

University of Missouri
Division of Applied Social Sciences
AE 8001/9001

The Austrian School of Economics: Theory, Applications, Debate

Fall 2010

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Meeting time and place: Wednesdays 2:00-4:30, 320 Mumford Hall [**note:** meeting day and time may change according to student preferences]

Office hours: TBA

Course website: <https://blackboard.missouri.edu>

Prerequisites: AE 8050 and graduate standing, or instructor's consent.

Course description

Overview of the "Austrian" approach to economic analysis, emphasizing the Austrian school's unique approach to value, exchange, and pricing; capital heterogeneity and the business cycle; entrepreneurship, production, and innovation, and economic policy. Advanced, research-oriented seminar led by student participants.

Course overview and purpose

The Austrian school, named for its origins in nineteenth-century Vienna, provides a distinct perspective on economic theory and policy. Austrian economics was born with the publication of Carl Menger's *Grundsätze der Volkswirtschaftslehre* (1871), making the Austrian school one of the three "marginalist" traditions (along with the approaches of William Stanley Jevons and Léon Walras). Menger offered a unique account of the pricing process, the structure of capital, and the causes of economic fluctuations, along with an emphasis on explaining institutions, that differed substantially from the Marshallian, Walrasian, and Keynesian approaches that came to dominate the economics profession. Like Jevons and Walras, Menger emphasized subjectively held consumer wants as the source of economic value (as opposed to the classical view that production costs determined value). Unlike the neoclassical approach, however, Menger's approach to economics was causal and realistic, seeking to explain real-world prices and institutions in terms of the subjective values, plans, and actions of market participants.

The Austrian school rose to prominence in the late nineteenth and early twentieth centuries in Europe and the US under the influence of Menger, Eugen von Böhm-Bawerk, Frank A. Fetter, Herbert J. Davenport, Philip Wicksteed, Mises, Lionel Robbins, and Hayek, but fell into obscurity by the end of the 1930s. Important contributions to the Austrian tradition were added later by Mises, Rothbard, Kirzner, and Lachmann (1956), but at least publicly, the Austrian tradition lay dormant. When the 1974 Nobel Prize in economics went to Hayek, interest in the Austrian school was suddenly and unexpectedly revived. Already that year an “Austrian revival” was underway, led by students and followers of Rothbard and Kirzner. Since then, the modern Austrian school has become an important ‘heterodox’ tradition within the milieu of contemporary economics, now featuring its own academic journals, professional societies, graduate programs, and sponsoring organizations.

It is difficult to cover an entire school of thought in one semester. Austrian economics, after all, is not an applied field like development economics or international trade policy or biotechnology but an alternative approach to all fields of economics. The course objective is not to provide a comprehensive review and critique of the entire Austrian tradition, but to give students a sampler of high-quality Austrian writings, classic and modern, on a variety of issues and topics. One goal is to show that while Austrian economists share a common conceptual framework, theoretical core, and historical context, the Austrian literature contains tremendous variety, both stylistic and substantive. Like any living, breathing tradition the Austrian literature continues to expand and diversify, often at a dizzying pace.

The course is structured as follows. After a brief introduction to the school itself, the place of “schools of thought” in a discipline like economics, and the methods of the Austrian economists, the course turns to an overview of the historical development of the Austrian tradition, starting with Carl Menger and his nineteenth- and early-twentieth-century contemporaries and students, the spread of the Austrian school before World War II, and its rebirth in the 1960s and 1970s. The main part of the course, a review by topic, comes next, with sections on value, exchange, and pricing; capital, interest, and production; entrepreneurship; money, credit, and the business cycle; welfare, political economy, regulation, monetary and fiscal policy; and applications to food, agriculture, resources, environment, and economic development. A wrap-up session brings the course to a close.

The course is intended for PhD students trained in economics, sociology, business administration, or a similar field (subject to instructor permission). Students are expected to be in at least their second year of their PhD program and to be working on a dissertation, or looking for a suitable dissertation topic. This is a research-oriented class in which students take an active role identifying suitable articles and topics for analysis, leading course discussions, and evaluating themselves and their peers.

