

September 2, 2010

PRELIMINARY

US in the World 17. Economics: A Critical Approach

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Boylston Hall 110

Half course (fall term). M., W.,(F.) 1-2:30, and a weekly section meeting to be arranged.

"Economics: A Critical Approach" first presents standard microeconomics both as a description of the world and as a normative argument that the market system works well. The second part presents critiques drawn from different sources: (1) the presence of monopoly, externalities, public goods, and asymmetric information; (2) the distribution of income and wealth; (3) the determination of overall output and employment; (4) the ecological threats of climate change and resource shortages; (5) the assumptions of mainstream economics. A recurrent question in the course is the appropriate scope of the market.

Note: The course is taught primarily in lectures, with a weekly section meeting. The two midterm exams will take place on Fridays, the first on October 8, the second on November 12. There will, exceptionally, be a lecture on Friday, September 3.

Calculus will not be used, and there is no mathematics prerequisite. Unlike Economics 10, this course does not fulfill the introductory course requirement for the Economics Department. Moreover, most upper level courses in Economics normally require Economics 10 as a prerequisite; without this prerequisite, enrollment is at the discretion of the instructor. This course is open to students with no previous coursework in economics and to students who have completed or are enrolled concurrently in Economics 10.

The textbook is William Baumol and Alan Blinder, *Economics: Principles and Policies*, 11th Edition (the updated 2010 version or the 2009 or 2008 editions). The updated edition is available at the COOP's textbook department, on the 3rd floor of their Palmer Street building, as well as at other fine bookstores and on the web. Previous editions, available in used-book departments, are also acceptable at lower prices. (For your convenience, assignments from the 10th edition and the 11th

edition are listed below.) The Sourcebook, containing many of the required non-textbook readings listed throughout the syllabus (printed in red), is also available at the COOP's textbook department. The course website provides links to required supplementary readings that are not in the sourcebook.

Course requirements include class participation, problem sets, two hour exams, and a final exam. The course grade will be a weighted average of participation and problem sets (together 10 %), the two hour exams (together 45%), the final exam (45%). For students who do better on the final than the average of their two hour exams, the final will receive a weight of 50% and the hour-exam weight will be reduced to 40%.

SYLLABUS

* indicates optional readings.

INTRODUCTION

What is Economics? What are the Limits of Economics? Four Critical Perspectives

(1 lecture, 09/01; required reading approx 40 pages)

Rdgs: Baumol and Blinder (10e), ch 1, 3; (11e), ch 1, 3. Chapter Titles: "What is Economics?" and "The Fundamental Economic Problem"

Supplements:

A Distributional Critique

*Baumol and Blinder (10e), pp 6-7 and pp 453-455; (11e), p 7 and pp 453-454; "Idea 7: The Trade-Off between Efficiency and Equity," and "The Trade-Off Between Equality and Efficiency."

A Keynesian Critique

*B Mandeville and A Smith on the role of aggregate demand, posted on the course website.

*M Watkins, "The Literature of the Crisis," posted on the course website.

*[S Marglin], "Who Was John Maynard Keynes?" posted on the course website.

An Ecological Critique

*D H Meadows, D L Meadows and Jorgen Randers, *Beyond the Limits*, esp. ch 2-3.

*J Taylor, "The Growing Abundance of Natural Resources,"

<http://www.cato.org/pubs/chapters/marlib21.html>

A Foundational Critique

*S Marglin, *The Dismal Science: How Thinking Like an Economist Undermines Community*, ch 1,

http://isites.harvard.edu/fs/docs/icb.topic200192.files/Chapter_1.pdf

PART ONE: MAINSTREAM MICROECONOMICS

Unit 1

Supply and Demand; Theory of Consumer Choice

(Lectures 2-4, 9/03-9/13; required reading approx 100 pages)

Rdgs: Baumol and Blinder (10e), ch 4-6, 18 (pp 387-393); (11e), ch 4-6, 18 (pp 385-391).
Chapter titles: "Supply and Demand"; "Consumer Choice"; "Demand and Elasticity"; "Taxation and Resource Allocation"

Unit 2

The Theory of Production and Competitive Market Supply

(Lectures 5-6 (1.5 lectures), 9/15-9/20; required reading approx 75 pages)

Rdgs: Baumol and Blinder (10e), ch 7-8, 10, 19 (pp 399-402), 20 (pp 428-430); (11e), ch 7-8, 10, 19 (pp 397-400), 20 (pp 425-427). Chapter titles: "Production, Inputs, and Cost"; "Output, Price, and Profit"; "The Firm and the Industry Under Perfect Competition"; "Pricing the Factors of Production" [the pages on marginal productivity and derived demand curves]; "Labor: The Human Input" (10e) and "Labor and Entrepreneurship: The Human Inputs (11e) [the section entitled "An Important Labor Supply Conundrum]

Unit 3

What do Markets do Well? The Two Welfare Theorems. Comparative Advantage.

(Lectures 6-7 (1.5 lectures), 09/20-9/22; required reading approx 80 pages)

Rdgs Baumol and Blinder (10e), ch 34 (pp 727-731), 14, 16; (11e), ch 34 (pp 727-731), 14, 16.
Chapter titles: "International Trade and Comparative Advantage" [the pages on comparative advantage]; "The Case for Free Markets 1"; "The Case for Free Markets 2" (10e) and "The Market's Prime Achievement" (11e).

Supplements:

What do markets do well?

A Lerner, The Economics of Control, ch 2, pp 7-22; ch 5-6, pp 57-77. The marginal conditions social planning must fulfill for efficient resource allocation, and the conditions under which a market economy fulfills these conditions. How market allocation mimics socialism--and vice versa!

