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Econ 895/Spring 2012
Advanced Topics in Austrian Economics
Tuesdays 7:20-10:00pm
Enterprise Hall Rm. 318

1.0 Description

This class is designed for advanced students intent on pursuing research within the economics profession taking seriously ideas traditionally associated with the Austrian school of economics. The focus is on ideas, not people and personalities, and on opportunities for mutually beneficial intellectual exchange as opposed to critical exegesis. Students who are enrolled must have met the pre-requisite of having taken and passed their preliminary exams in micro and macro, and have taken field courses in either Austrian economics or institutional economics. If you do not meet this pre-requisite, then you must get approval from me to take the class.

There will be presumption that students are deeply familiar with the work of Mises, Hayek, Rothbard and Kirzner. But I also expect students to be familiar with the essential contributions of Alchian, Buchanan, Coase, Demsetz, North, Ostrom, and Williamson. If not, do so quickly by consulting various reference sources in economics such as David Henderson's edited volume *The Concise Encyclopedia of Economics* or *The New Palgrave Dictionary*. As you familiarize yourself with the contributions from these various economists remember to focus on ideas not personal histories and personalities.

We will be addressing issues in the method and methodology of economics as well as the appropriate problem situation economists should be studying. You may usefully consult Buchanan's "What Should Economist Do?" to help see where the point of emphasis will be. Another way to get your head around where I hope we will go together is to consult an essay I wrote when I was in the same situation as you are now --- "Beyond Equilibrium Economics." The essay reads to me today both as the product of an immature mind, and as an essay that was trying to grapple with the implications of the unorthodox problem situation that the Austrian and New Institutional Schools of Economics were trying to place economic research within. The "real-world" is not one that is easily captured with functions that are smooth and continuous and twice differentiable. Time's arrow moves in only 1 direction. And human agency matters not only for the methodology of economics (since we are what we study) but also the method of economics (constrained optimization may explain the behavior of rats, but not necessarily humans). Of course, neither the Austrian economists nor the New Institutional economists argued against "models" per se, let alone theoretical

abstractions. Abstraction is necessary to advance thought in the sciences of human action no less than it is necessary in all theoretical/scientific endeavors. But the question remains as to what the adequate level of abstraction actually is for any given set of problems that must be tackled to make progress in economics and political economy.

If the problem situation we want to explore in human affairs is one characterized by creativity and complexity, yet also one that exhibits a high degree of coordination, then the methods and methodology of economics must not limit our analysis only to the simple problem situation of maximizing agents and perfectly competitive markets. Such a limiting move while disciplining our thought engages in an inadequate abstraction. And as a result, we make little or no progress with respect to understanding creativity and complexity, and the possibility of coordination under those conditions.

There is a modern literature in economics that is attempting to deal with these issues utilizing conventional tools --- on creativity I would point to the work of Glen Weyl's on creative genius and the free enterprise system, or Aldo Rustichini on novelty and the bounds of unknowledge; on complexity I would point to the work by Robert Axtell on exchange, or Steven Durlauf on complexity and public policy; on the coordination on economic activity I would point to the work of Franklin Fisher on the disequilibrium foundations of equilibrium economics and Joseph Ostroy and Louis Makowsky on perfect competition and the creative market process. Please search out these, and other papers, that have attempted to treat seriously the ideas of creativity, complexity and coordination and familiarize yourself with this literature.

The course will be structured around the themes of creativity, complexity and coordination of economic activities. Based on these themes we will explore the methodology and method of economic analysis that is best suited to address these issues. And we will also divide the discussion into the realms of pure theory (decision making), applied theory (institutional analysis), and empirical analysis (history and statistics).

James Buchanan, Tyler Cowen and Richard Wagner have all in their respective ways sought to negotiate the path between an equilibrium-always economics of standard textbooks and the more open-ended and dynamic theories of economic processes associated with the Austrians. Buchanan's position can be found in his essay "The Domain of Subjective Economics." Cowen's position can be found in "Entrepreneurship, Austrian Economics and the Quarrel Between Philosophy and Poetry." And, finally, Richard Wagner's position can be found in "Change within permanence: time and the bivalent logic of economic analysis." Please read these essays immediately as they will frame much of the basis of the way I

see the possibilities for mutual gains from intellectual exchange with other economists and political economists.

2.0 Reading

I assume that you own already copies of Mises's *Human Action*, Hayek's *Individualism and Economic Order*, Rothbard's *Man, Economy and State*, and Kirzner's *Competition and Entrepreneurship*. If you don't, then you might want to rethink taking this class.

I have also have ordered from the bookstore the following *required* books:

Boettke, ed., *The Elgar Companion to Austrian Economics* (1994)
Boettke, ed., *The Handbook of Contemporary Austrian Economics* (2010)
Frydman and Goldberg, *Imperfect Knowledge Economics* (2007)
Mises, *Theory and History* (1957)
Page, *Diversity and Complexity* (2010)
Shackle, *Epistemics and Economics* (1972)
Smith, *Rationality in Economics* (2009)
Wagner, *Mind, Society and Human Action* (2010)

The reading listed in the syllabus is background reading and is not meant to be exhaustive. Most of the books are listed twice without page references, interpret this to mean that you are to read the first half of the book the first week and finish the book the next week. Don't be bashful about tracking down references provided in the various readings, and learning from them by tracking back, and tracking forward. In fact, I am hoping that you will be bringing to the attention of the class several articles and/or books that you have discovered which others are not familiar with. If you want to read a great article on the research habits of a scholar in economics, then get a copy of Fritz Machlup's "What Was Left on Viner's Desk," *Journal of Political Economy* (April 1972).

