

“It may well be that the chemist or physiologist is right when he decides that he will become a better chemist or physiologist if he concentrates on his subject at the expense of his general education. But in the study of society exclusive concentration on a specialty has a peculiarly baneful effect: it will not merely prevent us from being attractive company or good citizens but may impair our competence in our proper field—or at least for some of the most important tasks we have to perform. The physicist who is only a physicist can still be a first class physicist and a most valuable member of society. But nobody can be a great economist who is only an economist—and I am even tempted to add that the economist who is only an economist is likely to become a nuisance if not a positive danger. – F.A. Hayek, “The Dilemma of Specialization”

“As a ‘social’ scientist, the primary function of the economist is to explain the workings of these institutions and to predict the effects of changes in their structures. As the interaction process that he examines becomes more complex, it is but natural that the task of the economic scientist becomes more intricate. But his central principle remains the same, and he can, through its use, unravel the most tangled sets of structural relationships among human beings. The economist is able to do this because he possesses this central principle—an underlying theory of human behavior. And because he does so, he qualifies as a scientist and his discipline as a science. What a science does, or should do, is simply to allow the average man, through professional specialization, to command the heights of genius. The basic tools are the simple principles, and these are chained forever to the properly disciplined professional. Without them, he is as a jibbering idiot, who makes only noise under an illusion of speech” James Buchanan, “Economics and its Scientific Neighbors”

AUSTRIAN ECONOMICS

ECON 403-002

Spring 2018

Tuesday/Thursday 1:30-2:45

Robinson Hall B202

Jeremy Lerman

jlerman2@gmu.edu

Office hours: I will hold office hours at my desk, D167-2, in the Economics suite in Buchanan Hall on Tuesdays 3:30 – 5:30 pm or by appointment throughout the week.

COURSE OBJECTIVES:

This course investigates various aspects of the Austrian school of economics. Rather than attempt to rush through several topics, the course will focus on fewer themes in greater depth. In doing so, the course will place particular emphasis on methodology, economic theory, and the history of economic ideas that constitute the Austrian tradition’s most unique departure from the current economic orthodoxy as well as alternative lines of economic thought. Principal importance will be placed on the implications of methodological subjectivism, spontaneous order, the market as a discovery process, economic calculation, the social function of property rights and prices, and the epistemological problems of knowledge and its implications for alternative institutional arrangements.

Having developed a better understanding of the core methodological and theoretical propositions of the Austrian School tradition, students will be better prepared to identify and explain what the late economist James Buchanan called the ‘central principle’ of economic analysis: the study of spontaneous order brought about through voluntary coordination and exchange. Students will be in a better position to identify how variations in the relevant environmental conditions and institutional structures in which exchange occurs can tend either toward society’s economic growth and prosperity, its increased stagnation, or its financial ruin.

GRADING AND ASSIGNMENTS:

Students may choose from 1 of 2 tracks below.

TRACK 1

Your grade will be based on class participation (30%), quizzes (30%) and four writing assignments (40%) throughout the semester.

Writing Assignments: You will write a total of either **four op-ed style pieces** (approx. 1,000 words) **or opinion articles** (or any combination thereof) on any current event or area of interest. Op-eds need not relate directly to the assigned readings and students are encouraged to utilize outside sources. Topics may include immigration, poverty, economic development/growth, political power/authority, tax policy, labor unions, education policy, the ‘sharing economy,’ etc., to name just some examples. The only requirement is that you must draw on insights from the broader Austrian tradition. Please see me if you have questions about what falls within the scope of the Austrian tradition.

The **first and second** of these pieces will be due by Thursday, March 22 at 11:59 pm EST by e-mail. The **third and fourth** will be due by Tuesday, May 15, by 11:59 pm EST. As an added incentive, any student who successfully publishes his or her piece in a reputable newspaper/magazine/online source will automatically receive full credit (40%) for the writing, even if the student has only written one op-ed. The paper may be national (e.g. Washington Post, Wall Street Journal, NYTimes, USA Today, etc.) or local (e.g. Virginian-Pilot, Richmond Times Dispatch, Daily Gazette, etc.) I am happy to read drafts and provide feedback on writing throughout the semester as my schedule permits.