F Hayek, "The Use of Knowledge in Society," *American Economic Review*, 1945, **35**: 519-530.
Why "as if" socialist calculations would not work in practice: the relevant knowledge is not exclusively of an algorithmic kind, contrary to the assumption implicit in the idea of "as if" calculations. Actual rather than virtual markets are needed to elicit agents' knowledge.

<http://links.jstor.org/ezp1.harvard.edu/sici?sici=0002-8282%28194509%2935%3A4%3C519%3ATUOKIS%3E2.0.CO%3B2-1>

Unit 4

An Internal Critique: Market Failures and Remedies

(Lectures 8-9, 09/27-09/29 (no class 09/28); required reading, approx 85 pages)

Rdgs: Baumol and Blinder (10e), ch 11-12, 15; (11e), ch 11-12, 15. Chapter titles: "Monopoly"; "Between Competition and Monopoly"; "The Shortcomings of Free Markets"

Supplements:

Firm Behavior

J Schumpeter, *Capitalism, Socialism and Democracy*, ch 7-8, pp 81-92. Shifts the focus from static equilibrium to the evolution of production and markets -- a process of "creative destruction" that incessantly revolutionizes the economy. Forms of market organization like monopoly and oligopoly that appear inefficient in the static perspective fare much better in a dynamic perspective in which innovation is key.

Factor Markets

R Freeman, "Why Not a Living Wage at Harvard?" *Harvard Magazine*, November/December, 2001, p 69. Harvard can afford higher wages for its lowest paid workers, and "improving their economic well-being dominates the adverse secondary effects...loss of employment or the substitution of more skilled workers in their place." <http://www.harvardmagazine.com/online/110182.html>

N G Mankiw, "The Case Against the Living Wage," *Harvard Magazine*, November/December, 2001, p 70. The other side of the living wage debate: "A high minimum wage prevents [the] natural adjustment [of supply and demand] and hurts some of the people it is designed to help." Moreover, the university's mission is teaching and research, not ameliorating the lives of its employees, be they janitors or professors; the university betrays its fiduciary duty to its donors if it pursues goals other than teaching and research. <http://www.harvardmagazine.com/online/110182.html>

Unit 5

Applications: International Trade, Health Care

(Lecture 10, 10/04; required reading approx 110 pages)

Rdgs: Baumol and Blinder (10e), ch 34; (11e), ch 34. Chapter title: "International Trade and Comparative Advantage"

Supplements:

International Trade

1. The Abuses of Protectionism

D Fisher, "Sticky Situation," *Forbes Magazine*, 5/14/01, p 64. On the inefficiencies of tariffs, in this case the US tariff on sugar. <http://ezp-prod1.hul.harvard.edu/login?url=http://search.ebscohost.com.ezp-prod1.hul.harvard.edu/login.aspx?direct=true&db=bth&AN=4386286&site=ehost-live&scope=site>
(The graph is missing online.)

S Boseley, "Sugar Industry Threatens to Scupper US Funding of WHO," *Guardian Weekly*, 04/24/03. A side effect of protection: the US sugar industry is up in arms about the World Health Organization's guidelines that "sugar should account for no more than 10% of a healthy diet." [http://web.lexisnexis.com.ezp2.harvard.edu/us/lnacademic/api/version1/sr?shr=t&csi=138620&sr=HLEAD\(sugar+industry+threatens+to+scupper\)+AND+DATE+IS+04/21/2003](http://web.lexisnexis.com.ezp2.harvard.edu/us/lnacademic/api/version1/sr?shr=t&csi=138620&sr=HLEAD(sugar+industry+threatens+to+scupper)+AND+DATE+IS+04/21/2003)

R Thurow and G Winestock, "Bittersweet: How an Addiction To Sugar Subsidies Hurts Development," *Wall Street Journal*, 09/16/02. European and American subsidies to their own sugar growers deprive 3rd World producers of a reasonable return to their labor, land, and capital. Subsidies to domestic European and US agriculture undermine the foreign aid that the rich countries provide to the 3rd World.

<http://ezp1.harvard.edu/login?url=http://proquest.umi.com.ezp1.harvard.edu/pqdweb?did=179183351&sid=3&Fmt=3&clientId=11201&RQT=309&VName=PQD>

2. *Sweatshops.*

N Kristof and S WuDunn, "Two Cheers for Sweatshops," *New York Times Magazine*, 09/24/00. Sweatshops provide workers a way out of the most dire poverty, and provide the capital necessary for greater productivity and a higher standard of living: "...sweatshops [tend] to generate the wealth to solve the problems they [create]."

<http://ezp1.harvard.edu/login?url=http://proquest.umi.com.ezp1.harvard.edu/pqdweb?did=365232692&sid=1&Fmt=2&clientId=11201&RQT=309&VName=HNP> (Click on Article Image--PDF; Page Image gives only page 1.)

N Kristof, "Will China Blindside the West?" *New York Times*, 12/03/02. Trade has brought great benefits to China's poor by providing employment in export industries.

[http://web.lexisnexis.com.ezp2.harvard.edu/us/inacademic/api/version1/sr?shr=t&csi=6742&sr=HLEAD\(will+china+blindside+the+west\)+AND+DATE+IS+12/03/2002](http://web.lexisnexis.com.ezp2.harvard.edu/us/inacademic/api/version1/sr?shr=t&csi=6742&sr=HLEAD(will+china+blindside+the+west)+AND+DATE+IS+12/03/2002)

3. *The Costs of Free Trade to American Industrial Workers, Indian Call-Center Employees, and Mexican Small Farmers.*

P Engardio and others, "The New Global Job Shift," *Business Week*, 02/03/03. Projects a massive shift of employment that will include upscale jobs in research and analysis, as well as data processing and customer service. Is this exercise in comparative advantage in the interest of American workers?

