

Professor Peter J. Boettke
Austrian Theory of the Market Process II
ECON 881/Spring 2003
Mondays 4:30-7:00 Rm. 318 Enterprise Hall

The following books have been ordered as required reading for this course:

Ludwig von Mises, *Human Action* (1949).
F. A. Hayek, *Individualism and Economic Order* (1948).
Murray N. Rothbard, *Man, Economy and State* (1962).
Israel M. Kirzner, *Competition and Entrepreneurship* (1973).

I will supplement the selected readings from these books with journal articles to fill out the reading for the course. Students are expected to do all the required readings before class so that we can have an informed discussion on the readings and pursue the implications of the ideas developed in those readings. Serious students of Austrian economics will want to tackle the suggested readings as well as the required readings.

For this class we will have weekly quizzes on the readings, a final exam, and a term paper. Your lowest grade of the 3 will determine your course grade. Regular attendance and classroom participation is expected. If you are going to miss class, please let me know in advance. Your term paper is to be of journal quality (or at least have the potential of journal quality) so please pick a topic early and meet with me to determine its research potential.

Pre-Class Reading for First Class on January 27th

Peter Boettke, "What Went Wrong with Economics," *Critical Review*, 11 (Winter) 1997: 11-65.
**Phil Mirowski, *Machine Dreams*. New York: Cambridge University Press, 2002.

I. Choice, Calculation and Coordination (January 27-February 17)

a. Purposiveness and Human Action

Required Reading

Mises, *Human Action*, pp. 11-143.
Hayek, *Individualism and Economic Order*, pp. 33-91.
Rothbard, *Man, Economy and State*, pp. 1-159.
Kirzner, *Competition and Entrepreneurship*, pp. 84-87.

Suggested Reading

Robin Cowan and Mario Rizzo, "The Genetic-Causal Tradition and Modern Economic Theory," *Kyklos*, 49 (3) 1996, 1-44.
Charles Taylor, "What is Human Agency?," in *Philosophical Papers 1*. New York: Cambridge University Press, 1985, 15-44.
Charles Taylor, "Interpretation and the Sciences of Man," in *Philosophical Papers 2*. New York: Cambridge University Press, 1985, 15-57.
John Searle, *Rationality in Action*. Cambridge, Mass.: MIT Press, 2001.
Peter Kurrild-Klitgaard, "On Rationality, Ideal Types and Economics," *Review of Austrian Economics*, 14 (2-3) 2001, 119-143.

b. Monetary Calculation

Required Reading

- Mises, *Human Action*, pp. 194-231; 689-715.
Hayek, *Individualism and Economic Order*, pp.119-208.
Rothbard, *Man, Economy and State*, pp. 160-272; 661-764; 821-832.
Kirzner, *Competition and Entrepreneurship*, pp. 30-87.

Suggested Reading

- Peter Boettke, "Economic Calculation: *The Austrian Contribution to Political Economy*," *Advances in Austrian Economics*, 5 (1998).
Joseph Salerno, "Ludwig von Mises as a Social Rationalist," *Review of Austrian Economics*, 4 (1990).
Joseph Salerno, "Mises and Hayek Dehomogenized," *Review of Austrian Economics*, 6 (1993).
Bryan Caplan, "Economic Calculation, Quantitative Laws and the 'Impossibility' of Socialism," current working paper.
Israel Kirzner, "Calculation, Competition and Entrepreneurship," current working paper.

c. Capital Plans

Required Reading

- Mises, *Human Action*, pp. 259-264; 479-523.
Rothbard, *Man, Economy and State*, pp. 273-434; 463-559.

Suggested Reading

- Kirzner, *An Essay on Capital*. New York: Augustus M. Kelley, 1966, 1-141.
Hayek, *The Pure Theory of Capital*. Chicago: University of Chicago Press, 1940, 14-40; 50-64; 247-350.
Peter Lewin, *Capital In Equilibrium*. New York: Routledge, 1996, 47-174.

d. Economic Coordination

Required Reading

- Mises, *Human Action*, pp. 524-586; 780-803.
Rothbard, *Man, Economy and State*, pp. 745-764.
Hayek, *Individualism and Economic Order*, pp. 220-254.

Suggested Reading

- Hayek, "Price Expectations, Monetary Disturbances and Malinvestment," in *Profits, Interest and Investment*. New York: Augustus M. Kelley, 1939, 135-156.
Steve Horwitz, *Microfoundations and Macroeconomics: An Austrian Perspective*. New York: Routledge, 65-175.
Tyler Cowen, *Risk and Business Cycles*. New York: Routledge, 1997, 1-12; 76-149.
Richard Wagner, "Austrian Cycle Theory: Saving the Wheat While Discarding the Chaff," *Review of Austrian Economics*, 12 (1) 1999, 65-80.
Tony Carilli and Greg Dempster, "Expectations in Austrian Business Cycle Theory," *Review of Austrian Economics*, 14 (4) 2001, 319-330.

