

Econ 403. A01 – Summer 2017

Austrian Economics

MWF 7:00 p.m.–10:00 p.m.

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Office: Mason Hall 2nd Floor Conference Area
Office Hours: Monday and Wednesday 4 pm to 7 pm and by appointment
Description: This course develops the methodological foundations of the Austrian school. From these foundations the course investigates the Austrian view on value theory and social costs and benefits, entrepreneurship, competition and monopoly, the socialist calculation debate, capital and interest, money and monetary institutions, business cycle theory, and wages and unemployment..

Prerequisite(s): Econ 103 and 104
Credit Hours: 3
Textbook: *Handbook on Contemporary Austrian Economics*.
Publisher: Edward Elgar Publishing, Inc.
Authors: Peter J. Boettke, ed.
ISBN-13: 978-1849809511

Supplement: [*Human Action*](#)
Publisher: Yale University Press
Authors: Ludwig von Mises
ISBN-10: 0809297434

Supplement: [*Individualism and Economic Order*](#).
Publisher: University of Chicago Press
Author: F.A. Hayek
ISBN-10: 0226320936

Supplement: [*Cost and Choice: An Inquiry in Economic Theory*](#)
Publisher: Liberty Fund, Inc.
Author: James Buchanan
ISBN-13: 978-0-86597-223-0

Overview:

“Austrian economics—the school of thought founded by Carl Menger and Eugen von Böhm-Bawerk at the University of Vienna more than a century ago and carried forward by Ludwig von Mises and his students Murray N. Rothbard, F. A. Hayek, Israel Kirzner, and Hans F. Sennholz—differs from orthodox economics especially in methodology. (It insists, for example, that a truly scientific economics must see human beings as unique, conscious, and freely choosing individuals, not as undifferentiated and interchangeable items to be manipulated mathematically.)”

“The body of economic knowledge is an essential element in the structure of human civilization; it is the foundation upon which modern industrialism and all the moral, intellectual, technological, and therapeutical achievements of the last centuries have been built. It rests with men whether they will make the proper use of the rich treasure with which this knowledge provides them or whether they will leave it unused. But if they fail to take the best advantage of it and disregard its teachings and warnings, they will not annul economics; they will stamp out society and the human race.”

Learning Objectives:

- Students will understand the importance of *wertfreiheit* in the study of social science in general and economics in particular.
- Students will understand the importance of the assumption of methodological individualism.
- Students will understand the importance of methodological subjectivism to the Austrian paradigm.
- Students will understand the importance of an emphasis on the market as process rather than end states.
- Students will understand the time structure of production and consumption.
- Students will understand how prices, property rights, and profit give rise to information, institutions, and incentives.
- Students will understand the importance of entrepreneurial activity in a market economy.
- Students will understand the origin of money and importance of non-neutrality assumption for macroeconomic theory and policy.
- Students will understand the significance of the Austrian school of economics in the history of economic ideas.

Course Outline:

▪ Introduction

• Overview

- ◆ Boettke, Peter J. December 10, 2007. “[Boettke on Austrian Economics](#).” EconTalk Podcast
- ◆ _____. “Introduction.” in *Handbook on Contemporary Austrian Economics*. Peter J. Boettke, ed., Northampton, MA: Edward Elgar Publishing, Inc.
- ◆ Horwitz, Steven. [What Austrian Economics IS and What Austrian Economics Is NOT](#).
- ◆ Boettke, Peter J. 2008. “[Austrian School of Economics](#).” *The Concise Encyclopedia of Economics*.
- ◆ Menger, Carl. “Chapter 1,” *Principles of Economics*.
<http://www.mises.org/etexts/menger/one.asp>
- ◆ Vaughn, Karen I. “Carl Menger,” in *New Palgrave: A Dictionary of Economics*, John Eatwell, Murray Milgate, and Peter Newman, eds., New York: Stockton Press, 1987, 3, pp. 438–444.

