

Department of Economics
Colorado State University

DRAFT 1/15/2009

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COURSE CONTENT AND OBJECTIVES

Description: This is a course about the history of economic ideas. Formal economic thinking outside of religious texts goes back at least as far as Aristotle. The word recent for most historians of economic thought is interpreted as post-medieval and post Renaissance time periods, i.e., modern economics; students typically interpret recent to mean in the near past, e.g., 2008-9. My choice is to begin with some of Adam Smith's ideas found in the *Wealth of Nations* (1776), to briefly describe the development of orthodox economic ideas (classical, neoclassical, Keynesian, etc.), and to end the course with truly recent economic thinking that deviates from orthodox economics. So I hope this makes you and the historians of economic ideas happy!

COURSE OBJECTIVES

Content

1. To comprehend the complexities of interpreting the writings of great economists and to understand the great ideas from dead economists that have relevance in the 21st century.
2. To review classical and neoclassical theory and thought.
3. To understand the economics of Keynes and Keynesian economics.
4. To comprehend the main features of Evolutionary (Institutional) Economics especially with respect to human behavior and money and finance.
5. To understand some of the experimental results from the new field of behavioral economics.
6. To apply behavioral economics to the U. S. stock market crashes of 2000 and 2008, and the housing and financial sector crashes of 2007-2009.
7. To focus on the current macroeconomic crisis, policy proposals, and policies.

Skills

1. To develop writing and speaking abilities.
2. To enhance reading comprehension.
3. To develop analytical and reasoning skills.
4. To encourage learning groups through class discussion, panel presentations, and distributing study questions before the exam.

COURSE STRUCTURE AND ASSIGNMENTS

1. The course will include lectures, class discussion, and panel presentations.
2. Please write brief, informal key point summaries on all readings before lectures and bring them to class to aid discussion.
3. Please take detailed lecture notes.
4. Traditionally graded assignments:

- Summary and response papers
 - Four quizzes.
 - A midterm essay exam (study questions distributed one week before the exam).
 - Final project (in lieu of Final Exam): Refer to end of syllabus and a detailed written assignment is forthcoming. Note: The above assignments intend to further your involvement in rigorous literate activities through critical reading, analysis, and formal writing.
5. Plus, check, minus assignments:
- Class discussions
 - Panel presentations

GRADING

1. Weights:

• Class discussion, including panel presentations:	10%
• Six unannounced quizzes (top 4 count)	20%
• Midterm essay exam:	30%
• One summary paper	5%
• One summary and response paper	10%
• Final project:	25%
2. Grading scale (+ and - grades are used): A = excellent, 90-100; B = very good, 80-89; C = satisfactory, 70-79; and D = poor, 69 and below.
3. Absences: Please note this is NOT a correspondence course and class participation during class time is expected. Attendance is expected always. Your final course grade is reduced by one full letter grade after your fourth unexcused absence, and another grade after your seventh unexcused absence. If you miss class for legitimate reasons such as illness or University-sanctioned extra- or co-curricular activities, please provide written documentation (in advance, if known). These absences do not count against your grade.

DISABILITIES

If you have any diagnosed or suspected physical or learning disabilities which may require reasonable accommodations, please make an appointment to see me as soon as possible.

REQUIRED TEXTS

1. Robert Shiller, *Irrational Exuberance* (Second Edition).
2. Mark Zandi, *Financial Shock*.
3. Other required readings: A variety of journal articles and book chapters are on E-reserve.

COURSE OUTLINE AND REQUIRED READINGS

Introduction and Background [January 20 to 27]

1. Recent economic ideas.
 - Paul Krugman, Nobel Prize in Economics, 2008
 - Neuroeconomics
 - Behavioral economics and its evolutionary roots
 - Rising stars in economics

Reading: *Economist*, recent short articles **[handout]**

2. A traditional rendition of the evolution of economic thought.
 - Relativist and absolutist approaches.
 - Orthodox and heterodox economics
 - Methodology
 - Theory and empiricism

Reading:

- Harry Landreth and David Colander, *History of Economic Thought*, Chapter 1 and appendix, “Introduction,” pp.1-21. **[E-reserve]**
- Mark Blaug, “No History of Ideas, Please, We’re Economists,” *Journal of Economic Perspectives*, winter 2001, pp. 145-164. **[E-reserve, two and ½ page summary due on January 27th]**

Classical Economic Thought [January 29 and February 3]

1. What are the scientific and social contexts? What are the economic problems? Who are the “Classicals?”
2. The harmonious economics of Adam Smith.

Reading: Robert Heilbroner, *The Worldly Philosophers*,” Chapter III, “The Wonderful World of Adam Smith,” pp. 42 to 74 **[E-reserve]**

Neoclassical Economic Thought [February 5 and 10]

1. What are the scientific and social contexts? What are the economic problems? Who are the “Neoclassicals?”
2. The neoclassical framework and Alfred Marshall.

Reading:

- Breit and Ransom, *The Academic Scribblers*, Chapter 2, “The Intellectual Gantry of Neoclassical Economic Policy,” pp. 7-16. **[E-reserve]**

The Economics of Keynes [February 12 and 17]

1. What are the social and economic problems?
2. The critique of classical and neoclassical economics, a dynamic theory expressed in a comparative static model, and depression economics and the role of government.

