

# Austrian Economics

## ECON 403-A01

Dr. Ryan Safner

Summer 2015

ECON 403-A01  
Robinson Hall A 105  
MWF 7:00-10:00 PM

*Email:* rsafner@gmu.edu  
*Office:* Enterprise 354  
*Hours:* MWF 6:00-7:00 PM

### 1 Course Description

“The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design.” – F.A. Hayek, 1974 Nobel Laureate in Economics

In your previous courses<sup>1</sup>, you have learned the basics of the standard neoclassical synthesis (neoclassical microeconomics + Keynesian macroeconomics) that dominates academic economic research & teaching today. This course addresses some of the limits and alternatives to this framework informed by insights from “Austrian economics.”

Since the financial crisis of 2007-8, the Austrian School of economics has been thrown into the limelight, especially among young people on the internet. While still a promising development, this has led to many misconceptions and perversions about what Austrian economics is or implies. It is *not* a political philosophy, or a blueprint for a libertarian utopia, but a progressive research program based on a set of substantive economic propositions. The main insights from Austrian economics, also known as the “theory of the market process,” elaborate upon the function of prices in markets as social coordination processes among strangers that are driven by entrepreneurship amidst time and uncertainty.

While Austrian economics is commonly viewed as a heterodox school of thought, it is a central part of the “mainline” of economics from Adam Smith to the present. Several key economists who identify as, or with, “Austrians,” have won the Nobel Prize in Economics or were recognized as distinguished members of the profession. Insights from modern Austrian economics are often intertwined with other increasingly “mainstream” movements or fields within the profession, such as New Institutional Economics, public choice, experimental economics, law & economics, and property rights economics. Indeed, our unique brand of “Masonomics” is a combination of these.

We will read selections of the key texts from major historical Austrian figures like Carl Menger, Ludwig von Mises, Friedrich Hayek, Israel Kirzner, and others. Additionally, we will read articles

---

<sup>1</sup>The prerequisites for this course are ECON 306 and ECON 311 (intermediate micro and macro).

and explore the modern research program progressing today across different fields of economics informed by Austrian insights.

This is an advanced course, as well as a 5-week intensive summer course. **There will be a significant amount of required reading for each course.** This class is primarily discussion-based, as I want you to grapple with the criticisms of neoclassical economics and the provocative ideas raised by Austrian economists. Having established this expectation, I have done my best to trim the course down to its lean essentials to give you a mastery of the foundations in a reasonably quick period of time, even if this means relying heavily on survey articles. My goal is not to “make you an Austrian,” only to foster an understanding the key Austrian insights for you incorporate into your thinking to the extent you find them valuable. I am happy to provide you with further reading and challenges to grapple with should you find this material interesting, as I do.

Class will be a combination of lecture and discussion. I will lecture for the first half or so of class on the topic, and then we will have a discussion on the readings for that topic.

This syllabus is tentative, and I reserve the right to modify this syllabus with proper advance warning. You can find this and other course materials at [ryansafner.com/teaching](http://ryansafner.com/teaching).

## 2 Course Readings

The following books are **required** and will be available from the GMU Bookstore.

1. Boettke, Peter, ed. (1994). *The Elgar Companion to Austrian Economics*. Brookfield, VT: Edward Elgar Publishing. ISBN: 978-1858987767

The following two books are also **required** and will be made available at the GMU bookstore, but are available free online. If you find yourself interested in Austrian economics and plan to incorporate more of it into your studies, these books are absolute essentials to own and master cover-to-cover.

2. Mises, Ludwig von. 1998[1949]. *Human Action*. Auburn, AL: Ludwig von Mises Institute. ISBN: 0-945466-24-2
3. Hayek, Friedrich A. (1948). *Individualism and Economic Order*. Chicago: University of Chicago Press

Throughout the course, I will post required and supplemental recommended readings on topics and post them on Blackboard. Required readings may be grounds for quiz questions. Supplemental readings will *not* be grounds for quiz questions (aside from perhaps a stray bonus question) and are simply to provide more insight should you be interested in a particular topic. You should check Blackboard **frequently** for announcements, updates, assignments, and grades.

## 3 Assignments & Grading

Your final grades will be a weighted combination of a midterm, term paper, and quizzes.

Paper	40%
Midterm	30%
Quizzes	20%
Criticism	10%

Your grades are based on the following traditional scale:

		A	93-100	A-	90-92
B+	87-89	B	83-86	B-	80-82
C+	77-79	C	73-76	C-	70-72
D+	67-69	D	63-66	D-	60-62
		F	0-59		

### Quizzes

At the beginning of each class, there will be a short (10-15 minute) quiz. The quiz will be up to three simple questions, and will be entirely based on reading comprehension (e.g. “What does Hayek say about X?”). This helps to ensure that everyone comes to class prepared to discuss the readings, which is critical in a fast-paced, reading and discussion-based course. If you do the assigned readings, there is no reason you should not get 100%. I will drop your **two** lowest quiz scores at the end of the semester. There will be no quiz on the first day of class.