• From Is to Ought

- ◆ Rothbard, Murray N. 1973 “Value Implications of Economic Theory.” *The American Economist*
- ◆ *Human Action* Chap XXXIX.
- ◆ Kirzner, Israel M. 2006. “The Anatomy of Economic Advice...” *The Freeman*, 56(6, 7, 8).
 - [Part I](#)
 - [Part II](#)
 - [Part III](#)

- **The Science of Economics**

- **Only Individuals Choose**

- ♦ Evans, Anthony J. 2010 “Only individuals choose.” in *Handbook on Contemporary Austrian Economics*. Peter J. Boettke, ed., Northampton, MA: Edward Elgar Publishing, Inc.
- ♦ Boettke, Peter J. December 27, 2010. “[Boettke on Mises](#).” EconTalk Podcast.
- ♦ [Human Action](#)
 - Acting Man
 - Epistemological Problems
 - Economics and Reason
 - A First Analysis of the Category of Action
 - Time
 - Uncertainty
 - Action within the World
- ♦ Kirzner, Israel M. “[On the Method of Austrian Economics](#)”. In E.G. Dolan (ed.) *The Foundations of Modern Austrian Economics*, Kansas City: Sheed and Ward, 1976a.
- ♦ Kirzner, Israel M. “[Equilibrium versus Market Process](#)”. In E.G. Dolan (ed.) *The Foundations of Modern Austrian Economics*, Kansas City: Sheed and Ward, 1976b.
- ♦ Rothbard, Murray N. 1957. “In Defense of ‘Extreme Apriorism.’” *Southern Economic Journal*, (23) 3, 314.

- **Coordination and Exchange**

- ♦ Coyne, Christopher J. 2010. “Economics as the study of coordination and exchange.” in *Handbook on Contemporary Austrian Economics*. Peter J. Boettke, ed., Northampton, MA: Edward Elgar Publishing, Inc.
- ♦ Hayek, F.A. 1945. “[The Use of Knowledge in Society](#),” *American Economic Review* XXXV (4): 519–30f.
- ♦ Hayek, F.A. 2002. “[Competition as a Discovery Procedure](#),” *Quarterly Journal of Austrian Economics* 5(3): 9–23.
- ♦ Buchanan, James M. 1964. “What Should Economists Do?” *Southern Economic Journal* 30(3), 212.
- ♦ Boettke, Peter J. 1996. “[Why Culture Matters: Economics, Politics, and the Imprint of History](#),” *Nuova Economia e Storia*, No. 3 (September 1996): 189-214.

- **The Facts of the Social Sciences**

- ♦ Storr, Virgil Henry. 2010 “The facts of the social sciences are what people believe and think.” in *Handbook on Contemporary Austrian Economics*. Peter J. Boettke, ed., Northampton, MA: Edward Elgar Publishing, Inc.
- ♦ Hayek, F. A. 1948. “[The Facts of the Social Sciences](#),” *Individualism and Economic Order*. Chicago: University of Chicago Press.
- ♦ Hayek, F.A. 1952. [The Counter Revolution of Science](#) Chapter 3. New York: The Free Press.
- ♦ Rizzo, Mario J. “[Praxeology and Econometrics: A Critique of Positivist Economics](#).” *New Directions in Austrian Economics*, ed. Louis M. Spadaro (Kansas City: Sheed Andrews and McMeel, 1978).

- **Microeconomics**

- **Subjectivism**

- ◆ Stringham, Edward P. “Economic value and costs are subjective.” in *Handbook on Contemporary Austrian Economics*. Peter J. Boettke, ed., Northampton, MA: Edward Elgar Publishing, Inc.
 - ◆ Buchanan, James M. 1999. *Cost and Choice: An Inquiry in Economic Theory*. Indianapolis, IN: Liberty Fund, Inc. Chapters [1](#) and [3](#).
 - ◆ Rizzo, Mario J. 1994. “Cost.” in *The Elgar Companion to Austrian Economics*. Edward Elgar Publishing Company, Brookfield, VT.
 - ◆ Horwitz, Steven. 1994. “Subjectivism.” in *The Elgar Companion to Austrian Economics*. Edward Elgar Publishing Company, Brookfield, VT.
 - ◆ Wicksteed, P.H. 1914. “The Scope and Method of Political Economy in Light of the “Marginal” Theory of Value and Distribution.

