

Econ 821.001
Fall 2019
Tuesday 4:30-7:00
Buchanan Hall
D100

History of Economic Thought II

Professor Peter Boettke

This class has been designed as a history of price theory throughout the 20th century. The core of economic as a scientific discipline is to be found, I contend, in the development of price theory and its components – the theory of choice, the theory of the competitive market economy, and the role of the price system in coordinating the plans of various actors throughout the system so that the production plans of some mesh with the consumption demands of others, and mesh is such a way that individuals can realize the gains from productive specialization and mutually beneficial trade, as well as experience the vibrancy associated with innovation and technological improvements.

The discipline of economics, or political economy, may have been born with the systemic treatment of the subject matter in the 18th century Scottish Enlightenment – namely, David Hume and Adam Smith – but it evolved over the next century with contributions by Italian, French, Germany as well as English authors. By the late 19th century, there was an international scientific community of scholars committed to the advancement of economic science. This development intensified throughout the 20th century even as the intellectual center of gravity in economic science relocated from Europe to the United States after WWII. Intellectual and financial resources were devoted to the discipline, and instruction of the discipline at the college and university level became wide-spread. Moreover, various international policy agencies devoted to economics were constituted, along with various domestic agencies tasked with regulating, managing, and fine-tuning the economic system. Economics was everywhere. But ironically, the spread of economics in the modern era over coincided with the denial of the core teachings of economics. Since 1950, as we will see there has been an explosion of creativity associated with refocusing professional attention on price theory, and the operating principles of a competitive market economy.

My goal in this course is to expose you to the core arguments in price theory – its evolution, the points of contestation, the subtle distinctions, and its potential for rending human action and interaction intelligible and for assessing alternative institutional arrangements for the consequences on human well-being. To learn price theory is to learn what it means to “think like an economist”. I also recommend that you subscribe to the YouTube channel on Chicago Price Theory.

Required Texts

I have chosen for your **required reading classic texts** and also texts that were at one time or another part of the common-knowledge of the curriculum of the trained economic thinker, but which have too often faded from memory with the passage of time. An interesting project could be to study the history of economics as a history of textbooks at the Principles of Economics level, and at the Graduate Price Theory level. That each of these works are still available either in print form or electronically should signal something to you about the staying power of the works.

Alfred Marshall, *Principles of Economics* (1891)

Phillip Wicksteed, *The Common-Sense of Political Economy*, 2 volumes (1910)

Frank Knight, *Risk, Uncertainty and Profit* (1921)

Frank Knight, *The Economic Organization* (1933)

Israel Kirzner, *The Economic Point of View* (1960)

Israel Kirzner, *Market Theory and the Price System* (1963)

Armen Alchain, *Economic Forces at Work* (1977)

James Buchanan, *What Should Economists Do?* (1979)

Other *recommended readings* include Ian Kumeakawa's *The First Serious Optimist: AC Pigou and the Birth of Welfare Economics* (2017); Steve Medema's *The Hesitant Hand* (2010); Phil Mirowski's *Machine Dreams: Economics Becomes a Cyborg Science* (2001); and Mirowski and Edward Nik-Khah's *The Knowledge We Have Lost in Information* (2017). These works will give a sense of the state of play within the field of history of economic thought and the differences in tone and style of works done influenced by the Cambridge School of "Ideas in Context" (Kumeakawa) versus those done under the influence of Science Studies and the "hermeneutics of suspicion" (Mirowski) versus those done in the tradition of the History of Economic Analysis (Medema). In addition, you may find it beneficial to read Lawrence H. White's *The Clash of Economic Ideas* (2012) as well as my *Living Economics* (2012). I will also include in your syllabus selected journal articles or chapters from books that are relevant to the discussion that week.

