

Austrian Exam

-Spring 2003-

I. You must answer this question

1. You have chosen to take a field exam in an unconventional area. Some would argue that Austrian economics isn't even a field. Only recently did Austrian economics even get assigned a JEL code (B53). Many of the leading scholars in the field do not even list Austrian economics as their main area of research concentration in the AEA membership directory. So, what is it that you are attempting to become an expert in? Formulate a concise but informative answer to the question, "What is Austrian economics?" that is directed to an audience of conventional economists. In your answer, be sure to contrast Austrian with non-Austrian economics only where it is helpful to your explanation and instead focus on offering illustrations of your arguments that will be convincing to other economists and social scientists.

II. Answer 4 out of 5 of the questions

1. Economists at least since Richard Cantillon have asserted that the place or the process by which money enters the economy can have economically significant effects. Indeed, what is now called Austrian cycle theory is one particular elaboration of this idea. Modern macro theorizing, however, has tended to look skeptically upon claims that the particular process or method of monetary injection has economically significant features, and has opted instead pretty much to assert a near-neutrality of money.

[A] One possibility is that this near-neutrality is a product of existing models which in their very construction allow no scope for Cantillon-type effects to operate. This is not to deny the existence of such effects, but is to assert that the prevailing macro models leave no scope for the operation of such effects. Taking some macro model of your choice, examine this claim that the analytical framework precludes any detection of Cantillon-effects.

[B] Suppose you thought that Cantillon-type effects might be a significant element of monetary processes and institutions. Set forth your thoughts on how you might go about constructing an analytical framework that would allow you to examine for the presence of such effects.

2. Both real business cycle theorists and Austro-Swedes give capital the pivotal place in their analytical efforts, and in so doing stand in sharp contrast to the bulk of modern macro theorizing. One implication of grounding the analysis on capital is that today's stock of consumables is a product of earlier plans and decisions. Another implication is that the only thing that action today can affect is consumption tomorrow (but not consumption today). The Bush Administration has recently announced its intention to propose a \$300 billion program of economic stimulation early in 2003. Set forth an analytical

framework for exploring the probable consequences of such a program, and give particular emphasis to how your capital theoretics influences your analysis.

3. One observation that comes from reading the Austrian literature on free banking is that those various experiments all came to an end implying that free banking does not appear to be a successful evolutionary strategy. Central banking, by contrast, seems quite robust. Even in historical settings where it has disappeared, it has subsequently reemerged. How do you account for the evolutionary robustness of central banking and the evolutionary fragility of free banking? Is it possible that central banking is really a higher stage of monetary evolution? (To answer this question, consider first what an evolutionary argument in economics entails.)
4. Kirzner's work on entrepreneurship says very little about the organization of large firms, but he clearly thought his theory was applicable not only to what people often think of as "entrepreneurial" businesses, small or even one-person companies, but also to large capitalistic firms. Answer the critic of Kirzner who would dismiss his whole analysis on the grounds that a substantial part of modern economies is made up of large organizations, not tiny entrepreneurial ventures. Indicate what theoretical issues you think are in need of further work in light of the question of large organizations.
5. Imagine yourself a teacher of Austrian economics to graduate students and you must assess whether they understand what the value of Austrian economics as a research program and teaching tool is to increasing our understanding of (a) economic argumentation, and (b) the economy. What question or questions would you ask those students to answer? If you were one of those students, what answer or answers would you give to demonstrate that you understood the importance of Austrian economics? You will be graded on both the quality of your question and the quality of your answer to your question.