

Professor Peter J. Boettke
Econ 880/Fall 2023
W 4:30-7:10
D-100 Buchanan Hall

The Theory of the Market Process I

The body of economic knowledge is an essential element in the structure of human civilization; it is the foundation upon which modern industrialism and all the moral, intellectual, technological, and therapeutical achievements of the last centuries have been built. It rests with men whether they will make the proper use of the rich treasure with which this knowledge provides them or whether they will leave it unused. But if they fail to take the best advantage of it and disregard its teachings and warnings, they will not annul economics; they will stamp out society and the human race.

- Ludwig von Mises, *Human Action*

This course will be organized around the theme of the Austrian School of Economics as developed by Ludwig von Mises, F. A. Hayek and Israel Kirzner in the 20th century. We will be utilizing Mises's *Human Action* (1949), as well as Hayek's foundational contributions to market process theory and to monetary, capital and ultimately business cycle theory as the core texts. The work of Israel Kirzner addressing market theory and the price system, and his elaboration of the entrepreneurial market process will round out the core reading. These will be supplemented by articles, videos, etc. that will help in the class dialogue and in the various assignments you will be asked to complete for assessment.

The Austrian School of Economics can be usefully thought of as consisting of 4 periods. The founding period will be represented by Carl Menger, Eugen Bohm-Bawerk and Frederic Wieser. The development phase will be represented by Ludwig von Mises, Joseph Schumpeter and F. A. Hayek. The modern phase will be Murray Rothbard, Israel Kirzner and Ludwig Lachmann. And, the contemporary period represented by the work of Don Lavoie, Mario Rizzo, Lawrence White and others. Rizzo in 2020 published a landmark work in behavioral economics, *Escaping Paternalism* (Cambridge), and in 2023 White published *Better Money* (Cambridge). Lavoie's work, despite his untimely death over 20 years ago, has received renewed interest due to the resurgence of the economic calculation debate with the popularity of Industrial Policy and the faith in advanced computing (AI) to solve the "knowledge problem". These contemporary works will be part of your assessment exercises in one way or another so please do familiarize yourself with their works.

The Austrian School of Economics has a long and distinguished history as significant contributors to what I have in many writings dubbed 'mainline economics'. (see, e.g., Boettke, *Living Economics* (2012)) Moreover, this 'mainline' tradition is widely recognized as a major contributor to the advance of economic science. Paul Samuelson, e.g., in his obituary of Swedish economist Bertil Ohlin, decided to play the game of "what if" -- in this case, "what if the Nobel Prize was

established in 1900, then who would have won the prize between 1901 and 1930?" This is list of names Samuelson (1981) thinks would have won the prize:

One cannot forbear playing the game of might-have-been. Here is the most likely scenario of awards from 1901 on: **Bohm-Bawerk**, Marshall, J.B. Clark, Walras, and *Wicksell*; **Carl Menger**, Pareto, *Wicksteed*, Irving Fisher, and Edgeworth; Sombart, Mitchell, Pigou, Adolph Wagner, Allyn Young, and *Cannan*; *Davenport*, Taussig, **Schumpeter**, Veblen, and Bortkiewicz; Cassel, J. M. Keynes, Heckscher, J. R. Commons, and J. M. Clark; Hawtrey, **von Mises**, Robertson, H. L. Moore, and *F. H. Knight*.(p. 358, n1)

I have marked in **bold** the members of the Austrian School of Economics in his list, however, in this same list I have *italicized* those that were particularly close in substance to the Austrians though not part of the Viennese intellectual community. And, I am probably missing cross influences, and the cut off for Samuelson's thought experiment was 1930, so he does not have Hayek or Lionel Robbins listed, let alone Fritz Machlup and Oskar Morgenstern, all of whom made their major contributions after 1930. By this accounting, not only is the Austrian School of Economics distinctive, it's practitioners are *distinguished contributors* to the scientific conversation in economics, political economy and social philosophy throughout the 20th and I am going to argue into the 21st century.

