

Economics 495A: Spring 1999
An Introduction to Austrian Economics

Course Description: In this course we will examine a particular school of economics known as the “Austrian School.” We will study the historical and philosophical roots of the Austrian School, the impact it has had within the economics profession, and the unique insights it has provided in such areas as the theory of value, monetary theory, and business cycles. In some respects, this course is a “follow on” course to the *Development of Economic Thought* (Econ 340), focusing on one particular school discussed in that course.

Course Objectives: Our primary objective for this course is to provide students with a thorough understanding of one of the leading “laissez faire” schools of thought within the economics profession. The Austrian School has done much to champion the ideas of economic freedom and liberty. In light of the plethora of “schools” within the economics profession, this course will focus on the details of the Austrian School.

Our secondary objective for this course is to examine the strengths and weaknesses of the Austrian economic ideas in light of competing perspectives. For example, we will examine how the Austrian interpretation of the Great Depression varies from other schools. By the end of this course you should be able to articulate the Austrian perspective on a variety of economic issues (such as the theory of value, the theory of capital and interest, monetary theory, and the theory of the business cycle).

Course Texts:

Ebeling, Richard M., ed. *Austrian Economics: A Reader*. Hillsdale: Hillsdale College Press, 1991.

Menger, Carl. *Principles of Economics*. Grove City: Libertarian Press, 1994.

Rothbard, Murray. *What Has Government Done to Our Money?* Auburn: Praxeology Press, 1990.

Taylor, Thomas C. *An Introduction to Austrian Economics*. Cato Institute, 1980.

Course Grading:

Evaluation	Weight	Points
Instructor Prerogative (IP)	10%	100
Course Quizzes (6)	10% each; 60% total	100 each; 600 total
Student Presentations	5%	50
Paper Outline/Thesis	2.5%	25
Paper Draft	2.5%	25
Final Course Paper	20%	200
TOTAL	100%	1,000

Grading Philosophy: This course has a substantial amount of reading. The reading has been divided up into six different blocks of material. The short blocks of material followed by a quiz over the material serves two purposes: 1) it will provide you the incentive to keep up with the reading and 2) it will give you an opportunity to show your understanding of the material prior to moving on to a different topic. Quizzes will typically be essay/short answer, and will be 40 minutes in length. The last 10 minutes of class will be used to preview the next block of material.

Comment about assigned readings: It is crucial that you read the material prior to class; cramming for a quiz will not be very beneficial. Reading the assigned material will enable you to get more out of the lectures and, most importantly, enable you to intelligently participate from an informed point of view. *Do not be intimidated by the quantity of pages assigned.* Although there is a lot of reading, you will find that the Austrian writers are quite lucid. Rothbard and Taylor read quickly. I will try to “prep” you for the reading by providing you with helpful terms, definitions, and overviews. I will work you hard, and I think you will see the fruits of your labor at the end of the course.

Course Paper: The primary purpose of the course paper is to give the student an opportunity to gain a greater understanding of a particular area of Austrian Economics. The secondary purpose of the paper is to give you practice in written communication. A paper outline will be submitted before prog. The draft will be submitted by Lesson 33. I will review the draft and give detailed comments, suggestions, corrections, etc. *The draft should be written as if it was the final submittal.* If the draft is well written, it may be given an “A” and accepted as the final version. Details on the outline requirements and paper requirements are forthcoming.

Student Presentations: Two student presentations are scheduled. You will be given an opportunity to do an additional reading assignment and present it to the class for discussion. A final presentation of your course paper will also be given. More information will follow.

Course Policies and Procedures:

Extra Instruction: Do not hesitate to schedule extra instruction. Schedule EI as soon as you begin having difficulties that self-study is not resolving. Before seeking extra instruction, all pertinent assignments must be read. Come to EI prepared with questions.

Hospitalization: Please notify me if you are hospitalized; I will make special arrangements to cover the course material for you, as necessary.

CAS: Notify me in advance of any anticipated absences you will have from my class. It is your responsibility to schedule Extra Instruction for any classes you miss, if you need it.

Other Information: If you have any questions about what is expected of you for this course, or need further information, please do not hesitate to ask me.

