

## OIECOX04 - History of Economic Thought

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**Professor:** Jan Horst KEPPLER

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**Department:** International affairs

**Semester:** 1

**Course level:** L3 Undergraduate

**Domain:** Economics

**Teaching language:** English

**Number of in-class hours:** 33

**Number of course sessions:** 10 + Exam

**ECTS:** 6

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### Course description and objectives

Following an introductory class on the methodology of economics and the conditions under which it might be considered a scientific endeavour akin to the natural sciences rather than a descriptive and hermeneutic endeavour akin to history or political science, the basic structure of the course is chronological. Different theoretical approaches are presented in the context of their times and illustrated with simple numerical examples or diagrams. Wherever possible and pertinent, historical questions are linked to contemporary economic questions, e.g., Aristotle's chrematistics and what constitutes a "good life", Mandeville and the question of ethics in economics, mercantilism and modern trade disputes, the physiocrats and the question of natural resources, Ricardo and modern sources of rent, Marxism and the theory of crises, Veblen and the conspicuous consumption of leisure in the time of Facebook. Adam Smith, as the proponent of decentralised auto-organisation, the marginalists and Keynes remain, of course, directly relevant to modern economic issues in an all-pervasive and very direct manner.

There are three further issues that might distinguish this class from other introductory classes in history of economic thought. First, emphasis is put on what we call the "economic subject", i.e., the individual, entity, group or class, which defines the major economic issues of the day and acts on them. In neoclassical economics, the economic subject is largely identical with the *homo oeconomicus* maximising individual utility. However, Aristotle, scholastic economic thought, mercantilism, the physiocrats, Marx, American institutionalists or Keynes would have very different ideas about who constitutes the economic subject.

Second, two classes are dedicated to Adam Smith as the founder of economics as an autonomous discipline independent of the other social sciences and a potentially scientific endeavour of research. We thus give space to the development in the *Theory of Moral Sentiments* of the anthropological foundations of the Smithian economic man, whose implications are then explored both at the micro and the macro level in the *Wealth of Nations*. This allows, in particular, a better understanding of the underlying assumptions behind the working of the invisible hand.

Third, the class puts strong emphasis on the original writings (either in English or in English translation) of the key representatives of each current in the history of economic thought. While there are many competent historians of economic thought, nobody surpasses the writers who became "classics" in their ability to succinctly formulate ways forward out of the dilemmas posed by fundamental economic questions. Students will thus receive for each class by Email key chapters of the great economic texts as reading assignments. The decisive paragraphs will be read in class.

The class aims to familiarise students with the main currents in the history of economic thought embodied by their most important theorists from Aristotle to Keynes. Students having taken the class should retain, in particular, the key features of the main economic bodies of thought and their actual or potential relevance to major historical or current economic questions.

## Prerequisites

Basic knowledge of micro- and macroeconomics is desirable but not a must for students willing to familiarise themselves with a few key economic concepts during class.

## Learning outcomes

Knowledge of the great currents in the history of economic thought and their principal representatives and major texts; at least cursory understanding of several basic building blocks of economic theory; some intuition for the assumptions and methodological choices that establish economics as an autonomous endeavour of research in the social sciences.

## Assignments and grading

Final Exam (control of acquired notions, some multiple choice) 50 %

Small written Assignment 50% (the assigned papers can be prepared individually or in groups of two or three; the list of possible topics is attached below). The grade for the paper includes class attendance. Except for students with special exemptions, more than two unmotivated absences can lead to deductions.

The numerical grade distribution will dictate the final grade. The passing grade for a course is 10/20.

**Class participation:** Active class participation – this is what makes classes lively and instructive. Come on time and prepared. Class participation is based on quality of comments, not quantity.

**Exam policy:** In the exam, students will not be allowed to bring any document (except if allowed by the lecturer). Unexcused absences from exams or failure to submit cases will result in zero grades in the calculation of numerical averages. Exams are collected at the end of examination periods.

