
PLSC 456. Introduction to Political Economy

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Course Info:
Spring 2011
TR 2:30–3:45
212 York Street, Rm 004

What is the proper role of the government in the economy? What are the optimal policies to reduce economic fluctuations and to ensure long-term economic development? We review great theories on the fundamental causes of recessions and growth, learning about the life and times of their authors and drawing lessons for current-day policy-making. We read social scientists such as Adam Smith, Karl Marx, and John Maynard Keynes. We consider historical cases such as Western industrialization, the Great Depression, the Asian miracle of the post-War period, and the current Great Recession.

Each lecture is structured around 1-2 pieces of reading from prominent social scientists and additional material on the life and times of these thinkers. Prior to each lecture, a ‘discussion sheet’ will be available on the classes*v2 website. This document should guide students in their reading of the material and the discussion in class.

This course is offered by the Political Science department and can count as related-course credit in the Economics department.

Course Requirements

The course grade breaks down as follows:

Participation (10%): Students must regularly participate in discussions.

Discussion sheets (10%): Students are expected to complete one discussion sheet per week, between January 18th and April 12th. Questions will be posted online two days prior to a meeting. Students must submit the completed discussion sheet by 9am on the day of a meeting.

Problem sets (10%): There are four problem sets during the semester (see the schedule below). They generally consist of a short essay and some mathematical problems. Problem sets are due at the start of the lecture. Since solutions are posted on the course website after the lecture, late submissions will not be accepted.

Mid-term exams (15% each): There are two mid-term exams during the semester, on February 15 and March 31. They follow the same format as the problem sets.

Debate statements (10%): In small groups, students must submit written statements on a given question. One statement will answer the question affirmatively, the other negatively. Statements are no longer than 1000 words each and are due on April 7. Groups of students will randomly be picked at the end of the semester to present their argument and debate a position.

Final exam (30%): The final exam follows the same format as the problem sets and mid-term exams (scheduled for Friday May 6th, 2pm-4pm, location TBA).

Texts and References

The assigned reading should be completed before the date noted on the syllabus. The following books are *required* and available for purchase at the Labyrinth Bookstore (B), located at 290 York Street. They are also put on reserve at the Social Science Library (L), 140 Prospect St., for 2-hour loans.

- Heilbroner, Robert L. 1999. *The Worldly Philosophers. The Lives, Times, and Ideas of the Great Economic Thinkers*. Revised Seventh Edition. New York: Simon and Schuster
- Weber, Max. 2003. *The Protestant Ethic and the Spirit of Capitalism*. Minoela, N.Y.: Dover Publications.

The following book is *recommended*, but not required for the course:

- Medema, Steven G. and Warren J. Samuels (eds.). 2003. *The History of Economic Thought: A Reader*. New York, NY: Routledge.

Other references are available in the 'Resources' section of the Classes*v2 website (ER) or available electronically through a web search (S).

Academic Integrity

Students should be familiar with the University's policies on academic integrity and disciplinary action: <http://yalecollege.yale.edu/content/cheating-plagiarism-and-documentation>. Cheating will be dealt with severely, leading to a serious penalty on the course grade and, typically, a suspension for two semesters.

Course Outline

1. Overview of the Course (Tuesday January 11)

2. Capitalism: A Love/Hate Story

(a) *Chronicle of a Death Foretold*

i. Demographic Explosion - Thomas Robert Malthus (Thursday January 13)

- Heilbroner, Robert L. 1999. *The Worldly Philosophers. The Lives, Times, and Ideas of the Great Economic Thinkers*. Revised Seventh Edition. New York: Simon and Schuster. 75-104. (B, L)
- Malthus, Thomas R. 2001 [1798]. *An Essay on the Principle of Population*. London, U.K.: Electric Book Co. Chapters 1, 2, 4 and 5. (ER)

ii. Socialist Revolution - Karl Marx

A. Marxist Theory - Das Kapital (Tuesday January 18)

- Heilbroner, Robert L. 1999. *The Worldly Philosophers. The Lives, Times, and Ideas of the Great Economic Thinkers*. Revised Seventh Edition. New York: Simon and Schuster. 136-169. (B, L)
- Medema, Steven G. and Warren J. Samuels (eds.). 2003. *The History of Economic Thought: A Reader*. New York, NY: Routledge. 378-407. (ER)

