

George Mason University
Austrian Economics 403
Spring Semester

Professor: Dr. Thomas Carl Rustici
Phone: Office (703) 993-1137
Office: Room 322 Enterprise Hall
Office Hours: MWF 9:30-10:20 am; ~~9~~ 1:00 - 2:45 pm
Web Page mason.gmu.edu/~trustici

Objectives: The lectures and readings in this course are designed to familiarize students with the fundamental methodology and concepts of Austrian Economic theory. The central focus of the course is an understanding of Austrian insights as they relate to, and diverge from, traditional neoclassical economic theory. The course explores in great detail, the concepts of methodological individualism, subjectivism, marginalism, opportunity costs, time preference, spontaneous order, the structure of production, entrepreneurship, economic calculation, *praxeology*, uncertainty, and competition as rivalry.

The distinctive Austrian emphasis on "disequilibrium" dynamics highlights the role of various market institutions for the discovery, dissemination and coordination of economic activity. These include: the price system, profit-loss mechanism, property rights, the monetary institution, the capital market, financial accounting, advertising, and futures speculation. The Austrian contributions to microeconomic and macroeconomic theory are better understood from the framework of spontaneous market institutions. Finally, the unique Austrian perspective on "policy related" issues is contrasted with applied neoclassical theory and policy.

Grades: There will be 3 exams in this course, two mid-terms and a comprehensive final. There is also a required paper approximately 20 pages in length due the week *before* finals. The grading scale followed is 90%-100 = A, 80%-89 = B, etc. The course grade is weighted as follows:

Exam 1	20%
Exam 2	20%
Final	30%
Paper	30%

Required Texts:

There are 6 required texts needed for successful completion of this course. These include:

Principles Of Economics by Carl Menger (CM)

Human Action: A Treatise On Economics by Ludwig Von Mises (LM)

Individualism And Economic Order by Friedrich Von Hayek (FH)

The Failure Of The New Economics By Henry Hazlitt (HH)

Competition And Entrepreneurship by Israel Kirzner (IK)

Lessons from the Great Depression by Thomas Rustici (TR)

There is also a wide variety of reading material on reserve desk at the library. While these articles will be very helpful for exam preparation and the course paper, they are not required unless prefaced with (*). In addition, a number of books are suggested for each week of the course, but are not on reserve desk. Class handouts are denoted by an asterisk (**).

Attendance:

Regular attendance is absolutely crucial for a successful completion of this course. If for any reason regular attendance becomes difficult, please notify the instructor as soon as possible. Furthermore, I expect students to be on their best behavior while in class. Disruptive students will be removed from class and receive an immediate "F" for the course.

Honor:

This course demands the highest standard of conduct. Cheating or plagiarism is not tolerated in any way. Violation of this code results in an immediate failing grade for the course and a report to the GMU Honor Committee.

Week 1

"The History of Economic Thought: From Aristotle Through the Classical School"

(LM) Chapters 1-3

(CM) Introduction

(FH) Chapter 1

Suggested Books

Israel Kirzner, The Economic Point Of View
Joseph Schumpeter, A History of Economic Analysis
William Scott, The Development of Economics
Ludwig von Mises, The Historical Setting of the Austrian School of Economics
Thomas Sowell, Classical Economics Reconsidered
Adam Smith, The Wealth of Nations
David Ricardo, The Theory of Political Economy and Taxation
Jean Baptiste Say, A Treatise on Political Economy

Suggested Articles

Faustino Ballve, "*What is Economics About?*"
William Scott, "*The Old Historical School*"
Joseph Schumpeter, "*Historicism*"
** Outline--History of Economic Thought
** Leonard Reed, "*I, Pencil*"

Week 2 "*The Marginalist Microeconomic Revolution:
 The Genesis Of The Austrian School*"

(LM) Chapters 4-7
(CM) Chapters 1-2
(FH) Chapter 2

Suggested Books

Ludwig von Mises, Theory and History
Ludwig von Mises, The Ultimate Foundations of Economic Science
Karl Popper, The Poverty of Historicism
Friedrich von Hayek, The Counterrevolution of Science
Karen Vaughn, Austrian Economics in America
Murray Rothbard, Individualism and the Philosophy of the Social Sciences

Suggested Articles

Samuel Bostpath, "*The Methodological Debate Between Carl Menger and the German Historicists*"

Karen Vaughn, "*Carl Menger and the Foundations of Austrian Economics*"