Assignments and grading

As a readings-based discussion course, the most important requirement is to complete the assigned readings in advance and be prepared to discuss them in class. Individual students will be assigned to be discussion leaders for various readings and topics.

The course grade will be based on class participation, brief written summaries of assigned readings, a midterm quiz, and a final course paper. The readings summaries should be half-page or one-page summaries (in prose or outline form) of the key points in a particular reading, how it relates to other readings in the course (or outside the course), and its strengths and weaknesses. They should be turned in at the start of each class period. The midterm quiz will consist of a set of short-answer questions covering key discussion topics; it is designed to help students check their progress, to be sure they are understanding the main points in the course to date. The paper should be either a draft of a self-contained research article, suitable for eventual submission to a refereed academic journal, a draft of a dissertation prospectus or chapter (or other material designed to go into the dissertation), or something similar. Students should discuss their plans with the instructor throughout the semester.

The paper will count for 50 percent of the final grade, the quiz 25 percent, and the article summaries and class participation the remaining 25 percent.

Grades will be given on an A–F scale.

Academic honesty

Academic honesty is fundamental to the activities and principles of a university. All members of the academic community must be confident that each person's work has been responsibly and honorably acquired, developed, and presented. Any effort to gain an advantage not given to all students is dishonest whether or not the effort is successful. The academic community regards academic dishonesty as an extremely serious matter, with serious consequences that range from probation to expulsion. When in doubt about plagiarism, paraphrasing, quoting, or collaboration, consult the course coordinator.

Special needs

If you anticipate barriers related to the format or requirements of this course, if you have emergency medical information to share with the instructor, or if you need to make arrangements in case the building must be evacuated, please let the instructor know as soon as possible.

If disability related accommodations are necessary (for example, a note taker, extended time on exams, captioning), please register with the Office of Disability Services (<http://disabilityservices.missouri.edu> <<http://disabilityservices.missouri.edu>>), S5 Memorial Union, 882-4696, and then notify me of your eligibility for reasonable accommodations. For other MU resources for students with disabilities, click on "Disability Resources" on the MU homepage.

General resources

There are a number of excellent introductory treatments of the Austrian school, including Thomas Taylor's [*An Introduction to Austrian Economics*](#) (Cato Institute, 1980), Eamonn Butler's [*Austrian Economics: A Primer*](#) (Adam Smith Research Trust, 2010), W. Duncan Reekie's *Mar-*

kets, Entrepreneurs, and Liberty: An Austrian View of Capitalism (Wheatsheaf Books, 1984), and several more. These are designed for lay readers and undergraduate students. For more advanced students, a number of encyclopedias, handbooks, and other compendia are available, such as the *Elgar Companion to Austrian Economics* (Elgar, 1994).

There are three scholarly journals specializing in Austrian work, the *Quarterly Journal of Austrian Economics*, the *Review of Austrian Economics*, and *Advances in Austrian Economics*. Of course, research in the Austrian tradition appears in mainstream economics journals as well. Use the standard search tools (EconLit, Google Scholar, JSTOR, SSRN, etc.) to keep up. There are several Austrian economics blogs; the [Mises blog's](#) sidebar contains an up-to-date list. The Mises Institute maintains an [outstanding electronic archive](#) of Austrian economics resources.

While the course focuses on the specific topics and readings below, students are encouraged to seek out Austrian writing on subjects particularly interesting or relevant to them. These can be added to the syllabus, in place of other, less interesting or relevant readings.

