

Philosophy of Economics (v. 2)

University of Virginia
Fall 2018
New Cabell Hall 315
Tuesday & Thursday 3:30-4:45pm

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OVERVIEW

In this course, we will ask questions about the nature, scientific status, and implicit value assumptions in economics—for example: Can there be laws of economics? Can economic models based on unrealistic assumptions explain the world to us? What is utility, and how does it relate to well-being? What are the normative assumptions implicit in economic research? Should economists take part of the blame for the financial crisis?

While we will not use it as a textbook, Julian Reiss's *Philosophy of Economics* (Routledge, 2013) is an excellent introduction to many of the topics we will cover. Furthermore, students with no prior knowledge of economics are well-advised to have a look at standard economics textbooks in advance of the course to get some first-hand account of how economists reason.

COMPONENTS

Attendance & Class Contribution (10%)

Attendance is mandatory. Students with three or more unexcused absences will fail the course. If you cannot make it to a session, please tell me as soon as you know.

RULES

Participation. I expect regular and active participation from all students, and I might start to cold-call you if you don't regularly participate. Some seminar sessions might include group work, or other types of group activities.

Preparation. Enjoying this course will be very hard for you (and everyone else) if you do not adequately prepare the readings; so please do.

Gadgets. Never use your mobile phones in class. You are permitted to use laptops or tablets, but *only* to take notes and to check the texts we're reading. If students are regularly distracted by electronic devices, I will ban them entirely.

Openness and Respect. This is a philosophy class, so (i) there is nothing that cannot be questioned, (ii) you must offer reasons for what you believe, and (iii) be willing to accept rational criticism—sometimes harsh—from others, all the while (iv) staying within the boundaries of respect for, and kindness to, others.

GRADING

This component of the course is graded generously on the basis of your preparation and engagement, as the aim is to encourage you to participate, not to judge your contributions harshly. I will make deductions, however, if I find your preparation lacking or your attention elsewhere.

Reflections (ungraded)

Throughout the course, there are required readings which are marked with two asterisks (**). Before each session with such a reading, you need to write a reflection on them. Their point is to (i) ensure that you've done the readings, and (ii) to form the basis for discussion in seminar. Each reflection should offer an opinion or critical remark regarding the topic of that week.

FORMALITIES

Reflections should be around 100 words, but can be longer. Post them on the forum in Collab *two hours before the course starts*. This allows me and others to read them in advance.

You can fail to write up to five reflections, no questions asked. Every reflection you fail to do afterwards automatically leads to a deduction from your *final* grade of 5 points. Please note: not handing in a reflection does not excuse you from adequately preparing the readings.

GRADING

Your reflections will not be graded. However, I might reject, or ask you to add to, reflections which I think do not show sufficient engagement with the readings. Consistently excellent reflections can earn extra credit.

Take-Home Exam (30%)

There will be a take-home exam, covering topics from parts 1 to 3 of the course. Questions will be announced in the seminar on *October 30*, and answers are due one week later, on *November 6*. Please send me your answers per email before that meeting, *in addition to* handing in a printed copy.

FORMAT

The exam will consist of twelve questions, of which you have to answer three. Questions focus on your ability to critically evaluate arguments from the literature. The expected length for each answer is around 600 words.

DETAILS

You are encouraged to use secondary sources, including any material from the course, but you must properly reference them as usual. You are allowed to discuss the exam questions with other students. E.g., if you're strong on economics but weak on philosophy, you might want to team up with a philosophy student with complementary strengths. However, any ideas which you take from others must be explicitly highlighted as such (e.g., through footnotes). Please err on the safe side so as to avoid any suspicions of plagiarism. You *must* write your own answers—no team submissions are allowed.

Two Papers (20% and 40%)

You are required to write two seminar papers. A *literature essay* (~1,500 words) will focus on your ability to critically analyse secondary texts. In your *research essay* (~3,000 words), I expect you to engage a substantive philosophical question of your choice in an independent way.

TOPIC CHOICE For the literature essay, I will present you with a number of topics you can choose from. Each will come with 2-3 texts you must engage with.

For the research essay, you need to write a *topic proposal*, outlining (i) the question you wish to tackle, (ii) a brief sketch of how you will approach it, and (iii) a list of articles or books you aim to use for that purpose. Topics can be taken from the syllabus, but should go beyond what we have discussed. Your topic proposal needs to be approved by me before you hand in your essay.

DRAFTS If you wish to discuss a draft of your paper, you should make an appointment to meet with me. In general, I will provide you with written comments only if you ask for them.

DETAILS There are no set word limits, either minimum or maximum. What matters is that you argue your point convincingly and succinctly, not how long it takes you to argue it.

We will discuss the features of a good philosophical writing in the course. My expectations for a good essay are outlined at length in a guide you can obtain at www.matthiasbrinkmann.de/slides/guide.pdf.

SCHEDULE Please send finished papers to me by email in a Word-compatible format. The deadlines are **October 11** (literature essay) and **December 10** (research essay).

Final Grade

Your contributions will be weighted as follows,

attendance	literature essay	take-home exam	research essay
10%	20%	30%	40%

I will compute a grade average which, when rounded up, will be translated into a grade according to the following key:

A	A-	B+	B	B-	C+	C	C-	D+	D	F
93+	90-92	87-89	83-86	80-82	77-79	73-76	70-72	67-69	60-66	0-59

I might sometimes award extra credit where I see fit, but I do *not* offer extra credit opportunities, so please don't ask for them.

POLICIES

DISABILITIES

If you are in need of accommodation for an impairment or disability, contact me as soon as possible. You should also contact the Student Disability Access Center (SDAC) to document your needs and determine a reasonable accommodation. They can be reached at sdac@virginia.edu.

FEEDBACK

If, at any point, you have a suggestion or complaint to make about the course, its contents, my teaching methods, or another student, you should raise any such issue with me at the earliest possible point so that I can resolve it. You can also post anonymous feedback on Collab at any time.

