005). Bruce Caldwell, "Hayek" in *The New Palgrave Dictionary of Economics* (2008). Philip Mirowski (2009) "Postface: Defining Neoliberalism" in Philip Mirowski and Dieter Plahwe (eds.) *The Road from Mont Pelerin*, pp. 417-455.

## Session 1.8: Historiography of Economics

How to think about the history of economics.

Readings. Overview: E. Roy Weintraub, "How Shall We Write the History of 20th Century Economics?" *Oxford Review of Political Economy*, vol. 15, winter 1999, pp. 139-52. Alternatively use the revised version of that article which appeared as: chapter 9: "Body, Image, and Person" in E. Roy Weintraub (2002) *How Economics Became a Mathematical Science* pp. 256-272, plus endnotes pp. 288-289.

# Part 2. Applied Microeconomics

## Session 2.1: Robbins's Essay on the Nature and Significance of Economic Science

An introduction to Lionel Robbins's enormously influential methodological essay, which establishes several themes that recur throughout the microeconomics sessions.

Readings: Lionel Robbins, *Essay on the Nature and Significance of Economic Science* (1932), All chapters, except ch. 3 which is optional).

## Session 2.2: Demand Theory

Utility theory, the ordinal revolution, revealed preference, and the modern synthesis.

Readings: Paul A. Samuelson, "A Note on the Pure Theory of Consumer's Behavior," *Economica* (1938) vol. 5, pp. 61-71. D. Wade Hands, "Economics, Psychology, and the History of Consumer Choice Theory," *Cambridge Journal of Economics* (2010) vol. 34, pp. 633-48. Luigino Bruni and Robert Sugden, "The Road Not Taken: How Psychology was Removed from Economics, and How it Might be Brought Back," *Economic Journal* (2007) vol. 117, pp. 146-173.

Optional: Philip Mirowski and D. Wade Hands, "A Paradox of Budgets: The Postwar Stabilization of American Neoclassical Demand Theory," in *From Interwar Pluralism to Postwar Neoclassicism* ed. by Mary S. Morgan and Malcolm Rutherford, Duke University Press (1998) pp. 260-292.

## Session 2.3: Public Economics and Benefit-Cost Analysis

The history of attempts to measure benefits and costs of government projects and regulations: overcoming Robbins' dilemma to make normative economics "scientific." Emphasis on distributional issues.

Readings: Lionel Robbins, "Interpersonal Comparisons of Utility: A Comment," *Economic Journal* (1938) vol. 48, pp. 635-641. Nicholas Kaldor, "Welfare Propositions of Economics and Interpersonal Comparisons of Utility," *Economic Journal* (1939) vol. 49, pp. 549-552. H. Spencer Banzhaf, "Objective or Multi-objective? Two Historically Competing Visions for Benefit-Cost Analysis," *Land Economics* (2009), vol. 85, pp. 3-23.

Optional: Theodore M. Porter, "US Army Engineers and the Rise of Cost-Benefit Analysis," *Trust in Numbers* (1995), chapter 7, pp. 148-189.

## Session 2.4: Environmental Economics

Incorporating the environment into the economic calculus; measuring demand for environmental improvements.

Readings: John V. Krutilla, "Conservation Reconsidered," *American Economic Review* (1967), vol. 57, pp. 777-786. H. Spencer Banzhaf, "Consumer Surplus with Apology: A Historical Perspective on Non-

Market Valuation and Recreation Demand," *Annual Review of Resource Economics* (2010), vol. 2.  
Optional: Craufurd D. Goodwin, "Ecologist Meets Economist: Aldo Leopold, 1887-1948," *Journal of the History of Economic Thought* (2008), vol. 30, pp. 429-52.

## **Session 2.5: Labor economics**

Implications of Robbins's definition for labor economics; the implication of emphasizing objectives, optimization, and opportunity costs for "economic imperialism."

Readings: Gary S. Becker, "A Theory of the Allocation of Time," *Economic Journal* (1965) vol. 75, pp. 493-517. Roger E. Backhouse & Steven G. Medema, "On the Definition of Economics," *Journal of Economic Perspectives* (2009), vol. 23.

Optional: Gary S. Becker, "Crime and Punishment: An Economic Approach," *Journal of Political Economy* (1968), vol. 76, pp. 169-217.

## **Session 2.6: Institutional Economics and Industrial Organization**

We compare and contrast the old and new institutional economics, especially with applications to the theory of the firm.

Readings: Ronald Coase, "The Problem of Social Cost," *Journal of Law and Economics* (1960), vol. 3, pp. 1-44. John R. Commons, "The Problem of Correlating Law, Economics, and Ethics," *Wisconsin Law Review* (1932) vol. 8, pp. 3-26. Oliver E. Williamson, "Transactions Cost Economics: The Natural Progression," *American Economic Review* (2010) vol. 100, pp. 673-690. Malcolm Rutherford, "Institutional Economics: Then and Now," *Journal of Economic Perspectives* (2001) vol. 15, pp. 173-194.