In my own work, I have come to contrast 'mainline economics' with 'mainstream economics', where mainline refers to the foundational principles of economics and continuity in the development of those core principles from Adam Smith to contemporary thinkers, whereas mainstream refers to whatever is currently fashionable among so-called elite economic thinkers at any point in time. Sometimes the mainline is the mainstream, but at other times, the mainstream deviates significantly from the mainline, and it is precisely at these moments of disjoint that often schools of thought emerge in economics to stress the necessity of core fundamental principles. In my reading of the history of political economy, the mainline of economics is connected to invisible hand reasoning, and, in particular, is related to the theoretical effort to derive the invisible hand proposition from the rational choice postulate via institutional analysis. In this way, the pure logic of choice is married with situational logic to produce both economic theory and its application to render intelligible the operation of commercial society.

From this perspective, the Austrian School of Economics is a branch of neo-classical economics, but from Menger onward subtle differences in the way the principles of economics were understood and presented were evident. So evident are these subtle differences, in fact, that the Austrian School of Economics has been recognized as unique since its founding 150 years ago. Menger is recognized as one of the three scientific innovators that produced the Marginal Revolution, but his consistent subjectivism set him apart from Jevons and Walras even back then.

As background, you might find it helpful to read the following historical treatments of the Austrian School, or at least synopsis of these works and/or reviews that are accessible. First, Erwin Dekker's *The Viennese Students of Civilization* (Cambridge, 2016). Second, Karen Vaughn's *Austrian Economics in America* (Cambridge, 1994). And, third, Janek Wasserman's *Marginal Revolutionaries* (Yale, 2019). This exercise will be important to historically situate the Austrian

School in the literature on the history of economic thought. The biographies of Keynes, Knight, Mises, Hayek, Samuelson, Friedman and Buchanan all provide critical information on the scientific discourse and the challenges of the different historical epochs that subsequent thinkers had to find their way to negotiate. Furthermore, to familiarize yourself with the main contributions of the Austrian School, I would also suggest consulting the following reference volumes I have edited: (1) *Elgar Companion to Austrian Economics* (1994); (2) *The Handbook of Contemporary Austrian Economics* (2010); and *The Oxford Handbook of Austrian Economics*, with Chris Coyne (2015). These reference books will be valuable throughout the term (and in fact your career) as reference works, but there really is no substitute for the original works themselves.

Required Reading

The foundational texts for the class are Mises's *Human Action* (1949) and Hayek's *Markets and Other Orders*, Volume 15 in *The Collected Works*, which contains the main substantive papers from *Individualism and Economic Order* (1948) as well as subsequent classic Hayek papers and his lectures at University of Virginia in the 1960s. In addition, Hayek's *Business Cycles*, Volume 7 of *The Collected Works*, which contains both *Monetary Theory and the Trade Cycle* and *Prices and Production*. Finally, Israel Kirzner's textbook, *Market Theory and the Price System* (1963) as well as his classic work *Competition and Entrepreneurship* (1973) will be required. The course topics will follow the structure of Mises's treatise (please read those sections each week), and the contributions of Hayek and Kirzner will be placed within that context. Assume that each week there are foundational concepts that were developed in these texts that are being worked on in the subsequent literature.

Class Format

Each week we will have a lecture running roughly 1 hour to 1 hour and 15 minutes, followed by break and then presentation of assigned articles and then open discussion for the remainder of the class. I am also looking to post relevant articles, lectures and video clips and podcasts on blackboard in the hope of moving more toward less lecture and more classroom discussion.

Grading Policy

This course is designed for motivated learners as is appropriate for a graduate level elective course. I will assume you have a strong desire to master this material whether enrolled in a class for credit or not. Nevertheless, we will need assessment exercises. You will have basically 3 sources for your course grade. 7 essays 6-8 double spaced pages that will be assigned throughout the term, your presentation of the assigned weekly article, and finally, class participation in general.

The short essays will constitute 70%, presentations throughout the semester 20% and class participation will be 10% of your final grade.

I do expect active and engaging participation from all in this class. To reiterate this is a graduate level economics course in a specialized sub-field. Be ready to contribute.