SYLLABUS

Suggestions for changes in the syllabus are always welcome. Sessions marked “A” contain some form of student activity. Sessions marked “E” have a special focus on economics.

8/28 Introduction	10/18 Mechanisms
Part 1: Explaining through Models	10/23 ^A Experiments
8/30 ^E Hotelling’s Model	10/25 ^E FCC Auctions
9/4 Popper’s Falsificationism	Part 4: Rational and Animal Spirits
9/6 Troubles for Falsificationism	10/30 Rationality
9/11 Friedman’s Instrumentalism	11/1 Rational Choice Theory
9/13 Unrealistic Assumptions	11/6 TAKE-HOME EXAM DUE Means and Ends
9/18 Reiss’s Explanation Paradox	11/8 ^E Behavioural Economics
Part 2: Macroeconomics and Crisis	11/13 Nudging
9/20 Lakatos’ Research Programmes	Part 5: Individual and Common Good
9/25 ^E Friedman vs the Philipps Curve	11/15 Facts and Values
9/27 Kuhn’s Revolutions	11/20 Welfare in Economics
10/2 ^E DSGE Models	Thanksgiving Recess
10/4 ^A Economics and Crisis	11/27 Problems with Preferences
Reading Days	11/29 GDP and Alternatives
Part 3: Economics in Practice	12/4 ^E Happiness Research
10/11 LITERATURE ESSAY DUE Causation	12/6 ^A Wrapping Up
10/16 ^E Instrumental Variables	12/10 RESEARCH ESSAY DUE

DETAILS

1. Introduction

I will give a brief introduction of central questions in the philosophy of economics, and we will go over the syllabus together.

READINGS

Required readings in the syllabus are marked with two stars (**). References for works cited short-hand can be found in Appendix A, which also gives general suggestions for readings. If you want to have a textbook accompanying the course, get Julian Reiss's *The Philosophy of Economics* (Routledge 2016).

APPETIZERS

Diane Coyle, "[In Defence of the Economists](#)"
Chris Auld, "[18 Signs You're Reading Bad Criticism of Economics](#)"
Simon Wren-Lewis, "[Why does economics get so much stick?](#)"
Rethinking Economics Project, "[Why Rethink Economics?](#)"
Dani Rodrik, "[When economics works, and when it doesn't](#)"

A. Explaining through Models

2. Hotelling's Model

QUESTIONS

What are noteworthy features of Hotelling's model? What are the explicit and implicit assumptions that underlie it? Is the model explanatory? How does it explain?

APPETIZER

Tyler Cowen, "[Why politics is stuck in the middle](#)"

LITERATURE

Hotelling, Harold. "Stability in Competition." *Economic Journal* 39 (1929): 41–57. (Offers a simple model which explains why competing firms often offer similar products. **No reflection required for this reading.)
D'Aspremont, Claude, J. Gabszewicz, and J.-F. Thisse. "On Hotelling's 'Stability in Competition.'" *Econometrica* 47 (1979): 1145–50. (Highlights a technical problem with Hotelling's model. Not important for our purposes, however.)

3. Popper's Falsificationism

QUESTIONS

What is falsifiability? Explain Popper's claim that "[i]t is easy to obtain confirmations". What is the "problem of demarcation", and how is it different from the problems of truth and meaning? What would falsificationism mean for the practice of science?

APPETIZERS

Alex Rosenberg and Tyler Curtain, "[What is Economics Good For?](#)"
Eric Schliesser, "[Economics as/and Science: on treating Milton Friedman as the Villain](#)"
Raj Chetty, "[Yes, Economics is a Science](#)"
Adam Ozimek, "[Can Economics Change your Mind?](#)"

LITERATURE

**Popper, Karl. "Science as Falsification", in *Conjectures and Refutations: The Growth of Scientific Knowledge*. New York: Harper & Row, 1968.
**Popper, Karl. *The Logic of Scientific Discovery*. London: Routledge, 2002. Chapter 1. (Accounts of Popper's views can be obtained from many sources; but these two sources contain his main claims in a succinct and clear version.)
Blaug, Mark. "Why I am not a Constructivist: Confessions of an unrepentant Popperian." In R. Backhouse (ed.), *New Directions in Economic Methodology*, 111-139. Routledge, 1994. (Acknowledges some problems with falsificationism, but claims that the prescriptive dimension of the view are still necessary.)

4. Troubles for Falsificationism

QUESTIONS

Does economics generally follow the falsificationist method? Is falsificationism a convincing account of science? Given that no scientific theory is tested without further auxiliary hypotheses, is falsificationism impossible to practise?

LITERATURE

**Putnam, Hilary. "The 'Corroboration' of Theories". *Philosophy of Science* (1991): 121–137. [Excerpt from Boyd/Gasper/Trout (ed.), *The Philosophy of Science*] (Highlights an important problem with Popper's approach.)
 Salmon, Wesley. "Rational Prediction." *British Journal for the Philosophy of Science* 32 (1981): 115–25. (Another problem for Popper: given that all non-falsified theories seem to be roughly on par, what grounds do we have to rationally prefer one over another?)
 Hausman, *Inexact and Separate Science*, ch. 10. (Hausman provides a good overview of philosophical problems with falsificationism. See also the appendix to this book, where Hausman offers a crashcourse overview of the philosophy of science.)
 Rosenberg, Alexander. *Economics: Mathematical Politics or Science of Diminishing Returns?* Chapter 6, "Is Economic Theory Predictively Successful?". (If economics followed falsificationist strictures, it would provide us with useful predictions. Rosenberg argues that economics has generally failed to predict much.)

5. Friedman's Instrumentalism

QUESTIONS

What speaks in favour of instrumentalism? Do economists actually practice what Friedman preaches? What is the difference between Friedman's and Popper's views?