II. *Market Efficiency and Market Process (February 24-March 24)*

a. Equilibrium properties and static efficiency

Required Reading

- Mises, *Human Action*, pp. 237-256; 350-357.
Hayek, *Individualism and Economic Order*, pp. 77-91.
Rothbard, *Man, Economy and State*, pp. 201-272; 274-280; 301-312; 387-433.
Kirzner, *Competition and Entrepreneurship*, pp. 1-29.

Suggested Reading

- Takashi Negishi, "The Stability of a Competitive Economy," *Econometrica*, 30 (4) October 1962, 635-669.
Sanford Grossman and Joseph Stiglitz, "On the Impossibility of Informationally Efficient Markets," *American Economic Review*, 70 (3) June 1980, 393-408.
Leland Yeager, "Should Austrians Scorn General Equilibrium Theory?," *Review of Austrian Economics*, 11 (1-2) 1999, 19-30.

b. Formal Theory and Appreciative Theory

Required Reading

Mises, *Human Action*, pp. 289-315; 327-338.
Hayek, *Individualism and Economic Order*, pp. 33-56.
Rothbard, *Man, Economy and State*, pp. .
Kirzner, *Competition and Entrepreneurship*, pp. 1-29.

Suggested Reading

Kenneth Arrow, "Toward a Theory of Prize Adjustment," in M. Abramovitz, et. al., eds, *The Allocation of Economic Resources*. Stanford, CA: Stanford University Press, 1959, 41-51.
Richard Nelson and Sidney Winter, *An Evolutionary Theory of Economic Change*. Cambridge, Mass.: Harvard University Press, 1982, 3-48.
Theodore Schultz, "The Value of the Ability to Deal with Disequilibria," *Journal of Economic Literature*, XIII (3) September 1975, 827-846.

c. Entrepreneurship, Creativity and Dynamics

Required Reading

Mises, *Human Action*, pp. 105-118; 289-314; 689-715.
Hayek, *Individualism and Economic Order*, pp. 92-106.
Rothbard, *Man, Economy and State*, pp. 463-501.
Kirzner, *Competition and Entrepreneurship*, pp. 30-87.

Suggested Reading

Paul McNulty, "Economic Theory and the Meaning of Competition," *Quarterly Journal of Economics*, LXXXII (4) November 1968, 639-656.
Franklin Fisher, "Stability, Disequilibrium Awareness, and the Perception of New Opportunities," *Econometrica*, 49 (2) 1981, 279-317.
Louis Makowski and Joseph Ostroy, "Perfect Competition and the Creativity of the Market," *Journal of Economic Literature*, 39 (2001): 479-535.
Israel Kirzner, "Creativity and/or Alertness," *Review of Austrian Economics*, 11 (1-2) 1999, 5-17.

d. Adaptive Efficiency, Catallactics and Inefficiency Markets

Required Reading

Mises, *Human Action*, pp. 646-663; 833-854.
Hayek, *Individualism and Economic Order*, pp. 1-32; 77-91; 107-118.
Rothbard, *Man, Economy and State*, pp. 765-890.
Kirzner, *Competition and Entrepreneurship*, 212-242.

Suggested Reading

James M. Buchanan, "What Should Economists Do?," *Southern Economic Journal*, 30 (January 1964): 213-222.
Warren Samuels, "Determinate Solutions and Valuational Processes: Overcoming the Foreclosure of Process," *Journal of Post Keynesian Economics*, 11 (4) Summer 1989, 531-546.
James M. Buchanan and Viktor Vanberg, "The Market as a Creative Process," *Economics & Philosophy*, 7 (1991): 167-186.
Tyler Cowen, "What a Non-Paretian Welfare Economics Would Have to Look Like," in Don Lavoie, ed., *Economics and Hermeneutics*. New York: Routledge, 1991, 285-298.
David Prychitko, "Formalism in Austrian School Welfare Economics: Another Pretense of Knowledge?," *Critical Review*, 7 (4) 1993, 567-592.
**Andrei Shleifer, *Inefficient Markets*. New York: Oxford University Press, 2000.

III. Institutional Change (March 31-April 21)

a. Institutionally contingent economic theory

Required Reading

Hans Mayer, "The Cognitive Value of Functional Theories of Price," translated and printed in Israel M. Kirzner, ed., *Classics in Austrian Economics*, 2. London: William Pickering & Chatto, 1994, 55-168.
Hayek, *Individualism and Economics Order*, pp. 33-56.
Ludwig Lachmann, "On Institutions," from Lachmann, *The Legacy of Max Weber*. Berkeley, CA: University of California Press, 1971, 49-91.
Peter Boettke, Steven Horwitz, and David Prychitko, "Beyond Equilibrium Economics," *Market Process* 4 (2) 1986.
Peter Boettke, "Evolution and Economics: Austrians as Institutionalists," *Research in the History of Economic Thought & Methodology*, 6 (1989): 73-89.