- **The Terms of Exchange**

- Miller, Stephen C. “Price: the ultimate heuristic.” in *Handbook on Contemporary Austrian Economics*. Peter J. Boettke, ed., Northampton, MA: Edward Elgar Publishing, Inc.
 - Kirzner, Israel M. 2000. “[The Law of Supply and Demand](#).” *The Freeman*, 50(1).
 - Kirzner, Israel M. 2000. “[The Law of Supply and Demand](#).” *The Freeman*, 50(2).
 - Mises, Ludwig. von 1944 “[Profit Management](#)” *Bureaucracy*. New Haven: Yale University Press.
 - Hayek, Friedrich A. 1946 “[The Meaning of Competition](#),” reprinted in Friedrich A. Hayek *Individualism and Economic Order*, Chicago: University of Chicago Press

- **Importance of Private Property**

- Beaulier, Scott A. “Without private property, there can be no rational economic calculation.” in *Handbook on Contemporary Austrian Economics*. Peter J. Boettke, ed., Northampton, MA: Edward Elgar Publishing, Inc.
 - *Human Action* Chapter XXVI.
 - Mises, Ludwig von. [Economic Calculation in the Socialist Commonwealth](#).

- **Entrepreneurship**

- Sautet, Frederic. “The competitive market is a process of entrepreneurial discovery.” in *Handbook on Contemporary Austrian Economics*. Peter J. Boettke, ed., Northampton, MA: Edward Elgar Publishing, Inc.
 - Kirzner, Israel K. “The Primacy of Entrepreneurial Discovery.” in *Prime Mover of Progress, The Entrepreneur in Capitalism and Socialism* (Institute of Economic Affairs, [Readings 23]: London, 1980)
 - *Human Action* Chapter XV sections 8 and 9.

➤ Macroeconomics

▪ Money

- Subrick, J. Robert. “Money is non-neutral.” in *Handbook on Contemporary Austrian Economics*. Peter J. Boettke, ed., Northampton, MA: Edward Elgar Publishing, Inc.
- *Human Action* Chap XVII Parts 1-4.
- Menger, Carl. 1892. “On the Origin of Money.” *The Economic Journal*, Volume 2, Issue 6, 239-255.
- Mises, Ludwig von. 1990. “[The Non-Neutrality of Money](#).” In *Money, Method and the Market Process*, Richard Ebeling, ed.
- Rand, Ayn. 1957. *Atlas Shrugged*. “[Francisco’s Money Speech](#).”
- Hume, David. *Essays Moral, Political, Literary*, edited and with a Foreword, Notes, and Glossary by Eugene F. Miller, with an appendix of variant readings from the 1889 edition by T.H. Green and T.H. Grose, revised edition (Indianapolis: Liberty Fund 1987).
Chapter: [ESSAY III: OF MONEY](#)

▪ Capital

- Powell, Benjamin. “Some implications of capital heterogeneity.” In *Handbook on Contemporary Austrian Economics*. Peter J. Boettke, ed., Northampton, MA: Edward Elgar Publishing, Inc.
- Böhm-Bawerk, Eugen von. [Positive Theory of Capital](#).
 - ♦ The Nature of Capital, Book I, Chapter II
 - ♦ Capitalist Production, Book II, Chapter III
 - ♦ The Theory of the Formation of Capital, Book II, Chapters IV, V, VI
- Kirzner, Israel M. “[Ludwig von Mises and the Theory of Capital and Interest](#),” Lawrence S. Moss, *The Economics of Ludwig von Mises: Toward a Critical Reappraisal*, ed. with an Introduction by Laurence S. Moss (Kansas City: Sheed and Ward, 1976).
- Lachmann, Ludwig M. [Capital and its Structure](#) (Kansas City: Sheed Andrews and McMeel, 1978).
 - ♦ Chapter I. The Order of Capital

