

# Econ 474: Recent Economic Thought

Fall 2016

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Class meetings: T/Th: 11am-12:15pm in Military Sciences 200  
Office hours: W: 10:30am-noon and 1:30-3pm and by appointment

## Course description

Adam Smith famously argued that in a market economy the invisible hand leads rational, selfish individuals to unwittingly promote the public good. This view of the economy was formalized in the middle of the 20th century, and it remains the core idea in economics today. In this class, we will focus on recent developments in economic thought, especially those that suggest that individual utility-maximization does not lead to the best of all possible worlds. We will address coordination failures, externalities, discrimination, social preferences, problematic contracts, and economies of scale.

For better or for worse, economics has become increasingly mathematized over the last half-century. On the one hand, mathematical models can clarify economic processes and avoid logical inconsistencies. On the other hand, not all good economic ideas are best put in mathematical form, and the ability to do math is not a substitute to communicating economic ideas in words. In this course, we will spend a significant amount of time mastering simple economic models, which you will be tested on in the midterm and final exam. However, we will also spend time reading, writing, discussing, and debating economic thought. Our goal is to put the insights from theoretical models into words.

## Course objectives

- To survey developments in economic thought since 1945.
- To review classical and neoclassical theory and thought with a special emphasis on the behavioral assumption of the rational and self-interested economic man, *Homo economicus*.
- To describe and explain behavioral economics, which examines how *Homo sapiens* actually behaves and to examine the implications of these behaviors for economic theory and ideas.
- To master mathematical and graphical models of individual interaction in which the invisible hand fails to guide rational self-interested individuals to efficient outcomes.
- To develop the ability to communicate and debate economic ideas in class discussion and in writing.

## Prerequisites

This course requires Economics 304 (Intermediate Macroeconomics) and Economics 306 (Intermediate Microeconomics)

## Readings

The required book for this course is: Kaushik Basu, 2011, *Beyond the Invisible Hand*, Princeton University Press, which is available at the CSU bookstore (Hardcover is \$47 new, \$35 used; paperback may be available as well). All other required readings will be made available on Canvas.

## Course structure

Each week, I will assign you about 3 hours of reading for you to do on your own. You must complete each day's reading before attending class, and you should complete all readings before submitting your essays or comments on Canvas.

There will be two class meetings each week, which will consist of my presentation of course material, discussion, and in-class work. Your in-class participation grade depends on your attendance as well as participation. Over the course of the semester you are permitted 2 absences, no questions asked, but *only* if you email me before class time. Other absences will harm your participation grade unless you can document a university-recognized excuse. In class I will call on students by name to answer questions regarding course material. If you do not know how to answer a question you may always "pass". My purpose is not to embarrass you, but rather to involve all students in classroom discussions.

This class will have weekly discussion forums on Canvas. I will divide the class into two groups A and B. Each week students in one group will be responsible for writing a roughly 500-word essay related to the week's reading by midnight on Monday, while the other group will be responsible for responding to two of their peers' essays by midnight on Wednesday in roughly 200 words. I will grade your essays and responses as Outstanding (100), Good (90), Satisfactory (80), or Unsatisfactory (50) based on the originality, clarity, and thoughtfulness of your posts.

The remainder (and bulk) of your grade will be based on a mid-term exam and a cumulative final exam, which will consist of definitions, multiple-choice, and short-answer questions. You will be responsible for all of the material presented in the readings and in class. I will provide you with sample questions and we will have in-class review sessions. Makeup exams will not be given without a university-recognized excuse that you communicate to me in advance.

## Grading

Your final grade will be calculated as a weighted average of your grades in each of the following categories:

- 10% in-class participation
- 20% online essays and responses
- 30% midterm exam
- 40% final exam

The grading scale used in this course is:

A+	97-100	B+	87-90	C+	77-80	D+	67-70
A	93-97	B	83-87	C	73-77	D	63-67
A-	90-93	B-	80-83	C-	70-73	F	0-66

## Contact hours and workload

Attend lecture	~3.0 hours/week
Readings	~3.0 hours/week
Discussion forums	~2.0 hours/week
Study for exams	~1.0 hours/week
Total	~9.0 hours/week

## Advice

Much of the material covered in this course will be new and challenging to students. To do well on the exams, you will need to stay on top of the concepts covered in the readings and in class. I encourage you to:

- Devote sufficient time (about 3 hours a week) to reading the assigned pages and understanding the material.