Course Objectives

Upon completion of this course, you will:

- Understand the foundational contributions of the Austrian School of Economics
- Understand the major strands of academic literature in Austrian Economics in methodology, analytics, and applications to political economy and public policy
- Be able to synthesize existing ideas in the field of Austrian Economics and build on these ideas to generate novel contributions to this literature
- For MA students – be able to apply the core concepts in Austrian Economics to current events
- For PhD students – to continue your development in being able to write academic papers in the field of Austrian Economics suitable for peer review.

Course Schedule

Date	Topic	Readings
Aug 23 rd	Course Introduction: The Austrian Contribution to Economic Science, Political Economy and Social Philosophy	*Boettke, “Austrian School of Economics,” <i>The Concise Encyclopedia of Economics</i> , edited by David Henderson. *W. Brian Arthur, “Economics in Nouns and Verbs,” <i>JEBO</i> 205 (January 2023): 638-647.
August 30 th	The Sciences of Human Action I Hayek CW 15, Prologue; 2; 6; 13; Appendix A Kirzner MTPS, 1; 4; 5; 6; 9	*Bruce Caldwell, “Praxeology and its critics: an appraisal,” <i>History of Political Economy</i> 16 (3) 1984: 363-379. *Robin Cowan and Mario Rizzo, “The Genetic-Causal Tradition and Modern Economic Theory,” <i>Kyklos</i> 49 (3) 1996: 273-317.
Sept 6 th	The Sciences of Human Action II Hayek CW 15, 8; 9; 11 Kirzner MTPS, 2-3; 7; 10-11	*Robert Nozick, “Invisible-Hand Explanations,” <i>American Economic Review</i> 84 (2) 1994: 314-318. *Robert Sugden, “Spontaneous Order,” <i>Journal of Economic Perspectives</i> 3 (4) 1989: 85-97.

Sept 13 th	<p>Human Action within the Framework of Society I</p> <p>Hayek CW 15, 5; 10</p> <p>Kirzner MTPS, 13</p>	<p>*Vernon Smith, "Constructivist and Ecological Rationality in Economics," <i>American Economic Review</i> 93 (3) 2003: 465-508.</p> <p>*Mario J Rizzo and Glen Whitman. "Rationality as a Process" <i>Review of Behavioral Economics</i> Vol. 5 (2018) p. 201 – 219.</p>
Sept 20 th	<p>Human Action within the Framework of Society II</p> <p>Hayek CW 15, 7</p>	<p>*Liya Palagashvili, Ennio Piano and David Skarbek, <i>The Decline and Rise of Institutions</i> (Cambridge, 2017).</p> <p>*Virgil Storr and Arielle John, <i>Cultural Considerations with Austrian Economics</i> (Cambridge, 2020).</p> <p>*Colin Harris, Cai, M., Murtazashvili, I., & Murtazashvili, J. (2020). <i>The Origins and Consequences of Property Rights: Austrian, Public Choice, and Institutional Economics Perspectives</i> (Cambridge, 2020).</p>
Sept 27 th	<p>Economic Calculation I</p> <p>Hayek CW 15, 1</p>	<p>*Thomas Taylor, "Accounting Theory in the Light of Austrian Economic Analysis." (1970). LSU Historical Dissertations and Theses. 1757. ◇ Part II ◇ Part III</p> <p>*Roger Garrison, "Time and Money," <i>Journal of Macroeconomics</i> 6 (2) 1984: 197-213.</p>
Oct 4 th	<p>Economic Calculation II</p> <p>Hayek CW 7, Prices & Production Kirzner MTPS, 8; appendix</p>	<p>*Peter Lewin & Cachanosky, N. (2019). <i>Austrian Capital Theory: A Modern Survey of the Essentials</i> (Cambridge, 2019).</p> <p>*Don Lavoie, "The Accounting of Interpretations and the Interpretation of Accounts," <i>Accounting, Organizations & Society</i> 12 (6) 1987: 579-604.</p>
Oct 11 th	<p>Catallactics of the Market Society I</p>	<p>*Peter Boettke and Rosolino Candela, "Price theory as prophylactic against popular</p>