## Course structure

| Session | Topic                                                                                                 | Possible questions for small term paper                                                                                                                                                                                                                                                                                  |
|---------|-------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1       | Object and method of economic science                                                                 | (1) To which extent does Friedman methodology remain faithful to Popper? To which extent does it diverge?<br>(2) The future of economics: Emulate the natural sciences, "colonise" the social sciences or return to political economy?                                                                                   |
| 2       | Ethics, religion and economy in antiquity and the middle ages                                         | Compare the economic subject in Aristotle, Plato or Aquinas (choose one) with the <i>homo oeconomicus</i> .                                                                                                                                                                                                              |
| 3       | Moral, politics and economics in the renaissance and mercantilism                                     | (1) Is it ok to be selfish? Compare the responses of Machiavelli, Mandeville and Smith.<br>(2) Is mercantilism really obsolete? Is it still being practiced? Under which conditions can it still be justified?                                                                                                           |
| 4       | The political economy of the enlightened absolutism: the physiocrats                                  | Quesnay and the physiocrats: Early liberals or reactionaries (pay attention to the roles of the King, of the aristocracy, to trade and agriculture)?                                                                                                                                                                     |
| 5       | Sympathy and wealth: Adam Smith and the <i>homo oeconomicus</i>                                       | How does the "invisible hand" work? What is the relationship between self-interest and general well-being in Smith? What are the roles of the impartial spectator and sympathy?                                                                                                                                          |
| 6       | Division of labour, value, and trade: Adam Smith economist                                            | Exchange value and use value: What is the relationship between Smith and Ricardo?<br>Does "use value" still have meaning in the era of virtual reality?                                                                                                                                                                  |
| 7       | The classics: rent, distribution and growth in Say, Ricardo and Malthus                               | (1) Say's Law: profound truth or mirage? Discuss.<br>(2) Rent: How is today's notion of rent different from that of Smith or Ricardo?                                                                                                                                                                                    |
| 8       | Happiness or utility? The critique of liberal economy from Plato to Marx                              | (1) The crises of debt, financial markets and capitalism: Are there any lessons from the critics of the liberal economy in the 19 <sup>th</sup> century for today?<br>(2) What is/should be the ultimate objective of an economy?                                                                                        |
| 9       | Marginalism, individual optimization and general equilibrium: Walras and Jevons, Edgeworth and Pareto | (1) General equilibrium and Pareto optimality: What prevents us to achieve them? Do we still want to achieve them?<br>(2) What is utility? Compare the classics, the marginalists and modern notions (e.g., happiness theory).                                                                                           |
| 10      | The foundations of modern micro- and macroeconomics and its challengers: Marshall, Veblen and Keynes  | (1) Keynes and Say's law: What prevents the return to full-employment equilibrium?<br>(2) Veblen on "conspicuous consumption": links to Adam Smith and the evolution of the notion in the age of Facebook<br>(3) Compare the thinking of Hayek and Schumpeter on the efficiency of markets: similarities and differences |
| 11      | Exam                                                                                                  |                                                                                                                                                                                                                                                                                                                          |