APPETIZERS

Jorge Luis Borges, "[On Exactitude in Science](#)"
 Youtube (Reserve Bank of New Zealand), [Philipps' MONIAC](#)

LITERATURE

**Friedman, Milton. "The Methodology of Positivist Economics." In *Essays in Positive Economics*. University of Chicago Press, 1966. [Reprinted in Hausman, *The Philosophy of Economics*.] (Probably the most famous work in the philosophy of economics. Argues that economic models should be assessed on instrumentalist grounds, and that the "realism" of their assumptions should be ignored.)
 Reiss, Julian. "Idealization and the Aims of Economics: Three Cheers for Instrumentalism." *Economics and Philosophy* 28 (2012): 363–83. (Provides a sophisticated account and defence of instrumentalism regarding scientific models.)
 Hands, Wade. "Did Milton Friedman's Methodology License the Formalist Revolution?" *Journal of Economic Methodology* 10 (2003): 507–20. (Have economists actually done what Friedman has preached? Hands gives a pessimistic answer.)
 Boland, Lawrence. "A Critique of Friedman's Critics." *Journal of Economic Literature* 17 (1979): 503–22. (A defence and exegesis of the main claims of Friedman's paper. Somewhat overstates the philosophical strength of Friedman's position.)

6. Unrealistic Assumptions

QUESTIONS

What does Friedman mean by "unrealistic assumptions"? What are the different ways in which assumptions can be unrealistic? Are there differences between how unrealistic assumptions are used in economics and other sciences?

LITERATURE

**Musgrave, Alan. "'Unreal Assumptions' in Economic Theory: The F-Twist Untwisted." *Kyklos* 34 (1981): 377–87. (Argues that Friedman's paper is based on an ambiguous notion of what makes an assumption "unrealistic".)
 Nagel, Ernest. "Assumptions in Economic Theory." *American Economic Review* 53 (1963): 211–19. (Another brief analysis of Friedman's view, also arguing that Friedman is ambiguous what he means with respect to "unrealistic" assumptions.)

- Weisberg, Michael. "Three Kinds of Idealization." *Journal of Philosophy* 104 (2007): 639–659. (Yet another tripartite distinction... Useful because it locates discussions over unreal assumptions in wider debates in the philosophy of science.)
- Wimsatt, *Re-Engineering Philosophy for Limited Beings: Piecewise Approximations to Reality*. Harvard University Press, 2007. Chapter 6, "False Models as Means to Truer Theories". (Discusses the role of false models in the context of biology.)

7. Reiss's Explanation Paradox

QUESTIONS

What constitutes an explanation in science? What role do laws play in explanation? Do we need laws to explain at all? What is Reiss' trilemma? What is the best way to escape it?

LITERATURE

- **Reiss, Julian. "The Explanation Paradox." *Journal of Economic Methodology* 19 (2012): 43–62. (Shows a simple but powerful paradox for the explanatory power of economics: for economic models to explain, they have to be true; but they aren't.)
- Mäki, Uskali. "On a Paradox of Truth, or How Not to Obscure the Issue of Whether Explanatory Models Can Be True." *Journal of Economic Methodology* 20 (2013): 268–79. (Argues that Reiss's statement of the paradox suffers from several ambiguities.)
- Reiss, Julian. "The Explanation Paradox Redux." *Journal of Economic Methodology* 20 (2013): 280–92. (Response to Mäki and others.)
- Sugden, Robert. "Credible Worlds: The Status of Theoretical Models in Economics." *Journal of Economic Methodology* 7 (2000): 1–31. (An influential account that tries to account for the explanatory power of economic models by comparing them to "credible worlds".)

B. Macroeconomics and Crisis

8. Lakatos' Research Programmes

QUESTIONS

What is a "research programme"? What are the main differences between Popper and Lakatos? Is Lakatos "80% Popper and 20% Kuhn"? Is (macro-)economics an empirically progressive research programme? How would we find out?

APPETIZERS

- Ray Fair, "[Has Macro Progressed?](#)"
- Paul Krugman, "[The Fall and Rise of Development Economics](#)"
- Paul Romer, "[What went wrong in Macro – Historical Details](#)"

LITERATURE

- **Lakatos, Imre. "The Methodology of Scientific Research Programmes," in *Philosophical Papers of Imre Lakatos*, vol. 1. Cambridge University Press, 1995. [Excerpts] (A classic and influential attempt to save core aspects of the Popperian project.)
- **Quiggin, *Zombie Economics*, chapter 3, up to p. 106, "Life: Rationality and the Representative Agent". (A readable, engaging overview of the history of recent macroeconomics. We will use this as background for the sessions on Lakatos and Kuhn.)
- Rosenberg, Alexander. "Lakatosian Consolations for Economics?" *Economics and Philosophy* 2 (1986): 127–39. (Discusses whether the move from Friedman to Lakatos helps defend economics, giving a negative answer.)
- Hands, Wade. "Popper and Lakatos in Economic Methodology." In D. Hausman (ed.), *The Philosophy of Economics: An Anthology*, 188–203. (Claims that economics fails falsificationist strictures, and that broadening falsificationism through Lakatos does not help escaping this basic criticism.)
- Backhouse, Roger. "The Lakatosian Legacy in Economic Methodology." In R. Backhouse (ed.), *New Directions in Economic Methodology*, 175–195. Routledge, 1994. (An overview and qualified defence of Lakatos' approach in the philosophy of science.)

9. Milton Friedman vs The Phillips Curve

TOPIC

The Phillips Curve is a supposed statistical relationship between inflation and unemployment which became a crucial topic of debate amongst macroeconomists in the 1960s and 1970s. We will discuss how the debate developed, and whether it is evidence for economics being “empirically progressive” in Lakatos’ sense.