Stephen Littlechild, "*Who Are the Austrians*" and "*Austrian Ideas*"

Richard Ebeling, "*The Marginalist Revolution: A Tale of Two Traditions*"

Murray Rothbard, "*Praxeological Method*", "*The Praxeological Tradition*", "*Methodological Individualism*"

Ludwig von Mises, "*Historicism*"

William Scott, "*Carl Menger and the Beginnings of the Austrian School*"

Ludwig Lachmann, "*Methodological Individualism and the Market Economy*"

Week 3 "*The Development of Subjectivism and Methodological Individualism*"

(LM) Chapters 8-13

(CM) Chapters 3-5

(FH) Chapter 3

Suggested Books

William Smart, **An Introduction to the Theory of Value**

Faustino Ballve, **Essentials of Economics**

Max Weber, **The Theory of Social and Economic Organization**

William Stanley Jevons, **The Theory of Political Economy**

Leon Walras, **Elements of Pure Economics**

Alfred Marshall, **Principles of Economics**

Suggested Articles

Israel Kirzner, "*Economics as a Science of Human Action*"

F.A. Hayek, "*The Place of Menger's Grundstatze in The History of Economic Thought*"

Ludwig Lachmann, "*The Significance of the Austrian School of Economics in The History of Ideas*"

Week 4 "*The Universal Subjective Foundation of Market Prices*"

(LM) Chapters 14-17
(CM) Chapters 6-7
(FH) Chapter 4

Suggested Books

Friedrich von Wieser, Social Economics
Philip Wicksteed, The Common Sense of Political Economy
James Buchanan, Cost and Choice

Suggested Articles

Israel Kirzner, "*Another Look at the Subjectivism of Costs*"
John Egger, "*The Austrian Method*"
Thomas Taylor, "*The Fundamentals of Austrian Economics*"
Don Lavoie, "*Euclideanism versus Hermeneutics: A Reinterpretation of Misesian Apriorism*"
**Friedrich von Wieser, "*The Law of the Cost of Production in the Simple Economy*"

Week 5 "*The Austrians vs the Classical and the Marxian School
on Interest Theory: Productivity, Exploitation, or Time Preference?*"

(LM) Chapters 18-22
(FH) Chapters 5-6

Suggested Books

Eugen von Bohm Bawerk, Capital and Interest Vol.1-3. Especially Vol.1 -- History and Critique of Interest Theories.
Eugen von Bohm Bawerk, Karl Marx and the Close of His System
Frank Fetter, Capital, Interest and Rent: Essays in the Theory of Distribution
Thomas Sowell, Marxism

Suggested Articles

(*) Eugen Von Bohm Bawerk, "*The Exploitation Theory*"
Eugen von Bohm Bawerk, "*The Productivity Theories*"
Frank Fetter, "*Interest Theories, Old and New*" [pp.226-255]
Frank Fetter, "*Interest Theory and Price Movements*" [pp.260-316]
Ludwig von Mises, "*The Clash of Group Interests and Other Essays*"

Week 6 *"The Impossibility of Economic Calculation Under
Marxian Socialism : The Mises Critique"*

(LM) Chapters 23-26

(FH) Chapter 7

Suggested Books

Ludwig von Mises, **Socialism**

Ludwig von Mises, **Planned Chaos**

Trigiv J.B. Hoff, **Economic Calculation in the Socialist Society**

Paul Craig Roberts, **Marx's Theory of Exchange: Alienation and Crisis**

Suggested Articles

Ludwig von Mises, "*The Organization of Production Under Socialism*"

Ludwig von Mises, "*The Impracticability of Socialism*"

Max Weber, "*Market Economies and Planned Economies*"

Nicolai Foss, "*Economics and Socialism: The Austrians Revisited*"

Karen Vaughn, "*Economic Calculation and the Rediscovery of Mengerian Themes*"

George Reisman, "*The Chaos of Socialism*"

EXAM 1

Week 7 *"The Austrian Critique of Comprehensive Central Planning:
Marxian, Fascist and Nazi"*

(LM) Chapters 27-28

(FH) Chapter 8

Suggested Books

Ludwig von Mises, **Omnipotent Government**

Ludwig von Mises, **Critique of Interventionism**

Friedrich von Hayek, **Collectivist Economic Planning**

Don Lavoie, **Rivalry and Central Planning**

Michael Polanyi, **The Logic of Liberty**

George Reisman, **The Government Against The Economy**

Suggested Articles

Ludwig von Mises, "*Dialectical Materialism*"

