

History of Economic Analysis

Pavel Kuchař, Fall 2015

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Tuesdays and Thursdays 9:00 am – 11:00 am

Room B-103, DCEA, University of Guanajuato

Does economics have a useful past? Or is it the case that all truly important contributions of the past are incorporated in our present theory? Is the discovery of the errors made by earlier thinkers a waste of time? In this course we will examine the efficiency of the market for ideas. We will see that there are arguments in the work of earlier thinkers which remain unincorporated in our contemporary theory and which, once incorporated, can improve our understanding of matters.

After taking this course students will be better able to contextualize economic concepts and to recognize how different schools of thought contributed to our present economic theory. Students will improve their skills in reading original economic texts, improve their critical thinking and develop their ability to discuss and persuasively argue about economic concepts.

Before entering this course students will have passed the Área I courses and level IV English language exam or have reached the corresponding TOEFL score.

Literature

- White, Lawrence H. *The Clash of Economic Ideas: The Great Policy Debates and Experiments of the Last Hundred Years*. New York: Cambridge University Press, 2012.
- Heilbroner, Robert L. *The Worldly Philosophers: The Lives, Times, and Ideas of the Great Economic Thinkers*. Revised. New York: Touchstone Pr, 1999.
- Schumpeter, Joseph A., Elizabeth Boody Schumpeter, and Mark Perlman. *History of Economic Analysis: With a New Introduction*. Revised edition. New York: Oxford University Press, 1996.
- Medema, Steven G, and Warren J Samuels. *The History of Economic Thought a Reader*. London; New York: Routledge, 2003.
- Spiegel, Henry William, and Ann Hubbard. *The Growth of Economic Thought, 3rd Ed*. 3rd edition. Durham: Duke University Press, 1991.
- Blaug, Mark. *Economic Theory in Retrospect*. 5 edition. Cambridge; New York: Cambridge University Press, 1997.
- Caldwell, Bruce. *Hayek's Challenge: An Intellectual Biography of F.A. Hayek*. University of Chicago Press, 2008.

Topics

1) Introduction. Does Economics Have a Useful Past?

Is there a reason why we should study history of economic thought? Do we need history to understand present theory? George Stigler did not think so: "It remains the task of historians of economic thought to prove to their fellow economists that the subject is worth the cost. To date that task remains unfulfilled" (Stigler, 1969, p. 229). In this section we will see that economic ideas are prone to momentary political and intellectual fashions, for this reason "ideas that are flawed can come to dominate the profession while useful ideas are left on the proverbial sidewalk of intellectual affairs ... Science self-correct, but not instantaneously" (Boettke et al. 2014, pp. 533-535).

Does Economics Have a Useful Past and do (old) ideas have consequences?

Stigler, George J. "Does Economics Have a Useful Past?" *History of Political Economy* 1, no. 2 (September 21, 1969): 217-30.

Boettke, P. J., C. J. Coyne, and P. T. Leeson. "Earw(h)ig: I Can't Hear You Because Your Ideas Are Old." *Cambridge Journal of Economics* 38, no. 3 (May 1, 2014): 531-44.

Boettke, Peter J. "[Why Read the Classics in Economics? | Library of Economics and Liberty.](#)" Accessed July 29, 2014.

White, Lawrence H. Do Economic Ideas Have Consequences (pp. 5-7) and The Structure of Intellectual Production (pp. 7-8) in *The Clash of Economic Ideas: The Great Policy Debates and Experiments of the Last Hundred Years*. New York: Cambridge University Press, 2012.

How to make good arguments?

Booth, Wayne C, Gregory G Colomb, and Joseph M Williams. Making Good Arguments (ch. 7), Making Claims (ch. 8), Assembling Reasons and Evidence (ch. 9) in *The Craft of Research*. Chicago: University of Chicago Press, 2003.

Cowen, Tyler. The Postcard Test, The Grandma Test and The Aha Principle (p. 7) in *Discover Your Inner Economist: Use Incentives to Fall in Love, Survive Your Next Meeting, and Motivate Your Dentist*. 1st ed. Plume, 2008.

McCloskey, D. N. *Economical Writing, Second Edition*. 2nd ed. Waveland Pr Inc, 1999.

