

George Mason University
Economics and Public Policy Problems
Spring Semester
Economics 309

Professor: Dr. Thomas Carl Rustici
Office: James Buchanan Hall Room 162
Hours: MWF 10:30-11:15 am & MW 1:00-2:45 pm & 4:30-6:30 pm
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Objectives: The lectures and readings in this course are designed to familiarize students with the fundamental relationships between the individual citizen, government, business and society. Philosophy, political theory, economic theory, and legal history are brought together to better understand public policy issues. The nature of state, firm and markets are explored in a contractual context. Also, the effects of government regulation in a wide variety of market settings are highlighted throughout the course from a "constitutional perspective."

Grades: There are two exams in this course, a mid-term and comprehensive final. There are also two required papers. The length requirement for each paper is as follows: paper 1 (5-7 pages), and paper 2 (approximately 15 pages). Grades follow a strict 90% and up = **A**; 80% to 89% = **B**; 70% to 79% = **C**; 60% to 69% = **D**; 59% and below = **F**. **THERE IS NO CURVE IN THIS COURSE.** The semester grade is weighted below:

Paper 1	15 %
Paper 2	20 %
Midterm	25 %
Final	40 %
* Project Option *	

Project Option: The project option is open to any student that desires to take 15% of the course weight off of their final exam. If the student chooses this option, their final exam is weighted only at 25% instead of 40%, and the project is worth 15%. The project includes a physical tour of both the National Archives and The Holocaust Museum in Washington D.C., and a written analysis

approximately 5-7 pages in length. Students electing this option should inform the instructor as soon as possible.

Texts: There are six books needed for successful completion of this course. These include:

- Regulation, The Constitution, and the Economy** by J. Edwards (JE)
- Microeconomics: A Free Market Approach** by Thomas Rustici, Nathan Snow and Carrie Milton (RSM)
- Lost Rights** by James Bovard (JB)
- The Road To Serfdom** by Friedrich von Hayek (FH)
- The Anti-Capitalistic Mentality** by Ludwig von Mises (LM)
- Capitalism: The Unknown Ideal** by Ayn Rand (AR)

There is one optional text suggested, **The State** by Anthony DeJasay which would be helpful for writing your first required paper. However, this book is not required. In addition, a copy of the **Microeconomics: A Free Market Approach** text will be placed on Reserve Desk at the Johnson Center Library for students to access. While students are not required to purchase this book, it is strongly encouraged that they access these readings since class lecture covers this material. In addition, some midterm exam and final exam questions will come directly from these readings. All remaining optional readings can be checked out at my office. Additional suggested books are also listed for each week but are available at the university Library.

Attendance

Regular attendance is absolutely crucial for successful completion of this course. A large portion of the test material comes from the class lecture. If for any reason regular attendance becomes difficult, inform me as soon as possible. Furthermore, I expect students to be on their best behavior while in class. This means no joking around, horseplay, excessive noise, eating or drinking etc. **Disruptive students will be removed from the class and receive an immediate "F" for the course.**

Honor

This course demands the highest standard of conduct. Cheating and plagiarism of any kind are **absolutely not tolerated**. Violation of this code results in an immediate failure for the course and a report to the GMU Honor Committee.

Additional Notes:

1. This class fulfills all or in part the writing-intensive requirement for the Economics major.
2. Total graded papers will exceed 3500 words.
3. Papers will be handed back within two weeks with my comments.

Lecture 1 The Theory and Origins of the State

- (RSM) Section 1
- (JE) Chapter 1
- (JB) Chapter 1
- (FH) Chapters 1-2
- (LM) Chapter 1
- (AR) Appendix

Robert Nozick, *Anarchy, State & Utopia*

John Rawls, *A Theory of Justice*

(* Robert L. Carneiro, *A Theory of the Origin of the State*

John Locke, *Second Treatise on Property*

Joseph P. Kalt, *Public Goods and the Theory of Government*

Richard Epstein, *Hobbesian Man, Lockean World*

Roger Pilon, *Ordering Rights Consistently: What We Do and Do Not Have Rights To*

Ronald Coase, *The Lighthouse in Economics*

Suggested Books

James Buchanan, *The Limits Of Liberty*

Thomas Hobbes, *Leviathan*

John Locke, *Second Treatise on Civil Government*

Jean Jacques Rousseau, *The Social Contract*

Franz Oppenheimer, *The State*

Robert Paul Wolfe, *In Defense of Anarchism*

Frederic Bastiat, *The Law*

R.R. Rummel, *Death by Government*

A.V. Dicey, *The Law of the Constitution*

Stanley Milgram, *Obedience to Authority*

Murray Rothbard, *Power and Market*

Class Handouts:

Magna Carta, Declaration Of Independence, The United States Constitution.