In addition to the required books, I will be referencing several articles and chapters from additional books in my lectures and class discussions. Please familiarize yourself with the contents of *Review of Austrian Economics* (especially read all the SDAE Presidential Addresses), *Quarterly Journal of Austrian Economics*, and *Advances in Austrian Economics*. There are also scientific journals devoted to advancing Austrian economics edited in France, Spain, Guatemala, and the Czech Republic. And there are several journals that are quite open to the methodological perspective of the Austrian school and to its methods of analysis, e.g., *Review of Political Economy*. In addition, there are book series dedicated to advancing Austrian economics with Routledge (edited by Mario Rizzo and

Lawrence White) and Edward Elgar (edited by me), and there is a broader series sympathetic to Austrian ideas with Cambridge (edited by Timur Kuran and myself; the series was first at U of Michigan Press). You can follow the current work-in-progress through SSRN and by tracking the various authors you encounter in this literature, and also at blogs, such as *Coordination Problem* and *Think Markets*, though don't confuse blogs with scholarly contributions. You are expected to keep up with all the reading and be able to discuss the specific works, as well as the general state of the literature, in class.

Finally, I am distributing to all members of the class prior to our first meeting Nassim Taleb's forthcoming book, *Anti-Fragility* (by January 15th at the latest). Please read his work carefully *prior* to our first class. Both *Foiled by Randomness*, as well as *The Black Swan*, are full of ideas that should strike you as similar to those you are dealing with when you consider creativity and complexity, and how coordination of economic activities through time is achieved under those conditions through the aid of institutions. The ideas in *Anti-Fragility* are even more in-line with the ideas we are arguing economic theory and policy must grapple with if it hopes to make progress.

3.0 Grading

Grades for the class will be based on producing a publishable research paper on one of the topics discussed in class. **NO PAPERS FROM OTHER CLASSES WILL BE ACCEPTED FOR THIS CLASS.** But you also are not to write a term paper for this class. You are PhD students taking an advanced topics course in a field that supposedly you have decided to specialize in. If you have a paper that can be submitted to an SSCI ranked journal and that I deem it to have a shot at publication, then you will get an A. If you produce a paper that I believe has potential to develop into a paper that could be submitted, then you will get a B. Term papers or worse yet random thoughts on paper masquerading as a coherent paper will receive a C or worse. As a result, pick a topic early and work hard on it. Remember a few of the classic James Buchanan lines --- "All work is work in progress" and "Writing is research", and most importantly that progress will be made the "Consistent application of the seat of the pants to the seat of the chair", and also remember Richard Wagner's modification of this "Thinking without writing is daydreaming." Get to work early in the semester, get your thoughts down on paper, and give yourself a chance to write a worthy paper.

4.0 Schedule

DATE	TOPIC	READING
January 24	Change Within Permanence: Why Austrian Economics Matters for the Science of Economics	R. Wagner (2010) Boettke, ed. (1994), introduction and conclusion Boettke, ed. (2010), introduction and conclusion
January 31	Opacity and Human Action: The Future is Unknowable But Not Unimaginable	R. Wagner (2010) G. L. S. Shackle (1972) Boettke, ed. (1994), chapters 2- 3; 5-11, 16-17 Boettke, ed. (2010), chapters 1 and 4
Feb 7	Rationality and All That	Shackle (1972) V. Smith (2009) Boettke, ed. (1994), chapters 2- 4; 12-13 Boettke, ed. (2010), chapters 1- 7
Feb 14	The Marvel of the Market	V. Smith (2009) Frydman and Goldberg (2007) Boettke, ed., (1994), chapters 19-30 Boettke, ed. (2010), chapters 2; 5-7
Feb 21	Beyond Magical Markets	Frydman and Goldberg (2007) Boettke, ed. (1994), chapters 4; 14-15; 24-25; 28-30; 34-44 Boettke, ed. (2010), chapter 7
Feb 28	Studying Human Action Once More	Mises (1957) Boettke, ed. (1994), chapters 3; 5-11 Boettke, ed. (2010), chapters 1 and 3
March 6	Analytical History as Social Science	Mises (1957) Boettke, ed. (1994), chapters 66; 49-65
March 13	SPRING BREAK	SPRING BREAK

March 20	The Theory of Complex Phenomena	Page (2010) Boettke, ed. (1994), chapters 28-30 Boettke, ed. (2010), chapters 3 and 10
March 27	Institutional Diversity and Social Cooperation	Page (2010) Boettke, ed. (1994), chapter 47 Boettke, ed. (2010), chapter 10
April 3	APEE	APEE
April 10	Heterogeneity, Multiple Specificity and Economic Calculation	Boettke, ed. (1994), chapters 31; 33; 64-65 Boettke, ed. (2010), chapters 5, 6, 9
April 17	On the Manipulation of Money and Credit	Boettke, ed. (1994), chapters 31-32; 34; 36-37; 58-63 Boettke, ed. (2010), chapters 8-9
April 24	Robust Political Economy	Boettke, ed. (1994), chapters 45-48 Boettke, ed. (2010), chapter 10
May 1	Creativity, Complexity and Coordination	Boettke, ed. (1994), conclusion Boettke, ed., (2010), conclusion