Peter Boettke, "Individuals and Institutions," *Critical Review*, 4 (1-2) 1990.
Mario Rizzo, "Introduction," in Gerald O'Driscoll and Mario Rizzo, *The Economics of Time and Ignorance*, 2nd edition. New York: Routledge, 1995.
Richard Swedberg, *Max Weber's Economic Sociology*. Princeton, NJ: Princeton University Press, 1998, 7-53.
Sandye Gloria-Palermo, "An Austrian Dilemma: The Necessity and Impossibility of a Theory of Institutions," *Review of Austrian Economics*, 11 (1-2) 1999, 31-45.

b. Entrepreneurship Historically Contemplated

Required Reading

Jonathan Hughes, *The Vital Few*. New York: Oxford University Press, 1986.
Joel Mokyr, *The Levers of Riches*. New York: Oxford University Press, 1990.
Richard Swedberg, "The Social Science View of Entrepreneurship," in Swedberg, ed., *Entrepreneurship: A Social Science View*. New York: Oxford University Press, 2000, 7-44.
Frederic Sautet, *An Entrepreneurial Theory of the Firm*. New York: Routledge, 2000.

c. Institutional Entrepreneurs and Social Change

Required Reading

Douglass North, *Understanding the Process of Economic Change*, working draft of book manuscript.
C. Mantzavinos, *Individuals, Institutions, and Markets*. New York: Cambridge University Press, 2001, 3-160; 227-256.
Tony Fu-Lai Yu, *Firms, Governments and Economic Change*. Cheltenham, UK: Edward Elgar, 2001, 115-127.

d. Transition and Development Studies

Required Reading

Nathan Rosenberg and L. E. Birdzell, *How the West Grew Rich*. New York: Basic Books, 1986.
Peter Boettke, *Calculation and Coordination*. New York: Routledge, 2001.
Andrei Shleifer and Daniel Treisman, *Without a Map*. Cambridge, Mass.: MIT Press, 2000.

Suggested Reading

Enrico Colombatto, "Is There an Austrian Approach to Transition?," *Review of Austrian Economics*, 15 (1) 2002, 61-74.

IV. Where is the Action At in Modern Economics? (April 28-May 5)

a. Methodology and the Analytical Narrative

Required Reading

Hayek, *Individualism and Economic Order*, pp. 57-76.
Robert Bates, et. al., *Analytical Narrative*. Princeton, NJ: Princeton University Press, 1998.
Jon Elster, *Alchemies of the Mind: Rationality and the Emotions*. New York: Cambridge University Press, 1999.

b. Theory of Social Change, institutions, geography and financial markets

Required Reading

Jared Diamond, *Guns, Germs and Steel*. New York: Norton, 1997.
Daron Acemoglu, et. al., "Reversal of Fortune: Geography and Institutions in the Making of Modern World Income Distribution," *Quarterly Journal of Economics*, forthcoming.
Edward Glaser and Andrei Shleifer, "Legal Origins," 2001.

c. Applications and the Return of 'Grand' Theory

Required Reading

A. Economics

Edward Glaeser and Andrei Shleifer, "The Rise of the Regulatory State," working paper 2002.
R. LaPorta, et. al., "The Guarantees of Freedom," working paper 2002.
Andrei Shleifer, et. al. "The New Comparative Economics," working paper 2002.

B. Political Economy

Paul Rubin, *Darwinian Politics: The Evolutionary Origin of Freedom*. New Brunswick, NJ: Rutgers University Press, 2002.
Chris Matthew Sciabarra, *Total Freedom: Toward a Dialectical Libertarianism*. State College, PA: Penn State University Press, 2000.
C. McCann, "F. A. Hayek: The Liberal as Communitarian," *Review of Austrian Economics*, 15 (1) 2002, 5-34.
Hans Hoppe, *Democracy -- The God that Failed*. New Brunswick, NJ: Transaction Publishers, 2001.
Tyler Cowen – working manuscript on the arguments for liberty.

Professional Journals in the Field

The JEL Code for Austrian economics is B53. There are currently three professional journals devoted to advancing the research program of Austrian economics: *The Review of Austrian Economics*, *The Quarterly Journal of Austrian Economics*, and *Advances in Austrian Economics*. Familiarize yourself with these scientific outlets and the contributions to the literature they contain. In addition, other journals which regularly discuss Austrian themes would be: *Journal of Libertarian Studies*, *Critical Review*, *Independent Review*, *Markets & Morality*, *History of Political Economy*, *Review of Political Economy*, *Journal of the History of Economic Thought*, *Journal of Economic Methodology*, and *Journal des Economistes et des Etudes Humaines*. You should be familiar with the contributions to these journals as well.