

ECO 5305

History of Economic Ideas

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Summer 2018

Office Hours: Monday-Friday 2:00-3:00, or by appointment.

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Course Objectives: (1) To use the knowledge of the history of economic ideas to better understand contemporary economic analysis. (2) To understand how economics has developed over the past 300 years from a branch of moral philosophy into an independent discipline. (3) To develop writing and critical thinking skills.

Grading: Grades will be based on a final examination (25 percent); a paper on the development of economic analysis since 1950, based on a reading of mainstream economics journal articles (35 percent); and a research paper on the role of equilibrium analysis in twenty-first century economics (40 percent). All assignments must be handed in on real paper. Electronic submissions of assignments (such as via e-mail) are not acceptable.

Final Examination: The final exam will be given in class on June 21.

Reading Material: A good textbook is Harry Landreth and David C. Colander, *History of Economic Thought* (Boston: Houghton Mifflin). The book is in its fourth edition, but earlier editions are nearly equally informative, and less expensive. The best reading material for understanding the ideas of earlier economists is their own original writing, much of which is in the public domain and available on-line. The course outline also lists good reference material.

Project on Economic Analysis in Major Journals: Write a paper, in the format of an economics journal article, discussing the changes in economic analysis in the past 70 years, based on your analysis of journal articles in the *American Economic Review*, *Journal of Political Economy*, and *Quarterly Journal of Economics*. You may select any one of these journals, or look at two or all three, to see how economic analysis has changed since the 1950s. You should compare the type of research that appears in the journals in the 21st century with that of the 1950s through the 1970s and beyond. You can examine the methods employed in the articles (mathematical and statistical analysis, for example), the subject matter (including what fields, such as international trade, industrial organization, etc., are represented), the mix between pure theory and policy-oriented articles, and other interesting differences in the type of work that appeared in the journals then compared to now. You can organize your analysis by adding charts and tables to your paper, for example, to show how fields covered in articles have changed, or to categorize mathematical and statistical techniques employed. You can limit your analysis to a particular field if you want, to show, for example, how labor economics or industrial organization research has changed over that time period. Based on an examination of articles in the 1950s and the 1970s, would you say that economic analysis changed more from the 1950s to the 1970s, or from the 1970s to today? Your ultimate goal in the paper is to understand and explain how the subject matter and methodology of economics has changed over the past 60 years, and to gain some insight into why those changes took place. You may want to look at the first two articles in the February 2011 *American Economic Review* for some background. Your paper is due on Friday, June 8.

Research Paper: Your research paper should discuss the role of equilibrium concepts in twenty-first century economics from the perspective of the history of economic ideas. You should

reference and discuss the significance of the marginal revolution in the late 1800s on the direction of economics, and discuss the development of equilibrium concepts through the twentieth century. Discuss how recent developments in areas such as the new institutional economics, behavioral, and experimental economics impact the role of equilibrium in economics. Explain the methodology of twentieth century equilibrium economics and its usefulness in understanding economic phenomena. How do you think that the equilibrium framework within which economic analysis takes place affects the views of economists on public policy issues? Looking ahead, what are the alternatives to this equilibrium framework? In what ways do you see these alternatives affecting the future development of economics? Is the equilibrium framework the only foundation for economic analysis, or do you envision it being augmented (or even replaced) by other concepts? Based on your analysis, what is your best guess about the development of economic analysis in the twenty-first century? Your paper will require some creative thinking on your part, but an excellent paper will draw heavily on the existing economics literature and reference both the literature supporting an equilibrium approach to economics and the literature offering alternatives.

Papers should be referenced and footnoted in the style and manner you would use to write a journal article. Your papers are due on Wednesday, July 18.

Honor Code: You are expected to do your own work. Please list all references you use for your papers. Do not list references you did not use. For references that come from Strozier Library, list the call number. For other references, state where you got the reference. List URLs and dates accessed for web references.

Disabled Students: Students with disabilities requesting academic accommodations should register with the Student Disability Resource Center, and provide a letter from SDRC indicating what accommodations are requested.

Course Outline: The course will follow the course outline, with a few exceptions. First, there are more topics than can be reasonably covered in a semester, so expect some sketchy coverage in places, and perhaps some omitted topics. Second, we may jump ahead (and back) at times to relate earlier ideas to later ideas. The outline is an approximately chronological outline of major figures in the history of economic ideas, with the qualifications that writers prior to the 18th century are rarely represented, and there is some question about who should be represented in 20th century economics. For some of the topics, references are given. The references make good reading for those who are interested, and give an indication of the source material for some of the lectures. For reading original material, check out <http://socserv2.socsci.mcmaster.ca/~econ/ugcm/3113/index.html>, which is a wonderful source for writings by the original authors, and some commentary, in the history of economic ideas. Another good site is <http://cepa.newschool.edu/het/> which has information on a large number of economists through history.

