

ECON 274: HISTORY OF ECONOMIC THOUGHT

University of Pennsylvania: Spring 2020

Instructor:	Fernando Arteaga	Time:	T & R 13:30 - 14:50
TA:	Artem Kuriksha	Place:	MOOR 216

*“Someone said: ‘The dead writers are remote from us because we know so much more than they did.’
Precisely, and they are that which we know”
(T.S. Elliot, 1919)*

1 Course Overview

How prices are set? Why do firms exist? Is there an optimal way to organize society? Why some societies are richer than others? Is usury bad? Is credit money? Why is economics deemed to be the dismal science? This course will study and discuss these and many other important perennial micro and macroeconomic questions. The emphasis will be put on exploring these issues through a historical perspective. We will address how intellectuals of the past approached these topics, and more importantly, we will assess how they still influence the way we think about economics today.

The class serves as complement of standard economics courses. The aim is to broaden the student’s understanding of economic issues—by reflecting on how past thinkers, and the debates in which they were involved, created the current common pool of knowledge in our profession. The class is organized in a topical rather than chronological way. We will survey several themes: from some technical issues like the Cambridge capital controversies to more epistemological questions like trying to answer what is the proper role of an Economist.

The course will help develop critical thinking, oral, and written skills. You will read a lot, write a lot, and think a lot. In exchange for all your hard work (and because of it, too) I promise we will have a rewarding and fulfilling class.

2 Instructor

A few words about me. I am originally from northern Mexico. I received a B.Sc. in Economics from UNAM in Mexico City. I got my Ph.D. in Economics from George Mason University in Virginia. My scholarly work focuses on economic history, the economics of institutions, and development economics. I want to be available for your questions as much as possible. You can always ask questions in or after class. Also, I will hold office hours. The best way to reach me is via email at arteaga@sas.upenn.edu. I usually answer questions via email within a day. Also, I will hold office hours at my office at PCPE 533. Besides, Artem will also hold office hours every week. Details will be announced via Canvas.

3 Readings

We will mainly be reading journal articles. I recommend you to get the following book, as a many of texts we will be studying are compiled in it.

Joseph Schumpeter (1991e). *Joseph Schumpeter. The Economics and Sociology of Capitalism*. Ed. by Richard Swedberg. Princeton, NJ: Princeton University Press

In any case, all of the readings will be available for download in Canvas. In addition, they can also be downloaded from either JSTOR or alternative academic repositories, all of which can be accessed through Penn library. You are required to acquire the papers and read them before the class in which they are covered.

4 Course Requirements and Grades

The evaluation of this class will be based on two items: two midterms, and class participation.

4.1 Exam

There will be two closed-book midterms. The first midterm will be on March 5 and the second midterm will be on April 28th.

Each midterm will consist of three essay type questions, each worth 20 points, and four short questions, each worth 10 points, for a total of 100 points. As we get closer to the exam, we will present some examples of each type of questions.

If you have a problem with the dates of the midterms, please let me know *before* January 30. After January 30, we will NOT accommodate your requests. Note that travel, job interviews, or non-emergency family matters are NOT acceptable reasons to re-arrange the exam.

4.2 Class Participation

At the beginning of each lecture, I will require one or several volunteers (depending on the length of the reading) to summarize the readings (or part of, depending on the day) for the day and offer critical remarks. If there are several volunteers, I will randomize among them (with a preference toward those who have not participated yet).

After the student's presentation, I will ask for other set of volunteers to ask relevant questions based on the reading. The idea is to create a dialogue.

5 Grading Standards

Students taking the course for a letter grade will receive grades from A through D or an F. Students that take the class on a Pass/Fail basis need at least a D+ to pass the class. Poor performance is not a valid reason for an incomplete (I). An incomplete is given only under exceptional circumstances and requires the satisfactory completion of a substantial part of the course. Any incomplete must be arranged *before* April 1.

The grade will be equal, in case you participated in class:

$$\text{Points} = 0.5 \times \text{best midterm} + 0.25 \times \text{worst midterm} + 0.25 \times \text{class participation}$$

If you did not,

$$\text{Points} = 0.5 \times \text{best midterm} + 0.5 \times \text{worst midterm}$$

Note that the grading system is designed to help those who participate in class: their worst midterm will only weight of 25 participation than grading the midterms). Furthermore, the exam will cover the material in the readings. You will need to go over the readings in any case. Therefore, participating in the class is your best response.

The mapping of points into letter grades is given by:

Table 1: Grading Scale (As Percentage)

A +	96-100	B	80-83.75	C-	64-67.75
A	92-95.75	B-	76-79.75	D+	60-63.75
A -	88-91.75	C+	72-75.75	D	56-59.75
B +	84-87.75	C	68-71.75	F	0-55.99

6 Course Outline

1. The Scope of Economics (*January 21 & 23*)

- Etymological definition • Classical definition • Economics as the logic of choice? • Normative vs positive alleged distinctions • The Dismal Science? •

Readings:

Lionel Robbins (1932). *An Essay on the Nature and Significance of Economic Science*. London: MacMilland and Co.[Chapter 1]

James M Buchanan (1964). “What Should Economists Do?” In: *Southern Economic Journal* 30.3, pp. 213–222

2. Price Theories (*January 28 & 30*)

- Virtue Ethics • Physiocratic theories of value • Labor theories of value • Cost production theories • Subjectivism and Marginalism •

Readings:

John Baldwin (1959). “The Medieval Theories of the Just Price: Romanists, Canonists, and Theologians in the Twelfth and Thirteenth Centuries”. In: *Transactions of the American Philosophical Society* 49.4, p. 92

