



Austrian Economics: Theory and History

Undergraduate: **EEE 4103 / ECON 4353**

Graduate: **EEE 5103 / ECON 5353**

Spears School of Business
Oklahoma State University

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Office hours

Non-appointment, drop-in visits are typically available Tue/Thur 10:30 AM–12:00 PM. Please contact instructor to set up appointments.

Course administration

Course Site: <http://online.okstate.edu>

Overview of the Course

This course explores the origins, history, and theory of the Austrian school of economics. In contrast to competing paradigms, including “mainstream” economic theory, the Austrian school consistently applies value subjectivity, acknowledges the highly heterogeneous nature of productive capital, places the entrepreneur front and center in the market process, and relies on a method of inquiry that is specific (unique) for the social sciences.

The Austrian school was one of three highly influential traditions in economics arising out of the innovation of the marginal analysis in the 1870s, following the pioneering thought of Viennese economist Carl Menger; it was a major perspective in economics until the “Keynesian avalanche” in the 1930s. The School has recently seen a resurgence, partly because of the financial crisis, which was predicted by “Austrians,” and partly because of its view of the market as a dynamic process with entrepreneurship as its driving force.

Course Conduct

This is a discussion-based class, which means students are expected to come fully prepared to class. In other words, do the readings for each class and be ready to discuss them. Quizzes will cover assigned readings, and are taken in the Online Classroom *before each class*. The student is expected to keep track

of any changes to readings, which may be discussed in class or posted in the Online Classroom, as well as deadlines for projects.

Course Prerequisites

For economics majors, ECON 2013 Intro to Micro Econ is a prerequisite for this course. For all other students, introductory-course level economics proficiency is strongly recommended.

Learning Goals

By the end of the course, the students are expected to

- Know the historic origins of Austrian economic theory
- Understand the unique “flavor” and evolution of Austrian economic theory
- Understand the economy as an intricate process emanating from entrepreneurial action
- Reason about economic phenomena using Austrian theory and method(ology)
- Explain the main differences between the Austrian school’s approach and other (especially/primarily the “mainstream”) schools of economic thought

Course Literature

Readings for in-class discussions and exams are available for free online and linked from the Online Classroom. Most of those books can also be ordered printed or as e-books from the publisher, the Ludwig von Mises Institute (www.mises.org), or from book stores like Amazon.com. Students are recommended to download or buy all required readings at the beginning of semester to avoid problems with internet connectivity and site access.

Pop Quizzes

For each class with assigned reading (see Course Outline below) will have a quiz. Please note that *quizzes can only be taken online* in the Online Classroom and that they must be taken *prior to class*. Quizzes cover the assigned reading and are available during the 24 hours before class.

Graduate/Honors Requirements

The following items are required by students enrolled in a graduate section of the course.

Book Review (graduate students and honors students)

Students will write a book review essay on the book referenced below using an Austrian perspective. The review should be approximately 8-10 pages in length plus references and follow standard formatting, i.e. 12-point Times New Roman, 1-inch margins all around, double-spaced.

Bylund, Per. 2016. *The Problem of Production: A New Theory of the Firm* (Routledge).

Argument (graduate students only)

Students will read Bryan Caplan’s article “Why I Am Not an Austrian Economist” (available here: <http://econfaculty.gmu.edu/bcaplan/whyaust.htm>) and author a response making an argument for why Caplan is wrong, has misunderstood, or in other ways produce a thoughtful text to show why Caplan *should* be an Austrian.

Attendance and Participation

Your attendance is worth 20% of your course grade. Your attendance points will be proportional to your recorded attendance, and there are no exceptions. If you cannot attend class or if you forget to sign in, you will not earn the points for that class period. NB: your attendance also affects your participation grade!

Participation is letter graded based on in-class contributions to discussions: asking and answering questions, discussing and critiquing the readings/theories and the instructor’s explanations, etc. *Your final participation grade is your letter grade adjusted by your attendance:* so if your participation has earned a B (85%) and your recorded attendance is only 80%, your final participation score is 68 points.

Exams

Exams (one midterm and one final) cover core concepts and theories in the readings for in-class discussions, including the issues and perspectives brought as part of those discussions. The final exam is comprehensive, but will emphasize post-midterm material.