APPETIZERS

Simon Wren-Lewis, “[NAIRU Bashing](#)”
 Paul Krugman, “[On the Neo-paleo-Keynesian Phillips Curve](#)”
 Silvia Merler, “[Has the Phillips Curve disappeared?](#)”

PRIMARY

Phillips, A. W. “The Relationship between Unemployment and the Rate of Change of Money Wages in the United Kingdom 1861-1957.” *Economica* 25 (1958): 283–299. (Phillips observes a relationship between unemployment and inflation in historical data.)
 **Friedman, Milton. “The role of monetary policy.” *American Economic Review* 68 (1968): 1–17. (In his presidential address given 1967, Friedman argues against an exploitable Phillips curve, and outlines his general vision for monetary policy.)

SECONDARY

Gordon, Robert. “The History of the Phillips Curve: Consensus and Bifurcation.” *Economica* 78 (2011): 10–50. (A thorough overview of the reception of the Phillips Curve and surrounding debates.)
 Forder, James. *Macroeconomics and the Phillips Curve Myth*. Oxford University Press, 2014. (Discusses the history of the Phillips Curve, arguing that its history is generally misunderstood, and subject to several romanticising myths.)
 Cross, Rod. “The Duhem-Quine Thesis, Lakatos and the Appraisal of Theories in Macroeconomics.” *Economic Journal* 92 (1982): 320–40. (Applies Lakatosian ideas to the historical development of monetarism. Useful case study.)
 De Long, Bradford. “The Triumph of Monetarism?” *Journal of Economic Perspectives* 14 (2000): 83–94. (Distinguishes four types of monetarism, and argues that it has been more influential than often realised, or the “demise” of monetarism would suggest.)
 Blanchard, Olivier. “Should We Reject the Natural Rate Hypothesis?” *Journal of Economic Perspectives* 32 (2018): 97–120. (Discusses whether contemporary evidence from micro and macro support key claims from Friedman 1968.)

10. Kuhn’s Scientific Revolutions

TOPIC

Moving beyond Popper and Lakatos, we find various views which claim that science follows no homogenous methodology, but rather that scientific progress is achieved in messy and pluralistic ways. These theorists stress that we should look at the history of science, rather than abstract theories, in understanding science.

APPETIZER

Justin Fox, “[Will economics finally get its paradigm shift?](#)”

LITERATURE

**Kuhn, Thomas. *The Structure of Scientific Revolutions*. University of Chicago Press, 1962. Excerpts. [Excerpt from Boyd/Gasper/Trout (ed.), *The Philosophy of Science*] (Famous book introducing a more historicist account of science. Argues that different “paradigms” present incommensurable ways of seeing the world.)
 Bronfenbrenner, Martin. “The ‘Structure of Revolutions’ in Economic Thought.” *History of Political Economy* 2 (1971): 136-151. (Argues that the history of economics does not fit Kuhn’s claims about scientific revolutions, but rather a “Hegelian” structure.)
 McCloskey, Donald. “The Rhetoric of Economics.” *Journal of Economic Literature* 21 (1983): 481-517. (Argues that no unitary methodology captures what economists do or should do. Instead, we should focus on the “rhetoric” economists use to persuade. Explained at greater length in a book with the same title [University of Wisconsin Press, 1998].)

11. The Rise of DSGE Models

QUESTIONS

What are DSGE models? What is New Classical economics? What did it replace? What is a model based around a “representative agent”? What does it mean to require “microfoundations” for a macroeconomic model?

APPETIZERS

Silvia Merler, [“The DSGE Model Quarrel \(again\).”](#)
 Olivier Blanchard, [“Further Thoughts on DSGE models.”](#)
 Raphaelle Chappe, [“General Equilibrium Theory: Sound and Fury, Signifying Nothing?”](#)

LITERATURE

**Korinek, Anton. “Thoughts on DSGE Macroeconomics: Matching the Moment, but Missing the Point?”, in M. Guzman (ed.), *Towards a Just Society: Joseph Stiglitz and 21st Century Economics* (2017). (Even-handed discussion pointing out several problems with the dominance of DSGE models.)

Wren-Lewis, Simon. “Unravelling the New Classical Counter Revolution.” *Review of Keynesian Economics* 4 (2016): 20-35. (Passionately argues that the rise of New Classical Economics cannot be explained by the better empirical success of this school, but is rather due to the perceived theoretical advantages of such an approach.)

Christiano, Lawrence, M. Eichenbaum, and M. Trabandt. “On DSGE Models.” Working Paper (January 3, 2018). (Acerbic paper arguing that the critics of DSGE models are “dilettantes”. The published version is less combative. A milder version is published under the same title in *Journal of Economic Perspectives* 32 (2018): 113-140; but the earlier version is useful to get a sense for how DSGE economists argue when their diplomatic guard is down.)

Lindé, Jasper. “DSGE models: still useful in policy analysis?” *Oxford Review of Economic Policy* 34 (2018): 269-286. (A moderately pro-DSGE account that focusses particularly on the role that DSGE models play for policy-making in central banks. Argues that DSGE models will continue to play a role in the foreseeable future in these institutions.)

Smets, Frank, and R. Wouters. “Shocks and Frictions in US Business Cycles: A Bayesian DSGE Approach.” *American Economic Review* 97 (2007): 586–606. (A representative and prominent example of a DSGE model—though the maths is likely to quickly overwhelm you.)

12. Economics & Crisis

TOPIC

In this session, we will discuss what, if any, impact the financial crisis and recession of the late 2000s should have on our view of economics. Are economists partially responsible for the crisis? Or was the crisis a problem of economic “engineering” rather than economic science? What, if anything, should economists do differently in response to the crisis?

READINGS

Bernanke, Ben. “Implications of the Financial Crisis for Economics.” Speech on September 24, 2010. (Argues that the crisis was a failure of “economic engineering” and “economic management”, but not of “economic science”.)

Blanchard, Olivier. “On the Future of Macroeconomic Models.” *Oxford Review of Economic Policy* 34 (2018): 43–54. (An even-handed assessment of what models macroeconomists should use, calling for a diversity of approaches.)