TRACK 2

Your grade will be based on class participation (30%), quizzes (30%), and a term paper (40%).

If you choose this option, **final papers are due by Tuesday, May 15, by 11:59 pm EST** by email (jlerman2@gmu.edu). **Late papers will receive a grade of zero.** Papers should be approximately 4,000 – 6,000 words on any topic of your choosing and need not be about something we cover directly in class, so long as the topic is broadly related to Austrian economics. **All topics must be approved by me in advance**, no later than Tuesday, April 26. Students may either e-mail me with a 1 – 2 paragraph proposal, or you can simply visit during office hours and briefly explain what you intend to do. I am happy to provide feedback on students’ writing throughout the semester as my schedule permits.

ALL STUDENTS

I will administer a brief quiz (between 1 - 3 questions) on the assigned readings at the beginning of EVERY THURSDAY class session. The quizzes are not designed to be difficult but, rather, to ensure you have carefully read the material assigned for that week. Students who complete the readings will generally perform well on quizzes. **There are no makeup quizzes, and students must be on time to receive a quiz.** Once collected, quizzes will not be distributed to latecomers unless arrangements have been made in advance for extenuating circumstances. **Any missed quizzes will receive a score of zero.** I will drop your two lowest quiz scores – these include sick days, emergencies, etc. so keep this in mind.

Participation grades are based on two components. First, **all students must submit two questions per week (one for each session that week)** related to the readings **by 9 AM on the day of the class meeting.** The purpose of the question is to facilitate class discussion. Questions will be graded on whether they are submitted on time and on their quality, and they will comprise 15% of your total participation grade. The other 15% will be based on the student’s active contributions to class discussion. I should emphasize that discussion points will be based more on *quality*, not quantity. Student discussion is restricted to the

discussion portion of the class after a short class break. Students are welcome to ask questions during the lecture so long as they relate to the topic under discussion.

Lastly, there is one, and ONLY one, opportunity to receive extra credit in this class: Students may write a 1 - 2 page (double-spaced) written response to one (or more) of the assigned readings. The responses should NOT summarize the reading. Rather, they should focus on a particular aspect of the reading that you find interesting. Your response should aim to develop your own thoughts in a way that is substantive and coherent. You are certainly encouraged to criticize or critique what you read, although this is not necessary to receive credit. For example, you may simply choose to explain how the reading provided you with additional insights into economics or some other aspect of the world around you. How do you relate to the piece or, alternatively stated, how does it relate to you and your own perspective of the world? Students who choose this option are exempt from submitting any class questions for the week they submit a response. Students who consistently submit quality responses have the potential to enhance their final grade by a full letter grade.

IMPORTANT INFORMATION:

This is a 400 level course. Although no prior knowledge of Austrian economics is necessary to succeed, students should recognize that this course is highly demanding of your time and effort. Specifically, you will be reading more than you are probably accustomed for your other courses, and some of this reading can be quite difficult. With that said, I do not expect you to master all of the material you come across during this course. My primary interest is in having you engage deeply with the material, rather than having you complete the course with only a superficial understanding of Austrian economics. It is partially for this reason that I will not administer any exams. Instead, the combination of quizzes, discussion, and writing assignments are meant to ensure that you make a good-faith effort to grapple with and think critically about the material. Although I will be lecturing for part of each class, much of the course will be devoted to seminar-style discussion as time permits. I will lead these discussions but expect students to actively participate and to challenge each other as well as myself.

Students who are disruptive during class may be asked to leave and possibly face a reduction in their participation grade. Phones should be silenced unless the student is expecting an urgent phone call, in which case the student should let me know before class begins.

All grades are **final**, so please do not ask to negotiate your grade unless you believe I've made an error in calculation.

SPECIAL ACCOMODATIONS:

If you require any special accommodations, please see me immediately following the first class so that we can work together to make sure that you have what you need to succeed in this course.

POLICY REGARDING AUDIO/VIDEO RECORDING & PICTURES:

Audio and video recording during class is strictly prohibited as is taking photographs.