<http://ezp1.harvard.edu/login?url=http://proquest.umi.com.ezp1.harvard.edu/pqdweb?did=281858221&sid=8&Fmt=3&clientId=11201&RQT=309&VName=PQD>

C Ansberry, "A Steel Town finds Lost Jobs Tough to Replace," *Wall Street Journal*, 05/27/04.

What happens to a town when its chief employer closes up shop.

<http://ezp1.harvard.edu/login?url=http://proquest.umi.com.ezp1.harvard.edu/pqdweb?did=643156131&sid=4&Fmt=3&clientId=11201&RQT=309&VName=PQD>

D Milbank, "Industrial Migrants Scour US for Work, With Dwindling Luck," *Wall Street Journal*, 03/02/92. What happened to a family when the breadwinner's job was lost, and he was mobile, flexible, and adaptable -- as capitalism enjoins workers to be.

<http://ezp1.harvard.edu/login?url=http://proquest.umi.com.ezp1.harvard.edu/pqdweb?did=27848578&sid=1&Fmt=3&clientId=11201&RQT=309&VName=PQD>

J Slater, "Call of the West: For India's Youth, New Money Fuels A Revolution," *The Wall Street Journal*, 01/27/04. Working in call centers not only requires a change in accent, but also involves a change in culture. Is this a benefit or a cost of trade?

<http://ezp1.harvard.edu/login?url=http://proquest.umi.com.ezp1.harvard.edu/pqdweb?did=534766791&sid=6&Fmt=3&clientId=11201&RQT=309&VName=PQD>

T Rosenberg, "Why Mexico's Small Corn Farmers Go Hungry," *New York Times*, 03/03/03. The effects of NAFTA on Mexican peasants.

<http://ezp1.harvard.edu/login?url=http://proquest.umi.com.ezp1.harvard.edu/pqdweb?did=865504592&sid=1&Fmt=2&clientId=11201&RQT=309&VName=HNP> (Click on "Article Image--PDF")

S Suranovic, "Trade Theories and Realities: Why Economists Should Study Fairness," *Challenge*, September/October, 1997. When there are losers as well as winners, efficiency is an incomplete criterion absent compensation for the losers. "Fairness matters because it is precisely the expectation of uncompensated losses that inspires claims of unfairness in trade policy."
<http://ezp1.harvard.edu/login?url=http://proquest.umi.com.ezp1.harvard.edu/pqdweb?did=16514783&sid=1&Fmt=3&clientId=11201&RQT=309&VName=PQD>

S Marglin, "Outsourcing Common Sense," *Los Angeles Times*, 04/25/04. Comparative advantage is based on the relative immobility both of resources and of the capital and technology necessary to transform these resources into goods. But most trade in the contemporary world is not based on natural resources so the theory of comparative advantage is of much less relevance than in the 19th century when it was first put forward. There is also an important problem of the distribution of the gains and losses from trade. Posted on the course website.

Health Care

McKinsey Global Institute [Diana Farrell, Eric Jensen *et al*], "Accounting for the cost of U.S. health care: A new look at why Americans spend," Executive Summary, December 2008. A comparison between Europe and the United States. Don't look for a single overarching reason for why health care is so expensive in the US.

http://www.mckinsey.com/mgi/reports/pdfs/healthcare/US_healthcare_Executive_summary.pdf

A Gawande, "The Cost Conundrum," *The New Yorker*, 06/01/09, pp 36-44. The basic reason why medical costs are so high in the United States is the profit motive, around which health-care delivery is increasingly organized.

http://www.newyorker.com/reporting/2009/06/01/090601fa_fact_gawande

or via HOLLIS at <http://ezp->

prod1.hul.harvard.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=40635926&site=ehost-live&scope=site

A Holmer, "The Case for Innovation: The Role of Intellectual Property Protection," speech to the Second Annual Economists' Pharmaceuticals Roundtable, Philadelphia, 11/20/02. "Strong patent protection is the incentive for innovation that benefits patients." Intellectual property protection is the necessary condition for high drug prices, which ensure a high rate of R&D, which in turn is the pre-condition for medical progress.

D Baker, "Drug Prices in Crisis: The Case Against Protectionism," *Dollars and Sense*, May/June, 2001. Argues that patent protection is inefficient, and that public and non-profit funding is a superior alternative.

<http://ezp1.harvard.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=4386396&site=ehost-live&scope=site>

D Light and J Lexchin, "Will Lower Drug Prices Jeopardize Drug Research? A Policy Fact Sheet," *American Journal of Bioethics*, 4:1 (2004). Amplification of many of the points about R&D made in the Baker article. http://www.bioethics.net/journal/j_articles.php?aid=61

D MacDonald, "Would Single-Payer Health Insurance be Good for America?" *Insight on the News*, 03/27/00. Medical care, like other goods, should be allocated according to consumer preferences.

http://findarticles.com/p/articles/mi_m1571/is_12_16/ai_61487339/pg_3/?tag=conten

D Himmelstein and S Woolhandler, "National Health Insurance or Incremental Reform: Aim High, or at Our Feet?" *American Journal of Public Health*, January 2003, 93:102-105. Savings on insurance administration and other bureaucratic costs that characterize the present US system would more than offset the costs of providing care to those who now go without.

http://www.pnhp.org/docs/ReformAimHigh_Himmelhandler.pdf

E Cherney, "Who Gets Health Care," *Wall Street Journal*, 11/12/03. Canada manages with a single-payer system to achieve similar statistical outcomes as the US, but with about 1/2 the per capita expenditure on health care. At what price? No profits for insurance companies, lower incomes for doctors, and care is rationed through waiting times for access to doctors and medical procedures; how Ontario is trying to fix the problem of waiting times.

