

## **4000-level: Markets and Morality**

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### **Description**

Is there a tradeoff between efficiency and equity? What is the relationship between material and moral progress? This course aims to address these questions by combining philosophy, politics, and economics. We discuss the concept of rationality employed by economists, political scientists, and philosophers as well as critiques. In the first part of the course, we use theory, experiments, and history to understand personal and impersonal exchange, the role of property rights, competition in markets, and long-run economic growth. In the second part of the course, we discuss the ethical and political considerations that arise in studying individual behavior and the interactions that make up the social world. Topics include utility and welfare, notions of efficiency and equity, democracy, justice, moral progress, and the drawbacks of rational choice approaches as well as potential remedies. ECON3070 is a prerequisite with option for students to be admitted with permission of instructor.

### **Course Goals**

Throughout this course students will:

- apply the rational choice model as used in philosophy, politics, and economics;
- analyze the determinants and consequences of exchange, property, competition, and growth;
- evaluate the normative aspects of individual and aggregate behavior;
- understand the limits and criticisms of the rational choice model.

Students will use economic theory, examples from experimental economics, and analysis of real world data to study the link between markets and moral reasoning.

### **Grading**

*Attendance:* Attendance is required. Missing more than three classes will result in a full letter grade reduction of your final grade (e.g., an “A” becomes a “B”).

*Classroom Experiments (5%) and Weekly Quizzes (10%):* There will be several in-class experiments and regular reading comprehension quizzes.

*Midterm Exams (60% total = 35% Exam #1 + 25% Exam #2):* There will be two in-class exams. The first exam will cover topics 1 through 7 on the course outline below. The second exam will cover topics 1 through 13.

*Writing Assignment (25% total = 5% initial proposal + 20% final paper):* There will be writing assignment requiring an initial proposal and final paper. Students are required to identify a research paper in economics and discuss the political and philosophical dimensions of the paper using the tools developed throughout the course. Students are required to complete an initial proposal that includes the research paper and the specific elements of political science and philosophy that will be examined. The final paper should be 6-8 pages (excluding bibliography) and include an

interpretation of economic data related to the topic. Additional details (including rubric) will be provided in a separate handout.

Numerical scores will be translated to letter grades using the following scale:

Score	Letter	Score	Letter	Score	Letter
$\geq 93$	A	80 – 82.99	B-	67 – 69.99	D+
90 – 92.99	A-	77 – 79.99	C+	63 – 66.99	D
87 – 89.99	B+	73 – 76.99	C	60 – 62.99	D-
83 – 86.99	B	70 – 72.99	C-	< 60	F

### **Course Materials**

I will post all materials and provide links to required readings via Canvas. Required readings are marked with a “\*” on the course outline below. Several of the required readings are drawn from *Philosophy, Politics, and Economics: An Introduction* by Gerald Gaus and John Thrasher. Students should purchase this book (available in the bookstore). Additional readings that provide useful background information are also listed below. You must complete required readings **before** the class in which they are assigned.

### **Office Hours and Email**

I encourage you to attend office hours or to setup a time to meet outside of office hours if the day/time listed above do not work for you. You should come to office hours prepared with questions or ready to discuss the course material. Office hours are the appropriate forum for addressing questions about course material or policies. Use email to setup a time to meet outside of office hours, if necessary.

### **Cell Phones, Laptops, Etc**

Laptops, cell phones, and other devices are only to be used for course-related task (e.g., taking notes, looking at course readings). If you are using laptops, cell phones, and other devices for any other purpose you will be asked to leave the class.

## Course Outline

### 1. *Introduction to Philosophy, Politics, and Economics*

What is Philosophy, Politics, and Economics (PPE)? And why is it useful? We will discuss preliminary answers to these questions in the context of the course topics to be covered.

- \* G&T, *Philosophy, Politics, and Economics*, Introduction and Chapter 1
- Daniel Hausman, “Philosophy of Economics,” *Stanford Encyclopedia of Philosophy*

### 2. *Tools of Social Science*

We will discuss the rational choice framework as applied in economics and political science, and its relationship to PPE. This discussion will include reference to the benefits and pitfalls of the rational choice approach as well as alternatives.

- \* Gary Becker, “The Economic Way of Looking at Behavior,” *Journal of Political Economy*
- Vernon Smith, “Microeconomic Systems as an Experimental Science,” *American Economic Review*

### 3. *Personal Exchange*

We will examine personal exchange (exchange not taking place in markets) and its relationship to Adam Smith’s *The Theory of Moral Sentiments*. Students will participate in in-class experiments that illustrate key concepts related to personal exchange. We will use game theory and real world (historical) examples to understand the experimental results.

- Dictator and Ultimatum Game Experiment
- \* Adam Smith, *Theory of Moral Sentiments*
- Avner Greif, “The Fundamental Problem of Exchange,” *European Review of Economic History*

### 4. *Impersonal Exchange*

We will examine impersonal exchange (exchange mediated through markets) and its relationship to Adam Smith’s *The Wealth of Nations*. Students will participate in in-class experiments that illustrate key concepts related to impersonal exchange. We will use partial equilibrium analysis and real world (historical) examples to understand the experimental results.

- Double Auction Experiment
- \* Adam Smith, *The Wealth of Nations*, Book 1, chapters 1-3
- \* Vernon Smith, “The Two Faces of Adam Smith,” *Southern Economic Journal*

### 5. *Property*

We will consider what property and property rights are as well as their role in theories of politics and economics. We will examine the role of different notions of property in political and economic development, consider interpretations in the context of game theory, as well as discuss relevant evidence from laboratory experiments.