Caballero, Ricardo. “Macroeconomics after the Crisis: Time to Deal with the Pretense-of-Knowledge Syndrome”. *Journal of Economic Perspectives* 24 (2010): 85–102. (Argues that economists working at the “core” of macroeconomics, concerned with complex DSGE models, have overstated the knowledge their models can provide us with.)

Colander, David, M. Goldberg, A. Haas, et al. “The Financial Crisis and the Systemic Failure of the Economics Profession.” *Critical Review* 21 (2009): 249–67. (Claims that economists failed to predict the crisis, and bear some responsibility because they mistakenly saw themselves merely as detached scientists.)

Hodgson, Geoffrey. “The great crash of 2008 and the reform of economics.” *Cambridge Journal of Economics* 33 (2009): 1205-1221. (Argues that economics as a discipline has become increasingly focussed on formalism and detached from real-world problems.)

Krugman, Paul. "How Did Economists Get It So Wrong?" *New York Times*, September 2, 2009. (Argues that a return to Keynes is necessary to improve economics.)
 Stiglitz, Joseph. "Rethinking Macroeconomics: What Failed, and How to Repair It." *Journal of the European Economic Association* 9 (2011): 591–645. (Blames overly simplistic DSGE models for economics' failure to predict the great recession.)

BACKGROUND

Lo, Andrew. "Reading about the Financial Crisis: A Twenty-One-Book Review." *Journal of Economic Literature* 50 (2012): 151–78. (A literature overview of different attempts to explain the financial crisis. Highlights the disagreements amongst economists.)
 Tooze, Adam. *Crashed: How a Decade of Financial Crisis Changed the World*. Viking, 2018. (Wonderful, comprehensive overview by a historian of how the global financial crisis and recession, as well as the European sovereign debt crisis developed.)

C. Causality in Practice

13. Causation

QUESTIONS

What does it mean for something to be a law of nature? Can economics ever aspire to go beyond merely showing correlation between variables? How would economics establish that A causes B? What would that mean?

READINGS

**Reiss, Julian. *Causation, Evidence, and Inference*. Routledge, 2015. Chapter 1, "Causation in a Complex World". (Outlines all major theories of causation and briefly discusses problems with each.)
 Hoover, Kevin. "Are There Macroeconomic Laws?" in *The Methodology of Empirical Macroeconomics*, 17-56. Cambridge University Press, 2001.
 Reiss, *Philosophy of Economics*, ch. 5; Hausman, *Inexact and Separate Science*, chs. 8, 12.

14. Instrumental Variables

TOPIC

We will look at a famous study which uses instrumental variables to establish something about the effects of colonialism (Acemoglu et al.). Do not focus too much on the details of the paper; instead, try to determine what the paper's *method* is. How do the authors establish their claims?

LITERATURE

**Acemoglu, Daron, S. Johnson, and J. Robinson. "The Colonial Origins of Comparative Development: An Empirical Investigation". *American Economic Review* 91 (2001): 1369–1401. (A famous article which stood out for its focus on the institutional grounds of economic growth, and its elegant, unusual method.)
 Angrist, Joshua, and J. Pischke. "The Credibility Revolution in Empirical Economics: How Better Research Design Is Taking the Con out of Econometrics." *Journal of Economic Perspectives* 24 (2010): 3–30. (Argues that economists in various fields have become increasingly better in discovering robust causal relationships by using better methods.)
 Angrist, Joshua, and A. Krueger. "Instrumental Variables and the Search for Identification: From Supply and Demand to Natural Experiments". *Journal of Economic Perspectives* 15 (2001): 69–85. (A general, slightly technical introduction into instrumental variables.)
 Pearl, Judea, and D. Mackenzie. *The Book of Why: The New Science of Cause and Effect*. Basic Books, 2018. (A book for a general audience by one of the leading statisticians, outlining the "Causal Revolution" and an interventionist account of thinking about causality.)
 Acemoglu, Daron, and J. Robinson. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. Crown Publishers, 2012. (Develops the themes from Acemoglu/Johnson/Robinson at greater length.)
 Reiss, *Philosophy of Economics*, ch. 9.

15. Mechanisms & Causal Capacities

QUESTIONS

What are causal “mechanisms”? Is economics in the business of discovering causal mechanisms? Should it be? Do we need causal mechanisms for good explanation? What does Cartwright mean by the “socioeconomic machine”? Is she correct that social science is in the business of uncovering causal capacities?

READINGS

**Cartwright, Nancy. “Ceteris Paribus Laws and the Socio-economic Machine”, in *The Dappled World*, 137-151. Cambridge University Press, 1999. (Argues that a regularity or “covering law” account fails to explain what economics does. Instead, economics uncovers socio-economic causal capacities.)

Hedström, Peter, and P. Ylikoski. “Causal Mechanisms in the Social Sciences.” *Annual Review of Sociology* 36 (2010): 49–67. (A useful overview and discussion of what “mechanisms” in the social sciences might be.)

Machamer, Peter, L. Darden, and C. Craver. “Thinking about Mechanisms.” *Philosophy of Science* 67 (2000): 1–25. (Highly influential account of the importance of mechanistic explanation.)

Schmidt-Petri, Christoph. “Cartwright and Mill on Tendencies and Capacities”, in S. Hartmann, C. Hofer and L. Bovens (eds.), *Nancy Cartwright’s Philosophy of Science*, 291-302. Routledge, 2008.

Reiss, *Philosophy of Economics*, ch. 6.

16. Experiments

QUESTIONS

What is internal and external validity? What are the advantages and disadvantages of using experiments in economics? What is the connection between experiments and models?—There will also be a small class experiment.

APPETIZERS

Angus Deaton and Nancy Cartwright, “[The limitations of randomised controlled trials](#)”

Bryan Caplan, “[Econ as Anatomy](#)”

Noah Smith, “[A paradigm shift in empirical economics?](#)”

LITERATURE

**Smith, Vernon. “Economics in the Laboratory.” *Journal of Economic Perspectives* 8 (1994): 113–31. (An overview of why economists use experiments, and what some economic experiments have shown. Despite being slightly dated, still very useful.)