<http://ezp1.harvard.edu/login?url=http://proquest.umi.com.ezp1.harvard.edu/pqdweb?did=444220591&sid=10&Fmt=2&clientId=11201&RQT=309&VName=PQD>

FIRST HOUR EXAM (Friday, 10/08)

Unit 6

A Distributional Critique: The Mainstream Theory of Distribution. Is Distribution a Problem? Should the Tax System Be Used to Redistribute Income?

(Lectures 12-13, 10/13-10/18; required reading, approx 120 pages)

Rdgs: Baumol and Blinder (10e), ch 18, pp 387-394, 19-21 (Part 5, „The Distribution of Income“); (11e), ch 18, pp 385-392; 19-21 (Part 5, „The Distribution of Income“)

Supplements:

C Jencks, "Does Inequality Matter?" *Daedalus*, Winter 2002, pp 49-65. Where you stand depends on where you sit: Rawlsian and utilitarian approaches lead to different conclusions about the effects of inequality. Jencks emphasizes the weakness of the evidence from comparisons of American and European experience.

http://gateway.proquest.com.ezp1.harvard.edu/openurl?ctx_ver=Z39.88-2003&xri:pqil:res_ver=0.2&res_id=xri:lion-us&rft_id=xri:lion:ft:abell:R03564206:0

*O Patterson, "Beyond Compassion: Selfish Reasons for Being Unselfish," *Daedalus*, Winter 2002, pp 26-38. http://gateway.proquest.com.ezp1.harvard.edu/openurl?ctx_ver=Z39.88-2003&xri:pqil:res_ver=0.2&res_id=xri:lion-us&rft_id=xri:lion:ft:abell:R03564204:0

*R Epstein, "Against Redress," *Daedalus*, Winter 2002, pp 39-48.

http://gateway.proquest.com.ezp1.harvard.edu/openurl?ctx_ver=Z39.88-2003&xri:pqil:res_ver=0.2&res_id=xri:lion-us&rft_id=xri:lion:ft:abell:R03564205:0

A Lerner, *The Economics of Control*, ch 3, pp 23-40. An argument for equality based on the idea of diminishing marginal utility of income.

*M Feldstein, "Reducing Poverty, Not Inequality," *The Public Interest*, Fall, 1999, No. 137, 33-41. "Spiteful envy" is the only reason for focusing on inequality as distinct from focusing on the living standards of the folks at the bottom of the distribution. What does the difference in focus imply? The focus on poverty rather than inequality means that there is no problem in itself with the rich getting richer, especially if the invisible hand works so that the rich getting richer helps the poor as well. <http://www.nber.org/feldstein/pi99.html>

*M Breslow, "How People Spend Their Money: Socially Determined Needs in America," *Dollars and Sense*, January/February, 1998. Facts and figures on how people get by at different levels of income. <http://ezp-prod1.hul.harvard.edu/login?url=http://search.ebscohost.com.ezp-prod1.hul.harvard.edu/login.aspx?direct=true&db=bth&AN=39410&site=ehost-live&scope=site>

B Ehrenreich, "Nickle and Dimed," *Harper's Magazine*, January, 1999, pp 37-52. The view from the bottom, as lived by the author for a month.
<http://ezp1.harvard.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=1402714&site=ehost-live&scope=site>

Unit 7

Macroeconomics: A Keynesian Critique and a Mainstream Counter-Critique National Income Accounting; The Financial System; The Short Run; The Long Run, Alternative Financial Models.

(Lectures 14-20, 10/20-11/10; required reading approx 350 pages)

Lecture 14 (10/20) Baumol and Blinder, (10e) ch 22, 25 pp 537-541, plus Appendix on National Income Accounting, pp 552-556); (11e) ch 22, 25 (pp 537-541, plus Appendix on National Income Accounting, pp 552-556)

Lecture 15 (10/25) Baumol and Blinder, (10e) ch 25, pp 541-551; 26, 29; (11e) ch 25, pp 541-551; 26, 29.

Lecture 16 (10/27) Baumol and Blinder (10e and 11e) ch 30, 28, pp 605-611, 618-624.

Lecture 17 (11/1) Baumol and Blinder (10e and 11e) ch 26, pp 564-566; 27; 28, pp 611-617.

Lecture 18 (11/3) Same as for 11/1

Lecture 19 (11/8) Baumol and Blinder (10e and 11e) Ch 23, 31-33

Lecture 20 (11/10) Same as for 11/1 plus supplements on alternative financial markets

Rdgs: Baumol and Blinder (10e), ch 22-23, 25-26, 19 (pp 403-406), 27-33; (11e), 22-23, 25-26, 19 (pp 401-404), 27-33. Chapter titles: "An Introduction to Macroeconomics"; "The Goals of Macroeconomic Policy"; "Aggregate Demand and the Powerful Consumer"; "Demand-Side Equilibrium"; "Pricing the Factors of Production" [the section in "Investment, Capital, and Interest"]; "Supply Side Equilibrium"; and *all* chapters in the part entitled "Fiscal and Monetary Policy"

Supplements:

Policy in the Short Run

N G Mankiw, "The Reincarnation of Keynesian Economics," *European Economic Review*, 1992, **36**:559-565. Distinguishes "New Keynesians" from the old fashioned variety. The difference is that the New Keynesians limit the writ of Keynes to the short run, leaving the long run to neoclassical economics. Moreover, New Keynesians like Mankiw have less faith in the government to steer the economy even in the short run than the "Old Keynesians" did.
http://www.sciencedirect.com.ezp1.harvard.edu/science?_ob=MIimg&_imagekey=B6V64-45KNJK5-1P-1&_cdi=5804&_user=209690&_orig=browse&_coverDate=04%2F30%2F1992&_sk=999639997&_view=c&_wchp=dGLbVtb-zSkWA&md5=e55b112813ce049a27df6806bf14fe83&ie=/sdarticle.pdf

M Baily, S Lund, and C Atkins, March 2009, "Will US Consumer Debt Reduction Cripple the Recovery?" Yes, unless the recovery involves a substantial increase in consumer incomes, which would go against recent experience.
http://www.mckinsey.com/mgi/reports/pdfs/us_consumers/MGI_US_consumers_full_report.pdf

R Pollin, "The 'Natural Rate' of Unemployment: It's All About Class Conflict," *Dollars and Sense*, September/October, 1998, pp. 82-85, 34-36. Why did the "natural rate" fall dramatically in the 1990s? Because the power of workers to maintain real wages has eroded dramatically.
<http://ezp1.harvard.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=1025077&site=ehost-live&scope=site>

R Stevenson, "Analysis: Divorcing Central Banks and Politics to Fight Inflation," *New York Times*, 05/07/97. An independent central bank insulates monetary policy from politics and allows the central bank to focus on fighting inflation. This is a win-win situation since "low inflation is a precondition to achieving low unemployment..."
<http://ezp1.harvard.edu/login?url=http://proquest.umi.com.ezp1.harvard.edu/pqdweb?did=117357009&sid=3&Fmt=2&clientId=11201&RQT=309&VName=HNP>

The Economist, "The Monetary Policy Maze," 04/25/09. The crisis has changed the way central banks intervene in the economy. For good?
http://www.economist.com.ezp-prod1.hul.harvard.edu/displaystory.cfm?story_id=13527329

The Long Run

J Duesenberry, *Business Cycles and Economic Growth*, ch 14 part II ("Adjustment of Labor Supply to Demand"), pp 309-315. Argues that labor supply is not a constraint on long run growth because the labor force can be augmented by factors such as immigration.
http://isites.harvard.edu/fs/docs/icb.topic647186.files/Duesenberry_Business_Cycles.pdf

G Jaffe, "Filling Vacancies: Many Employers Find That Hiring is Easier Than the Data Suggest," *Wall Street Journal*, 07/31/97. If you build it, they will come. If jobs are available, the labor force will expand as people leave retirement, the home, and other non-paying pursuits for the paid labor force.
<http://ezp1.harvard.edu/login?url=http://proquest.umi.com.ezp1.harvard.edu/pqdweb?did=23881473&sid=11&Fmt=3&clientId=11201&RQT=309&VName=PQD>

Alternative Financial Models

L Kendall, "Securitization: A New Era in American Finance," in L Kendall and M Fishman, *A Primer on Securitization*, ch 1, pp 1-16.

The Economist, "When It Goes Wrong...", 09/20/07.
http://www.economist.com.ezp-prod1.hul.harvard.edu/finance/displaystory.cfm?story_id=9830765

The Economist, "Chain of Fools," 02/09/08. Securitisation was a large factor in the financial crisis of 2008.
[http://web.lexisnexis.com.ezp2.harvard.edu/us/inacademic/api/version1/sr?shr=t&csi=7955&sr=HLEAD\(Chain+of+fools\)+AND+DATE+IS+02/09/08](http://web.lexisnexis.com.ezp2.harvard.edu/us/inacademic/api/version1/sr?shr=t&csi=7955&sr=HLEAD(Chain+of+fools)+AND+DATE+IS+02/09/08)

B Armendariz and J Morduch, *The Economics of Microfinance*, ch 1, pp 1-14.

A Fairbanks, "Lending Plan Won Prize, But Will It Work Here?" *New York Times*, 04/01/08.
<http://global.factiva.com.ezp-prod1.hul.harvard.edu/sb/default.aspx?NAPC=S&fcpil=en>

SECOND HOUR EXAM: (Friday, 11/12)

Unit 8

An Ecological Critique: Are There Ecological Limits to Growth?

(Lectures 21-22, 11/15-11/17; required readings approx 125 pages)

Rdgs: Baumol and Blinder (10e), ch 17; (11e), ch 17. Chapter titles: "Externalities, the Environment, and Natural Resources"

Supplements:

World Development Report 1992, Development and the Environment, Overview, pp 9-13. A summary of the World Bank view that development generally improves the environment, but this improvement is not universal or automatic.

[http://www-](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2000/12/13/000178830_9810191106175/Rendered/PDF/multi_page.pdf)

[wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2000/12/13/000178830_9810191106175/Rendered/PDF/multi_page.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2000/12/13/000178830_9810191106175/Rendered/PDF/multi_page.pdf)

"Money to Burn?" *The Economist*, 12/06/97, p 86. Emissions trading as the solution for pollution.