2) The Economic Revolution

Economics as we know it today rose into recognized existence by means of consolidating the original stock of factual knowledge and conceptual apparatus that had slowly grown during the centuries. In this section we will look into Aristotle's ideas on value, exchange and interest: "What is the difference between value in use and value in exchange?" We will examine Aquinas' work on commerce and property: "When is commercial gain justified?" Finally, we will look into the teachings of School of Salamanca that laid foundations for the modern theory of utility and we will discuss the work of natural law philosophers such as Locke's *Venditio*: "What is the measure that ought to regulate the price for which anyone sells so as to keep it within the bounds of equity and justice?"

The Economic Revolution

Heilbroner, *Worldly Philosophers*, pp. 19-42 [R]

[“On Attributing Virtues to Markets, Analysis - BBC Radio 4.”](#) BBC. McCloskey, D. N.

Graeco-Roman Economics

Schumpeter, *History*, pp. 48-70 [R]

Aristotle. *Politics and Nichomachean Ethics* in Medema and Samuels, pp. 3-15

The Scholastic Doctors

Schumpeter, *History*, pp. 70-103 [R]

Aquinas, *Summa Theologica* in Medema and Samuels, pp. 18-29

[“The Spanish Scholastics.”](#) Huerta de Soto, J.

Natural Law Philosophers

Schumpeter, *History*, pp. 103-138 [R]

Locke, *Venditio*

Locke, *Of Civil Government* in Medema and Samuels, pp. 59-77

[“Munger on John Locke, Prices, and Hurricane Sandy | EconTalk | Library of Economics and Liberty.”](#)

3) Free Trade and Its Critics

By far the larger part of Book IV of the *Wealth of Nations*, more than 200 pages, contains a review of what Smith calls “the commercial or mercantile system.” To Adam Smith, the mercantile system was a fraud perpetrated by the business class on the public: “The interested sophistry of merchants and manufacturers confounded the common sense of mankind.” We will review the work of French physiocrats such as Quesnay and Turgot who influenced Smith and who helped to shred the entire fabric of mercantilist thought – a monstrous system that has made people believe that one can always sell more than one buys. In this section we will also look into Hume’s treatises ‘On interest’, ‘On Money’ and ‘On Balance of Trade’, we will discuss Malthus and Ricardo: Is there a “tendency in nature for population to outstrip all possible means of subsistence?” We will learn about what is known as the Say’s law and about J. S. Mill’s ideas on production and distribution.

Mercantilists, Physiocrats and the Quest for Measurement

Spiegel, *Growth*, pp. 170-201 [R]

Mun, *England's Treasures* in Medema and Samuels, pp. 32-44

Petty, *A Treatise* in Medema and Samuels, pp. 47-56

Cantillon, *Essay* in Medema and Samuels, pp. 79-94

[“Entrepreneurship.”](#) *The Concise Encyclopedia of Economics*. Casson, M.

The World of Adam Smith

Heilbroner, *Worldly Philosophers*, pp. 42-75 [R]

White, *Clash*, pp. 209-222

Mandeville, *Fable*, in Medema and Samuels, pp. 119-129

Quesnay, *Tableau*, in Medema and Samuels, pp. 97-101

Turgot, *Reflections*, in Medema and Samuels, pp. 104-116

Hume, *Political Discourses* in Medema and Samuels, pp. 135-152

[“David Hume on money.”](#) MRUniversity.

The Gloomy Presentiments

Heilbroner, *Worldly Philosophers*, pp. 75-105 [R]
White, *Clash*, pp. 141-147
Malthus, *An Essay in Medema and Samuels*, pp. 196-207
Say, *A Treatise*, in *Medema and Samuels*, pp. 245-255
Ricardo, *Principles*, in *Medema and Samuels*, pp. 259-290

The Visions of Utopian Socialists

Heilbroner, *Worldly Philosophers*, pp. 105-136 [R]
Beuchot, Mauricio. Don Vasco de Quiroga (ch. 2.3) in *Historia de La Filosofía En El México Colonial*.
Herder, 1996.