Course outline and readings

PART 1: INTRODUCTION

Week 1: Attempts to define the Austrian School

- Kirzner, Israel M. 1987. "Austrian School of Economics." In John Eatwell, Murray Milgate, and Peter Newman, eds., *The New Palgrave: A Dictionary of Economics* (London: Macmillan).
- Dolan, Edwin G. 1976. "[Austrian Economics as Extraordinary Science.](#)" In Dolan, ed., *The Foundations of Modern Austrian Economics* (Kansas City: Sheed and Ward), pp. 3–18.
- Klein, Peter G. 2008. "[The Mundane Economics of the Austrian School.](#)" *Quarterly Journal of Austrian Economics* 11, nos. 3–4: 165–87.
- Optional: Robbins, Lionel. 1932. [An Essay on the Nature and Significance of Economic Science](#) (London: Macmillan), chapters 1–4.
- Optional: Boettke, Peter J. 2008. "[Austrian School of Economics.](#)" In David R. Henderson, ed., *The Concise Encyclopedia of Economics* (second edition, Indianapolis: Liberty Fund).
- Optional: Backhouse, Roger E., 2000. "[Austrian Economics and the Mainstream: View from the Boundary.](#)" *Quarterly Journal of Austrian Economics* 3, no. 2: 31–43.

Week 2: The Austrian method(s)

- Rothbard, Murray N. 1976. [“Praxeology: The Methodology of Austrian Economics.”](#) In Edwin Dolan, ed., *The Foundations of Modern Austrian Economics* (Kansas City: Sheed and Ward), pp. 19–39.
- White, Lawrence H. 1980. [The Methodology of the Austrian School Economists](#) (Auburn, Ala.: Ludwig von Mises Institute).
- Salerno, Joseph T. 2010. [“Menger’s Causal-Realist Analysis in Modern Economics.”](#) *Review of Austrian Economics* 23, no. 1: 1–16.
- Huerta de Soto, Jesus. 1998. [“The Ongoing Methodenstreit of the Austrian School.”](#) *Journal des Economistes et des Etudes Humaines* 8, no. 1: 75–113.
- Optional: Cowan, Robin, and Mario J. Rizzo. 1996. [“The Genetic-Causal Tradition and Modern Economic Theory,”](#) *Kyklos* 49, no. 3: 273–317.

PART 2: EMERGENCE AND DEVELOPMENT OF A DISTINCT AUSTRIAN APPROACH

Week 3: Pre-history

- Rothbard, Murray N. 1976. [“New Light on the Prehistory of the Austrian School.”](#) In Edwin Dolan, ed., *The Foundations of Modern Austrian Economics* (Kansas City: Sheed and Ward), pp. 52–74.
- Thornton, Mark. 1999. “Richard Cantillon: The Origin of Economic Theory.” In Randall G. Holcombe, ed., [Fifteen Great Austrian Economists](#) (Auburn, Ala.: Ludwig von Mises Institute), pp. 13–28.

Week 4: Nineteenth century

- Scott, William A. 1933. [The Development of Economics](#) (New York: D. Appleton-Century), pp. 327–412.

Week 5: Mises and Hayek

- Rothbard, Murray N. 1999. “Ludwig von Mises: The Dean of the Austrian School.” In Randall G. Holcombe, ed., [Fifteen Great Austrian Economists](#) (Auburn, Ala.: Ludwig von Mises Institute), pp. 143–65.
- Salerno, Joseph T. 1999. [“The Place of Human Action in the Development of Modern Economic Thought”](#) *Quarterly Journal of Austrian Economics* 2, no. 1: 35–65.

- Garrison, Roger W., and Israel M. Kirzner. 1987. "[Friedrich August von Hayek.](#)" In John Eatwell, Murray Milgate, and Peter Newman, eds. *The New Palgrave: A Dictionary of Economics* (London: Macmillan), pp. 609–14.
- Salerno, Joseph T. 1993. "[Mises and Hayek Dehomogenized.](#)" *Review of Austrian Economics* 6, no. 2: 113–46.