Semester Schedule

DATE	TOPIC	READING
27-Aug	Does Economics Have a Useful Past?	<p>George Stigler, "Does Economics Have a Useful Past?," <i>History of Political Economy</i> 1 (2) 1969: 217-230</p> <p>Kenneth Boulding, "After Samuelson, Who Needs Smith?," <i>History of Political Economy</i> 3 (2) 1971: 225-237</p> <p>Peter Boettke, Christopher Coyne and Peter Leeson, "Earw(h)ig: I Can't Hear You Because Your Ideas Are Too Old," <i>Cambridge Journal of Economics</i> 38 (3) 2014: 531-544</p> <p>Quentin Skinner, "Meaning and Understanding in the History of Ideas," <i>History and Theory</i> 8 (1) 1969: 3-53</p> <p>Naomi Oreskes and Erik Conway, "Doubt is Our Product," in <i>The Merchants of Doubt</i> (Bloomsbury, 2010): 10-35</p>
3-Sep	Neoclassical Economics Historically Contemplated	Marshall, Book I and Book V
		<p>William Baumol, "What Marshall Didn't Know: On the Twentieth Century's Contributions to Economics," <i>The Quarterly Journal of Economics</i> Vol. 115, No. 1 (Feb., 2000) 1-44</p>
10-Sep	We are all doing it, though none of us know we are doing it	Wicksteed, Vol. 1, with emphasis on chapters 3 & 5
		<p>Lionel Robbins, Introduction to Wicksteed, <i>The Common Sense of Political Economy</i> (1932)</p> <p>Frank Knight, "The Common Sense of Political Economy (Wicksteed Reprinted)," <i>Journal of Political Economy</i> 42, no. 5 (1934)</p>
17-Sep	The Chicago School	Knight 1921, chapter 1, 3, 5-6, 7-9 Knight 1933, "The Price System"
		<p>Melvin W. Reder, "Chicago Economics: Permanence and Change," <i>Journal of Economic Literature</i>, Vol. 20, No. 1 (1982) 1-38</p> <p>George Stigler, "Perfect Competition, Historically Contemplated," <i>Journal of Political Economy</i>, Vol. 65, No. 1 (1957) 1-17</p>
24-Sep	The Evolution of the Economic Way of Thinking	Kirzner 1960, chapter 1-2, 4, 6-7
		<p>D.P. O'Brien, "Lionel Robbins and the Austrian Connection," in Bruce Caldwell, ed., <i>Carl Menger and His Legacy in Economics</i> (Durham, NC: Duke University Press, 1990)</p> <p>Gary Becker (1962) "Irrational Behavior and Economic Theory," <i>Journal of Political Economy</i>, 70 (1): 1-13</p> <p>Israel Kirzner. (1962) "Rational Action and Economic Theory," <i>Journal of Political Economy</i>, 70 (4) 380-385</p> <p>Gary Becker (1963) "Rational Action and Economic Theory: A Reply," <i>Journal of Political Economy</i>, 71 (1) 82-83</p> <p>Israel Kirzner (1963) "Rational Action and Economic Theory: Rejoinder," <i>Journal of Political Economy</i>, 71 (1) 84-85</p>

1-Oct	The “Austrian” Theory of the Market Process as an Answer to the Conundrum of Neoclassical Market Theory	<p>Kirzner 1963 , chapters 1, 3, 7, 10, 11, 13</p> <p>Ken Arrow, “Toward a Theory of Price Adjustment,” Moses Abramovitz, ed., <i>The Allocation of Economic Resources</i> (Palo Alto, CA: Stanford University Press, 1959): 41-51</p> <p>Franklin Fisher, “Stability, Disequilibrium Awareness, and the Perception of New Opportunities,” <i>Econometrica</i> 49 (2) 1981: 279-317.</p>
08-Oct	Competition as Rivalrous Behavior or Competition as an End State	<p>Alchian, chapters 1-3</p> <p>F. A. Hayek, “Competition as a Discovery Procedure,” in <i>New Studies in Philosophy, Politics, Economics and the History of Ideas</i> (Chicago, IL: University of Chicago Press, 1979)</p> <p>Paul McNulty, “Economic Theory and the Meaning of Competition,” <i>The Quarterly Journal of Economics</i> Vol. 82, No. 4 (Nov., 1968), 639-656</p> <p>Caldwell, Bruce. (1997). "Hayek and Socialism." <i>Journal of Economic Literature</i> (35) 4: 1856-1890</p> <p>Kirzner, Israel. (1997). "Entrepreneurial Discovery and the Competitive Market Process." <i>Journal of Economic Literature</i> (35) 1: 60-85</p>
15-Oct	NO CLASS	
22-Oct	Economic Forces at Work	<p>Alchian, chapters 11-13; 15</p> <p>Boettke and Candela, “Alchian, Buchanan and Coase: A Neglected Branch of Chicago Price Theory,” <i>Man & Economy</i>, 1 (2) 2014</p>
29-October	Some Economics of Property Rights	<p>Alchian, chapters 5-10</p> <p>Furubotn and Pejovich. (1972). "Property Rights and Economic Theory: A Survey of the Recent Literature." <i>Journal of Economic Literature</i> (10) 4: 1137-1162</p>
5-Nov	Subjectivism of Costs and What Not	<p>Buchanan, Part 1</p> <p>Ludwig Lachmann (1976) “From Mises to Shackle,” <i>Journal of Economic Literature</i> 14 (1) 54-62</p> <p>Karen Vaughn, “Does It Matter That Costs Are Subjective?” <i>Southern Economic Journal</i> Vol. 46, No. 3 (Jan., 1980), 702-715</p>

