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


Week 2: The Austrian method(s)


PART 2: EMERGENCE AND DEVELOPMENT OF A DISTINCT AUSTRIAN APPROACH

Week 3: Pre-history


Week 4: Nineteenth century


Week 5: Mises and Hayek


Week 6: Lachmann, Rothbard, Kirzner


Week 7: The Austrian revival, recent work


PART 3: THEORY, APPLICATIONS, DEBATE

Weeks 8 and 9: Value, exchange, and pricing


**Week 10: Capital, interest, and production**


**Week 11: Entrepreneurship**


Week 12: Money, credit, and the business cycle


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


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


If time permits: Miscellaneous


**PART 4: REFLECTIONS AND WRAP-UP**

TBA