Friedrich Hayek (1935). “Socialist Calculation: The Nature and History of the Problem”. In: *Collectivist Economic Planning*. London: George Routledge & Sons

3. Trade (*February 4 & 6*)

- Division of labor • Is it a zero-sum game? • Mercantilism • Classical Economics • Comparative Advantage •

Readings:

Adam Smith (1981). *An Inquiry into the Nature and Causes of the Wealth of Nations*. Ed. by R.H. Campbell and A.S. Skinner. Vol. 1. Indianapolis, IN: Liberty Fund [Book IV, Ch 2]

Alexander Hamilton (1791). *Report on Manufactures*. Tech. rep. Washington, DC

4. Wages (*February 11 & 13*)

- Malthusian constraints • Ricardian constraints • Marxian constraints • Labor as mpL •

Readings:

Samuel Hollander (June 1984). “The Wage Path in Classical Growth Models: Ricardo, Malthus, and Mill”. In: *Oxford Economic Papers* 36.2, pp. 200–212

William Baumol (1983). “Marx and the Iron Law of Wages”. In: *American Economic Review: Papers and Proceedings* 73.2, pp. 303–308

David Levy (June 1978). “Some Normative Aspects of the Malthusian Controversy”. In: *History of Political Economy* 10.2, pp. 271–285

5. Capital and Capitalism

(*February 18 & 20*)

- Bohm-Bawerk’s Theory of Capital • Cambridge Capital Controversies • Switching and Reswitching • Definitions of Capitalism •

Readings:

Joseph Schumpeter (1991b). “Can Capitalism Survive?” In: *Joseph Schumpeter. The Economics and Sociology of Capitalism*. Ed. by Richard Swedberg. Princeton, NJ: Princeton University Press, pp. 298–315

Daron Acemoglu and James A. Robinson (2015). “The Rise and Decline of General Laws of Capitalism”. In: *The Journal of Economic Perspectives* 29.1, pp. 3–28

Avi J Cohen and G. C Harcourt (Feb. 2003). “Retrospectives Whatever Happened to the Cambridge Capital Theory Controversies?” In: *Journal of Economic Perspectives* 17.1, pp. 199–214

6. Money and Finance (*February 25 & 27*)

- What is money? • Private vs Public provision of Money • Credit as money? •

Readings:

Vera Smith (1936). “The Rationale of Central Banking and the Free Banking Alternative”. PhD in Economics Dissertation. London: London School of Economics [Chapters 1,7,10]

Jesus Fernandez-Villaverde (2018). “Cryptocurrencies: A Crash Course in Digital Monetary Economics”

7. Review & Midterm Exam (*March 3 & 5*)**8. Theory of the Firm** (*March 17 & 19*)

- Knightian Risk Theory • Coasian Transaction Costs theory • Alchian-Demsetz principal-agent theory •

Readings:

- Ronald Coase (1937). “The Nature of the Firm”. In: *Economica* 4.16, pp. 386–405
- Armen Alchian and Harold Demsetz (1972). “Production, Information Costs, and Economic Organization”. In: *American Economic Review* 62.5, pp. 777–795

9. Technology (*March 24 & 31*)

- Technology as part of TFP • Sources of innovation and technological change • Ideas as non excludable and non rivalrous • Increasing returns to scale • Creative destruction •

Readings:

- Kenneth Arrow (1962). “Economic Welfare and the Allocation of Resources for Invention”. In: *The Rate and Direction of Inventive Activity: Economic and Social Factors*, pp. 609–626
- Nathan Rosenberg (1976). “On Technological Expectations”. In: *Economic Journal* 86.343, pp. 523–535
- Brian Arthur (1990). “Positive Feedbacks in the Economy”. In: *Scientific American*, pp. 92–99

10. Entrepreneurship (*April 2 & 7*)

- Is there a role for the entrepreneur in standard economics? • Serendipity vs epiphany characterizations • Productive and unproductive entrepreneurial opportunities •

Readings:

- Joseph Schumpeter (1991c). “Comments on a Plan for the Study of Entrepreneurship”. In: *Joseph Schumpeter. The Economics and Sociology of Capitalism*. Ed. by Richard Swedberg. Princeton, NJ: Princeton University Press, pp. 406–428
- William Baumol (1990). “Entrepreneurship: Productive, Unproductive, and Destructive”. In: *Journal of Political Economy* 98.5, pp. 893–921

11. Institutions (*April 9 & 14*)

- Parameters of economic organization • Evolutionary economics • Neo institutional economics • Transaction costs •

Readings:

- Thorstein Veblen (1909). “The Limitations of Marginal Utility”. In: *Journal of Political Economy* 17.9, pp. 620–636
- Joseph Schumpeter (1991a). “American Institutions and Economic Progress”. In: *Joseph Schumpeter. The Economics and Sociology of Capitalism*. Ed. by Richard Swedberg. Princeton, NJ: Princeton University Press, pp. 438–444
- R. H. Coase (1960). “The Problem of Social Cost”. In: *Journal of Law and Economics* 3, pp. 1–44

12. State (*April 16 & 21*)

- Origins of State • Endogenous/exogenous force in the Economy? • Public Choice Interpretation • Relevance of State Capacity •

Readings:

Joseph Schumpeter (1991d). “Crisis of the Tax State”. In: *Joseph Schumpeter. The Economics and Sociology of Capitalism*. Ed. by Richard Swedberg. Princeton, NJ: Princeton University Press, pp. 99–140

Friedrich Hayek (1939). “The Economic Conditions of Interstate Federalism”. In: *New Commonwealth Quarterly* 2, pp. 131–149

14. Review & Second Midterm (*April 23 & April 28*)