Nicolai Foss, "*Precursor of Property Rights Economics: Ludwig von Mises*"

Week 8 "*The Austrian Critique of "Market Socialism"*"

(LM) Chapters 29-30, 33-34

(FH) Chapter 9

Suggested Books

Ludwig von Mises, *Nation, State and Economy*

Ludwig von Mises, *Bureaucracy*

Friedrich von Hayek, *The Road To Serfdom*

Don Lavoie, *National Economic Planning: What is Left?*

Friedrich von Hayek, *The Fatal Conceit*

Peter Beottke, *Why Perestroika Failed*

Suggested Articles

F.A. Hayek, "*The Pretense of Knowledge*"

F.A. Hayek, "*The Intellectuals and Socialism*"

George Reisman, "*The Tyranny of Socialism*"

Week 9 "*The Austrian Theory of Money, Capital and Macroeconomic Fluctuations*"

(LM) Chapters 31-32

(CM) Chapter 8

(HH) Chapters 1-4

(FH) Chapter 10

(TR) Chapters 1-2

Suggested Books

Ludwig von Mises, The Theory of Money and Credit
Ludwig von Mises, On The Manipulation of Money and Credit
Ludwig Lachmann, Capital and its Structure
Friedrich von Hayek, The Pure Theory of Capital
Israel Kirzner, An Essay on Capital
S. Herbert Frankel, Two Philosophies of Money
S. Herbert Frankel, Money and Liberty
S. Herbert Frankel, Economic Impact on Underdeveloped Societies
Friedrich von Hayek, Prices and Production
Friedrich von Hayek, Monetary Theory and the Trade Cycle
Friedrich von Hayek, Unemployment and Monetary Policy: Government as Generator of the Business Cycle

Suggested Articles

Mark Skousen, "*The Theory of Production in Classical Economics*"
Ludwig von Mises, "*The Determinants of the Objective Exchange Value, or Purchasing Power of Money*"
F.A. Hayek, "*Inflation, Misdirection of Labor, and Unemployment*"
Murray Rothbard "*What Has Government Done To Our Money?*"
Ludwig von Mises, "*The Austrian Theory of the Trade Cycle*"
Peter Lewin, "*Economic Policy and the Capital Structure*"

Week 10 "*The Austrian School vs Keynesian Economics*"

(HH) Chapters 5-12
(FH) Chapter 11
(TR) Chapters 3 & 4

Suggested Books

Henry Hazlitt, The Critics of Keynesian Economics
Murray Rothbard and Garet Garrett, The Great Depression and New Deal Monetary Policy

Suggested Articles

Roger Garrison, "*Austrian Macro Economics: A Diagrammatic Exposition*"
Roger Garrison, "*Time and Money: The Universals of Macro Theorizing*"
F.A. Hayek, "*Unemployment: Inevitable Consequence of Inflation*"
Faustino Ballve, "*Monopoly, Crises, and Unemployment*"
Mark Skousen, "*Hayek and the 1930's: A New Vision of Macroeconomics*"
Ludwig Lachmann, "*The Meaning of Capital Structure*"
W.H. Hutt, "*The Nature Of Coordination Through The Price System*"
W.H. Hutt, "*Income and Its Generation*"

Week 11 "*The Austrian-Keynesian Debate Continued: The Role
of Production, Time and Uncertainty*"

(HH) Chapters 13-20
(TR) Chapter 5

Suggested Books

Friedrich Von Hayek, **Full Employment at Any Price?**
Friedrich Von Hayek, **A Tiger By The Tail**
Wilhelm Ropke, **Against The Tide**
Mark Skousen, **The Structure of Production**
W.H. Hutt, **The Keynesian Episode**
Frank Knight, **Risk, Uncertainty and Profit**

Suggested Articles

W.H. Hutt, "*Are Price Adjustments Self-Frustrating?*"
W.H. Hutt, "*The Accelerator Fallacy*"
Gottfried Haberler, "*Over-Investment*" and "*Under-Consumption Theories*"
Wilhelm Ropke, "*Keynes and The Revolution in Economics: Economics Old, New and True*"
Wilhelm Ropke, "*The Formation and Use of Capital*"

Week 12 "*An Austrian Perspective on the Neoclassical Synthesis*"