### Midterm

There will be a midterm comprised of short answer questions. After every unit (class meeting), I will post easy, medium, and hard questions for further thought. You can think of these as “homeworks” except you are not required to submit answers and I will not grade them. I do strongly recommend grappling with them, as your midterm will be a random selection of 3 easy questions, 2 medium questions, and 1 hard question.

The midterm provides feedback both to you and to me that ensures everyone is progressing on schedule and comprehending the material, which we will use as a foundation to explore more advanced and active research. The midterm will be on **Monday June 1**.

### Research Paper

You are required to write a short research paper on a topic of your choosing, so long as it applies Austrian insights. I will discuss more about this paper at length in class, and briefly guide you through the craft of writing a good paper. I view this assignment as the primary demonstration of your mastery of Austrian economics, and writing is a marketable skill you will need for any gainful employment. I *strongly* recommend starting early and discussing your topics with me, but this is not required. Part of your grade will be to critique one of your peers’ papers, and to respond to and incorporate the comments of your peers (see below). You must provide me a 100 word abstract of your paper by **Monday June 1**. In order to ensure your paper is ready to be critiqued, and to disincentivize procrastination, you must turn in an appropriate draft on **Wednesday June 10**. The final paper must be **emailed to me by 7PM on Wednesday June 17**.

### Criticism

Despite what we may believe, writing is a collaborative process, and the best ideas are tempered with engagement and criticism. As part of your paper assignment, you will anonymously read and critique one of your peers’ paper assignments. Your grade will depend on the quality and substance of your comments on your peer’s paper, as well as a response to your peers’ comments on your own paper.

## Participation

You are all adults, and I will treat you as such. I do not take attendance, but attending class is strongly correlated with doing well on assignments. I reserve the right to add up to 5% on the final grade to those students who in my view best contribute to the class discussions.

No extra credit is available.

## 4 Course Policies

The following are stated as a matter of record:

**Absences and Make-Ups:** As I do not take attendance, it is not generally necessary to let me know if you miss class. It will be your responsibility to acquire the notes from any missed class from classmates. If you are unable to attend class when there is an assignment due (i.e. the midterm) for a legitimate reason (e.g. sports/club events, traveling, illness, family issues), please notify me in advance as soon as possible and we will make alternate arrangements. Failure to do so, or desperate attempts to make arrangements after the absence will result in a grade of 0 for the assignment. I reserve the right to re-weight other assignments for students who I believe are legitimately unable to complete a particular assignment.

**Late Assignments:** For each day an assignment (e.g. the final paper) is late (starting after the described cutoff), I will take off a letter grade. I will not accept any late assignments after the University required date to submit final grades. Any students with unsubmitted assignments on that date will receive a course grade of **IN – incomplete**.

The following are mandatory University policies:

**Mason Email Accounts:** Students must activate their GMU email accounts to receive important University information, including messages related to this class.

**Enrollment:** Students are responsible for verifying their enrollment in this class. The last day to add or drop this class with no tuition penalty is **Wednesday, May 20<sup>th</sup>**.

**Honor Code:** George Mason University has an Honor Code which requires all members of this community to maintain the highest standards of academic honesty and integrity. Cheating, plagiarism, lying, and stealing are all prohibited. All violations of the Honor Code will be reported to the Honor Committee. See [honorcode.gmu.edu](http://honorcode.gmu.edu) for more detailed information.

**Students With Disabilities:** If you are a student with a disability and you need academic accommodations, please see me and contact the Office of Disability Resources at 703.993.2474. All academic accommodations must be arranged through that office.

## 5 Class Schedule

The following schedule is a tentative outline of topics covered in the course. We will approximately one meeting (indicated by the date) on each lesson. The readings come from the textbooks, scholarly

journals (posted on Blackboard), or other sources that I have linked to. Sometimes a course may appear to have a lot of reading, but most of the Elgar Companion chapters are quite short. I have done my best to reduce the amount of reading necessary in such a short time period to understand the basic material, even if this means reading from secondary sources and survey articles. I may post additional required readings on Blackboard, to be announced in advance.

---

M 5/18    **Introduction and Overview**

---

*Required Readings:*

- Elgar Companion, *Introduction*
- Boettke, Peter J, (2008). “[Austrian School of Economics](#).” The Concise Encyclopedia of Economics
- Weintraub, E. Roy, (2008). “[Neoclassical Economics](#)” The Concise Encyclopedia of Economics.
- Horwitz, Steven. “[What Austrian Economics IS and What Austrian Economics Is NOT](#)” Video.

---

W 5/20    **Methodology and History of Economic Thought**

---

*Required Readings:*

- Human Action, Ch. IV
- Elgar Companion, Ch. 3, 11, 66
- Buchanan, James M, (1964). “What Should Economists Do?” *Southern Economic Journal*, 30(3): 213-222.
- Cowen, Tyler, “[Hayek on Economics and Knowledge](#)” Video.
- Cowen, Tyler, “[Hayek on Social Sciences Facts](#)” Video.