ACADEMIC DISHONESTY:

Cheating will not be tolerated and may result in a failing grade, dismissal from class, and expulsion from the university. If I suspect you of cheating, I will seek the appropriate punishment under George Mason University guidelines. Please review the [George Mason University Honor System and Code](#)

REQUIRED MATERIALS: ***

1) von Mises, Ludwig. *Human Action*; Fox & Wilkes: San Francisco, 1949."

(LM)

2) Hayek, Friedrich August. *The market and other orders*. Vol. 15. University of Chicago Press, 2014.

(MOO)

3) Boettke, Peter J. *The Elgar companion to Austrian economics*. Edward Elgar Publishing, 1998. (EC)

4) Boettke, Peter. *Handbook on contemporary Austrian economics*. Edward Elgar Publishing, 2010.

(Handbook)

SCHEDULED OUTLINE OF COURSE EVENTS:

Week 1

1/23 – Introduction/Background

- (Handbook) “Introduction”
- (EC) “Introduction” (Optional)

1/25 – Historical and Philosophical Background

- Boettke, P., and Peter Leeson. “The Austrian School of Economics: 1950–2000.” In Jeff Biddle and Warren Samuels, ed. *The Blackwell Companion to the History of Economic Thought*. London: Blackwell, 2003.
https://s3.amazonaws.com/academia.edu.documents/40428192/The_Austrian_School_of_Economics_1950-2020151127-7918-1ccsmvs.pdf?AWSAccessKeyId=AKIAIWOWYYGZ2Y53UL3A&Expires=1516602416&Signature=RgdXo69eIAsY4gMSaR1dvypY7%2FY%3D&response-content-disposition=inline%3B%20filename%3DThe_Austrian_school_of_economics_1950-20.pdf
- (EC) Ch. 66 “The Methodonstreit”
- (EC) Ch. 12 “Marginal Utility”

Week 2

1/30: Methodology II

- (Handbook) Ch. 1 “Only Individuals Choose”
- (EC) Ch. 3 “Subjectivism”
- (EC) “Value Freedom”

2/1: Methodology III

- (LM) Intro - Chapter 1
- (EC) Ch. 11, “Praxeology” (Optional)
- (EC) Ch. 10, “Ideal Types in Economics” (Optional)

Week 3

2/6: Methodology I

- (LM) Chap. 2
- Hayek, F. A. v. "Scientism and the Study of Society. Part I." *Economica* 9, no. 35 (1942): 267-91. doi:10.2307/2549540.

2/8: Methodology I

- Hayek, F. A. v. "Scientism and the Study of Society. Part II." *Economica* 10, no. 37 (1943): 34-63. doi:10.2307/2549653.
- Hayek, F. A. v. "Scientism and the Study of Society. Part III." *Economica* 11, no. 41 (1944): 27-39. doi:10.2307/2549942.

Week 4

2/13: Methodology IV

- Buchanan, James M. 1964. "What Should Economists Do?" *Southern Economic Journal* 30(3): 213-222.
- (Handbook) Ch. 2 "Economics as the Study of Coordination and Exchange" (Optional)
- Buchanan, James M. "General implications of subjectivism in economics." *What Should Economists Do* (1979): 81-91: <http://mx.nthu.edu.tw/~cshwang/cs-economics/Austrian-Economics/AE03-Subjectivism/Introducing%20Subjectivism/Buchanan=General%20Implications%20of%20Subjectivism%20in%20Economics.pdf>
- (Handbook) Ch. 4, "Economic Value and Costs are Subjective"

2/15: Property and Economic Behavior

- Alchian, Armen A. "Some Economics of Property Rights." *Il Politico* 30, no. 4 (1965): 816-29. <http://www.jstor.org.mutex.gmu.edu/stable/43206327>: <http://www.jstor.org.mutex.gmu.edu/stable/pdf/43206327.pdf>
- Alchian & Demsetz, "The Property Rights Paradigm," Alchian & Demsetz: <http://10x10learning.com/wp-content/uploads/2016/05/Property-Right-paradigm-Alchain-and-Demsetz.pdf>

Week 5

2/20:

Knowledge and the Planner's Problem

- (MOO) "Economics and Knowledge" (1936),
- (MOO) "The Use of Knowledge in Society" (1945)
- Hayek, F.A. "The Pretense of Knowledge" (1974): https://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/1974/hayek-lecture.html

2/22: Prices

- (Handbook) Ch. 5 "Price: The Ultimate Heuristic"
- (EC), Ch. 22 - 25

Week 6

2/27: Economic Calculation I

- (LM)201-232; 698-711.