	<p>Hayek CW 15, 3; 4 Kirzner MTPS, 12 Kirzner C&E, 1; 2; 3</p>	<p>fallacies,” <i>Journal of Institutional Economics</i>, 13(3) 2017, 725-752.</p> <p>*Peter J. Boettke (1997) “Where did economics go wrong? Modern economics as a flight from reality,” <i>Critical Review</i>, 11 (1): 11-64.</p>
Oct 18 th	<p>Catallactics of the Market Society II</p> <p>Hayek CW 15, 12 Kirzner C&E, 4; 5; 6</p>	<p>*Israel Kirzner, “Entrepreneurial Discovery and the Competitive Market Process,” <i>Journal of Economic Literature</i> 35 (1) 1997: 60-85.</p> <p>*Louis Makowski and Joseph M. Ostroy. 2001. "Perfect Competition and the Creativity of the Market." <i>Journal of Economic Literature</i>, 39 (2): 479-535.</p> <p>*James Buchanan and Viktor Vanberg, The Market as a Creative Process. <i>Economics & Philosophy</i>, 7(2) 1991, 167-186.</p>
Oct 25 th	<p>Social Cooperation without a Market I</p> <p>Hayek CW 15, 14</p>	<p>*Ludwig von Mises, “Economic Calculation in the Socialist Commonwealth,” 1920.</p> <p>*F. A. Hayek, “Socialist Calculation: The Competitive Solution,” <i>Economica</i> 7 (26) 1940: 125-149.</p> <p>*Bruce Caldwell, “Hayek and Socialism,” <i>Journal of Economic Literature</i> 35 (December 1997): 1856-1890.</p>
Nov 1 st	<p>Social Cooperation without a Market II</p> <p>Hayek CW 15, 3; 12</p>	<p>*Bruce Caldwell, “The Road to Serfdom After 75 Years,” <i>Journal of Economic Literature</i> 58 (3) 2020: 720-748.</p> <p>*Don Lavoie, “The Market as a Procedure for the Discovery and Conveyance of Inarticulate Knowledge,” <i>Comparative Economic Studies</i> 28 (Spring) 1986: 1-19.</p> <p>*Peter Boettke, Rosolino Candela and Tegan Truitt, <i>Economic Calculations After 100 Years</i> (Cambridge, 2024).</p>

Nov 8 th	<p style="text-align: center;">The Hampered Market Economy I</p> <p style="text-align: center;">Hayek CW 15, 5</p>	<p>*Mario Rizzo, "The Mirage of Efficiency," <i>Hofstra Law Review</i> Vol. 9 Iss. 3 (1980) p. 641 – 658.</p> <p>*Mario Rizzo. "Law Amid Flux: The Economics of Negligence and Strict Liability in Tort" <i>Journal of Legal Studies</i> Vol. 9 Iss. 2 (1980).</p> <p>*Mario J Rizzo. "Rules Versus Cost-Benefit Analysis in the Common Law" <i>Cato Journal</i> 4 (3) 1985: 865 – 884.</p>
Nov 15 th	<p style="text-align: center;">The Hampered Market Economy II</p> <p style="text-align: center;">Hayek CW 7, Monetary Theory and the Trade Cycle</p>	<p>*Lawrence H. White, "Hayek's Monetary Theory and Policy," <i>Journal of Money, Credit and Banking</i> 31(1) 1999: 109-120.</p> <p>*Lawrence H. White, "Did Hayek and Robbins Deepen the Great Depression?" <i>Journal of Money, Credit and Banking</i> 40 (4) 2008: 751-768.</p>
Nov 22 nd	<p>Thanksgiving Break</p>	
Nov 29 th	<p style="text-align: center;">The Place of Economic Science in Society</p> <p style="text-align: center;">Hayek CW 15, 16; Appendix B</p>	<p>*Peter Boettke, "Economics and Public Administration," <i>Southern Economics Journal</i> 84 (4) 2018: 938-959.</p> <p>*Christopher Coyne, <i>Defense, Peace, and War Economics</i> (Cambridge, 2020).</p> <p>*Peter Boettke and Christopher Coyne, "New Thinking in Austrian Economics," <i>Annual Review of Economics</i> 15 (2023).</p>