Course Outline

1. Economic Methodology: Positivism and Other Methodological Approaches

- A. Uses and limits of models to understand real economic phenomena.
- B. Positivism.
- C. Other methodological approaches.
- D. Empirical evidence.

References:

Milton Friedman, *Essays in Positive Economics* (Chicago: University of Chicago Press, 1953).
 Randall G. Holcombe, *Economic Models and Methodology* (New York: Greenwood, 1989), chs. 2,3,5.

- Robert Lucas, "Econometric Policy Evaluation: A Critique," in Karl Brunner and Alan Meltzer, eds. *The Phillips Curve and Labor Markets*, Carnegie-Rochester Conference Series on Public Policy 1 (New York: American Elsevier, 1976), pp. 19-46.
- Donald M. McCloskey, "The Rhetoric of Economics," *Journal of Economic Literature* 21, no. 7 (June 1983), pp. 481-517.
- Paul M. Romer, "Mathiness in the Theory of Economic Growth," *American Economic Review* 105, no. 5 (May 2015), pp. 89-93.
- Edward E. Leamer, "Let's Take the Con Out of Econometrics," *American Economic Review* 75, no. 3 (1983), pp. 31-43.
- J. Bradford DeLong and Kevin Lang, "Are All Economic Hypotheses False?" *Journal of Political Economy* 100, no. 6 (December 1992), pp. 1257-1272.

2. Economic Analysis: Ideas and History

- A. Neoclassical and institutional economics.
- B. Are all useful ideas in the past of economics embodied in current economics?
- C. Mises: Economics is the youngest of the sciences.

References:

- Ludwig von Mises, *Human Action*, Scholar's Edition (Auburn, AL: Ludwig von Mises Institute, 1998), pp. 1-3.
- Friedrich A. Hayek, "The Use of Knowledge in Society," *American Economic Review* 35 (September 1945), pp. 519-530. (Reprinted in *Individualism and Economic Order*.)
- Oliver E. Williamson, "A Comparison of Alternative Approaches to Economic Methodology," *Journal of Institutional and Theoretical Economics* 146, No. 1 (March 1990), pp. 61-71.
- Oliver E. Williamson, "The New Institutional Economics: Taking Stock and Looking Ahead," *Journal of Economic Literature* 38, no. 3 (September 2000), pp. 595-613.
- Oliver E. Williamson, "The Theory of the Firm as Governance Structure: From Choice to Contract," *Journal of Economic Perspectives* 16, no. 3 (Summer 2002), pp. 171-195.
- Meir Kohn, "Value and Exchange," *Cato Journal* 24, no. 3 (Fall 2004), pp. 303-339.
- James M. Buchanan, "What Should Economists Do?" *Southern Economic Journal* 30, no. 3 (January 1964), pp. 213-222.
- John B. Davis, "The Turn in Economics: Neoclassical Dominance to Mainstream Pluralism?" *Journal of Institutional Economics* 2, no. 1 (2006), pp. 1-20.
- Daron Acemoglu, Simon Johnson, and James A. Robinson, "Institutions as the Fundamental Cause of Long-Run Growth," in Philippe Aghion and Steve Durlauf, Eds., *Handbook of Economic Growth* (Amsterdam: Elsevier, 2005), available on-line at <http://emlab.berkeley.edu/users/chad/handbook9sj.pdf>
- Kenneth J. Arrow et al. "100 Years of the *American Economic Review*: The Top 20 Articles." *American Economic Review* 101, no. 1 (February 2011), pp. 1-8.
- Robert A. Margo, "The Economic History of the *American Economic Review*: A Century's Explosion of Economics Research." *American Economic Review* 101, no. 1 (February 2011), pp. 9-35.
- Daniel S. Hamermesh, "Six Decades of Top Economics Publishing: Who and How?" *Journal of Economic Literature* 51, no. 1 (March 2013), pp. 162-172.
- Peter J. Boettke, Christopher J. Coyne, and Peter T. Leeson, "Earw(h)ig: I Can't Hear You Because Your Ideas Are Old." *Cambridge Journal of Economics* 38 (2014), pp. 531-544.

3. Three Centuries, Three Major Issues in the History of Economic Ideas

- A. 18th century: How is wealth created?
- B. 19th century: What determines value?
- C. 20th century: What are the properties of economic equilibrium?