3/1: Economic Calculation II

- Kirzner, Israel M. "The economic calculation debate: lessons for Austrians." *The review of Austrian economics* 2, no. 1 (1988): 1-18. http://austrianeconomics.org/sites/default/files/rae2_1_1_2.pdf
- (EC) Ch. 33 "Comparative Economic Systems
- (Handbook) Ch. 6, "Without Private Property There Can Be No Rational Calculation" (Optional)

Week 7

3/6: The Competitive Market Process

- (EC) Ch. 4 "Market Process" (Optional)
- (EC) Ch. 9 "Causation and Genetic Causation in Economic Theory" (Optional)
- (EC) Ch. 21 "Profit and Loss"
- (MOO) "The Meaning of Competition" (1946),
- (MOO) "Competition as a Discovery Procedure" (1968)

3/8: Entrepreneurship

- (LM) Pg. 232 -256 "Scope and Method of Catallactics"
- Kirzner, Israel M. 1997. "Entrepreneurial Discovery and the Competitive Market Process: An Austrian Approach," *Journal of Economic Literature* 35(1): 60-85: <http://econfaculty.gmu.edu/pboettke/summer/summer%20docs/kirzner1997.pdf>

Week 8 SPRING BREAK – NO CLASS

Week 9

3/20: Spontaneous Order I

- "Unintended Consequences," Rob Norton
<http://www.econlib.org/library/Enc/UnintendedConsequences.html>
- (EC) Ch. 29 "Invisible Hand Explanations"
- (EC) Ch. 30 "Spontaneous Order"
- (MOO) "Result of Human Action but Not of Human Design" (Optional)

3/22: Spontaneous Order II

- (Handbook), Ch. 10 "How Much Order Can Spontaneous Order Create?"
- (MOO) "Notes on the Evolution of the Rules of Conduct"

Week 10

3/27: Institutions

- Hayek, F.A., "Kinds of Rationalism":
https://www.jstage.jst.go.jp/article/economics1950/15/2/15_2_1/_pdf
- Langlois, Richard N., and Geoffrey M. Hodgson. "Orders and organizations: toward an Austrian theory of social institutions." In *Austrian economics: Tensions and new directions*, pp. 165-192. Springer, Dordrecht, 1992:

https://www.researchgate.net/profile/Geoffrey_Hodgson/publication/237706119_Orders_and_Organizations_Toward_an_Austrian_Theory_of_Social_Institutions/links/00b7d52d07fd7309d6000000.pdf

3/29: Institutions

- Benson, Bruce L. 1989. "The Spontaneous Evolution of Commercial Law," *Southern Economic Journal* 55(3): 644-661.
- Menger, Carl. 1892. "On the Origins of Money," *Economic Journal* 2: 239-255.

Week 11

4/3: Political Economy I

- Bastiat, Frederic. "What is Seen and What is Not seen." http://www.econlib.org/library/Bastiat/basEss1.html#Chapter_1
- Adam Smith, *Theory of Moral Sentiments*, "Man of System" passage: <http://www.econlib.org/library/Smith/smMS6.html> (Chapter 2: VI.II.40 – VI.II.43)
- (LM) pp. 855-861.
- (EC) Ch. 49 "Interventionism"
- Ch. 50 "Political Economy of Price Controls"