Lecture 2 The Economic Theory of the Firm

(TSM) Sections 5 & 6

(JE) Chapter 2

(JB) Chapter 2

(AR) Chapter 1

Thomas Rustici, *The Separation of Ownership From Control: The Irrelevance of the Issue*

Terry L. Anderson and P.J. Hill, *The Evolution of Property Rights: A Study of the American West*

Harold Demsetz, *Toward a Theory of Property Rights*

Jack Hirshleifer, *Capitalist Ethics - Tough or Soft?*

Aaron Director, *The Parity of the Economic Market Place*

Ronald Coase, *The Nature of the Firm*

Armen A. Alchian and Harold Demsetz, *Production, Information Costs, and Economic Organization*

Robert Hessen, *The Concessions Theory of the Corporation*

E. Fama & Michael Jensen, *Separation of Ownership and Control*

Henry Manne, *Mergers and the Market for Corporate Control*

M. Jensen & Richard Ruback, *The Market for Corporate Control*

Ludwig Von Mises, *Profit and Loss*

Suggested Books

Robert Hesson, *In Defense of the Corporation*

Robert Hesson, *Does Big Business Rule America?*

Manuel Johnson, *The Attack on Corporate America*

Daniel Fischel, *Payback*

Lecture 3 Public Choice: The Economics of Politics

(RSM) Sections 2 & 11

(JE) Chapters 3-4

(FH) Chapters 3-5

(LM) Chapter 2

(AR) Chapters 2, 19, 21

Thomas Rustici, *Public Goods and Public Choice*

R. Arnold, *Public Choice: Economic Theory Applied to Politics*

D. Lee & Robert McKnown, *Public Choice: When it is Smart to Be Ignorant*

Gordon Tullock & Richard McKenzie, *Rent-Seeking*

Stephen Walters, *Capture Theory*

William Niskanen, *Public Policy and the Political Process*
Barry Weingast and Mark Moran, *Bureaucratic Discretion or Congressional Control?*
J. Bennet & T. DiLorenzo, *The Political Economy of Tax Funded Politics*
(* Edwin Vieira : *Rights and the US Constitution: The Declension From Natural Law to Legal Positivism*
Michael Novac, *The Commercial Republicans*

Suggested Books:

James Buchanan & Gordon Tullock, *The Calculus of Consent*
Robert Tollison, *Toward a Theory Of a Rent-Seeking Society*
James Bennett and Thomas DiLorenzo, *Underground Government*
James Bennett and Thomas DiLorenzo, *Official Lies*
Mancur Olson, *The Logic of Collective Action*
Anthony Downs, *An Economic Theory Of Democracy*
George Stigler, *Chicago Studies in Political Economy*
Ludwig von Mises, *Bureaucracy*
Wilhelm von Humboldt, *The Limits of State Action*
James Madison, Alexander Hamilton & John Jay, *The Federalist Papers*

Lecture 4 The Economic Theory and History of Regulation

(RSM) Section 12
(JE) Chapter 5
(JB) Chapter 3
(FH) Chapter 6
(LM) Chapter 3
(AR) Chapters 5,6,10,11
Richard Posner, *Taxation by Regulation*
Richard A. Posner, *Theories of Economic Regulation*
George Stigler, *The Theory of Economic Regulation*
Stephen Walters, *Market Failure*
Ronald Coase, *The Federal Communications Commission*
G. Warren Nutter, *Strangulation By Regulation*
Israel Kirzner, *The Perils of Regulation*

Suggested Books:

Thomas Leonard, *Illiberal Reformers*
Richard Epstein, *Takings*
Bernard Seigan, *Economic Liberties and the Constitution*
Gabriel Kolko, *The Triumph of Conservatism*
Mark Holzer, *Sweet Land of Liberty*

Alfred Kahn, *The Economics of Regulation*
Tibor Michan, *Rights and Regulation*
Thomas Sowell, *The Vision of the Anointed*

Lecture 5 The Economics of Price Controls

(RSM) Sections 3 & 4
(JB) Chapter 4-5
(AR) Chapters 9,12,13

Charles Baird, *Rent-Control*

(*) Thomas Rustici, *A Public Choice View of the Minimum Wage*
C. Maurice and Charles Smithson, *The Energy Crisis is Over!*
Finis Welch, *Sense and Nonsense on the Minimum Wage*
Henry Hazlitt, *Government Price Fixing*
Henry Hazlitt, *How The Price System Works*
J. Hughes, *Wage and Price During the American Revolution*
Hans Sennholz, *The Formation and Function of Prices*
Friedrich von Hayek, *The Use of Knowledge in Society*