B. Marxist Prophecy - Manifesto of the Communist Party (Thursday January 20)

- Hayek, F.A. 1945. 'The Use of Knowledge in Society.' *The American Economic Review*. 35(4): 519-530. (ER)
- Marx, Karl. 199? (1888) *Manifesto of the Communist Party* edited by Friedrich Engels. Raleigh, N.C.: Alex Catalogue (ER)
- Popper, Karl R. 1963. *The Open Society and Its Enemies*. New York, N.Y.: Harper and Row. Chapter 18. (ER)

(b) *Efficient Markets*

i. Equilibrium in Competitive Markets (Tuesday January 25)

- Smith, Adam. 2001 [1776]. *An Inquiry into the Nature and Causes of the Wealth of Nations*. London, U.K.: Electric Book Co. Book 1, Chapters IV-VII and Chapter XI part II. (ER)
- Medema, Steven G. and Warren J. Samuels (eds.). 2003. *The History of Economic Thought: A Reader*. New York, NY: Routledge. 415-430. (ER)
- Pressman, Steven. 1999. *Fifty Major Economists: A Reference Guide*. New York: Routledge. 53-64. (ER)

ii. Efficient Market Hypothesis (Thursday January 27)

- Fox, Justin. 2009. *The Myth of the Rational Market. A History of Risk, Reward, and Delusion on Wall Street*. 60-74, 89-107.
- Kindleberger, Charles P. 2005. *Manias, Panics, and Crashes. A History of Financial Crises*. Fifth Edition. Basingstoke: Palgrave Macmillan. Chapters 3 and 4, pages 21-54.

3. Public Policies

(a) *Fighting Recessions (Policies in the Short Run)*

i. John Maynard Keynes and the Paradox of Thrift (Tuesday February 1)

- Heilbroner, Robert L. 1999. *The Worldly Philosophers. The Lives, Times, and Ideas of the Great Economic Thinkers*. Revised Seventh Edition. New York: Simon and Schuster. 248-287. (B, L)
- Keynes, John Maynard. 2009 [1936]. *The General Theory of Employment, Interest and Money*. Hamburg, Germany. Management Laboratory Press. ‘Chapter 3: The Principle of Effective Demand’ (ER)
- Mankiw, N. Gregory and William Scarth. 1995. *Macroeconomics*. Canadian Edition. New York, N.Y.: Worth Publishers. 255-264 (ER)

ii. The Great Depression (Thursday February 3)

- Mankiw, N. Gregory and William Scarth. 1995. *Macroeconomics*. Canadian Edition. New York, N.Y.: Worth Publishers. 265-300 (ER)

iii. The Great Recession (Tuesday February 8)

- Rajan, Raghuram G. 2010. *Fault Lines. How Hidden Fractures Still Threaten the World Economy*. Princeton, N.J.: Princeton University Press. pp. 1-20, 101-119.
- Romer, Christina D. 2009. ‘Back from the Brink.’ available on White-House.gov.

(b) *Winning Growth (Policies in the Long Run)*

i. International Trade

A. The Theory of Absolute Advantages - Adam Smith (Thursday February 10)

- Heilbroner, Robert L. 1999. *The Worldly Philosophers. The Lives, Times, and Ideas of the Great Economic Thinkers*. Revised Seventh Edition. New York: Simon and Schuster. 42-74. (B, L)
- Smith, Adam. 2001 [1776]. *An Inquiry into the Nature and Causes of the Wealth of Nations*. London, U.K.: Electric Book Co. Introduction and Plan of the Work, Book 1 Chapters I-III, Book IV Chapter II. (ER)

Exam I (Tuesday February 15)

B. The Theory of Comparative Advantages - David Ricardo (Thursday February 17)

- Chang, Ha-Joon. 2004. *Kicking Away the Ladder: Development Strategy in Historical Perspective*. Anthem Press. 13-32, 66-68. (ER)
- Irwin, Douglas. 2005. *Free Trade Under Fire*. Second Edition. ‘Chapter 6: Developing Countries and Open Markets.’ Princeton University Press. 160-202. (ER)
- Pressman, Steven. 1999. *Fifty Major Economists: A Reference Guide*. New York: Routledge. 35-40. (ER)
- Ricardo, David. 2001 [1817]. *On the Principles of Political Economy and Taxation*. London, U.K.: Electric Book Co. Chapter VII. (ER)

ii. Savings

A. Max Weber and the Protestant Ethic (Tuesday February 22)

- Weber, Max. 2003. *The Protestant Ethic and the Spirit of Capitalism*. Minoela, N.Y.: Dover Publications. Chapters 1, 3 and 5. (B, L)

