



Professor Peter J. Boettke  
**Austrian Theory of the Market Process II**  
ECON 881/Spring 2006  
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 articles and selections from books that will 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 will want to tackle the suggested readings as well as the required readings. The suggested readings in **bold print** should be the priority in choosing between reading assignments.

For this class we will have periodic short essays based on the readings, a final exam, and a term paper. Your lowest grade of the 3 will determine your grade for the course. Regular attendance and classroom participation is expected. If you are going to miss class, please let me know in advance. I will be out of town for January 30 (at USC) and April 3 (at APEE) so no class those weeks --- use the time wisely to work on your papers. 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 23<sup>rd</sup>***

Peter Boettke, "[What Went Wrong with Economics.](#)" *Critical Review*, 11 (Winter) 1997: 11-65.

\*\*Bruce Caldwell, *Hayek's Challenge*. Chicago: University of Chicago Press, 2004.

\*\*Phil Mirowski, *Machine Dreams*. New York: Cambridge University Press, 2002.

\*\*\*Ed Dolan, ed., *The Foundations of Modern Austrian Economics*. Kansas City, MO: Sheed Andrews McMeel, 1976.

\*\*\*[The Austrian Economists](#) --- familiarize with archives and read daily.

## ***I. Choice, Calculation and Coordination***

### **a. Purposiveness and Human Action (January 23<sup>rd</sup>)**

#### 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.**  
**Roderick Long, "Anti-Psychologism in Economics: Wittgenstein and Mises," *Review of Austrian Economics*, 17 (4) 2004): 345-369.**  
**Gary Becker and George Stigler, "De Gustibus Non Est Disputandum," *American Economic Review* 67 (2) 1977: 76-90.**  
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 (February 6<sup>th</sup>)**

#### 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).

### **c. Capital Plans (February 13<sup>th</sup>)**

#### Required Reading

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

#### Suggested Reading

Ludwig Lachmann, *Capital and Its Structure*. Kansas City, MO: Sheed Andrews McMeel, 1977.  
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.  
**Peter Lewin, "The Capital Idea and the Scope of Economics," *Review of Austrian Economics*, 18 (2): 145-167.**  
**Peter Boettke and Karen Vaughn, "Knight and the Austrians on Capital and the Problems of Socialism," *History of Political Economy*, 34 (1) 2002: 155-176.**

### **d. Economic Coordination (February 20<sup>th</sup>)**

#### 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**

### a. Equilibrium properties and static efficiency (February 27<sup>th</sup>)

#### 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 (March 6<sup>th</sup>)

#### Required Reading

Mises, *Human Action*, pp. 289-315; 327-338.  
Hayek, *Individualism and Economic Order*, pp. 33-56.  
Rothbard, *Man, Economy and State*, pp. 160-272.  
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 (March 20<sup>th</sup>)

#### 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, "Entrepreneurial Discovery and the Competitive Market Process," *Journal of Economic Literature*, 35 (1) 1997: 60-85.**

### d. Adaptive Efficiency, Catallactics and Inefficiency Markets (March 27<sup>th</sup>)

#### 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.**

**Meir Kohn, "Value and Exchange," *Cato Journal* 24 (Fall) 2004: 303-339.**

**Robert Axtel, "The Complexity of Exchange," *Economic Journal* 115 (June) 2005: 193-210.**

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.

### **III. Institutional Change**

#### a. Institutionally contingent economic theory (April 10<sup>th</sup>)

##### 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 Economic Order*, pp. 33-56.

Ludwig Lachmann, "On Institutions," from Lachmann, *The Legacy of Max Weber*. Berkeley, CA: University of California Press, 1971, 49-91.

##### Suggested Reading

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*, 2<sup>nd</sup> edition. New York: Routledge, 1995.

Richard Swedberg, *Max Weber's Economic Sociology*. Princeton, NJ: Princeton University Press, 1998, 7-53.

**Vernon Smith, "Markets, Institutions and Experiments," *Encyclopedia of Cognitive Science*. London: Macmillan, 2003.**

**Peter Boettke and Virgil Storr, "Post Classical Political Economy," *American Journal of Economics & Sociology*, 61 (1) 2002: 161-191.**

**Sandy 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, Institutional Entrepreneurs and Social Change (April 17<sup>th</sup>)

##### Required Reading

Kirzner, "Creativity and/or Alertness: A Reconsideration of the Schumpeterian Entrepreneur," *Review of Austrian Economics*, 11 (1-2) 1999: 5-17.

Peter Boettke and Chris Coyne, "Entrepreneurship and Development," *Advances in Austrian Economics*, 6 (2003): 67-88.

##### Suggested Reading

**Thrainn Eggertsson, *Imperfect Institutions: Possibilities and Limits of Reform*. Ann Arbor, MI: University of Michigan Press, 2005: 9-22; 174-202.**

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.

**C. Mantzavinos, *Individuals, Institutions, and Markets*. New York: Cambridge University Press, 2001, 3-160; 227-256.**

### **IV. Where is the Action At in Modern Economics?**

#### a. Methodology and the Analytical Narrative (April 24<sup>th</sup>)

##### Required Reading

Hayek, *Individualism and Economic Order*, pp. 57-76.

Suggested Reading

D. McCloskey, *The Rhetoric of Economics*. Madison, Wisc.: University of Wisconsin Press, 1985.

Robert Bates, et. al., *Analytical Narrative*. Princeton, NJ: Princeton University Press, 1998.

Jon Elster, "Rational Choice History: A Case of Excessive Ambition," *American Political Science Review* 94 (3) 2000: 685-695.

b. Applications and the Return of 'Grand' Theory

Required Reading

Mises, *Human Action*, 143-176; 716-861; 862-885.

Hayek, *Individualism and Economic Order*, 107-118; 255-272.

Rothbard, *Man, Economy, and State*, 765-890.

Kirzner, *Competition and Entrepreneurship*, 212-242.

Suggested Reading

Paul Seabright, *The Company of Strangers: A Natural History of Economic Life*. Princeton: Princeton University Press, 2003.

Daron Acemoglu and James Robinson, *Economic Origins of Dictatorship and Democracy*. New York: Cambridge University Press, 2006.

***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*, *American Journal of Economics and Sociology*, *Constitutional Political Economy* and *Journal des Economistes et des Etudes Humaines*. You should be familiar with the contributions to these journals as well.