12-Nov	Welfare Economics and The Theory of Socialism	<p style="text-align: center;">Buchanan, Part II</p> <p>Ludwig von Mises, "Economic Calculation in the Socialist Commonwealth," <i>Archiv fur Sozialwissenschaft</i> XLVII (1) 1920, reprinted in Hayek, ed., <i>Collectivist Economic Planning</i> (London, UK: Routledge, 1935)</p> <p>Kenneth Arrow, "A Cautious Case for Socialism," <i>Dissent</i> (1978): 472-480</p> <p>Mueller, Dennis. (1976). "Public Choice: A Survey." <i>Journal of Economic Literature</i> (14) 2: 395-433</p>
19-Nov	Knowledge Problems, Incentive Problems, and Political Economy	<p style="text-align: center;">Buchanan, Part III</p> <p>Peter Boettke and Kyle O'Donnell, "The Failed Appropriation of F. A. Hayek By Formalist Economic," <i>Critical Review</i> 25 (3-4) 2013</p> <p>David Levy and Sandra Peart, "Learning from Failure," <i>Journal of Economic Literature</i> 53 (3) 2015: 667-674</p> <p>Robert Sugden, "Ontology, Methodological Individualism and the Foundations of the Social Sciences," <i>Journal of Economic Literature</i>, 54 (4) 2016: 1377-1389</p>
26-Nov	NO CLASS	<p style="text-align: center;">SEA MEETINGS</p> <p>Watch Conversations with History – Gary Becker https://www.youtube.com/watch?v=dCYHihd1Liw</p>
3-Dec	Price Theory is Dead, Long Live Price Theory	<p>Makowski, Louis, and Joseph M. Ostroy. 2001. "Perfect Competition and the Creativity of the Market." <i>Journal of Economic Literature</i>, 39(2): 479-535</p> <p>Peter Boettke and Rosolino Candela, "Price theory as Prophylactic," <i>Journal of Institutional Economics</i>, 13 (3) 725-752</p> <p>Glen Weyl, "Price Theory," <i>Journal of Economic Literature</i>, forthcoming.</p>
10-Dec	FINAL EXAM	Research Paper Due at 4:30pm

Grading

This is an advanced elective course in your PhD studies. That "fact" has influenced the way that I will grade in this class. The first point of emphasis will be that you will be expected to do all the reading (required and recommended) and to be an active participant in the discussions on the material. I will hand out 4 mini-test assignments throughout the semester --- these will be 4 to 6 double spaced type pages – and will be from graduate level exams from the past at a variety of universities, and you will have 2 weeks to work on the exams – you can work in groups. You will also be responsible for a turning in a research paper in the history of modern economic thought on the last day of class. When submitting your assignments please email them to pboettke@gmu.edu and cc my assistant, Karla Moran (kmoran@chims.net). Files sent should have the following name format: Lastname_test# (or research paper)