Grading Policy

Grade components are as follows:

<i>Undergraduate section</i>	
Class attendance	200
Participation in class discussions	100
Pop quizzes (top 25 scores count)	250
Midterm exam	200
Final exam	250
Total	1,000

<i>Graduate section</i>	
Class attendance, participation	200
Participation in class discussions	100
Pop quizzes (top 25 scores count)	250
Midterm exam	200
Final exam	250
Book review	100
Argument	200
Total	1,300

Letter grades will be assigned according to the standard scale

≥ 90.0% = A ≥ 80.0% = B ≥ 70.0% = C ≥ 60.0% = D < 60% = F

Class Schedule

The class meets according to the posted schedule (see below). Students must read the assigned readings as per the table below and *take the quiz in the online classroom prior to each class*. All assigned readings are required, please prepare fully for each class period.

For University Policies and Important Dates, Please See Separate Syllabus Attachment File.

Schedule with Readings

Introduction: The Historical and Intellectual Setting of the Austrian School

- 1/15** I.i. The Historical Setting and the Main Personalities
- Schulak and Unterkofler, *The Austrian School of Economics*, Chapters 1, 5, 7, 8, 17, 18, 24;
 - Mises, *The Historical Setting of the Austrian School*, Part I.
- I.ii. The Intellectual Scene: A Brief Overview of the Classical Theory of Value and Price
- Smith, *Wealth of Nations*, Book I Chapters 4 (parts 13-18), 5 (parts 1-4), 7.
 - Ricardo, *On the Principles of Political Economy*, Chapters 1 (parts 1-11), 4.
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Human Action and Its First Implications: Means, Ends and the Value of Goods

- 1/17** II.i. The Concept of Human Action
- Rothbard, *Man, Economy, and State* Chapter 1 (pages 1-2).
 - Mises, *Human Action* Part I, Chapter 1 (parts 1 and 2).
- II.ii. Scarcity, Means and Ends
- Rothbard, *Man, Economy, and State* Chapter 1 (pages 2-6).
 - Mises, *Human Action* Part I, Chapter 4 (part 1).
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- 1/22** II.iii. The Concept of Value
- Böhm-Bawerk, *Positive Theory of Capital* Book III, Chapters 1 and 2.
- II.iv. The Scale of Value and Action as an Exchange
- Rothbard, *Man, Economy, and State* Chapter 1 (pages 17-21).
 - Mises, *Human Action* Part I, Chapter 4 (parts 2-4).
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- 1/24** II.v. The Law of Marginal Utility
- Rothbard, *Man, Economy, and State* Chapter 1 (pages 21-33).
 - Böhm-Bawerk, *Positive Theory of Capital* Book III, Chapter 4.
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The Necessary Conditions for Exchange and the Laws of Price Formation

- 1/29** VI.i. Necessary Conditions for the Emergence of Interpersonal Exchange
- Menger, *Principles of Economics* Chapter 4.
 - Rothbard, *Man, Economy, and State* Chapter 2.2 (pages 84-88).
 - Rothbard, *Man, Economy, and State* Chapter 2.4 (pages 103-106)
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- 1/31** VI.ii. Price Formation on the Market
- Rothbard, *Man, Economy, and State* Chapter 2 (pages 106-126).
 - Böhm-Bawerk, *Positive Theory of Capital* Book IV, Chapters 2-5.
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The Order and Value of Goods

- 2/5 IV.i. The Order of Goods
- Menger, *Principles of Economics* Chapter 1 (part 2).
 - Rothbard, *Man, Economy, and State* Chapter 1 (pages 8-13).
- IV.ii. The Complementary Nature of Producer Goods
- Menger, *Principles of Economics* Chapter 1 (part 3).
- IV.iii. The Value of Complementary Groups of Producer Goods
- Menger, *Principles of Economics* Chapter 1 (part 4).
 - Böhm-Bawerk, *Positive Theory of Capital* Book III, Chapter 10 (pages 179-183).
- IV.iv. The Value of Individual Producer Goods
- Mises, *Human Action* page 94
 - Rothbard, *Man, Economy, and State* Chapter 1 (part 7)
 - Menger, *Principles of Economics* Chapter 3 (part 3, pages 162-165).
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Money and Its Purchasing Power

- 2/7 IX.i. The Emergence of Money
- Menger, *Principles of Economics* Chapter 8 (parts 1 and 2).
 - Rothbard, *Man, Economy, and State* Chapter 3 (pages 187-193).
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- 2/12 IX.ii. The Determination of Money Prices
- Rothbard, *Man, Economy, and State* Chapter 4 (pages 233-247)
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- 2/14 IX.iii. The Determination of the Purchasing Power of Money
- Rothbard, *The Mystery of Banking*, Chapter 3.
- IX.iv. The Non-Neutrality of Money
- Rothbard, *Man, Economy, and State* Chapter 11 (pages 811-815).
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Economic Production and Specialization