Guala, Francesco. “Methodological Issues in Experimental Design and Interpretation”, in H. Kincaid and D. Ross (eds.), *The Oxford Handbook of Philosophy of Economics*. (A brief overview of common philosophical and methodological issues in experimental design.)

Guala, Francesco. *The Methodology of Experimental Economics*. Cambridge University Press, 2005. (Authoritative treatment of various methodological issues in experimental economics.)

17. The FCC Auctions

QUESTION

(How) do economists create markets? Are there any moral problems if they do? Given that the subject of economics are human beings which can become aware of economics, how does this change the nature of economics as a science?

READINGS

**Guala, Francesco. “Building Economic Machines: The FCC Auctions.” *Studies in History and Philosophy of Science Part A* 32 (2001): 453–77. (Outlines how the FCC auctions were designed by economists, and what philosophical implications this might have.)

Alexandrova, Anna. “Connecting Economic Models to the Real World: Game Theory and the FCC Spectrum Auctions.” *Philosophy of the Social Sciences* 36 (2006): 173–92. (Argues that the way the FCC auctions were constructed does not accord with standard accounts in the philosophy of economics which sees it as uncovering “tendencies”.)

Guala, Francesco. (2007) “How to do things with experimental economics”, in D. MacKenzie, F. Muniesa, and L. Siu (eds.), *Do economists make markets? On the Performativity of Economics*, 128-162. Princeton University Press, 2007. (Argues that modern experimental economists

are often as much “builders” as they are “testers”. This fundamentally changes the nature of this type of economics. Also have a look at the other essays in this collection.)

D. Rational and Animal Spirits

18. Rationality

QUESTIONS

In which way do economists assume that individuals are “rational”? How is this assumption reflected in standard economic theorizing? What justifies the assumption that individuals are rational?

LITERATURE

**Harsanyi, John. *Rational Behavior and Bargaining Equilibrium in Games and Social Situations*. Cambridge University Press, 1977. Sections 1.3, 2.1, 2.3. (A classic text in game theory. We will read some of the non-technical parts to get a sense for how Harsanyi thinks about rationality.)

Hausman, Daniel, M. McPherson, and D. Satz. *Economic Analysis, Moral Philosophy, and Public Policy*. 3rd ed. Cambridge University Press, 2016. Chapters 4-5. (A good, non-technical introduction to rationality in economics with an eye to philosophical problems.)

McCloskey, Deirdre. “Venial Sins, Easily Forgiven”, in *The Secret Sins of Economics*, 22-27. Prickly Paradigm Press, 2002. (Economists focus on prudence, but that doesn’t mean they must be blind to other causes of human behaviour. Only grad students make that mistake.)

May, Joshua. “Psychological Egoism”. *Internet Encyclopedia of Philosophy*. <http://www.iep.utm.edu/psycheqo/>. (A common misunderstanding is that economists are committed to psychological egoism. For some overview of this theory, see this article.)

19. Rational Choice Theory

QUESTIONS

What are the central axioms in rational choice theory? What are ordinal and cardinal utility? What is the relationship between utility and preferences? Are some of the crucial assumptions—regarding completeness and transitivity—plausible?

APPETIZERS

Ellen Coughlin, “[How Rational is Rational Choice?](#)”

LITERATURE

**Reiss, *Philosophy of Economics*, ch. 3: “Rational Choice Theory”. (Quick overview of some common assumptions which go into rational choice theory.)

Broome, John. “Utility.” *Economics and Philosophy* 7 (1991): 1–12. (Tracks some shifts in the meaning of the word “utility”, arguing that there is much confusion over it.)

Hausman, Daniel. *Preference, Value, Choice, and Welfare*. Cambridge University Press, 2011. (Good, book-length discussion of many of the central concepts in the economical theory of choice.)

20. Means and Ends

QUESTIONS

Can rationality help us choose ends, or is it merely a tool to choose good instruments for our ends? What is the wider role of instrumental reasoning in philosophy?

LITERATURE

**Hampton, Jean. “Rethinking Reason”. *American Philosophical Quarterly* 29 (1992): 219–36. (Argues that rationality can be used to consider ends as much as means.)

Fehige, Christoph. “Instrumentalism”, in E. Millgram (ed.), *Varieties of Practical Reasoning*, 49–76. MIT Press, 2001. (A defence of instrumentalism. This collection also contains other articles pertaining to that debate.)

Korsgaard, Christine. ‘Skepticism about Practical Reason’. *Journal of Philosophy* 83, no. 1 (1986): 5–25. (Discusses the relationship between “content skepticism” and “motivational skepticism” regarding practical reason.)

21. Behavioural Economics

QUESTIONS

What is behavioural economics? What are its central insights? How does it challenge the standard assumption that individuals are rational?

LITERATURE

**Angner, Erik and G. Loewenstein. "Behavioral Economics", in Mäki, Uskali (ed.), *Philosophy of Economics*. Handbook of the Philosophy of Science, vol. 13, 641-689. Elsevier, 2012. [Sections 1-2, 4-5] (A comprehensive overview of the history, results, and methods of behavioral economics.)

Henrich, Joseph, R. Boyd, S. Bowles, et al. "In Search of Homo Economicus: Behavioral Experiments in 15 Small-Scale Societies." *American Economic Review* (2001): 73–78. (Influential large-scale study which showed that individuals do not behave like utility-maximisers in the so-called Ultimatum Game.)

Cartwright, Edward. *Behavioral Economics*. Third Edition. Routledge, 2018. (An up-to-date, book-length overview of the field.)

22. Nudging

QUESTIONS

Is it justifiable to “nudge” individuals, given that they are imperfectly rational? How can we nudge them? Is nudging compatible with liberal principles of justice?