4. Before Adam Smith

- A. The creation of economic society
- B. Mercantilists & Thomas Mun (1571-1641).
- C. Physiocrats & Francois Quesnay (1694-1774).

D. Other economists.

1. Richard Cantillon (1680-1734).
2. Sir William Petty (1623-1687).
3. John Locke (1632-1704).
4. David Hume (1711-1776).
5. Spanish economists (1750-1800).

References:

- Robert L. Heilbroner, *The Making of Economic Society*, 5th ed. (Englewood Cliffs, NJ: Prentice-Hall, 1975).
- Robert L. Heilbroner, *The Worldly Philosophers*, Rev. 7th ed. (New York: Simon & Schuster, 1999).
- Harold J. Berman, *Law and Revolution: The Formation of Western Legal Tradition* (Cambridge: Harvard University Press, 1983).
- David S. Landes, *The Wealth and Poverty of Nations: Why Some are So Rich, and Some So Poor* (New York: W.W. Norton & Company, 1998).
- Margaret Schabas and Carl Wennerlind, "Retrospective: Hume on Money, Commerce, and the Science of Economics," *Journal of Economic Perspectives* 25, no. 3 (Summer 2011), pp. 217-230.

5. Adam Smith (1723-1790) and the *Wealth of Nations* (1776)

References:

- Allyn Young, "Increasing Returns and Economic Progress," *Economic Journal* 38 (December 1928): 527-542.
- Kaldor, Nicholas, "The Irrelevance of Equilibrium Economics," *Economic Journal* 82 (1972): 1237-1255.
- Jerry Evensky, "Adam Smith's Lost Legacy," *Southern Economic Journal* 67, no. 3 (January 2001): 497-517.
- Jerry Evensky, "Adam Smith's *Theory of Moral Sentiments*: On Morals and Why They Matter to a Liberal Society of Free People and Free Markets," *Journal of Economic Perspectives* 19, no. 3 (Summer 2005): 109-130.
- Nava Ashraf, Colin F. Camerer, and George Loewenstein, "Adam Smith, Behavioral Economist," *Journal of Economic Perspectives* 19, no. 3 (Summer 2005): 131-145.

6. Classical Economics I: Thomas Robert Malthus (1766-1834) and David Ricardo (1772-1823)

Reference:

- Robert Dorfman, "Thomas Robert Malthus and David Ricardo," *Journal of Economic Perspectives* 3, no. 3 (Summer 1989): 153-164.

7. Smith versus Malthus and Ricardo

8. Classical Economics II

- A. Jean-Baptiste Say (1776-1832)
- B. Jeremy Bentham (1748-1832)
- C. Nassau Senior (1790-1864)
- D. Hermann Heinrich Gossen (1810-1858)
- E. Henry George (1839-1897)
- F. John Stuart Mill (1806-1873)

9. Utopian Socialism

- Robert Owen (1771-1858)
- Claude Henri de Rouvroy de Saint-Simon (1760-1825)
- Charles Fourier (1772-1837)

10. Karl Marx (1818-1883)

11. The Marginal Revolution

1. Carl Menger (1840-1921)
2. William Stanley Jevons (1835-1882)
3. Leon Walras (1834-1910)

References:

- James M. Buchanan, *Cost and Choice: An Inquiry in Economic Theory* (Chicago: Markham, 1969).
- Robert B. Ekelund, Jr., and Robert F. Hebert, "Retrospectives: The Origins of Neoclassical Microeconomics," *Journal of Economic Perspectives* 16, no. 3 (Summer 2002), pp. 197-215.

12. Alfred Marshall (1842-1924)

Reference:

- Alfred Marshall, *Principles of Economics*, 8th ed. (London: Macmillan, 1920 [1st ed. 1890]).

13. 20th Century Innovations

A. Institutionalists

1. Thorstein Veblen (1857-1929)
2. Wesley Clair Mitchell (1874-1948)
3. John R. Commons (1862-1945)

References:

- Rutherford, Malcolm, "Institutional Economics: Then and Now." *Journal of Economic Perspectives* 15, no. 3 (Summer 2001): 173-194.
- Thorstein Veblen, *The Theory of The Leisure Class* (Boston: Houghton Mifflin, 1973 [orig. 1899]).
- Wesley Clair Mitchell, *Business Cycles* (Berkeley: University of California Press, 1913).
- John R. Commons, *The Legal Foundations of Capitalism* (Madison: University of Wisconsin Press, 1924).

B. Imperfect Competition

1. Edward Chamberlin (1899-1967)
2. Joan Robinson (1903-1983)

References:

- Edward Chamberlin, *The Theory of Monopolistic Competition* (Cambridge: Harvard University Press, 1933).
- Joan Robinson, *The Economics of Imperfect Competition* (London: Macmillan, 1933).