Suggested Books:

R. Schuettenger & E. Butler, *Forty Centuries of Wage Price Controls*
James Bovard, *The Farm Fiasco*
Donald McClosky, *The Applied Theory of Price*
Murray Rothbard, *Power and Market*
George Reisman, *The Government Against The Economy*
Charles Baird, *Rent Control: The Perennial Folly*
Henry Hazlitt, *Economics in One Lesson*

Lecture 6 Competition and Monopoly: The Federal Government

(RSM) Section 7
(FH) Chapter 7
(LM) Chapter 4
(AR) Chapters 3,4,7

Friedrich von Hayek, *The Meaning of Competition*

Harold Demsetz, *Economics as a Guide to Antitrust Regulation*
W. Baumol & J. Ordover, *The Use of Antitrust to Subvert Competition*
Hans F. Sennholz, *The Phantom Called "Monopoly"*
Thomas DiLorenzo, *The Origins of AntiTrust*
Robert Tollison, R. Faith & Don Levins, *AntiTrust Pork-Barrel*
Tom Bethell, *Breakfastgate: The FTC vs. The Cereal Companies*

Thomas Rustici, *Mergers, Corporate Takeovers and R & D Expenditures: A Cause for Concern?*

J. McGee, *The Myth of Predatory Pricing: The Standard Oil Case*

Thomas DiLorenzo, *Competition Except Where Prohibited by Law*

Suggested Books:

Domenick Armentano, *Antitrust and Monopoly*

Robert Bork, *The AntiTrust Paradox*

Yale Brozen, *Concentration, Mergers, and Public Policy*

Burton Fulsom, *The Myth of the Robber Barrons*

Yale Brozen, *Is Government the Source of Monopoly?*

William Woodridge, *Uncle Sam The Monopoly Man*

Lecture 7 Competition and Monopoly: The State and Local Level

(JE) Chapter 6

(AR) Chapters 14,15,16

Thomas Rustici, *The Origins of Public Utility Regulation*

Harold Demsetz, *Why Regulate Utilities?*

Milton Friedman, *Occupational Licensure*

Walter Williams, *Economic Regulation by the States*

Bernard Siegan, *The Case Against Zoning*

L. Benham, *The Effects of Advertising on the Price of Eyeglasses*

Thomas DiLorenzo, *The Myth of Natural Monopoly*

Suggested Books:

Clint Bolick, *Grassroots Tyranny*

Milton Friedman, *Capitalism and Freedom*

Bernard Seigan, *Other People's Property*

Milton Friedman, *Free To Choose*

Lecture 8 Labor Legislation: Part 1

(RSM) Section 9

(JE) Chapter 7

(JB) Chapter 6

(FH) Chapter 8

(LM) Chapter 5

(AR) Chapters 8,22

Milton Friedman, *Who Protects The Worker?*

Henry Hazlitt, *Do Unions Raise Real Wages?*

Thomas Sowell, *By the Numbers*

Stephen Walters, *Protecting the Health and Safety of Consumers and Workers*

Milton Friedman, *Monopoly and the Social Responsibility of Business and Labor*
David Rubins, *Telecommuting : Will The Plug Be Pulled?*

Suggested Books:

Friedrich Hayek, *Capitalism and the Historians*
Clark Nardinelli, *Child Labor and the Industrial Revolution*
Emerson Schmidt, *Union Power and the Public Interest*
Sylvester Petro, *Labor Policy of the Free Society*
Roscoe Pound, *Legal Immunities of Labor Unions*
Henry Hazlitt, *The Conquest of Poverty*

Lecture 9 Labor Legislation: Part 2

(RSM) Section 13

(FH) Chapter 9

Milton Friedman, *Capitalism and Discrimination*
W. Williams, *Discrimination Axioms and Discrimination Facts*
W. Williams, *What Do Differences In Median Income Mean?*
Paul McGouldrick, *Why Women Earn Less*
Jennifer Roback, *The 59 cents Fallacy*

Suggested Books:

Walter Williams, *The State Against Blacks*
Thomas Sowell, *Race and Economics*
Richard Epstein, *Forbidden Grounds: The Case Against Anti-Discrimination Laws*
Gary Becker, *The Economics of Discrimination*
Herman Beltz, *Equality Transformed*
Robert Higgs, *Competition and Coercion: Blacks in the American Economy 1865-1914*
Terry Eastland, *Ending Affirmative Action*
W. Kip Viscussi, *Fatal Tradeoffs*

Lecture 10 Consumer Protection Laws

(RSM) Section 8

(JE) Chapter 9

(JB) Chapter 7

(FH) Chapter 10

(AR) Chapters 23,24

Thomas Rustici, *The Erosion of Classical Tort Law and the Rise of Litigious Insanity*
Thomas Rustici, *Removing Individual Health Risk From Health Insurance? Incremental Regulation Versus Market Choices*
Dwight Lee & Robert McKnown, *Protecting the Consumer Against Low Prices and Lifesaving Drugs*
Milton Friedman, *Who Protects The Consumer?*
Paul Heyne, *Information, Middlemen, and Speculators*
Israel Kirzner, *Advertising*
Friedrich Hayek, *The Non Sequitur of the Dependence Effect*
Dale Geiringer, *The Efficacy of the FDA Drug Approval Process*
Edith Efron, *Behind The Cancer Terror*
P. Huber, K. Foster & D. Bernstein, *Phantom Risk: Scientific Inference and the Law*

Suggested Books:

Peter Huber, *Liability: The Legal Revolution and Its Consequences*
Edith Efron, *The Apocalyptic*
Mary Peterson, *The Regulated Consumer*
W. Kip Viscussi, *The Consumer Product Safety Commission*
Walter Olsen, *The Litigation Explosion*

Lecture 11 Environmental Regulation: Part 1

(RSM) Section 10

(JE) Chapter 8

(FH) Chapter 11

Ronald Coase, *The Problem of Social Cost*

Garret Hardin, *Tragedy of the Commons*

Dwight Lee and Robert McKnown, *Conserving Our Resources*

John Baden and Richard Stroup, *Saving The Wilderness*

(*) Robert Smith, *Resolving the Tragedy of the Commons*

William Dennis, *The Public and Private Interest in Wilderness Protection*

John Baden and Richard Stroup, *Property Rights and Natural Resource Management*

Charles Oliver, *All Creatures Great and Small*

Virginia Prostrel and Lynn Scarlett, *Talking Trash*

Wilfred Beckerman, *Resources For Growth*

Julian Simon, *Population Matters: Introduction Through Section 6*

Suggested Books:

Ronald Baily, *The True State of the Planet*
John Baden, *Earth Day Reconsidered*
Terry Anderson & Donald Leal, *Free Market Environmentalism*
Robert Smith, *Public Waste Versus Private Ownership*
Gary Liebcap, *Locking Up the Range*
Ayn Rand, *The New Left: The Anti-Industrial Revolution*
Julian Simon, *Population Matters*
Robert Balling, *The Heated Debate*

Lecture 12 Environmental Regulation: Part 2

(JE) Chapter 10

Julian Simon, *Population Matters: Sections 14-18*
Stephen Walters, *Environmental Protection and Public Policy*
Rick Henderson, *Going Mobile*
William Anderson, *Acid Test*
Ronald Bailey, *The Hole Story*
Andrew Ferguson, *Apocalypse Whenever*
Virginia Prostrel, *The Green Road to Serfdom*
Terry Anderson and Donald Leal, *Homesteading the Oceans*
Terry Anderson and Donald Leal, *Tackling the Tougher Problems*
James Gwartney, *Private Property, Freedom and the West*

Suggested Books:

Julian Simon, *The Ultimate Resource*
Herman Kahn, *The Resourceful Earth*
Dixy Lee Ray, *Trashing the Planet*
Murry Fleshbach & Alfred Fleming, *Ecocide*
Charles Maurice & Charles Smithson, *The Doomsday Myth*
Michael Fumento, *Science Under Siege*
Wilfred Beckerman, *Two Cheers for the Affluent Society*
Robert Zubrin, *The Case For Mars*

Lecture 13 Business, Taxation, and Social Policy

(JE) Chapter 11
(JB) Chapter 8
(FH) Chapters 12-13
(AR) Chapter 20

Thomas Rustici, *Estimating the Size of America's Underground Economy*

Thomas DiLorenzo, *Public Policy and the Free Economy*

C. Thies & D. Gerlowski, *Deposit Insurance: A History of Failure*

Carolyn Weaver, *The Economics and Politics of the Emergence of Social Security : Some Implications for Reform*