---

F 5/22    **Uncertainty & Entrepreneurship**

---

*Required Readings:*

- Human Action, Ch. XV.9
- Elgar Companion, Chs. 15, 17
- Kirzner, Israel, (1976). “[Equilibrium versus Market Process](#)” in *The Foundations of Modern Austrian Economics*, Edwin G. Dolan, ed. Kansas City: Sheed and Ward, Inc.
- Gigerenzer, Gerd. “[What Can Economists Know?](#)” Video.
- Cowen, Tyler, “[Hayek on Competition and Discovery](#)” Video.

---

M 5/25    **No Class – Memorial Day**

---



---

W 5/27    **The Price System, Economic Calculation, and Socialism**

---

*Required Readings:*

- Mises, Ludwig von, (1990[1920]). [Economic Calculation in the Socialist Commonwealth](#). Auburn, AL: Ludwig von Mises Institute
- Hayek, Ch. IV
- Elgar Companion, Chs. 21, 22, 25, 68, 69

---

F 5/29    **Money, Credit, and Monetary Institutions**

---

*Required Readings:*

- Elgar Companion, Chs. 58, 59
- Horwitz, Steven. “[The Costs of Inflation](#)” Video.
- Mises, Ludwig von, (1912). *The Theory of Money and Credit*, Ch.1
- Salter, Alexander, (2014). [An Introduction to Monetary Policy Rules \(Summary\)](#) Mercatus Research.

M 6/1 **Midterm Exam**

W 6/3 **Spontaneous Orders**

---

*Required Readings:*

- Elgar Companion, Chs. 28, 29, 30
- Buchanan, James M, (1982). “[Order Defined in the Process of its Emergence](#)” in *Literature of Liberty* V:5-18
- Klein, Daniel, (2006). “[Rinkonomics: A Window onto Spontaneous Order](#). *Library of Economics and Liberty*, 1 May 2006

F 6/5 **Organizations, Firms, and Institutions (New Institutional Economics)**

---

*Required Readings:*

- Elgar Companion, Chs. 26, 27, 35
- Foss, Kirsten, Nicolai J Foss, Peter G Klein, and Sandra K Klein, (2007). “[The Entrepreneurial Organization of Heterogeneous Capital](#),” *Journal of Management Studies* 44(7): 1165-1186
- Munger, Michael, (2008). “[Bosses Don’t Wear Bunny Slippers: If Markets Are So Great, Why Are There Firms?](#)”. *Library of Economics and Liberty* January 7, 2008.

M 6/8 **Competition & Monopoly**

---

*Required Readings:*

- Elgar Companion, Chs. 55, 57
- DiLorenzo, Thomas J, (1991). “[The Antitrust Economists’ Paradox](#)”
- Block, Watler, (1977). “[Austrian Monopoly Theory: A Critique](#)” *Journal of Libertarian Studies* 1(4): 271-279
- Hayek, F.A. 1968 [2002] “[Competition as a Discovery Procedure](#),” *Quarterly Journal of Austrian Economics* 5(3): 9-23

W 6/10 **Economic Fluctuations**

---

*Required Readings:*

- Elgar Companion, Chs. 31, 32
- Roger Garrison, “[Austrian Theory of the Trade Cycle](#)”, Video.
- Horowitz, Steven and Peter Boettke, (2008). *The House that Uncle Sam Built*. Irvington-on-Hudson, NY: Foundation for Economic Education.
- Horowitz, Steven, (2013). [An Introduction to U.S. Monetary Policy](#). Mercatus Research

F 6/12 **Public Choice & Political Economy**

---

*Required Readings:*

- Elgar Companion, Chs. 41, 42
- Buchanan, J. M. (2000). “**Politics Without Romance**.” In C. K. Rowley (Ed.), *The Collected Works of James M. Buchanan - Volume 1: The Logical Foundations of Constitutional Democracy* (p. 45-59). Indianapolis: Liberty Fund.
- Tullock, Gordon, (1962). “The welfare costs of Tariffs, Monopolies, and Theft.” *Western Economic Journal*, 5(3): 224-232.

---

M 6/15    **Political Disequilibrium, Interventionism, & Political Entrepreneurship**

---

*Required Readings:*

- Elgar Companion, Chs. 49, 50, 62, 40, 77
- Tarko, Vlad, (2015). “The Role of Ideas in Political Economy,” *Review of Austrian Economics* 28(1): 17-39
- Wagner, Richard E, (2013). “**Entangled Political Economy: A Keynote Address**” in Steven Horwitz , Roger Koppl (ed.) *Entangled Political Economy (Advances in Austrian Economics, Volume 18)*. Emerald Group Publishing Limited, pp.15-36.
- Safner, Ryan, 2014. “**‘Public Goods’ or ‘Good For the Public?’ – Endogenizing Public Goods**, Under Review.

---

W 6/17    **Paper Due**

---