- 2/19 III.i. Labor Power as a Scarce Resource
- Mises, *Human Action* Part I Chapter 7 (part 3).
- III.ii. The Division of Labor and Society
- Mises, *Human Action* Part II Chapter 8 (part 1).
 - Rothbard, *Man, Economy, and State* Chapter 2 (pages 95-98).
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- 2/21 III.iii. Say's Law
- Kates, On the True Meaning of Say's Law.
 - Bylund, *The Seen, the Unseen, and the Unrealized* (pages 1-14; 27-28)
 - Bylund, More Spending Does Not Drive More Employment.
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2/26 **Midterm Exam**

The Evenly Rotating Economy, the Rate of Interest and Factor Prices

- 2/28 VII.i. The Concept of the Evenly Rotating Economy
- Rothbard, *Man, Economy, and State* Chapter 5 (pages 320-323), Chapter 10 (pages 720-726).
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3/5 VII.ii. Time Preference and the Rate of Interest

- Rothbard, *Man, Economy, and State* Chapter 1 (pages 13-17), Chapter 5 (pages 345-353), Chapter 6 (pages 367-389).

3/7 VII.iii. The Law of Returns and the Pricing of the Factors of Production

- Rothbard, *Man, Economy, and State* Chapter 1 (pages 33-38), Chapter 7 (pages 453-478).
- Taylor, Chapter 6.

Capital Theory and Economic Growth

3/12 XI.i. Capital in Production

- Rothbard, *Man, Economy, and State* Chapter 1 (pages 47-58).
- Strigl, *Capital & Production*, Chapter 1, Appendix II.

IV.v. The Capital Structure

- Lachmann, *Capital and Its Structure*, Chapters I, IV.

3/14 X.i. The Importance of Savings

- Rothbard, *Man, Economy, and State* Chapter 6 (pages 390-404).

Spring Break

3/26 X.ii. Economic Growth

- Mises, *Human Action* Part IV Chapter 18 (part 7).
- Rothbard, *Man, Economy, and State* Chapter 8 (pages 517-527).

Entrepreneurship, Uncertainty, and Change

3/28 VIII.ii. The Emergence and Function of Profit and Loss

- Mises, *Profit and Loss*, Part A.
- Rothbard, *Man, Economy, and State* Chapter 8 (pages 509-516).

4/2 VIII.iii. The Entrepreneur as Promoter

- Menger, *Principles of Economics* Chapter 3 (part 3, pages 159-161).
- Mises, *Human Action* Part IV Chapter 14 (pages 254-257) and Part IV Chapter 15 (part 10).

4/4 VIII.iv. Entrepreneurial Discovery

- Kirzner, *Entrepreneurial Discovery and the Competitive Market Process: An Austrian Approach*.

Graduate/honors students: Book review due

4/9 VIII.vi Entrepreneurship and Knowledge

- Hayek, *The Use of Knowledge in Society*.

4/11 VIII.v. The Place of Entrepreneurship in the Economy

- Bylund, *The Realm of Entrepreneurship in the Market: Capital Theory, Production, and Change*.
- Mises, *Human Action* Part IV Chapter 15 (part 8).

Socialism and the Problem of Economic Calculation

- 4/16** V.i. Socialism and the Economic Problem
- Murphy, *Choice: Cooperation, Enterprise, and Human Action* Chapters 7-8.
 - Mises, *Human Action* Chapter 26 (part 1).
- V.ii. Economic Calculation under Socialism
- Mises, *Economic Calculation in the Socialist Commonwealth*, Chapter 2.
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- 4/18** V.iii. The Argument Applied to India and the Soviet Union
- SOVIET UNION: Boettke, *Calculation and Coordination*, Chapters 6 and 7.
 - INDIA: Manish, Central Economic Planning and India's Economic Performance.

Graduate students: Paper due

Organizational Economics

- 4/23** VIII.vi. Economic Organization and Theory of the Firm
- Klein, Economic calculation and the limits of organization.
 - Bylund, How Governments Destroy Consumer Sovereignty.
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- 4/25** VIII.vii. The Firm as an Engine of Specialization
- Bylund, Division of Labor and the Firm: An Austrian Attempt at Explaining the Firm in the Market.
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- 4/30** V.iv. Management vs. Entrepreneurship
- Bylund, Management Is What's Wrong with Socialism: Cost at The Expense of Value.

The Business Cycle

- 5/2** X.iii. The Business Cycle
- Mises, *Lord Keynes and Say's Law*.
 - Rothbard, *Man, Economy, and State* Chapter 12 (pages 994-1004).
 - Rothbard, *Economic Depressions: Their Causes and Cure*.

Final Exam