LITERATURE

**Sunstein, Cass, and R. Thaler. "Libertarian Paternalism". *American Economic Review* 93 (2003): 175–79. (A brief summary of Sunstein/Thaler’s argument for “nudging”.)

Thaler, Richard, and C. Sunstein. *Nudge: Improving Decisions About Health, Wealth, and Happiness*. Revised & Expanded edition. Penguin Books, 2009. (The same in book form.)

Beaulier, Scott, and B. Caplan. "Behavioral Economics and Perverse Effects of the Welfare State." *Kyklos* 60 (2007): 485–507. (Argues that, if we accept certain claims from behavioural economics, the welfare state should be smaller. If you want some controversial uses of behavioural economics, look here.)

Reiss, *Philosophy of Economics*, ch. 15.

E. Values in Economics

23. Facts and Values

QUESTIONS

Is economics value-neutral? Could it be? If scientific research is based on implicit values, is its objectivity threatened? What are implicit value assumptions economists commonly make?

APPETIZERS

Ingrid Robeyns, "[Economics as a Moral Science](#)"

Simon Wren-Lewis, "[Being Honest about Ideological Influence in Economics](#)"

Timothy Taylor, "[Narrative Economics and the Laffer Curve](#)"

READINGS

**Hausman, Daniel and M. McPherson. "The Philosophical Foundations of Mainstream Normative Economics", in D. Hausman (ed.), *The Philosophy of Economics: An Anthology*, 226-250. Routledge, 2008. (A vivid introduction into the implicit normative assumptions that economists tend to make.)

Reiss, Julian. "Fact-Value Entanglement in Positive Economics". *Journal of Economic Methodology* 24 (2017): 134–49. (Argues that there is no easy way to “disentangle” facts and values in economics.)

Mongin, Philippe. "Value Judgments and Value Neutrality in Economics". *Economica* 73 (2006): 257–86. (Explores the ways in which economics can be said to be value-neutral.)

Reiss, *Philosophy of Economics*, ch. 12.

24. Welfare in Economics

QUESTIONS

What is well-being? How do economists commonly think about well-being?
 What is the relationship between well-being, preferences, and utility?

READINGS

Kaldor, Nicholas. "Welfare Propositions of Economics and Interpersonal Comparisons of Utility". *Economic Journal* 49 (1939): 549–52. (A famous proposal to get around the limitations of mere Pareto comparisons.)
 Hausman, Daniel and Michael McPherson. "Preference Satisfaction and Welfare Economics." *Economics and Philosophy* 25 (2009): 1-25. (Argues that preference satisfaction is not welfare; welfare economics can still be defended, however, as having an evidential role.)

25. Problems with Preferences

QUESTIONS

Can economists account for adaptive preferences? What should we say about cases where what people want and what is good for them clearly diverges?

READINGS

**Nussbaum, Martha. "Adaptive Preferences and Women's Options". *Economics and Philosophy* 17 (2001): 67–88. (Outlines the problem of adaptive preferences, and argues for a middle course between "welfare subjectivism" and "platonism" about people's well-being.)
 Khader, Serene. *Adaptive Preferences and Women's Empowerment*. Oxford University Press, 2011. (A thorough treatment of the problem of adaptive preferences from a feminist perspective.)

26. GDP and Alternatives

QUESTIONS

Is GDP a good indicator for how well a society develops? Should we aim to maximize GDP growth?

APPETIZERS

Nicholas Oulton, "[Hooray for GDP! GDP as a measure of wellbeing](#)"
 François Lequiller, "[Is GDP a satisfactory measure of growth?](#)"
 Diane Coyle, "[Rethinking GDP](#)", "[Measuring Economic Progress](#)"
 Joseph Stiglitz, "[The Great GDP Swindle](#)"
 Tyler Cowen, "[Review of Cohen and Karabell](#)"
 Robert F. Kennedy, "[Remarks at the University of Kansas](#)", March 18, 1968

READINGS

**Coyle, Diane. *GDP: A Brief but Affectionate History*. Princeton: Princeton University Press, 2014. [Excerpts] (Easily accessible history of GDP and its various detractors.)
 Fleurbaey, Marc, and D. Blanchet. *Beyond GDP: Measuring Welfare and Assessing Sustainability*. Oxford University Press, 2013. (Comprehensive and critical assessment of the many alternatives to GDP. Chapter 1 provides a good overview.)
 Lepenies, Philipp. *The Power of a Single Number: A Political History of GDP*. Columbia University Press, 2016. (Traces the success of GDP over time, and how it became to occupy the central importance it has now.)
 Feldstein, Martin. "Underestimating the Real Growth of GDP, Personal Income, and Productivity." *Journal of Economic Perspectives* 31 (2017): 145–64. (Argues that in an age of rapid technological progress, GDP measures underestimate "real" growth.)

27. Happiness Research

QUESTIONS

What does research on happiness tell us about the impact of economic growth?
 What is the relationship between happiness and utility? What is the Easterlin paradox? What is the role of expectations in happiness? What are the limits of happiness research?

APPETIZERS

Carol Graham, "[Happiness economics: Can we have an economy of wellbeing?](#)"

READINGS

- **Di Tella, Rafael, and R. MacCulloch. "Some Uses of Happiness Data in Economics." *Journal of Economic Perspectives* 20 (2006): 25–46. (An overview of various results from happiness research, and its implications for public policy.)
- Easterlin, Richard. "Will Raising the Incomes of All Increase the Happiness of All?" *Journal of Economic Behavior & Organization* 27 (1995): 35–47. (Outlines an updated version of Easterlin's famous paradox: raising GDP does not seem to raise average happiness much.)
- Inglehart, Ronald, R. Foa, C. Peterson, and C. Welzel. "Development, Freedom, and Rising Happiness: A Global Perspective (1981–2007)." *Perspectives on Psychological Science* 3 (2008): 264–285. (Argues that, contra Easterlin, global happiness has been rising.)
- Layard, Richard. "Happiness and Public Policy: A Challenge to the Profession." *Economic Journal* 116 (2006): C24–33. (Argues that happiness research should lead to some fundamental revisions in public policy.)

