

# **ECON 0465: Economics and Philosophy**

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PCPSE 634

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## **1. Course Description**

This course examines some of the ways in which economics as a social science is related to philosophy. We start with a discussion of the definition, scope, and methodology of economics, reading Robbins on the definition of economics, Mill on the science of political economy and Friedman's essay on methodology, along with some of its critical responses. We then consider three central concepts of economics which have their roots in philosophy: rationality, utility, and welfare, and we examine the philosophical assumptions in each of these economic concepts.

Economics assumes a form of instrumental rationality by which individuals seek to maximize their utility. We consider the origins of this concept of rationality, its extension into rational choice theory, and the critiques it has inspired. Our next topic is the concept of utility, which originates in philosophy but which receives a technical definition in economics. Finally, we turn to welfare economics, which is the most normative part of economic science, where we consider topics such as preference satisfaction and interpersonal comparisons of utility. We also raise the question throughout whether these concepts are rightly used in economics, and whether welfare economics can in fact promote well-being.

In addition to the four major topics (methodology, rationality, utility, and welfare), we will also devote two classes to each of four topics debated in journal articles by some of the most important economists in recent history. These topics are:

- Is underinvestment in basic research a market failure? (Arrow v. Demsetz);
- What are the market consequences of imperfect information? (Hayek v. Stiglitz);
- What are the moral dimensions of economic growth, specifically as it relates to the environment? (B. Friedman v. T. Jackson); and
- Is it ethical for the state to "nudge" citizens towards desired behaviors? (Thaler and Sunstein v. Grüne-Yanoff).

Reviewing the views expressed in these debates will allow students to form their own opinions on major topics in economics where the arguments are largely

philosophical. The overall goal of the course is to help students develop a more critical understanding of the assumptions of economics as it's practiced as a social science.

## **2. Learning Objectives**

Participants in the course can expect to:

- 1) Learn the philosophical dimensions of some key concepts in economic science;
- 2) Become acquainted with the philosophical debates surrounding the methodology of economics;
- 3) Learn the philosophical views of history's leading economists, including multiple Nobel laureates;
- 4) Read some of the most important essays in economic theory, using primary sources;
- 5) Examine the interchange of the major thinkers in economics as they disagree with each other on issues such as the morality of economic growth, the ethics of choice architecture, the concept of market failure, and the problem of imperfect information; and
- 6) Enhance your critical reasoning and your writing skills as you form your own opinion of these debated issues.

## **3. Course Requirements**

**Pre-Requisites.** Macro-economics and micro-economics (Econ 1 and Econ 2).

**Readings.** You must come each class having done the readings assigned. Where possible, I have tried to keep the selections short, especially since some of the readings are a bit challenging. That said, this course will involve much more reading and writing than is typical in an economics class.

**Attendance.** Attendance is required for all classes except for extraordinary circumstances. This is the same policy your first job out of college will have, so you get an early experience of it in this course.

**Office Hours.** Office hours every Tuesday from 2-3 pm and are online via Zoom. Other times, including in person office hours, can be arranged by appointment. You should make use of office hours if you have questions on the content or requirements of the course.

**Academic Integrity.** Every member of the Penn community is responsible to uphold the University's commitment to academic integrity. Please review [the policy](#) when beginning this course.

**No Electronic Use in Class.** The use of electronics in class is not permitted. This includes laptops, tablets, and cell phones. Exception: You will need your laptop when giving your class presentation.

**Class Participation.** It is expected that members of the class will engage in vigorous class discussion in a way that is well-prepared, thoughtful, and respectful of the opinions of others. Quality of one's contribution to the discussion will weigh more heavily than quantity. My objective is to make the course relevant to issues today, intellectually stimulating, and also fun. That requires we all engage in discovery and conversation together.

**Discussion Questions.** Most topics will have a discussion question posted within Canvas where students will be required to write their comments in response to a question relating to the course readings. These comments will be graded as part of your class participation grade for the semester. You will need to complete a total of 10 discussion questions during the semester. You may choose to do more than 10 but this is not required. Your comments should be between 200-300 words each.

**Class Presentation.** Each student will participate in one class presentation using slides. You will lead the class discussion for one of the reading assignments. There are two distinct roles for the presentation which will generally be divided between two students.

Exposition: The task for exposition is to present a summary of the argument made in the reading for that class and to develop discussion questions on the text.

Interpretation: The task for interpretation is to use some secondary sources to assess the text and to explain its importance in the history of economic thought. You may also present some discussion questions.

In some shorter readings, a single student will do both the exposition and the interpretation. I will do the presentations for the first few classes which will give you an example of what your presentations may look like.

**Position Papers:** You must write two papers of 900-1000 words taking sides in two of the four economists debate topics. These will be entirely your choice.

**Final Paper.** Members of the class must write a paper of 1200-1400 words with one of three objectives:

- 1) To research, critique, or expand on a topic from the course in greater detail.
- 2) To apply one of the topics studied to a contemporary issue in business, politics, or economics.
- 3) To apply the debate about welfare economics to a topic such as climate, developing nations, the proper role of the state, etc.

Once you decide on a topic, you must preview it with me. You may suggest other topics for the final paper which will be subject to my approval. Two weeks before the paper is due, I will take part of a class to discuss the paper options and expectations in greater detail. I will also have extended office hours during the reading days.