Week 6: Lachmann, Rothbard, Kirzner

- Lachmann, Ludwig M. 1956. *Capital and its Structure* (second edition, Kansas City: Sheed Andrews and McMeel, 1978), chapters I–IV.
- Gordon, David. 2007. *The Essential Rothbard* (Auburn, Ala.: Ludwig von Mises Institute), pp. 7–55.
- Douhan, Robin, Gunnar Eliasson, and Magnus Henrekson. 2007. "[Israel M. Kirzner: An Outstanding Austrian Contributor to the Economics of Entrepreneurship.](#)" *Small Business Economics* 29, nos. 1–2: 213–23.
- Kirzner, Israel M. 2009. "[The Alert and Creative Entrepreneur: A Clarification.](#)" *Small Business Economics* 32, no. 2: 145–52.

Week 7: The Austrian revival, recent work

- Vaughn, Karen. 1990. "The Mengerian Roots of the Austrian Revival" [[Google Books](#)]. In Bruce J. Caldwell, ed., *Karl Menger and His Legacy in Economics* (Durham, N.C.: Duke University Press, 1990), pp. 379–407.
- Rothbard, Murray N. 1987. "[The Present State of Austrian Economics.](#)" In Rothbard, *Logic of Action One: Method, Money, and the Austrian School* (Aldershot, U.K.: Edward Elgar, 1997), pp. 111–72.
- Salerno, Joseph T. 2002. "[The Rebirth of Austrian Economics—In Light of Austrian Economics.](#)" *Quarterly Journal of Austrian Economics* 5, no. 4: 111–28.
- Rizzo, Mario J. 2009. "Austrian Economics: Recent Work." *New Palgrave Dictionary of Economics* (London: Palgrave Macmillan).

PART 3: THEORY, APPLICATIONS, DEBATE

Weeks 8 and 9: Value, exchange, and pricing

- Rothbard, Murray N. 1956. "[Toward a Reconstruction of Utility and Welfare Economics.](#)" In Mary Sennholz, ed., *On Freedom and Free Enterprise: The Economics of Ludwig von Mises* (Princeton, N.J.: D. Van Nostrand), pp. 224–62.

- Pasour, E. C., Jr. 1978. [“Cost and Choice: Austrian vs. Conventional Views.”](#) *Journal of Libertarian Studies* 2, no. 4: 327–36.
- Wicksteed, Philip H. 1933. [The Common Sense of Political Economy](#), revised edition (London: Routledge & Kegan Paul), chapter VI.
- Rothbard, Murray N. 1962. [Man, Economy, and State](#) (Scholar’s Edition, Auburn, Ala.: Ludwig von Mises Institute, 2004), chapters 1–4.
- Hayek, F. A. 1945. [“The Use of Knowledge in Society.”](#) *American Economic Review* 35, no. 4 (1945): 519–30.
- Hayek, F. A. 1948. [“The Meaning of Competition.”](#) In Hayek, *Individualism and Economic Order* (Chicago: University of Chicago Press), pp. 92–106.
- Optional: Smart, William. 1891. [An Introduction to the Theory of Value](#) (London: Macmillan, 1931).
- Optional: Hülsmann, Jörg Guido. 2000. [“A Realist Approach To Equilibrium Analysis.”](#) *Quarterly Journal of Austrian Economics* 3, no. 4: 3–51

Week 10: Capital, interest, and production

- Rothbard, Murray N. 1962. [Man, Economy, and State](#) (Scholar’s Edition, Auburn, Ala.: Ludwig von Mises Institute, 2004), chapters 5–9.
- Hayek, F. A. 1937. [“Investment that Raises the Demand for Capital.”](#) *Review of Economics and Statistics* 19, no. 4 (1937): 174–77.
- Hayek, F. A. 1936. [“The Mythology of Capital.”](#) *Quarterly Journal of Economics* 50: 199–228.
- Lewin, Peter. 1997. [“Capital in Disequilibrium: A Reexamination of the Capital Theory of Ludwig M. Lachmann.”](#) *History of Political Economy* 29, no. 3: 523–48.
- Foss, Kirsten, Nicolai J. Foss, Peter G. Klein, and Sandra K. Klein. 2007. [“The Entrepreneurial Organization of Heterogeneous Capital.”](#) *Journal of Management Studies* 44, no. 7: 1165–86.