- Study the models presented in this class with another student or in a small group. Both strong and weak students benefit enormously from teaching and learning with others.
- Use class time to ask questions about the material. If something is confusing to you, it is probably confusing to others as well, and you are providing a public good by asking for clarification.
- Visit my office hours for assistance. If you cannot attend my regular hours, send me an email for an alternative time.

The purpose of writing the bi-weekly essays is for you to engage with the course readings and put your views of recent economic thought into words. When it is your turn to write an essay:

- Complete the full week's readings before writing your essay. This will give you more ideas to work with in your essay, and it will reduce your workload for the rest of the week.
- In the beginning of your essay, make a clear thesis or argument. The rest of your essay should be devoted to defending your argument. You may write an essay on any topic related to the week's content. If you choose to use one of my discussion prompts, make sure that you still compose your essay as if you had come up with the topic yourself (i.e. do not include sentences beginning with "Yes" or "No".)
- Cite required readings as well as any outside reading (such as books, articles, blogs) that you find insightful.
- Be bold! Sometimes a strong argument clarifies ideas better than a careful argument. It is fine to take stances on issues at the beginning of the week or semester that you might change over time.

In writing responses to other essays:

- Be polite and respectful of your classmates. Remember that we are discussing ideas, not people.
- Make substantive comments. Regardless of whether you agree or disagree with the original essay, provide new anecdotes, data, or theory that shed light on the topic at hand.

## **Accommodation for students with disabilities**

If you require special accommodation to complete the requirements of this course, please provide documentation and verification from the office of Resources for Disabled Students (see <http://rds.colostate.edu/>). The student is responsible for obtaining the appropriate verification and paper work.

## **Academic integrity**

This course will adhere to the Academic Integrity Policy of the General Catalog and the Student Conduct Code. As per university policy, "Any student found responsible for having engaged in academic dishonesty will be subject to academic penalty and/or University disciplinary action." (General Catalog 2011-2012, 1.6, p.8). Any academic dishonesty in this course may result in a grade of "F" for the course and may be reported to the Office of Conflict Resolution and Student Conduct Services.

Please be aware that the General Catalog specifically identifies the following examples of academic dishonesty: cheating in the classroom, plagiarism, unauthorized possession or disposition of academic materials, falsification, and facilitation of cases of academic dishonesty.

Plagiarism is defined as follows: "Plagiarism includes the copying of language, structure, ideas, or thoughts of another, and representing them as one's own without proper acknowledgment. Examples include a submission of purchased research papers as one's own work; paraphrasing and/or quoting material without properly documenting the source." (General Catalog 2011-2012, 1.6, p. 8).

## Copyright

Please do not share material from this course in online, print or other media. Materials authored by third parties and used in the course are subject to copyright protections. Posting course materials on external sites (commercial or not) violates both copyright law & the CSU Student Conduct Code. Students who share course content without the instructor's express permission, including with online sites that post materials to sell to other students, could face disciplinary or legal action.

## Course schedule

For the sake of discussion forums, you are in group \_\_\_. Essays and discussion are due at midnight the day before our class meeting.