B. Thorstein Veblen and the Leisure Class (Thursday February 24)

- Heilbroner, Robert L. 1999. *The Worldly Philosophers. The Lives, Times, and Ideas of the Great Economic Thinkers*. Revised Seventh Edition. New York: Simon and Schuster. 213-247. (B, L)
- Veblen, Thorstein. 199-? (1899) *The Theory of the Leisure Class*. Campaign, Ill.: Project Gutenberg. Chapters 2 through 5 (pages 10-46). (E)

C. Harrod-Domar Model (Tuesday March 1)

- Krugman, Paul. 1994. 'The Myth of Asia's Miracle.' *Foreign Affairs*. 73(6): 62-78 (ER)
- Ray, Debraj. 1988. *Development Economics*. Princeton, N.J.: Princeton University Press. 47-64. (ER)

iii. Technology

A. The Solow Model I (Thursday March 3)

- Ray, Debraj. 1988. *Development Economics*. Princeton, N.J.: Princeton University Press. 64-73. (ER)
- Rodrik, Dani. 1997. 'The 'paradoxes' of the successful state.' *European Economic Review*. 41: 411-442. (ER)

Spring Recess (no class) (Friday March 4 through Sunday March 20)

B. The Solow Model II (Tuesday March 22)

- Abel, Andrew B. and Ben S. Bernanke. 2001. *Macroeconomics*. Fourth Edition. Boston, MA: Addison Wesley. 215-236.
- Ray, Debraj. 1988. *Development Economics*. Princeton, N.J.: Princeton University Press. 74-87. (ER)

iv. Institutions

A. Ronald Coase and The Coase Theorem (Thursday March 24)

- Coase, Ronald H. 1960. 'The Problem of Social Cost.' *Journal of Law and Economics*. 3: 1-44. (ER)
- Coase, Ronald H. 1992. 'Autobiography' in Tore Frangsmyr (ed.) *Les Prix Nobel. The Nobel Prizes 1991*. Stockholm, Sweden: Nobel Foundation. (ER)
- Hardin, Garrett. 1968. 'The Tragedy of the Commons.' *Science*. 162: 1243-1248. (ER)
- Perkins, Dwight H., Steven Radelet and David L. Lindauer. *Economics of Development. Sixth Edition*. New York: W.W. Norton and Company. 757-766, 770-782. (ER)

B. Douglass North and the Rise of the West (Tuesday March 29)

- North, Douglass C. and Robert Paul Thomas. 1973. *The Rise of the Western World: A New Economic History*. Cambridge, U.K.: Cambridge University Press. Chapters 1-2, 10. (ER)

- North, Douglass C. and Barry R. Weingast. 1989. ‘Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England.’ *The Journal of Economic History*. 49(4): 803-832. (ER)

Exam II (Thursday March 31)

C. Informal Institutions (Tuesday April 5)

- Axelrod, Robert. 1984. *The Evolution of Cooperation*. New York: Basic Books. 3-24, 73-87. (ER)
- Ostrom, Elinor, Joanna Burger, Christopher B. Field, Richard B. Norgaard, David Policansky. 1999. ‘Revisiting the Commons: Local Lessons, Global Challenges.’ *Science*. 284: 278-282. (ER)

D. Formal and Informal Institutions in the Developing World (Thursday April 7)

- De Soto, Hernando. 1989. *The Other Path. The Invisible Revolution in the Third World*. New York, N.Y: Harper & Row Publishers. Chapter 5. (ER)

E. Institutions vs. Geography (Tuesday April 12)

- Acemoglu, Daron, Simon Johnson and James A. Robinson. 2005. ‘Institutions as a Fundamental Cause of Long-Run Growth’ in Philippe Aghion and Steven Durlauf. eds. *Handbook of Economic Growth*. Amsterdam: North Holland. 389-396, 402-437 (ER).
- Sachs, Jeffrey D. 2008. *The End of Poverty. Economic Possibilities of Our Time*. New York, N.Y.: Penguin books. 51-73. (ER)
- Sachs, Jeffrey D. 2008. ‘Institutions Matter, but not for everything. The role of geography and resource endowments in development shouldn’t be underestimated’ in Giorgio Secondi (ed.), *The Development Economics Reader*. London: Routledge. 86-91. (ER)

Review Sessions: Thursday April 14, Tuesday April 19

Student Debates: Thursday April 21.

Schedule of Assignments

Problem Sets

Problem set 1: Handed out on January 25. Due February 1.

Problem set 2: Handed out on February 1. Due February 8.

Problem set 3: Handed out on February 24. Due March 3.

Problem set 4: Handed out on April 7. Due April 14.

Discussion sheets: for one meeting per week, by 9am on the day of the meeting.

Debate statements: Due April 7.