Week 11: Entrepreneurship

- Hayek, F. A. 1968. [“Competition as a Discovery Procedure.”](#) *Quarterly Journal of Austrian Economics* 5, no. 3 (2002): 9–23.
- Kirzner, Israel M. 1997. [“Entrepreneurial Discovery and the Competitive Market Process: An Austrian Approach.”](#) *Journal of Economic Literature* 35, no. 1: 60–85.

- Klein, Peter G. 2008. [“Opportunity Discovery, Entrepreneurial Action, and Economic Organization.”](#) *Strategic Entrepreneurship Journal* 2, no. 3: 175–90.
- Salerno, Joseph T. 2008. [“The Entrepreneur: Real and Imagined.”](#) *Quarterly Journal of Austrian Economics* 11, nos. 3–4: 188–207.

Week 12: Money, credit, and the business cycle

- Menger, Carl. 1982. [“The Origin of Money.”](#) *Economic Journal* 2, no. 6: 239–55.
- Rothbard, Murray N. [“The Austrian Theory of Money.”](#) In Edwin Dolan, ed., *The Foundations of Modern Austrian Economics* (Kansas City: Sheed and Ward), pp. 143–56.
- Salerno, Joseph T. 1994. [“Ludwig von Mises’s Monetary Theory in Light of Modern Monetary Thought.”](#) *Review of Austrian Economics* 8, no. 1: 71–115.
- Hayek, F. A. 1976. [Choice in Currency: A Way to Stop Inflation](#) (London: Institute of Economic Affairs).
- Selgin, George A., and Lawrence H. White. 1994. [“How Would the Invisible Hand Handle Money?”](#) *Journal of Economic Literature* 32, no. 4: 1718–49.
- Hayek, F. A. 1931. “The Paradox of Saving.” In Joseph T. Salerno, ed., [Prices and Production, and Other Works: F.A. Hayek on Money, the Business Cycle, and the Gold Standard](#) (Auburn, Ala.: Ludwig von Mises Institute, 2008), pp. 133–87.
- Optional: Hayek, F. A. 1931. [Prices and Production](#) (London: Routledge & Sons).
- Rothbard, Murray N. 1963. [America’s Great Depression](#) (fifth edition, Auburn, Ala.: Ludwig von Mises Institute, 2000), chapters 1–3.
- Garrison, Roger W. 1978. “Austrian Macroeconomics: A Diagrammatic Exposition.” In Louis M. Spadaro, ed., *Austrian Economics: New Directions and Unresolved Questions* (Kansas City: Sheed, Andrews and McMeel), pp. 167–204. Bonus: Garrison’s [Power-Point slides](#).
- Oppers, Stefan Erik. 2002. [“The Austrian Theory of Business Cycles: Old Lessons for Modern Economic Policy?”](#) IMF Working Paper 02-2.
- Bismans, Francis, and Christelle Mougeot. 2009. [“Austrian Business Cycle Theory: Empirical Evidence.”](#) *Review of Austrian Economics* 22, no. 3: 241–57.
- Optional: Garrison, Roger W. 1991. [“Austrian Capital Theory and the Future of Macroeconomics.”](#) In Richard M. Ebeling, ed. *Austrian Economics: Perspectives on the Past and Prospects for the Future* (Hillsdale, Mich.: Hillsdale College Press), pp. 303–24.