<http://web.ebscohost.com.ezp-prod1.hul.harvard.edu/ehost/detail?vid=5&hid=111&sid=1f1b9801-0396-4527-bec6-8d1e0ebba404%40sessionmgr104&bdata=JnNpdGU9ZWZWhvc3QtbGl2ZSZzY29wZT1zaXRI#db=aph&AN=9712142367>

M Sandel, "It's Immoral to Buy the Right to Pollute," *New York Times*, 12/15/97. Raises both practical and moral questions about emissions trading. Emissions trading undermines the solidarity of joint efforts to control pollution. <http://nrs.harvard.edu/urn-3:hul.eresource:factivac>

M Breslow, "Two Cheers for OPEC or Want A Cool Planet?" *Dollars and Sense*, May/June 2000. Argues for a hefty excise tax on gasoline to curb emissions, coupled with a refund of the tax revenues on an equal per capita basis.

<http://ezp1.harvard.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=3099133&site=ehost-live&scope=site>

B McKibben, "Not So Fast," *New York Times Magazine*, 07/23/95. Stresses the need for radical change in the way we live to cope with global warming.

<http://www.lexisnexis.com.ezp-prod1.hul.harvard.edu/hottopics/lnacademic/?sfi=AC00NBGenSrhc&csi=6742&shr=t>

"The Stern Review: The Economics of Climate Change," Executive Summary and Ch 2. Climate change is real and the effects are potentially very serious. But standard remedies, like carbon taxes and permits, can keep climate change to tolerable levels. No radical changes, along the lines proposed by McKibben, are necessary. http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/stern_review_report.cfm

H Daly and J Farley, *Ecological Economics: Principles and Applications*, Introduction, pp xix-xx; ch 5-7, pp 77-122. The world is running out of resources -- energy, minerals, and fresh water, and we are rapidly approaching the point where we are threatening the sustainability of "free" ecosystem services.

J Simon, *The Ultimate Resource 2*, ch 1, pp 23-27; ch 11, pp 162-181. We are discovering resources and, what amounts to the same thing, improved technologies for extraction faster than we are using resources up.

*J Simon, *The Ultimate Resource 2*, ch 15, pp 229-232; ch 18, pp 258-273.

J Fargione et al, "Land Clearing and the Biofuel Carbon Debt," *Science*, 02/29/08, vol. 319, pp 1235-1238. When all the effects are taken into account, biofuels may exacerbate global warming. <http://www.sciencemag.org.ezp-prod1.hul.harvard.edu/cgi/reprint/319/5867/1235.pdf>

N Stern, "Climate: What You Need to Know," review of B McKibben, *Eaarth: Making a Life on a Tough New Planet*, in *New York Review*, 04/24/10. <http://www.nybooks.com.ezp-prod1.hul.harvard.edu/articles/archives/2010/jun/24/climate-what-you-need-know/?pagination=false>

Unit 9

A Foundational Critique: Individualism, Knowledge, and Unlimited Wants

(Lectures 23,-24, 11/22 and 11/29 [no class 11/24]; required readings approx 120 pages)

Rdgs: No text readings

Supplements:

Individualism

C Macpherson, "Individualism," in J Eatwell *et al* (eds), *The New Palgrave: A Dictionary of Economics*, v. 2, pp 790-793. Individualism has two distinct strands, one that emphasizes property ownership another that emphasizes the development and flourishing of what makes each human being unique.

S Marglin, "Individualism," in S Marglin, *The Dismal Science: How Thinking Like an Economist Undermines Community*, ch 4, pp 58-79. How economists understand individualism, and how this understanding biases economics in favor of markets. http://isites.harvard.edu/fs/docs/icb.topic200192.files/Chapter_4.pdf

J Winthrop, excerpts from "A Modell of Christian Charity," *Collections of the Massachusetts Historical Society*, Boston, 1838, 3rd series 7:31-48. Originally delivered as a sermon aboard the Arbella, en route from England to America, 1630. Only by sticking together, by subordinating self interest to the common good, can the settlers hope to survive and prosper, to build a New Jerusalem in the wilds of New England. <http://history.hanover.edu/texts/winthmod.html>

B Mandeville, "The Grumbling Hive," in *The Fable of the Bees*, F. B. Kaye (ed.), v. 1, pp 17-37. When the bees indulge their individual vices, the hive prospers; when the bees lead moral, upright lives, the economy suffers. http://oll.libertyfund.org/index.php?option=com_staticxt&staticfile=show.php%3Ftitle=846&layout=html#chapter_66863

A Smith, *The Wealth of Nations*, Book I, ch 2; Book IV, ch 2, pp Paragraphs I.2.1-I.2.2, IV.2.7-IV.2.10. Contrary to Mandeville, there is no opposition between private vice and public virtue. Self interest is the basic economic drive and it serves the society as well as the individual. <http://www.econlib.org/library/Smith/smWN.html>

*J Appleby, *Economic Thought and Ideology in Seventeenth Century England*, ch 3, 7, pp 52-72, 158-198.

A Sen, "Rational Fools," *Philosophy and Public Affairs*, 1976-77, 6:326-329 (section iv). "Self interest," as economists understand the term, can mean anything from the narrowest hedonism to an altruism that takes account of others' pleasures and pains. Both versions of self interest involve utility calculations that are basically individualistic, in contrast with commitment to others

that goes beyond any calculation of utility. <http://www.jstor.org.ezp-prod1.hul.harvard.edu/stable/2264946>

Knowledge

R Pirsig, *Zen and the Art of Motorcycle Maintenance*, New York: Morrow 1974 edition, ch 6, 7, 8; pp 70-80, 82-84, 100-102. "Classical" knowledge is contrasted with "romantic" knowledge.

*M Polanyi, *Personal Knowledge*, ch 4 and 5 (sec 5) pp 49-65 and 87-95.