## Bibliography

| N° | Topic of Class                                                                                              | Readings                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|----|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1  | <b>Object and method of economic science</b>                                                                | Milton Friedman (1953), "The Methodology of Positive Economics" in <i>Essays in Positive Economics</i> .<br>Karl Popper (1935), <i>The Logic of Scientific Discovery</i> , Part I "Introduction to the Logic of Science".                                                                                                                                                                                                                                                          |
| 2  | <b>Ethics, religion and economy in antiquity and the middle ages</b>                                        | Plato, <i>The Laws</i> , Chapters 5 and 9.<br>Aristotle, <i>Nicomachean Ethics</i> , Book V.<br>Aristotle, <i>Politics</i> , Book 1, Chapters 8-12.<br>Thomas Aquinas, <i>Summa theologica</i> , Questions 77 – 78.                                                                                                                                                                                                                                                                |
| 3  | <b>Moral, politics and economics in the renaissance and mercantilism</b>                                    | Thomas Hobbes (1660), <i>The Leviathan</i> , "Of the Nutrition and Procreation of A Commonwealth".<br>John Locke (1690), <i>The Second Treatise of Civil Government</i> , Ch. 5 "Of Property".<br>Bernard Mandeville (1714), <i>The Fable of the Bees: Or Private Vices, Public Benefits</i> , "The Grumbling Hive: Or Knaves Turned Honest".                                                                                                                                      |
| 4  | <b>The political economy of the enlightened absolutism: the physiocrats</b>                                 | François Quesnay (1759), <i>Economic Table</i> .                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 5  | <b>Sympathy and wealth: Adam Smith and the <i>homo oeconomicus</i></b>                                      | Adam Smith (1759), <i>The Theory of Moral Sentiments</i> , Selected passages.                                                                                                                                                                                                                                                                                                                                                                                                      |
| 6  | <b>Division of labour, value, and trade: Adam Smith economist</b>                                           | Adam Smith (1776), <i>An Inquiry into the Nature and Causes of the Wealth of Nations</i> , Book I "Of the Causes of Improvement in the Productive Power of Labour".                                                                                                                                                                                                                                                                                                                |
| 7  | <b>The classics: rent, distribution and growth in Say, Ricardo and Malthus</b>                              | David Ricardo (1817), <i>Of the Principles of Political Economy and Trade</i> , Chapters 1, 2 and 7 "On Value", "On Rent" and "On Foreign Trade".                                                                                                                                                                                                                                                                                                                                  |
| 8  | <b>Happiness or utility? The critique of the liberal economy from Plato to Marx</b>                         | Karl Marx (1867), <i>Capital: A Critique of Political Economy</i> , Vol. I, Book I, Part 1 "Commodities and Money"                                                                                                                                                                                                                                                                                                                                                                 |
| 9  | <b>Individual optimization and general equilibrium: Walras and Jevons, Edgeworth and Pareto</b>             | William Stanley Jevons (1871), <i>Theory of Political Economy</i> , Ch 4 "Theory of Exchange".                                                                                                                                                                                                                                                                                                                                                                                     |
| 10 | <b>The foundations of modern micro- and macroeconomics and its challengers: Marshall, Veblen and Keynes</b> | Alfred Marshall (1890), <i>Principles of Economics</i> , Book V, Ch. 12, "Equilibrium of Normal Demand and Supply, Continued, with Reference to the Law of Increasing Return".<br>Thorstein Veblen (1899), <i>Theory of the Leisure Class</i> , Chapters 2-4 "Pecuniary Emulation", "Conspicuous Leisure", "Conspicuous Consumption".<br>John Maynard Keynes (1936), <i>The General Theory of Employment, Interest, and Money</i> , Chapter 3 "The Principle of Effective Demand". |

The class does not use a single textbook. Students, who wish to do so, can receive the teaching notes (in French) upon request. As a first point of entry, other than the original texts, are recommended the individual entries on authors, movements or concepts in *The New Palgrave: Dictionary of Economics* (1987), Edited by Peter Newman, John Eatwell and Murray Milgate, London, Macmillan. Please also use The History of economic thought Website, <http://www.hetwebsite.net/het/>; McMaster University Archive for the History of Economic Thought, <https://socserv2.socsci.mcmaster.ca/econ/ugcm/3ll3/>; Online Library of Liberty: A collection of scholarly works about individual liberty and free markets, <http://oll.libertyfund.org/>.

## Lecturer's biography

Jan Horst Keppler is professor of economics at Université Paris-Dauphine PSL, where he directs the master in energy, finance and carbon (EFC) and presides the supervisory committee of the Chaire European Electricity Markets (CEEM). He is a historian of economic ideas by training, specializing in early 20<sup>th</sup> century economic thought, in particular monopolistic competition theory, and in the economic and philosophical work of Adam Smith. Today, much of his research is in industrial organization and energy economics, in particular electricity markets. Returning regularly to the history of economic ideas in both teaching and research however is not only a pleasure but a necessity to get some perspective on what we are doing not only as economic agents but also as economists.

## Moodle

This course is on Moodle: **No**

## Academic integrity

Be aware of the rules in Université Paris Dauphine about plagiarism and cheating during exams. All work turned in for this course must be your own work, or that of your own group. Working as part of a group implies that you are an active participant and fully contributed to the output produced by that group.