## **Session 2.7: Econometrics**

Theory and measurement; structural vs. reduced form estimation.

Readings: Roger E. Backhouse & Steven N. Durlauf, "Robbins on Economic Generalizations and Reality in the Light of Modern Econometrics," *Economica* (2009) vol. 76, pp. 873-890. James J. Heckman, "Building Bridges between Structural and Program Evaluation Approaches to Evaluating Policy," *Journal of Economic Literature* (2010) vol. 156, pp. 27-37.

Optional: Guido W. Imbens, "Better LATE than Nothing: Some Comments on Deaton (2009) and Heckman and Urzua (2009)," *Journal of Economic Literature* (2010) vol. 48, pp. 399-423.

# Part 3. Macroeconomics

## Session 3.1. The Background to Modern Macroeconomics (before the 1930s)

The origins of modern macroeconomics in the theory of money and the analysis of business cycles. Focus on Irving Fisher, Knut Wicksell, and the Cambridge School.

Readings: Irving Fisher, *The Purchasing Power of Money* (1911), chapter 3. Don Patinkin, *Money, Interest, and Prices* (1956), notes E-G. David Laidler, *Fabricating the Keynesian Revolution* (1999), excerpts from chapters 4 and 5. Mary Morgan, *The History of Econometric Ideas* (1990), chapter 2.

## Session 3.2. The Great Depression: Keynes and His Critics (the 1930s)

Keynes's General Theory of Employment, Interest, and Money in the context of the debates over business cycles and policies to counteract the Great Depression.

Readings: J.M. Keynes, *The General Theory of Employment Interest and Money* (1936), excerpts. David Laidler, *Fabricating the Keynesian Revolution* (1999), chapter 2. J.R. Hicks, "Mr. Keynes and the Classics" (1937) in *Critical Essays in Monetary Theory* (1967).

## Session 3.3. Macroeconometrics and the New Economics (1930-1950)

Frisch's conceptualization of macroeconometrics and in Tinbergen's first applied macroeconomic models. The role of the new science of econometrics, especially of the Cowles Commission and Klein in wedding Keynesian economics to macroeconometrics. The development of macroeconomic policy.

Readings: Frisch, Ragnar, "Propagation Problems and Impulse Problems in Dynamic Economics," in *Economic Essays in Honor of Gustav Cassel* (1933), excerpts. Mary Morgan, *The History of Econometric Ideas* (1990), chapter 4. Lawrence Klein, *The Keynesian Revolution* (1947), excerpts. Lerner, Abba, "Functional Finance and the Federal Debt," *Social Research* (1943), excerpts.

## Session 3.4. The Empirical Microfoundations of Macroeconomics (1945-1970)

The neoclassical synthesis. Providing microeconomic accounts of the main Keynesian functions. The development of large-scale macroeconomic models.

Readings: Friedman, Milton. *A Theory of the Consumption Function*, excerpts (1957). David Laidler, *The Demand for Money* (1977), chapter 6. Ronald Bodkin and Lawrence Klein, *A History of Econometric Model Building* (1991), excerpts.

## **Session 3.5. The Problem of Inflation (1950-1970)**

The debates over the conceptualization and modeling of inflation. The Phillips curve and the natural rate of unemployment.

Readings: A.W.H. Phillips, "The Relation Between Unemployment and the Rate of Change of Money Wages in the United Kingdom 1961-1957," *Economica* (1958). Paul A. Samuelson, and Robert M. Solow, "Analytical Aspects of Anti-inflation Policy," *American Economic Review* (1960). Milton Friedman, "The Role of Monetary Policy," *American Economic Review* (1967).

## **Session 3.6. The Monetarist Counter-Revolution (1955-1975)**

Friedman's restatement of the quantity theory of money, the relative importance of monetary and fiscal policy, the debate over rules vs. discretion in monetary policy.

Readings: Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States* (1963), chapter 13. J. Daniel Hammond, *Theory and Measurement: Causality Issues in Milton Friedman's Monetary Economics* (1996), excerpts. Nicholas Kaldor, "The New Monetarism," *Lloyd's Bank Review* (1970). James Tobin, "The Monetarist Counter-Revolution Today – an Appraisal," *Economic Journal* (1981).

## **Session 3.7. New Classicals and New Keynesians (1970-1985)**

The introduction of rational expectations and market-clearing models into models of macroeconomic policy and business cycles, and the Keynesian reaction. Real-business cycle models and the rise of the representative agent.

Readings: Kevin D. Hoover, *The New Classical Macroeconomics* (1989), chapters. 2-4. Robert J. Gordon, "What Is New-Keynesian Economics?" *Journal of Economic Literature* (1990), excerpts. James Hartley, Kevin Hoover, and Kevin Salyer, "The Limits of Business Cycle Research," in Hartley, Hoover, and Salyer, editors, *Real Business Cycles: A Reader* (1998), excerpts from chapter 1.