Week 13: Welfare, political economy, regulation, monetary and fiscal policy

- Rizzo, Mario J. 1979–80. “The Mirage of Efficiency.” *Hofstra Law Review* 8: 641–58.
- Herbener, Jeffrey M. 1997. [“The Pareto Rule and Welfare Economics.”](#) *Review of Austrian Economics* 10, no. 1: 79–106.
- Pasour, E. C., Jr. 1981. [“A Further Note on the Measurement of Efficiency and Economies of Farm Size.”](#) *Journal of Agricultural Economics* 32, no. 2: 135–46.
- Pasour, E. C., Jr. 1991. “Human Action and the Role of the Economist in the Public Policy Process.” *Cultural Dynamics* 5: 303–18.
- Armentano, Dominick T. 1978. [“A Critique of Neoclassical and Austrian Monopoly Theory.”](#) In Louis Spadaro, ed., *New Directions in Austrian Economics* (Kansas City: Sheed Andrews and McMeel), pp. 94–110,
- Optional: Salerno, Joseph T. 2003. [“The Development of The Theory of Monopoly Price: From Carl Menger to Vernon Mund.”](#) Working Paper, Lubin School of Business, Pace University.
- Kirzner, Israel M. 1982. [“Competition, Regulation, and the Market Process: An ‘Austrian’ Perspective.”](#) *Cato Policy Analysis* 18.
- Optional: Foss, Nicolai J., and Peter G. Klein. 2010. [“Alertness, Action, and the Antecedents of Entrepreneurship.”](#) *Journal of Private Enterprise* 25, no. 2: 145–64.
- Rizzo, Mario J., and Douglas Glen Whitman. 2009. [“The Knowledge Problem of the New Paternalism.”](#) *Brigham Young University Law Review*: 103–61.
- Garrison, Roger W. 1994. [“The Federal Reserve: Then and Now.”](#) *Review of Austrian Economics* 8, no. 1: 3–19.
- Hayek, F. A. 1972. [A Tiger by the Tail](#) (third edition, Auburn, Ala.: Ludwig von Mises Institute, 2009) [skim].
- Optional: Hülsmann, Jörg Guido. 2003. [“Optimal Monetary Policy.”](#) *Quarterly Journal of Austrian Economics* 6, no. 4: 37–60.
- Optional: Smiley, Gene. 1987. [“Some Austrian Perspectives on Keynesian Fiscal Policy and the Recovery in the Thirties.”](#) *Review of Austrian Economics* 1, no. 9: 145–79.

Week 14: Applications to food, agriculture, resources, environment, development

- Pasour, E. C., Jr. 1983. [“Land-Use Planning: Implications of the Economic Calculation Debate.”](#) *Journal of Libertarian Studies* 7, no. 1: 127–39.

- Fox, Glenn. 1992. “The Pricing of Environmental Goods: A Praxeological Critique of Contingent Valuation.” *Cultural Dynamics* 5: 245–59.
- Shenoy, Sudha. 1991. [“Austrian Capital Theory and the Undeveloped Areas: An Overview.”](#) In Richard Ebeling, ed., *Austrian Economics: Perspectives on the Past and Prospects for the Future* (Hillsdale, Mich.: Hillsdale College Press), pp. 379–423.
- Ikeda, Sanford. 2008. [“The Meaning of ‘Social Capital’ As It Relates to the Market Process.”](#) *Review of Austrian Economics* 21, nos. 2–3: 167–82.

If time permits: Miscellaneous

- Ng, Desmond, Steven Sonka, and Randall Westgren. 2003. “Co-evolutionary Processes in Supply Chain Networks,” *Journal on Chain and Network Science* 3, no. 1: 45–58.
- Nell, Guinevere Liberty. 2010. [“Competition as Market Progress: An Austrian Rationale for Agent-Based Modeling.”](#) *Review of Austrian Economics* 23, no. 2: 127–45.
- Foss, Nicolai J., and Kirsten Foss. 2006. [“The Limits to Designed Orders: Authority under ‘Distributed Knowledge’ Conditions.”](#) *Review of Austrian Economics* 19, no. 4: 261–74.
- Cantor, Paul. A. 1994. [“Hyperinflation and Hyperreality: Thomas Mann in Light of Austrian Economics.”](#) *Review of Austrian Economics* 7, no. 1: 3–29.

PART 4: REFLECTIONS AND WRAP-UP

- TBA