*R Popkin, *The History of Skepticism from Erasmus to Spinoza*, ch 1-3 and 9, pp. 1-65 and 172-192.

Unlimited Wants

J M Keynes, "Economic Possibilities for Our Grandchildren," in *Essays in Persuasion*, (Macmillan edition, 1933) pp 358-373. Looking forward from the 1930s, Keynes argues that the miracle of compound interest makes it possible for the economic problem to be solved within the life-times of his generation's grandchildren, that is, today's college students.

T Veblen, *The Theory of the Leisure Class* (Houghton Mifflin, 1973) ch 2, pp 33-40. Much of consumption is for purposes of display and maintaining or improving one's social standing. [If this is so, how can the economic problem ever be solved? What is the "economic problem"?)

J K Galbraith, *The Affluent Society*, ch 11, pp 152-160. Galbraith expands on the themes of Keynes and Veblen, in particular, on the role of advertising in the modern economy.

J Yardley, "Well-Off but Still Pressed, Doctor Could Use Tax Cut," *New York Times*, 04/07/01. Not making it on \$300,000 per year.
<http://ezp1.harvard.edu/login?url=http://proquest.umi.com.ezp1.harvard.edu/pqdweb?did=367025552&sid=12&Fmt=2&clientId=11201&RQT=309&VName=HNP>

*J Segal, "What We Work For Now," *New York Times*, 09/03/01. Transportation and health care have replaced food and clothing as the most costly segments of household budgets, after housing. Does this tell us anything about the dynamics of desire?
[http://web.lexisnexis.com.ezp2.harvard.edu/us/inacademic/api/version1/sr?shr=t&csi=6742&sr=HLEAD\(what+we+work+for+now\)+AND+DATE+IS+09/03/2001](http://web.lexisnexis.com.ezp2.harvard.edu/us/inacademic/api/version1/sr?shr=t&csi=6742&sr=HLEAD(what+we+work+for+now)+AND+DATE+IS+09/03/2001)

*L Cohen, "Trying to Buy Our Way Out of Trouble," *New York Times*, 12/11/02. Some of the downside of a society of mass consumption.
[http://web.lexisnexis.com.ezp2.harvard.edu/us/inacademic/api/version1/sr?shr=t&csi=6742&sr=HLEAD\(Buy+Our+Way+Out+AND+Trouble\)+AND+DATE+IS+12/11/2002](http://web.lexisnexis.com.ezp2.harvard.edu/us/inacademic/api/version1/sr?shr=t&csi=6742&sr=HLEAD(Buy+Our+Way+Out+AND+Trouble)+AND+DATE+IS+12/11/2002)

R Easterlin, "Will Raising the Incomes of All Increase the Happiness of All?" *Journal of Economic Behavior and Organization*, 1995, 27:35-47. No.
http://www.sciencedirect.com.ezp1.harvard.edu/science?_ob=MIimg&_imagekey=B6V8F-3YGTSKK-T-2&_cdi=5869&_user=209690&_orig=browse&_coverDate=06%2F30%2F1995&_sk=999729998&_view=c&wchp=dGLzVlz-zSkWW&md5=59a42e97a2584fd477b431f969ea825d&ie=/sdarticle.pdf

*D Hausman and M McPherson, *Economic Analysis and Moral Philosophy*, ch 5-8, pp 51-115.

*J Schor, *The Overspent American*, ch 1-4, pp 1-109.

*W. Leach, *Land of Desire*, ch 6, 8, 9, pp. 153-190, 225-260, 266-269.

Unit 10

The Strengths and Limits of Markets. A Market in Body Parts? Is Economics Part of the Problem? Markets and Communities

(Lecture 25, 12/01; required readings approx 115 pages)

Rdgs: No text readings

Supplements:

Strengths and Limits of Markets

F Hayek, "The Use of Knowledge in Society," *American Economic Review*, 1945, **35**: 519-530. (Same item listed under unit 3 above.)

<http://links.jstor.org.ezp1.harvard.edu/sici?sici=0002-8282%28194509%2935%3A4%3C519%3ATUOKIS%3E2.0.CO%3B2-1>

A Hirschman, "Rival Views of Market Society" in *Rival Views of Market Society and Other Essays*, pp 105-141. Examines alternative views of whether markets are good or bad for people, whether social ills are caused by an excess or an insufficiency of markets.

E Anderson, *Value in Ethics and Economics*, ch 7 ("The Ethical Limitations of the Market"), pp 141-167. Economists err in supposing that the ethical system appropriate to market transactions reflects universal values appropriate to all forms of interpersonal relationships.

K Seelye and J Tierney, "E.P.A. Drops Age-Based Cost Studies," *New York Times*, 05/08/03. Should calculations of the value of a human life that might be saved or lost as a result of policy choice (for example, lower speed limits) take account of the age of potential beneficiaries or victims? Age after all is correlated with life expectancy and future productivity and earnings.
[http://web.lexisnexis.com.ezp2.harvard.edu/us/inacademic/api/version1/sr?shr=t&csi=6742&sr=H LEAD\(drops+age-based+cost+studies\)+AND+DATE+IS+05/08/2003](http://web.lexisnexis.com.ezp2.harvard.edu/us/inacademic/api/version1/sr?shr=t&csi=6742&sr=H LEAD(drops+age-based+cost+studies)+AND+DATE+IS+05/08/2003)

P Shenon, "A Pacific Island Nation Is Stripped of Everything," *New York Times*, 12/10/95. The exploitation of phosphate resources has enriched Nauru but devastated its environment and the health of Nauruans. And much of the wealth has been wasted.
[http://web.lexisnexis.com.ezp2.harvard.edu/us/inacademic/api/version1/sr?shr=t&csi=6742&sr=H LEAD\(stripped\)+AND+DATE+IS+12/10/1995](http://web.lexisnexis.com.ezp2.harvard.edu/us/inacademic/api/version1/sr?shr=t&csi=6742&sr=H LEAD(stripped)+AND+DATE+IS+12/10/1995)

A Market in Body Parts?