Reading:

- Breit and Ransom, op. cit., Chapter 7, “John Maynard Keynes: Unemployment in Equilibrium,” pp. 65-78. **[E-reserve]**
- Robert R. Keller and J. Lon Carlson, “A Neglected Chapter in Keynes’ *General Theory*,” *Journal of Post Keynesian Economics*, Spring, 1982, pp. 404-412. **[E-reserve]**

Keynesian Economics: The “Absolutist” Development of Keynes’ Ideas [February 19 and 24]

1. The Keynesian cross and IS/LM models.
2. Micro foundations of macro, imperfect and asymmetric information, etc.

Reading: Lecture handouts are the “readings”

The Critique of Keynesian Economics and its Resurrection: Monetarism and Rational Expectations and the Revival of Keynesian Economics [February 27 to March 5]

1. Milton Friedman: “I didn’t hear the question, but the answer is the money supply.”
 - Todd Buchholz, *New Ideas from Dead Economists*, Chapter 10, “Milton Friedman and the Monetarist Battle against Keynes,” pp. 229-252. [E-reserve]
2. Rational expectations: “You can’t fool people with systematic and predictable policy.”
Reading:
 - Buchholz, *Ibid.* Chapter 12, “The Wild World of Rational Expectations and Behavioral Economics,” pp. 283-299. [E-reserve]
3. The New Keynesian Economics.
Reading: Paul Krugman, *Peddling Prosperity*, Chapter 8, “In the long Run Keynes is still Alive,” pp. 197-220. [E-reserve]

MIDTERM EXAMINATION, MARCH 10

SPRING BREAK, MARCH 14 to 22

Modern Experimental Studies of Human Behavior [March 24 to April 9]

1. Background: Thorstein Veblen and the cultural influences on human behavior—conspicuous consumption, emulation, relative standing, etc.
Reading:
 - Breit and Ransom, Chapter 4, “Thorstein Veblen: The Abrogation of Consumer Sovereignty,” pp. 31-44. [E-reserve]
2. Recent developments in the application of experimental psychology to economics
 - Matthew Rabin, “Psychology and Economics,” *Journal of Economic Literature* (March 1998, pp. 11-46). [E-reserve, summary and response due on March 31st]
 - Daniel Kahneman, “A Psychological Perspective on Economics,” *American Economic Association Papers and Proceedings* (May 2003, pp. 161-168). [E-reserve]
 - Richard Thaler, “From Homo Economicus to Homo Sapiens,” *Journal of Economic Perspectives* (Winter 2000, pp. 133-141). [E-reserve]
3. Attacks on the “conventional wisdom” through the use of history, incentives, and data.
 - Paul Krugman, *Peddling Prosperity*, Ch. 9, “The Economics of QWERTY,” pp. 221-244. [E-reserve, Panel 1]
 - Steven Levitt and Stephen Dubner, Chapter Two, “How is the Ku Klux Klan like a Group of Real Estate Agents?” *Freakonomics*, pp. 55-85. [E-reserve, Panel 2]

Application to the Stock Market Crash of 2000 [April 14 to 21]

1. Background.
Reading:
 - Robert Schiller, *Irrational Exuberance*, Chapter One, “The Stock Market in Historical Perspective,” pp.1-10; Chapter Two, “The Real Estate Market in Historical Perspective,” pp.11-27; and Chapter Six, “New Era Economic Thinking,” pp 106-131.
2. Behavioral aspects of stock market bubbles and crashes.

Reading:

- Shiller, Chapter Eight, “Psychological Anchors for the Market,” pp. 147-146; and Chapter Nine, “Herd Behavior and Epidemics,” pp.157-173. **[Panel 3]**
3. Conclusions and recommendations.

Reading:

- Shiller, Chapter Twelve, “Speculative Volatility in a Free Society,” pp. 207-230.

Explaining the Housing Bubble and Crash, Financial Crisis, and Severe Recession. [April 23 to 30]

1. Explaining the housing boom, subprime crisis, the Fed, and globalization.

Reading:

- Mark Zandi, *Financial Shock*, chapters 1-5, pp. 1-93
2. Bad lenders, financial instrument innovation and leverage, lack of regulation, and bubble, bust, and crash.

Reading:

- Zandi, chapters 6 & 7, pp. 95 to 127 **[Panel 4]**; and chapters 9 & 10, pp.143 to 172. **[Panel 5]**
3. Credit crunch, the Fed, and recession.

Reading:

- Zandi, chapters 11 and 12, pp. 173 to 212

Wrapping up the Course with the Final Project (detailed writing assignment to follow) [May 5 & 7])

1. Explain the differences between the stock market bubble, bust, and crash to the housing market bubble, bust, and crash,
2. Explain how the housing crash and stock market crash caused the current recession.
3. What are short term policies you support to bring the economy out of recession?
4. What are some reforms (typically laws) that would moderate booms, busts, and crashes in the future?

FINAL PROJECT DUE TUESDAY, MAY 12, 4 P. M., in the Honors Program office in B 102 Academic Village

Assignments

1. Read required readings before lecture.
2. Six quizzes, unannounced.
3. Summary on Mark Blaug, January 27th.
4. Midterm exam, March 10th.
5. Summary and response paper, March 21st.
6. Panel presentations, five on various dates after spring break.
7. Final project, May 12th.