(LM) Chapters 35-36

(HH) Chapters 21-29

(TR) Chapters 6 & 7

Suggested Books

W.H. Hutt, **The Theory of Idle Resources**

Lionel Robbins, **The Great Depression**

Murray Rothbard, **America's Great Depression**

Benjamin Anderson, **Economics and the Public Welfare: An Economic and Financial History of the United States 1914-1946**

Mechoir Palyi, **The Twilight of Gold**

Richard Vedder and Lowell Gallaway, **Out of Work: Government and Unemployment in the Twentieth Century**

Milton Friedman and Anna Schwartz, **Monetary History of the United States**

Suggested Articles

Thomas Rustici, "*Alternative Visions of the Stagflation Crisis: Post-Keynesian, Monetarist and Austrian*"

Thomas Rustici, "*The Classical Macro model and the Keynesian Revolution*"

S. Herbert Frankel, "*The Keynesian Morality of Money*"

** Friedrich von Hayek, "*The Economics of Abundance*"

** Ludwig von Mises, "*Stones Into Bread, The Keynesian Miracle*"

EXAM 2

Week 13 "*The Austrian Critique of Modern Neoclassical Theory and Policy*"

(IK) Chapters 1-2

(FH) Chapter 12

Suggested Books

Murray Rothbard, Man, Economy and State
Edwin Dolan, The Foundations of Modern Austrian Economics
Louis Spadaro, New Directions in Austrian Economics
Ludwig Lachmann, Capital, Expectations and the Market Process
Friedrich von Hayek, The Denationalization of Money
Lionel Robbins, The Nature and Significance Of Economic Science
Gerald O'Driscoll and Mario Rizzo, The Economics of Time and Ignorance
Gerald O'Driscoll, Economics as a Coordination Problem
James Ramsey, Economic Forecasting-Models or Markets?
Mark Skousen, Economics on Trial
Nicolai Foss, The Austrian School and Modern Economics
Israel Kirzner, Subjectivism, Intelligibility and Economic Understanding

Suggested Articles

Milton Friedman, "*The Methodology of Positive Economics*"
Gerald O'Driscoll, "*Spontaneous Order and the Coordination of Economic Activities*"
Domenick Armentano, "*A Critique of Neoclassical and Austrian Monopoly Theory*"
F.A. Hayek, "*The Muddle of the Middle*"
Thomas Rustici, "*An Austrian Critique of Neoclassical Development Theory*"
John Hurley, "*The Use Of Mathematics in Economics*"
Donald McClosky, "*The Rhetoric of Economics*"

Week 14 "*The Austrian Contribution to the Policy Debate:
Market Institutions vs Discretionary Policy*"

(LM) Chapters 37-38
(IK) Chapters 3-4
(TR) Chapter 8

Suggested Books

James Buchanan, What Should Economists Do ?
Ludwig von Mises, The Anti-capitalistic Mentality
Ludwig von Mises, Economic Policy
Israel Kirzner, Perception , Opportunity and Profit
Friedrich von Hayek, Capitalism and the Historians
Friedrich von Hayek, New Studies in Philosophy, Politics and Economics
Lawrence White, Free Banking In Britain: Theory, Experience and Debate 1800-1845
Stephen Chung, The Myth of Social Cost

Suggested Articles

Israel Kirzner, "*The Perils of Regulation*"
Gerald O'Driscoll, "*Monopoly in Theory and Practice*"
Jack High, "*Equilibration and Dis-equilibration in the Market Process*"
F.A Hayek, "*Competition as a Discovery Procedure*"
Ludwig von Mises, "*The Challenge of Scientism*"
Friedrich von Hayek, "*Choice in Currency: A Way To Stop Inflation*"
Jack High, "*The Case For Austrian Economics*"
Lawrence White, "*Depoliticizing the Supply of Money*"

Week 15 "*Austrian Economics, Scientific Inquiry and the
Future Of The Free Society*"

(LM) Chapter 39
(IK) Chapters 5-6

Murray Rothbard, **For a New Liberty**
Murray Rothbard, **Power and Market**
Ludwig von Mises, **Planning For Freedom**
Friedrich von Hayek, **The Constitution of Liberty**
Lawrence Moss, **The Economics of Ludwig Von Mises**
Stephen Littlechild, **The Fallacy of the Mixed Economy**
Domenick Armentano, **Antitrust and Monopoly: Anatomy of a Policy Failure**
Ludwig von Mises, **Liberalism: A Socioeconomic Exposition**
Wihlem Ropke, **Economics of the Free Society**

FINAL May 13 4:30 - 7:10 pm