M Finkel, "Complications: This Little Kidney Went to Market," *New York Times Magazine*, 05/27/01. An account of the nitty-gritty of buying and selling kidneys. Pretty gritty.
[http://web.lexisnexis.com.ezp2.harvard.edu/us/inacademic/api/version1/sr?shr=t&csi=6742&sr=H LEAD\(Complications\)+AND+DATE+IS+05/27/2001](http://web.lexisnexis.com.ezp2.harvard.edu/us/inacademic/api/version1/sr?shr=t&csi=6742&sr=H LEAD(Complications)+AND+DATE+IS+05/27/2001)

N Scheper-Hughes, "Keeping an Eye on the Global Traffic in Human Organs," *Lancet*, 05/10/03. An anthropologist looks at the effects on the sellers of body parts.
http://www.sciencedirect.com.ezp1.harvard.edu/science?_ob=MIimg&_imagekey=B6T1B-48JBSPD-X-1&_cdi=4886&_user=209690&_orig=search&_coverDate=05%2F10%2F2003&_sk=996380630&_view=c&wchp=dGLbVlz-zSkzV&md5=7812047254df64299e01af521f4d8448&ie=/sdarticle.pdf

S Satel, "Desperately Seeking a Kidney," *New York Times*, 12/16/07. The trials and tribulations of trying to obtain a kidney from a volunteer donor.

[http://web.lexisnexis.com.ezp2.harvard.edu/us/lnacademic/api/version1/sr?shr=t&csi=6742&sr=H LEAD\(desperately+seeking\)+AND+DATE+IS+12/16/2007](http://web.lexisnexis.com.ezp2.harvard.edu/us/lnacademic/api/version1/sr?shr=t&csi=6742&sr=H LEAD(desperately+seeking)+AND+DATE+IS+12/16/2007)

P Shetty, "Tax cuts for organs?" *The Lancet*, vol 374, 10/17/09. The pros and cons of giving financial incentives for organ transplants.

http://www.sciencedirect.com.ezp-prod1.hul.harvard.edu/science?_ob=MIimg&_imagekey=B6T1B-4XFXPCC-9-4&_cdi=4886&_user=209690&_pii=S0140673609618079&_origin=search&_zone=rslt_list_item&_coverDate=10%2F23%2F2009&_sk=996250301&wchp=dGLzVzz-zSkWA&md5=84f873e943a78aa59666f8b84f8b92a9&ie=/sdarticle.pdf

Is Economics Part of the Problem?

R Frank, T. Gilovich, and D. Regan, "Does Studying Economics Inhibit Cooperation?" *Journal of Economic Perspectives*, 1993, 7:159-171. Yes. The empirical evidence suggests that studying economics is correlated with more self-interested behavior, especially if one controls for other variables. Why might this be so? <http://www.jstor.org.ezp-prod1.hul.harvard.edu/stable/pdfplus/2138205.pdf>

Markets and Communities

W Berry, "Does Community Have A Value?" *Home Economics*, pp 179-192. How a locally oriented economy differs from the nationally and internationally oriented economy of today. Community is essential to the first and irrelevant to the second.

*D Kraybill and M Olshan (eds), *The Amish Struggle With Modernity*, ch 1-3, pp 1-50.

D Kraybill and M Olshan (eds), *The Amish Struggle With Modernity*, ch 14, pp 231-242. What can we learn from the Amish, among the most communitarian of American subcultures?

C Quintanilla, "The Hog Farmers' Losses Put a Butcher Shop on Knife-Edge," *Wall Street Journal*, 03/24/99. The difference between the factors local businesses and large corporations take into account in relating to their customers.

<http://ezp1.harvard.edu/login?url=http://proquest.umi.com.ezp1.harvard.edu/pqdweb?did=39959668&sid=12&Fmt=3&clientId=11201&RQT=309&VName=PQD>

R Tomsho, "Dirt Poor: Colorado Farmers Discover Water is Worth More Than Their Crops," *Wall Street Journal*, 04/25/00. Should a farmer sell his water rights to a growing suburban town? If this is the way out of crushing debt? If it spells the death of his local farming community?

<http://ezp1.harvard.edu/login?url=http://proquest.umi.com.ezp1.harvard.edu/pqdweb?did=52859925&sid=13&Fmt=3&clientId=11201&RQT=309&VName=PQD>

*Associated Press, "Logging Jobs Benefit Pygmies, but Imperil Their Forest Home," *New York Times*, 02/16/03. A similar story. Does the theory of externalities explain "destructive enrichment"? What else needs to be brought into the picture?

[http://web.lexisnexis.com.ezp2.harvard.edu/us/lnacademic/api/version1/sr?shr=t&csi=6742&sr=H LEAD\(logging+jobs+benefit+pygmies,\)+AND+DATE+IS+02/16/2003](http://web.lexisnexis.com.ezp2.harvard.edu/us/lnacademic/api/version1/sr?shr=t&csi=6742&sr=H LEAD(logging+jobs+benefit+pygmies,)+AND+DATE+IS+02/16/2003)

FINAL EXAM: tba