Date	Forum	Topics	Required Readings
<b>Week 1</b>			
8/23/2016		<b>Introduction</b> Introduction to each other and to the course, the Invisible Hand game	Smith Book I, Chapter II and Book IV Chapter II (especially pp. 477-478).
8/25/2016	All	In praise of dissent	Basu Chapter 1 "In Praise of Dissent" (pp. 1-15)
<b>Week 2</b>			
<b>The Invisible Hand Theorem</b>			
8/30/2016	A	Pareto efficiency and Edgeworth's box	Basu Chapter 2 "The Theory of the Invisible Hand" (pp. 16-23) and Frank Chapter 18W "General Equilibrium and Market Efficiency" (especially pp. 1-9)
9/1/2016	B	Utopian pricing	Samuelson Chapter 32: "Epilogue to Microeconomic Pricing" (especially pp. 634-640)
<b>Week 3</b>			
<b>Limits of the Invisible Hand Theorem</b>			
9/6/2016	B	Dual interpretation, evolving feasible sets, preferences, and norms and culture	Basu Chapter 3 "Limits of Orthodoxy" (pp. 24-41)
9/8/2016	A	Incentive compatibility, methodological individualism, and knowledge	Basu Chapter 3 "Limits of Orthodoxy" (pp. 41-54)
<b>Week 4</b>			
<b>Law and Economics</b>			
9/13/2016	A	The standard view of law and the law as focal point	Basu Chapter 4 "The Economy According to Law" (pp. 55-70)
9/15/2016	B	Implications of the law as a focal point	Basu Chapter 4 "The Economy According to Law" (pp. 71-76)
<b>Week 5</b>			
<b>Coordination Problems I</b>			
9/20/2016	B	Evolutionary game theory and the assurance game	Bowles, Chapter 1 "Social Interactions and Institutional Design" (especially pp. 40-55)
9/22/2016	A	Hawk-Dove game and positional externalities	Frank, Chapter 7 "Explaining Tastes" (especially pp. 216-219), and "Positional Externalities" (pp. 552-555)
<b>Week 6</b>			
<b>Coordination Problems II</b>			
9/27/2016	A	Pigovian taxes	Mankiw "The Pigou Club Manifesto", Boyce "The Carbon Dividend"
9/29/2016	B	Political economy of climate change	Chris Hayes "The New Abolitionism"

<b>Week 7</b>		<b>Discrimination I</b>	
10/4/2016	B	Costly discrimination and self-reinforcing discrimination	Friedman Chapter 7 "Capitalism and Discrimination" (pp. 108-118), Basu Chapter 5 "Markets and Discrimination" (pp. 77-89)
10/6/2016	A	Community effects	Basu Chapter 5 "Markets and Discrimination" (pp. 89-96)
<b>Week 8</b>		<b>Discrimination II</b>	
10/11/2016		Segregation and review	Bowles, Segregation Model (pp. 66-69)
10/13/2016		Midterm exam	Sample questions
<b>Week 9</b>		<b>Behavioral Economics I</b>	
10/18/2016	A	Altruism, trust, and development	Basu Chapter 6 "The Chemistry of Groups" (pp. 97-110)
10/20/2016	B	In-group altruism and the malignancy of identity	Basu Chapter 6 "The Chemistry of Groups" (pp. 110-129)
<b>Week 10</b>		<b>Behavioral Economics II</b>	
10/25/2016	B	Social preferences	Bowles and Gintis "Social Preferences, Homo Economicus, and Zoon Politikon (especially pp. 172-176)
10/27/2016	A	Irrationality and behavioral economics and consumption	Thaler "Unless You Are Spock, Irrelevant Things Matter in Economic Behavior", and Schor "A New Politics of Consumption" (especially Schor's initial essay)
<b>Week 11</b>		<b>Problematic Contracts</b>	
11/1/2016	A	The principle of free contract and coercive contracts	Basu, Chapter 7 "Contract, Coercion, and Intervention" (pp. 130-156)
11/3/2016	B	Incomplete contracts	Bowles, Credit Model (especially pp. 306-309)
<b>Week 12</b>		<b>Economic Inequality</b>	
11/8/2016	B	U.S. income distribution	Piketty, Introduction (pp. 1-16)
11/10/2016	A	Piketty's $R > G$	Piketty, Introduction (pp. 16-35)
<b>Week 13</b>		<b>Globalization</b>	
11/15/2016	A	Globalization and inequality	Basu, Chapter 8 "Poverty, Inequality, and Globalization" (pp. 157-179)
11/17/2016	B	Globalization and democracy	Basu, Chapter 9 "Globalization and the Retreat of Democracy" (pp. 180-192)
<b>Fall break</b>			
11/22/2016			
11/24/2016			
<b>Week 14</b>		<b>New Economy</b>	
11/29/2016	B	Economies of scale (and music)	Romer, "When Should We Use Intellectual Property Rights?" (pp. 213-216), Johnson, "The Creative Apocalypse That Wasn't"
12/1/2016	A	New economic institutions and zero marginal cost economics	Stiglitz and Jayadev, "Medicine for Tomorrow" (217-225), and Rifkin, "The Rise of Anti-Capitalism"
<b>Week 15</b>		<b>New Economic Thought?</b>	
12/6/2016		Interpretation and change	Basu, Chapter 10 "What Is to Be Done?" (pp. 193-212)
12/8/2016	All	Your ideas and review	Response essays