- \* David Hume, “Of Justice and Property,” *A Treatise of Human Nature*
- \* David Schmidtz, “Institution of Property,” *Social Philosophy and Policy*

## 6. Markets

What is a market and how does it function? We will examine the theoretical underpinnings of markets and consider evidence from economic history and laboratory experiments that shed light on the drawbacks of these underpinnings. We will also consider the philosophical objections to human activity organized via markets and potential alternatives.

- \* Friedrich Hayek, “The Use of Knowledge in Society,” *American Economic Review*
- \* Vernon Smith, “Markets as Economizers of Information,” *Economic Inquiry*
- \* Karl Marx, *Economic and Philosophical Manuscripts*
- Alvin Roth, “Repugnance as a Constraint on Markets,” *Journal of Economic Perspectives*

## 7. Competition

We will examine variants of competition formally and discuss the role of competition in market economies. We will discuss the relationship between competition and innovation as well as the connection to economic growth. We will also consider regulatory oversight and contrast role of competition in market activity versus political activity.

- \* Friedrich Hayek, “Competition as a Discovery Procedure”
- \* Elizabeth Anderson, “The Ethical Limitations of the Market,” *Economics & Philosophy*
- Jason Brennan and Peter Jaworski, *Markets without Limits*, Part I

## 8. The Path to the Modern Economy

We will discuss the evolution of economies over time to understand the role exchange, property, and market competition. We will consider how relevant philosophical ideals shaped and in turn were shaped by the process of economic change. We will draw on evidence from economic history and laboratory experiments.

- \* Douglass North, *Understand the Process of Economic Change*, Introduction, chapters 1-2
- \* Erik Kimbrough, Vernon Smith, and Bart Wilson, “Historical Property Rights, Sociality, and the Emergence of Impersonal Exchange in Long-Distance Trade,” *American Economic Review*
- Amartya Sen, *Development as Freedom*, Chapter 1

## 9. Utility and Welfare

We will discuss the theoretical underpinnings of national income accounting as well as the political economy of their practical implementation. We will use national income statistics to document cross-country differences in living standards. We will also discuss alternatives to the standard measures and the correspondence between the concepts of “utility” and “welfare,” and broader notions of human flourishing.

- \* Diane Coyle, *GDP*
- \* G&T, *Philosophy, Politics, and Economics*, chapters 2-3

### 10. Efficiency

What criteria are appropriate for evaluating the performance of political and economic systems? We will discuss the notions of efficiency used in the social sciences and their drawbacks. We will examine breakdowns of efficiency in the standard rational actor model and the approaches used to resolve these breakdowns. We will also consider the relationship between efficiency and rights.

- \* G&T, *Philosophy, Politics, and Economics*, Chapter 4
- \* Arthur Okun, *Equality and Efficiency*

### 11. Inequality

We discuss the measurement of economic inequality (e.g., income, wealth) and make comparisons across countries over time. We will examine the connection between economic inequality, political equality, and economic growth. We will consider evidence from laboratory and survey experiments regarding “preferences” for equality or fairness. We will also cover debates over contemporary public policy and their relationship to equality.

- \* Watch “Capital in the Twenty-First Century” (film by Justin Pemberton)
- \* Elizabeth Anderson, “What is the Point of Equality?” *Ethics*

### 12. Democracy

We will discuss democracy as a political system. We consider Jon Elster’s distinction between the “market” and the “forum,” and cover the application of the rational choice model to politics. We then examine the relationship between democracy and the emergence of the modern economy. We will discuss the view of democracy articulated in the work of Alexis de Tocqueville as well as alternative forms of democracy.

- \* G&T, *Philosophy, Politics, and Economics*, chapters 8-9
- \* Alexis de Tocqueville, *Democracy in America*
- Danielle Allen, “The Road From Serfdom,” *The Atlantic*

### 13. Justice

What is the relationship between justice and political or economic outcomes? We discuss alternative notions of justice and their relevance for understanding the forces that shape politics and economics. We will examine the distinction between philosophical accounts of justice concerned with outcomes versus process. We will also cover debates over contemporary public policy and their relationship to justice.

- \* Amartya Sen, *The Idea of Justice*, Introduction
- \* John Tomasi, *Free Market Fairness*, Introduction and chapters 1-2

#### 14. *Progress*

What is progress? We will document the empirical patterns that support or do not support the idea that human societies have made progress. We will cover popular theories of economic growth and consider their drawbacks. We will consider evidence based on the typical measures of the standard of living as well as alternatives that may present a different view. We will also discuss whether “economic progress” is synonymous with “moral progress.”

\* Albert Hirschman, *The Passions and the Interests*, Part One

\* Benjamin Friedman, “The Moral Consequences of Economic Growth,” *Society*

#### 15. *The Limits of Social Science*

What are the epistemic and moral limits of understanding human behavior through the application of the social sciences? We will consider issues that arise in using rational choice (theory) and econometrics (empirics) to understand the social world. We will also consider the limitations of focusing on market interactions as basis for understanding human flourishing. We will cover alternatives to the dominant forms of theoretical and empirical analysis in the social sciences as well as contrast the role of ethical and material considerations when assessing the performance of economic and political institutions.

\* Claudia Goldin, “Economist as Detective,” in *Passion and Craft*

\* Albert Hirschman, “Against Parsimony,” *Bulletin of the American Academy of Arts and Sciences*