Steven Hayward & Erik Peterson, *The Medicare Monster*

Arthur Eckkirch, *The Sixteenth Amendment: The Historical Background*

Jeff Kaufman, *Roosevelt's WPA*

Arthur Laffer, *Government Exactions and Revenue Deficiencies*

B. Poulson, *Education and the Family During the Industrial Revolution*

Suggested Books:

Thomas Rustici, *Lessons From the Great Depression*

Charles Murray, *Losing Ground*

Marvin Olasky, *The Tragedy of American Compassion*

Peter Ferrara, *Social Security, The Inherent Contradiction*

Martin Anderson, *Welfare*

Martin Anderson, *The Federal Bulldozer: A Critical Analysis Of Urban Renewal 1949-1962*

Edward Banfield, *The Unheavenly City*

Joseph Penden & Fred Glahe, *The American Family and the State*

Terre Wasley, *What Has Government Done To Our Health Care?*

William Tucker, *The Excluded Americans*

Thomas Sowell, *Visions of the Anointed*

Class Handout: *Disturbing Trend Data: Social Security Deficit*

Lecture 14 Government, Business, Labor: National Industrial Policy

(JB) Chapter 9-10

(FH) Chapter 14 - end of book

Thomas Rustici, *Public Choice, Rent-Seeking and the Smoot-Hawley Tariff : Were Interest Groups Behaving Rationally?*

Katsuro Sakoh, *Japanese Economic Success: Industrial Policy or Free Market?*

Don Feder, *Benito and Franklin*

Don Lavoie, *Two Varieties of Industrial Policy: A Critique*

Tom DiLorenzo, *The Political Economy Of National Industrial Policy*

Edwin Vieira, *The Constitutional Chaos of Industrial Policy*

Vladimir Bukovsky, *The Soul Of Man Under Socialism*

P.T. Bauer, *Market Order and State Planning in Economic Development*

Suggested Books:

Don Lavoie, *National Economic Planning: What is Left?*
Ludwig von Mises, *Socialism*
John Flynn, *As We Go Marching*
Paul Craig Roberts, *Meltdown in the Soviet Economy*
Stephen Mosher, *Broken Earth: The Rural Chinese*
G. Warren Nutter, *Political Economy and Freedom*

Lecture 15 Freedom, Enterprise and the Next American Revolution

Terry Anderson and Peter Hill, *Constraining the Transfer Society: Constitutional and Moral Dimensions*
Isabel Paterson, *The Humanitarian With The Guillotine*

Suggested Books:

Thomas Paine, *Common Sense*
Edmund Burke, *Reflections on the Revolution in France*
Alex De Tocqueville, *Democracy in America*
Arthur Ekirch, *The Decline of American Liberalism*
Gerald Gunderson, *The Wealth Creators*
Robert Nisbet, *The Social Philosophers*
Murray Rothbard, *For a New Liberty*
Karl Popper, *The Open Society and Its Enemies Vol.1-2*

Final Exam: Wednesday May 11 1:30-4:15 p.m.

Paper Topic 1

Scene 1

You are walking down the street, and out from behind some bushes a mugger (Sam Slime) jumps out and threatens your life. He demands, "Your money or your life!" You give him your last \$50 in your wallet or purse. As Sam the mugger runs away, he turns the corner where a policeman crosses his path. You scream, "Stop that thief! He stole my money!" The policeman captures Sam the mugger. He is charged with stealing, convicted at trial, and sentenced to prison for his violent crime. Sam, our local mugger, is clearly recognized as a **criminal** and you are his **victim**.

Scene 2

Now suppose that same mugger changes tactics. Sam now votes for a politician who promises to raise your taxes \$50 to transfer it to the "disadvantaged" Sam Slime. Because he claims to be disadvantaged and in "need," both Sam and his political candidate claim he has an entitlement to the transfer of your income. Once elected, the politician introduces and passes legislation raising your taxes \$50 to give to his loyal supporter, voter Sam Slime. You protest by refusing to pay the new \$50 in taxes. The Internal Revenue Service (IRS) declares **you** a criminal. You resist Sam Slime's "mugging" of you through the political process. The police eventually come and round up you for tax evasion. **Now you are the criminal that goes to jail, and Sam Slime is your victim!**

Questions For Your Paper

Where does the commonality between these two situations break down, or, on the other hand, is there any difference? Is stealing through the political process any less morally reprehensible than stealing done individually? Finally, does regular political expropriation of another individual's income differ from slavery? Defend your answer using economic theory and ethical philosophy.