Liberalism Redeemed

Spiegel, *Growth*, pp. 367-395 [R]
White, *Clash*, pp. 191-201
J.S. Mill, *Principles*, in *Medema and Samuels*, pp. 333-367

4) Marx, Marginalist Revolution and Marshall

According to Marx, “the handmill gives you a society with the feudal lord, the steam mill, society with the industrial capitalist.” In this context a conflict develops: The feudal lord fights the rising merchant, and the guild master opposes the young capitalist. Is the the system of industrial production incompatible with the ideological superstructure built around private property? Is capitalism bound to fail? What is the labor theory of value in terms of which Marx thinks? In the Victorian era a new professordom took over main life of economic thought, the Victorian boom gave rise to a great deal of elucidators, men who would examine the workings of the system in great detail, but not men who would express doubt as to its basic merits. The marginalist revolution turns economics into the science of allocation; the purpose of economics is now to explain how equilibrium prices are arrived at, not how the relations of power and obedience that give structure to all stratified societies arise. Economics takes place of political economy.

The Inexorable System of Karl Marx

Heilbroner, *Worldly Philosophers*, pp. 136-171 [R]
Blaug, *Economic Theory*, ch. 7, pp. 215-275
White, *Clash*, pp. 30-31

The Victorian World

Heilbroner, *Worldly Philosophers*, pp. 171-213 [R]
Spiegel, *Growth*, pp. 505-507, 513-524 [R]
White, *Clash*, pp. 178-191
Bastiat, Frederick. “Selected Essays, Chapter 1, [What Is Seen and What Is Not Seen](#) | Library of Economics and Liberty.”
George, Henry. “[Progress and Poverty, Book X, Chapter 3](#) | Library of Economics and Liberty.”

Marginalist Revolution

Medema and Samuels Reader, pp. 409-411 [R]
Caldwell, *Challenge*, pp. 17-39, 39-64, 64-83 [R]

White, Clash, pp. 225-230

Marshall and the Cambridge School

Spiegel, Growth, pp. 563-74 [R]

Mirowski, Philip. "Physics and The 'marginalist Revolution'." *Cambridge Journal of Economics*, 1984, 361-79.

Veblen's Savage Society

Heilbroner, Worldly Philosophers, pp. 213-249

Veblen, Theory, in Medema and Samuels, pp. 613-645

Hodgson, G. M. "The Revival of Veblenian Institutional Economics." *Journal of Economic Issues* 41, no. 2 (2007): 325.

5) Calculation Debate, Keynes' Heresies, Hayek's Challenge and Schumpeter's Contradictions

Can a society allocate its resources and carry on economic activities without free markets as the lead institution in that allocation? Marx had provided no guidance as to how a socialist society might allocate scarce resources, he wrote about about capitalism, not about how resources would be allocated under socialism. Nor, for the most part, did socialist writers following Marx address this problem until the 1920s. Mises and Hayek argued that a fundamental defect of socialism is that it cannot correctly price the factors of production and, therefore, cannot correctly direct production; rational allocation of resources was not possible under socialism. Wherein lies the disagreement between Hayek and Keynes about business cycles? What makes economies boom and what makes them go bust? What is the principal task of economic theory according to Hayek. What is the function of a Schumpeterian entrepreneur? And how come Schumpeter agrees with Marx about the fall of capitalism?

Calculation Debate

White, Clash, pp. 32-67 [R]

Mises, Human Action, pp. 201-233, 685-712 [R]

Keynes' Heresies

Heilbroner, Worldly Philosophers (pp. 249-288) [R]

White, Clash, pp. 71-98, 126-141, 147-154 [R]

Spiegel, Growth pp. 597-610

Keynes, General Theory in Medema and Samuels, pp. 588-608

[Robert Skidelsky on Keynesian Economics - It's All About Spending](#), 2010.

Hayek's Challenge

White, Clash, pp. 155-174 [R]

Caldwell, Challenge, pp. 165-182, 205-261, 288-323 [R]

["Fear the Boom and Bust" a Hayek vs. Keynes Rap Anthem](#), 2010.

[Fight of the Century: Keynes vs. Hayek Round Two](#), 2011.

Schumpeter's Contradictions

Heilbroner, Worldly Philosophers, pp. 288-311 [R]

Swedberg, Richard. "The Economic Sociology of Capitalism Weber and Schumpeter." *Journal of Classical Sociology* 2, no. 3 (2002): 227-55.