C. Joseph Schumpeter (1883-1950)

References:

- Joseph A. Schumpeter, *The Theory of Economic Development* (Cambridge, MA: Harvard University Press, 1934 [1st German ed. 1912]).
- Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy* (New York: Harper & Brothers, 1942).
- Muriel Dal Pont Legrand and Harald Hagemann, "Do Productive Recessions Show the Recuperative Powers of Capitalism? Schumpeter's Analysis of the Cleansing Effect." *Journal of Economic Perspectives* 31, no. 1 (Winter 2017). Pp. 245-256.

D. Knut Wicksell (1851-1926)

References:

- Knut Wicksell, *Lectures on Political Economy*, 2 vols. (New York: Macmillan, 1934, 1935 [orig. 1901, 1906]).
- Knut Wicksell, *Interest and Prices* (New York: Augustus M. Kelley, 1962 [orig. 1898]).
- Knut Wicksell, "A New Principle of Just Taxation," in Richard A. Musgrave and Alan T. Peacock, eds., *Classics in the Theory of Public Finance* (New York: St. Martin's Press, 1967 [orig. 1896]), pp. 72-118.

E. Philip Wicksteed (1844-1927)**Reference:**

Philip H. Wicksteed, *The Common Sense of Political Economy* (London: Routledge, 1933 [orig. 1910]).

F. Vilfredo Pareto (1848-1923)**Reference:**

Vilfredo Pareto, *Manual of Political Economy* (New York: Augustus M. Kelley, 1971 [orig. 1906]).

G. A.C. Pigou (1877-1959)**Reference:**

A.C. Pigou, *The Economics of Welfare*, 2nd ed. (London: Macmillan, 1924).

H. Macroeconomics

1. Irving Fisher (1867-1947)

References:

Irving Fisher, *The Purchasing Power of Money: Its Determination and Relation to Credit, Interest and Crises*, rev. ed. (New York: Macmillan, 1926).

Irving Fisher, *The Rate of Interest* (New York: Garland, 1982).

2. John R. Hicks (1904-1989)

References:

John R. Hicks, *Value and Capital* (Oxford: Clarendon Press, 1946).

John R. Hicks, "Mr. Keynes and the 'Classics'; A Suggested Interpretation," *Econometrica* 5 (April 1937), pp. 147-159.

3. Wassily Leontief (1906-1999)

Reference:

William H. Miernyk, *The Elements of Input-Output Analysis* (New York: Random House, 1965).

14. John Maynard Keynes (1883-1946) and the Keynesian Revolution**References:**

J. Ronnie Davis, *The New Economics and the Old Economists* (Ames: Iowa State University Press, 1971).

Axel Leijonhufvud, *On Keynesian Economics and the Economics of Keynes* (London: Oxford University Press, 1968).

Paul A. Samuelson and Robert M. Solow, "Analytical Aspects of Anti-Inflation Policy," *American Economic Review* 40 (May 1960): 177-194.

15. Macroeconomics and Macroeconomic Policy

A. Keynesian economics and IS-LM.

B. General equilibrium models

References:

N. Gregory Mankiw, "The Macroeconomist as a Scientist and Engineer," *Journal of Economic Perspectives* 20, no. 4 (Fall 2006), pp. 29-46.

Roger E. Backhouse and David Laidler, "What Was Lost with IS-LM?" *History of Political Economy* 36, Annual Supplement (January 2005), pp. 25-56.

John R. Hicks, "Mr. Keynes and the 'Classics'; A Suggested Interpretation," *Econometrica* 5 (April 1937), pp. 147-159.

Francesco Forte and James M. Buchanan, "The Evaluation of Public Services," *Journal of Political Economy* 69, no. 2 (April 1961), pp. 107-121.

Randall G. Holcombe, "National Income Accounting and Public Policy," *Review of Austrian Economics* 17, no. 4 (2004), pp. 387-405.

Stephen Skowronek, *Building a New American State: The Expansion of National Administrative Capabilities, 1877-1920* (New York: Cambridge University Press, 1982).

16. The Austrian School

- A. Menger (1840-1921)
- B. Friedrich von Wieser (1851-1926)
- B. Bohm-Bawerk (1851-1914)
- C. Mises (1881-1973)
- D. Hayek (1899-1992)
- E. Rothbard (1926-1995), Kirzner (1930-)

References:

Randall G. Holcombe, ed. *15 Great Austrian Economists* (Auburn AL: Ludwig von Mises Institute, 1999).