LESSON	ECON 495A TOPIC	ASSIGNMENT
BLOCK 1		
<i>Historical Background; Methodological & Philosophical Foundations</i>		
1	Brief Overview of Austrian Economics	Taylor, Ch. 1; Menger, Preface (p.45+); Ebeling, pp. xi-xvi
2-3	The Debate Over Methodology	Ebeling, Ch. 5 (optional: ch. 4)
4-5	The Allocation of Resources	Taylor, Chs. 2-3
6	BLOCK 1 QUIZ: Lesson T-6	
BLOCK 2		
<i>Economic Goods and the Theory of Value</i>		
7	Overview of the Theory of Goods	Menger, Ch. 1
8-9	Introduction to Economic Goods	Menger, Ch. 2
10-11	The Theory of Value	Taylor, Ch. 4 Menger, Ch. 3
12	BLOCK 2 QUIZ: Lesson T-12	
BLOCK 3		
<i>The Theory of Prices and Exchange</i>		
13	An Overview of the Market and Market Price	Taylor, Ch. 5
14	The Theory of Exchange	Menger, Ch. 4
15	The Theory of Price	Menger, Ch. 5
16-17	Use Value and Exchange Value (Paper Outline Due Lesson T-17)	Menger, Ch. 6
18	BLOCK 3 QUIZ: Lesson T-18	
19-20	Student Presentations	Personal Preparation
BLOCK 4		
<i>Money, Capital, and Interest</i>		
21	Introduction to Money: What is a Commodity?	Menger, Ch. 7
22	The Austrian Theory of Money	Menger, Ch. 8
23-24	Money Basics: What Constitutes Money?	Rothbard, pp. 7-54
25	The Government & Money: Economics of the Gold Standard	Rothbard, pp 55-89
26-27	Capital, Interest, and Time Preference	Ebeling, pp. 337-355; Ch. 21
28	BLOCK 4 QUIZ: Lesson T-28	
BLOCK 5		
<i>The Market Process & Trade Cycles</i>		
29-30	Perfect Information? How Markets Use Knowledge and Info	Ebeling, Ch. 13; Handout
31	The Role of the Entrepreneur	Ebeling, Ch. 17
32	Introduction to Inflation and the Business Cycle	Taylor, Ch. 8
33-34	An Austrian View of the Great Depression	Draft Paper Due T-33
35	BLOCK 5 QUIZ: Lesson T-35	
BLOCK 6		
<i>Current Issues and a Critique of the Austrian School</i>		
36	The Austrians and Inflation	Ebeling, Ch. 26
37-38	Austrian Critique of Socialism	Ebeling, Ch. 30
39	General Critical Observations	Final Paper Due T-39
40	BLOCK 6 QUIZ: Lesson T-40	
41-42	Student Paper Presentations/Course Critique/Summary	

Block I: Historical Background to the Austrian School

(Lessons 1-3)

- This block will emphasize the historical development of the Austrian School of economics. Specific topics include:
 - Tracing the school from Carl Menger, Eugen von Bohm-Bawerk, and Ludwig von Mises to “American Austrians” such as Murray Rothbard and Israel Kirzner
 - Explaining the causes for its development (reaction to the “Historical School,” etc.)
 - Reviewing the Austrian contribution to the “marginal revolution” in economics

Block II: Philosophical and Methodological Foundations

(Lessons 4-6)

- This block will trace the philosophical concepts underlying the Austrian School. Specific topics include:
 - Rationalism
 - Methodological individualism and methodological subjectivism
 - How the praxeological methodology stands in contrast to an empirical methodology

Block III: Economic Goods and the Theory of Value

(Lessons 7-12; Student Presentations for 2 Lessons)

- This block will focus on concepts such as “what constitutes an economic good” and “how goods are valued by individuals and within the marketplace.” Specific topics include:
 - Higher order vs. lower order goods
 - Non-economic goods
 - Objective vs. subjective valuation
 - Marginal analysis

Block IV: The Theory of Prices and Exchange

(Lessons 13-16)

- This block will focus on the formation of prices under different market structures. Specific topics include:
 - The basis for economic exchange
 - The formation of prices within a competitive environment
 - The impact of monopoly on the formation of prices

(GR 1: Lesson 17; Review Lesson 18)

Block V: The Austrian Theory of Money, Capital, and Interest

(Lessons 19-27)

- This block will discuss extensively the Austrian view of money as a medium of exchange in an economy. Capital theory and time preference will also be addressed. Specific topics include:
 - The use and function of money
 - Mises' regression theorem of money
 - The Austrian perspective on free banking and the gold standard
 - The impact of time preference on an economy

Block VI: The Austrian Theory of the Business Cycle

(Lessons 28-35; Student Presentations for 2 Lessons)

- This block will focus on business cycles from the Austrian perspective. The Austrian theory will be compared and contrasted with other schools of thought. Specific topics include:
 - The structure of production in an economy
 - Higher and lower order goods
 - Central banking and its impact on the business cycle
 - An Austrian interpretation of the Great Depression

(GR 2: Lesson 36; Review, Lesson 37)

Block VII: Current Applications and Developments within the Austrian School

(Lessons 38-42; Course Paper Due Lesson 39)

- This block will seek to tie together the theory developed in the course with current applications (such as: the Asian economic troubles, current monetary and fiscal policy actions, etc.). Specific topics include:
 - Current economic events and the Austrian interpretation of them
 - Similarities to other economic schools of thought
 - Strengths and weaknesses of the Austrian School
 - Current developments within Austrian Economics