6) Development Economics, Monetary thought and the Postwar Growth of Government

What is the current debate over development? Why do some countries remain richer than others? What was the idea behind gold standard and what has the Bretton-Woods agreement to do with it? How did the global monetary regime evolve since 1971 and what is the disagreement between Keynesians and Monetarists about inflation? How does the theory of public goods deal with free riding and market failure? Do markets fail? What are externalities and what is the Coase theorem? What can the theory of public choice teach us about rent-seeking? What have we learnt about free trade and protectionism what are the arguments for and against these positions?

Development Economics

White, Clash, pp. 267-274 [R]

Bretton Woods and International Monetary Thought

White, Clash, pp. 275-305 [R]

The Great Inflation and Monetarism

White, Clash, pp. 306-331 [R]

The Growth of Government: Public Goods and Public Choice

White, Clash, pp. 332-359 [R]

Free Trade, Protectionism, and Trade Deficits

White, Clash, pp. 360-381 [R]

Evaluation

Class participation makes up for 20% of the final grade. Students are expected to be *present and prepared* with three possible exceptions. Short reflections on the assigned readings will be required. A **midterm exam** will count for 30% of the grade, a **final exam** for 50% of the grade. In the exams students will be asked to (1) explain a particular topic, (2) interpret and contextualize a concept considering approaches of different thinkers and (3) identify a short extract and provide a commentary. The working language of the course is English.

The literature marked [R] is required for each particular class. You are not obliged to read the non-[R] marked readings although these will generally constitute the material referenced in the classroom and are thus useful for those who wish to extend their understanding of the subject matter.

The evaluation ranges from 0 to 10 through increments of 0.5. Only evaluation equal or greater than 7 counts as a pass. Students will have a chance to gain extra credit participating in a PPE workshop series (the schedule will be announced).

Policies

Unless you have an official leave of absence confirmed by the university, there is no way of making up for scheduled exams in case you cannot take them. If you do not take the exam or fail to submit an assignment in time you will receive an evaluation of zero for this exam or assignment. If you have an official leave of absence, please talk to me immediately. Even if you do not have an official leave of absence, it is generally recommended you turn in the assignment anyway. In such a case your evaluation will be discounted by 20% for each day you are late. In case you had a conflict with another exam, please approach me as soon as possible.

If you have any questions or doubts about the subject matter or about any organizational issues please consult the official social media group of this class (will be announced), ask your classmates, approach me during the class or set up an appointment with me (in this particular order!).

- Come to class on time (if you cannot avoid being late, please be discreet and considerate)
- Turn off any electronic device that might possibly make a sound during the class
- Do not eat, drink, read newspapers, magazines or similar. Do not maintain conversations irrelevant to our work in the class.

Disability assistance

If you need any special disability assistance please let me know during the first week of the semester so that I can arrange for the required help.

Academic integrity

In this class we follow the Academic Integrity Code:

„No student will lie or cheat or plagiarize or tolerate those who do so.“

At the moment of entering the University, every student assumes an obligation to maintain the code, accept the responsibility to learn and to follow the philosophy of professional ethics. It is required that students apply the code while taking exams, submitting assignments or working on their research. Ignoring the rules does not excuse any person from being subject to a corresponding punishment.

In case there is an evidence of a conduct breaching the Academic Integrity Code, the student will be assigned an evaluation of zero in the corresponding exam or assignment. Furthermore, the student will be subject to an administrative process carried out by the Committee of Honor and Justice of the DCEA which has the power to suspend or expel the student that has been found guilty.

Please do not plagiarize. Realize that if you found it online, I can do so too! What is appreciated is your effort in learning, not the possession of a solution. If you are not sure what plagiarism is, consult [this source](#).

Codex of behavior in my classroom

As a student you will:

- Contribute to a constructive conversation, be concise.
- Tackle the argument not the person, no insults.
- Remember that raising your voice does not make you any more persuasive.

As your lecturer I will:

- Guide you through the subject matter in a more interesting way.
- Consider your ideas with full attention.
- Attend to your needs so that you benefit from our time together as much as possible.