Israel Kirzner, *Competition and Entrepreneurship* (Chicago: University of Chicago Press, 1973).

Murray N. Rothbard, *Man, Economy, and State* (Los Angeles: Nash, 1962).

17. Austrian Business Cycle Theory

References:

Friedrich A. Hayek, *Prices and Production*, 2nd ed. (New York: Augustus M. Kelley, 1967 [1935]).

Friedrich A. Hayek, *Monetary Theory and the Trade Cycle* (New York: Augustus M. Kelley, 1975 [1933]).

Roger W. Garrison, *Time and Money: The Macroeconomics of Capital Structure* (London: Routledge, 2001).

18. 20th Century Equilibrium Economics

- A. Milton Friedman (1912-2006)
- B. Paul Samuelson (1915-2009)

References:

Nicholas Kaldor, "The Irrelevance of Equilibrium Economics," *Economic Journal* 82 (December 1972), pp. 1237-1255.

Allyn A. Young, "Increasing Returns and Economic Progress," *Economic Journal* 38 (December 1928), pp. 527-542.

John R. Hicks, *Value and Capital*. Oxford: Oxford University Press, 1939.

Paul A. Samuelson, *Foundations of Economic Analysis*. Cambridge: Harvard University Press, 1947.

Paul A. Samuelson, *Economics*. New York: McGraw-Hill, 1948.

Kenneth J. Arrow and Gerard Debreu, "The Existence of An Equilibrium for a Competitive Economy," *Econometrica* 22, no. 3 (July 1954), pp. 265-290.

Meir Kohn, "Value and Exchange," *Cato Journal* 24, no. 3 (Fall 2004), pp. 303-339.

Milton Friedman, *Essays in Positive Economics*. Chicago: University of Chicago Press, 1953.

_____. *A Theory of the Consumption Function*. Princeton, NJ: Princeton University Press, 1957.

_____. "The Role of Monetary Policy," *American Economic Review* (March 1968).

_____. *Capitalism and Freedom*. Chicago: University of Chicago Press, 1962.

_____. *Free to Choose*. New York: Harcourt, 1980.

Milton Friedman and Anna Schwartz, *A Monetary History of the United States: 1867-1960*. Princeton, NJ: Princeton University Press, 1963.

Roger E. Backhouse, "Revisiting Samuelson's *Foundations of Economic Analysis*," *Journal of Economic Literature* 53, no. 2 (June 2015), pp. 326-350.

N. Gregory Mankiw and Ricardo Reis, "Friedman's Presidential Address in the Evolution of Macroeconomic Thought," *Journal of Economic Perspectives* 32, no. 1 (Winter 2018), pp. 81-96.

Robert E. Hall and Thomas J. Sargent, "Shot-Run and Long-Run Effects of Milton Friedman's Presidential Address," *Journal of Economic Perspectives* 32, no. 1 (Winter 2018), pp. 121-134.

19. Welfare Economics

- A. Social indifference curves
- B. Welfare economics; market failure
- C. Economic man: Neoclassical assumptions imply public-spirited behavior

References:

- Paul A. Samuelson, "Social Indifference Curves," *Quarterly Journal of Economics* 70 (1956), pp. 1-22.
- J. de V. Graaf, *Theoretical Welfare Economics* (Cambridge: Cambridge University Press, 1957).
- Francis M. Bator, "The Simple Analytics of Welfare Maximization," *American Economic Review* 67 (1957), pp. 22-59.
- Francis M. Bator, "The Anatomy of Market Failure," *Quarterly Journal of Economics* 72 (August 1958), pp. 351-379.
- R.G. Lipsey and Kelvin Lancaster, "The General Theory of Second Best," *Review of Economic Studies* 24, no. 1 (1956), pp. 11-32.

20. Evolutionary Economics

- A. Evolution versus equilibrium
- B. Path dependency
- C. The evolutionary process
 - 1. Differentiation (mutation)
 - 2. Selection
 - 3. Amplification

References:

- Alchian, Armen A. "Uncertainty, Evolution, and Economic Theory." *Journal of Political Economy* 58, no. 3 (June 1950): 211-222.
- Nelson, Richard R., and Sidney G. Winter. *An Evolutionary Theory of Economic Change*. Cambridge, MA: Belknap, 1982.
- Arthur, W. Brian. "Competing Technologies, Increasing Returns, and Lock-In by Historical Events." *Economic Journal* 99 (March 1989): 116-131.
- Beinhocker, Eric D. *The Origin of Wealth: Evolution, Complexity, and the Radical Remaking of Economics*. Boston: Harvard Business School Press, 2006.