▪ Institutions

- Leeson, Peter T. “Anarchy unbound: how much order can spontaneous order create?” In *Handbook on Contemporary Austrian Economics*. Peter J. Boettke, ed., Northampton, MA: Edward Elgar Publishing, Inc.
- *Human Action*, VIII
- Hayek, F.A. 1967. “The Results of Human Action but not of Human Design.” *Studies in Philosophy, Politics, and Economics*, Chicago: University of Chicago Press.
- Menger, Carl. 1985. [Investigations into the Method of the Social Sciences with Special Reference to Economics](#). New York: NYU Press. Book Three Chapter 2.

➤ **Coda**

- Boettke, Peter J. “Back to the future: Austrian economics in the twenty- first century”
- Hayek, F.A. *The Road to Serfdom*.
- Kirzner, Israel. 1979. *The Perils of Regulation: A Market Process Approach*, Occasional Paper of the Law and Economics Center, University of Miami School of Law.

Course Policies and Expectations:

Your grade will be comprised of your reading summaries, attendance and participation, and the final exam. The breakdown is as follows:

- Reading Summaries: 40%
- Attendance and Participation: 20%
- Final Exam: 40%

- Reading Analysis: For each meeting, a one to two page summary (max) of a selected article will be required. I will announce in class which article is to be summarized in the next meeting. The following template should be a useful guide in helping you summarize the logic of an article. You need not exhaustively address each question, but should strive to.

Template for Analyzing the Logic of an Article

Take an article that you have been assigned to read for class, completing the “logic” of it using the template below. This template can be modified for analyzing the logic of a chapter in a textbook.

The Logic of “(name of the article)”

- 1) The main purpose of this article is _____.
(State as accurately as possible the author’s purpose for writing the article.)
- 2) The key question that the author is addressing is _____.
(Figure out the key question in the mind of the author when s/he wrote the article.)
- 3) The most important information in this article is _____.
(Figure out the facts, experiences, data the author is using to support her/his conclusions.)
- 4) The main inferences/conclusions in this article are _____.
(Identify the key conclusions the author comes to and presents in the article.)
- 5) The key concept(s) we need to understand in this article is (are) _____. By these concepts the author means _____.
(Figure out the most important ideas you would have to understand in order to understand the author’s line of reasoning.)
- 6) The main assumption(s) underlying the author’s thinking is (are) _____.
(Figure out what the author is taking for granted [that might be questioned].)
- 7) If we take this line of reasoning seriously, the implications are _____.
(What consequences are likely to follow if people take the author’s line of reasoning seriously?)
- 8) If we fail to take this line of reasoning seriously, the implications are _____.
(What consequences are likely to follow if people ignore the author’s reasoning?)
- 9) The main point(s) of view presented in this article is (are) _____.
(What is the author looking at, and how is s/he seeing it?)

- Final Exam: In class three hour written comprehensive final exam.
- Attendance: I expect you to attend and participate in every class.
- Participation and Classroom Decorum
 - Participation in class discussion is both welcome and expected. Education is not simply a process of knowledge transfer or a one-way street. Be sure to ask questions if you are confused; this is not only for your benefit but for your classmates, as well.
 - Should you have questions or concerns regarding the material that cannot be addressed during regular class time, please visit with me subsequent to the reading and class discussion of a topic.
 - Please read the assigned material on a topic before coming to class. Reading the material beforehand is critical for valuable classroom time.
 - Avoid engaging in private conversation, reading materials unrelated to the class, leaving the classroom unnecessarily, and any other activity that creates negative externalities. This includes the use of electronic devices in a manner inconsistent with the educational process.
- Academic Integrity and the Honor Code
 - In all of your work for me, I expect you will uphold the Honor Code.
 - Do not “cheat, steal, plagiarize, or lie in matters related to your academic work”