4/5: Political Economy II

- Adam Smith, *Theory of Moral Sentiments* ,, passage on competing social orders <http://www.econlib.org/library/Smith/smMS6.html> (VI.II.32 – 35)
- Ch. 41 "Public Choice Economics"
- Buchanan, James M. "The pure theory of government finance: A suggested approach." *Journal of Political Economy* 57, no. 6 (1949): 496-505.
- "Protectionism and the Destruction of Prosperity": https://mises.org/system/tdf/Protectionism%20and%20the%20Destruction%20of%20Prosperity_2.pdf?file=1&type=document
- (EC) Ch. 42 "Economic Theory of Regulation"
- DiLorenzo, Thomas J. (1988) *Competition and Political Entrepreneurship: Austrian Insights Into Public Choice Theory*, *The Review of Austrian Economic* 2(1): 59-71.
- (EC) Chaps. 40 "Public Goods Theory" (Optional)

Week 12

4/10: Capital Theory and The Structure of Production I

- (Handbook) Ch. 8 "Money is Non-neutral"
- (Handbook) Ch. 9 "Some Implications of Capital Heterogeneity"
- (EC) Ch. 31 "Capital Theory"
- (EC) Ch. 32 "Austrian Business Cycle Theory"
- (EC) Ch. 68 "Hayek-Keynes Macro Debate," William Butos

4/12: Interest, Credit Expansion, and The Trade Cycle

- (LM) pp. 538-586.
- Garrison, "Overconsumption and Forced Savings in the Mises-Hayek Business Cycle (2004): <https://www.auburn.edu/~garriro/strigl.htm>

Week 13

4/17: Financial Crisis (Application)

- Friedman, Jeffrey. "A crisis of politics, not economics: Complexity, ignorance, and policy failure." *Critical Review* 21, no. 2-3 (2009): 127-183.
http://www.criticalreview.com/pdfs/Friedman_intro21_23.pdf
- Boettke, Peter J. "What Happened to " Efficient Markets"?. " *The Independent Review* 14, no. 3 (2010): 363-375. https://mp.ra.uni-muenchen.de/33600/1/MPRA_paper_33600.pdf

4/19: Development Economics (Application)

- Powell, Benjamin, and Matt Zwolinski. "The ethical and economic case against sweatshop labor: A critical assessment." *Journal of business ethics* 107, no. 4 (2012): 449-472.
https://s3.amazonaws.com/academia.edu.documents/31265696/powell_and_zwolinski_-_the_ethical_and_economic_case_against_sweatshop_labor_-_final_published_version.pdf?AWSAccessKeyId=AKIAIWOWYYGZ2Y53UL3A&Expires=1516619487&Signature=aEBIZgiYZLIMEqHY2svUCP%2FiQvI%3D&response-content-disposition=inline%3B%20filename%3DThe_Ethical_and_Economic_Case_Against_Sw.pdf
- Professor Ben Powell on 'Sweatshops' in Third World Countries (VIDEO):
https://www.youtube.com/watch?v=J_Qg5xDnNiw (Optional)

Week 14

4/24: Economics of War and Foreign Intervention

- (LM). 821-832.
- Duncan, Thomas K. and Christopher J. Coyne. 2015. "The Political Economy of Foreign Intervention," in Peter J. Boettke and Christopher J. Coyne (eds.) *The Oxford Handbook of Austrian Economics*.

4/26: Economics of Anarchy

- Rajan, Raghuram 2004. "Assume Anarchy," *Finance & Development*, September: 56-57.
- Leeson: <http://www.peterleeson.com/An-arrgh-chy.pdf>
- Coyne, "Order in the Jungle": http://www.independent.org/pdf/tir/tir_07_4_coyne.pdf

Week 15

5/1: The Uncertain Future of the Austrian Influence t

- Boettke, Peter J., *Where Did Economics Go Wrong? Modern Economics as a Flight from Reality* (1997). *Critical Review*, Vol. 11, No. 1, pp. 11-64, Winter 1997:
<http://econfaculty.gmu.edu/pboettke/summer/summer%20docs/Boettke1997.pdf>
- Boettke, Peter J., and Kyle W. O'Donnell. "The failed appropriation of FA Hayek by formalist economics." *Critical Review* 25, no. 3-4 (2013): 305-341.

5/3: Concluding Remarks