#### 4. Grading

Coming to class, doing the reading assignments, and following the code on academic integrity are all basic requirements you must meet but which do not add to your grade (though failure to do these will absolutely subtract from your grade). The other requirements will have the following weights for your final grade.

Class Participation:	10%	In class participation
Class Participation:	10%	Discussion board participation
Presentation to the Class:	25%	
Position Papers	:	30% (15% each)
Final Paper:	25%	

Points Achieved	Letter Grade	Points Achieved	Letter Grade
96 - 100	A+	72 - 75.75	C+
92 - 95.75	A	68 - 71.75	C
88 - 91.75	A-	64 - 67.75	C-
84 - 87.75	B+	60 - 63.75	D+
80 - 83.75	B	56 - 59.75	D
76 - 79.75	B-	less than 56	NP

## 5. Course Plan and Readings

There is no text required. All readings are found on Canvas.

### I. The Definition, Scope, and Methodology of Economics

1/11. Course Introduction. On the science of political economy

John Stuart Mill: i) Selections from “On the Definition of Political Economy...”. ii) *Principles of Political Economy*, selections from “Preliminary Remarks”, Book II, Chapter 1, and Book IV, Chapter 4.

1/16. NO CLASS

1/18. The definition of economics in terms of scarcity

Lionel Robbins: Excerpts from Chapters I, IV, and VI of *Essay on the Nature and Significance of Economic Science*

1/23. Normative and positive economics

Milton Friedman: “On the Methodology of Positive Economics”

1/25. Responses to Friedman

i) Ernest Nagel: “Assumptions in Economic Theory”

ii) Paul Samuelson and iii) Herbert Simon: “Discussion: Friedman on Methodology”, *American Economic Review*

Economists Debate: Topic 1: Is economic growth bad for the environment?

1/30. Via ZOOM: i) Benjamin Friedman, Chapter 15, “Growth and the Environment” from *The Moral Consequences of Economic Growth*

2/1. ii) Tim Jackson “Summary” and Chapters 3 & 4 from *Prosperity without Growth*, Sustainable Development Commission report

### II. Rationality in Economics and its Critics

2/6. Instrumental reason and the notion of *homo economicus*

i) Thomas Hobbes: selections from Chapters 11, 13, 17 of *Leviathan*

ii) Dante Urbina and Alberto Ruiz-Villaverde: “A Critical Review of *Homo economicus* from Five Approaches”

2/8. Rational choice theory

Gary Becker: i) “The Economic Way of Looking at Life” (Nobel Prize Lecture, parts 1 and 6)

ii) Introduction to *The Economic Approach to Human Behavior*

2/13. A Critique of rational choice theory

Mary Hirschfeld: “The Rational Choice Model and its Limitations”

2/15. Bounded rationality

Herbert A. Simon: “Rational Decision Making in Business Organizations” (Nobel Prize Lecture)

2/20. Behavioral finance and prospect theory

i) Richard H. Thaler: “Anomalies: The Ultimatum Game” (*in part*)

ii) Daniel Kahneman, Jack L. Knetsch, Richard H. Thaler  
“Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias”

2/22. A critique of behavioral economics

Faruk Gul and Wolfgang Pesendorfer, “The Case for Mindless Economics”

Economists Debate: Topic 2: What are the market consequences of imperfect information?

2/27. i) Friedrich Hayek, “The Problem of Knowledge in Society”

3/1. ii) Joseph Stiglitz, “The Revolution of Information Economics: The Past and the Future”

3/4 - 3/12. SPRING BREAK

3/13. Catch up day

3/15. Strong reciprocity and cooperation

Elinor Ostrom: “Policies that Crowd out Reciprocity and Collective Action”

### **III. The Concept of Utility**

3/20. Rule utilitarianism using personal and moral preferences  
John Harsanyi, “Morality and the Theory of Rational Behavior”

3/22. Critiquing the view of economic agents as rational utility maximizers  
Amartya Sen, “Rational Fools”

3/27. Economics re-defined around exchange rather than preference  
James Buchanan, “What Should Economists Do?”

Economists Debate: Topic 3: Is it ethical to nudge citizens towards preferred behaviors?

3/29. i) Cass Sunstein and Richard Thaler, “Libertarian Paternalism is not an Oxymoron”

4/3. ii) Till Grüne-Yanoff, “Old Wine in New Casks: Libertarian Paternalism Still Violates Liberal Principles”

### **IV. Welfare Economics**

4/5. Determining the economic grounds for maximizing welfare

i) Nicholas Kaldor, “Welfare Propositions of Economics and Interpersonal Comparisons of Utility”

ii) Tibor Scitovsky, “A Note on Welfare Propositions in Economics”

4/10. A critique of the fundamental theorems of welfare economics  
Joseph Stiglitz “The Invisible Hand and Modern Welfare Economics”

4/12. Preference satisfaction leads to incoherence in welfare economics  
Tyler Cowen, “The Scope and Limits of Preference Sovereignty”

Economists Debate: Topic 4: Is underinvestment in basic research a market failure?

4/17. i) Kenneth Arrow, “Economic Welfare and the Allocation of Resources for Invention”

4/19. ii) Harold Demsetz, “Information and Efficiency: Another Viewpoint”

4/24. Via ZOOM: Review of the major themes of the course. Guidance on final paper.

4/26: Final Class. Individual preference, social choice, and the Impossibility Theorem

Kenneth Arrow, “The Nature of Preference and Choice”, chapter 2 of *Social Choice and Individual Values*