28. Wrapping Up

We will use this session to survey the overarching themes from the seminar.

APPENDIX A: GENERAL LITERATURE

Introductions

- Reiss, Julian. *Philosophy of Economics: a Contemporary Introduction*. Routledge, 2013. (By far the best introduction. Covers lots of ground in an even-handed manner.)
- Boumans, Marcel and J. Davis. *Economic Methodology: Understanding Economics as a Science*. Palgrave Macmillan, 2010. (Fills the gaps left by Reiss—i.e., the historical background we're dealing with in part 1.)
- Hausman, Daniel. "The Philosophy of Economics." Stanford Encyclopedia of Philosophy, <https://plato.stanford.edu/entries/economics/>. (The Stanford Encyclopedia of Philosophy should be your first stop when you are researching any philosophical topic and don't know where to start.)
- Hausman, Daniel, M. McPherson, and D. Satz. *Economic Analysis, Moral Philosophy, and Public Policy*. Third edition. Cambridge University Press, 2016. (As the title says, focusses on the impact of economic reasoning on debates in public policy. The best book of its kind.)
- Rosenberg, Alexander. *Philosophy of Science: A Contemporary Introduction*. Routledge, 2000. (Good, general-purpose introduction to the philosophy of science.)

Handbooks

- Kincaid, Harold, and D. Ross (eds.). *The Oxford Handbook of Philosophy of Economics*. Oxford University Press, 2009.
- Mäki, Uskali (ed.). *Philosophy of Economics*. Handbook of the Philosophy of Science, vol. 13. Elsevier, 2012.

Anthologies

- Hausman, Daniel. *The Philosophy of Economics: An Anthology*. Cambridge University Press, 1994. (A useful anthology, though a bit dated now for contemporary debates.)
- Papineau, David. *The Philosophy of Science*. Oxford University Press, 1996. (Collects many of the most famous papers in the philosophy of science.)
- Boyd, Richard, P. Gasper, and J.Trout (eds.). *The Philosophy of Science*. Bradford Book, 1991. (Useful for a collection of historical writings in the philosophy of science.)

Recommended Monographs

- Anderson, Elizabeth. *Value in Ethics and Economics*. Harvard University Press, 1993.
- Blaug, Mark. *The Methodology of Economics, or, How Economists Explain*. Cambridge University Press, 1980. (Looks at economics through a staunch Popperian lens. Useful for its case studies in part III.)
- Broome, John. *Ethics out of Economics*. Cambridge University Press, 1999. (Selection of influential articles by one of the leading philosopher-economists.)
- Cartwright, Nancy. *How the Laws of Physics Lie*. Oxford University Press, 1983. (Not directly related to economics, but helpful to understand Cartwright's views.)
- Guala, Francesco. *The Methodology of Experimental Economics*. Cambridge University Press, 2005. (Masterful and thorough treatment of methodological issues in the field.)
- Hausman, Daniel. *The Inexact and Separate Science of Economics*. Cambridge University Press, 1992. (A wide-ranging, influential work which covers both historical and contemporary approaches. Still has some of the best treatment of many issues.)
- Rosenberg, Alexander. *Economics: Mathematical Politics or Science of Diminishing Returns?* University of Chicago Press, 1992. (Rosenberg is sceptical about economics' predictive success, and suggests an alternative, biological understanding of it.)

Useful Background Reading

There is a genre of books written for a general audience trying to “take down” economics (e.g., Steve Keen, *Debunking Economics*; Adair Turner, *Economics after the Crisis*). By contrast, many popular books like “Freakonomics” present economic in a very flattering light, focussing especially on “cool” and counter-intuitive results. Both type of books should be read very carefully, as neither tend to give an even-handed depiction of the discipline. The following books offer more reliable discussions of economics.

- Coyle, Diane. *The Soulful Science: What Economists Really Do and Why it Matters*. Princeton University Press, 2007. (Provides an overview of contemporary work in economics, and argues that mainstream economics is more diverse and less methodologically one-sided than it is often accused of.)
- Quiggin, John. *Zombie Economics: How Dead Ideas Still Walk among Us*. Princeton University Press, 2012. (Despite the somewhat annoying title, a spirited and very readable critique of various recent developments in economics.)
- Pearl, Judea, and Dana Mackenzie. *The Book of Why: The New Science of Cause and Effect*. Basic Books, 2018. (Goes beyond the oft-repeated dictum that “correlation is not causation”, and outlines how contemporary social scientists can think about causal relationships.)
- Rodrik, Dani. *Economics Rules: The Rights and Wrongs of the Dismal Science*. W. W. Norton, 2015. (A popular, recent defence of economics. Rodrik also delves into some philosophical issues—giving a limited defence the use of simplified models, for example.)
- Roncaglia, Alessandro. *A Brief History of Economic Thought*. Cambridge University Press, 2017. (A helpful overview.)
- Snowdon, Brian, and H. Vane. *Modern Macroeconomics. Its Origins, Development and Current State*. Elgar Publishing, 2005. (Very comprehensive and even-handed coverage of macroeconomic developments starting from Keynes.)
- Tirole, Jean. *Economics for the Common Good*. Princeton University Press, 2017. (A thorough and impassioned defence of economics as a field of study.)

APPENDIX B: LITERATURE ESSAY

Your literature essay should be focussed on closely analysing a debate in the secondary literature. Choose one of the questions from below. Your essay should not be a *mere* summary, or *mere* comparison, of the relevant papers. You should try to *critically evaluate* the debate between the listed authors, and *answer the question posed*. You are encouraged to use further secondary literature, though doing so isn't necessary.

1. *Given that economists by and large do not follow the falsificationist method, should we reject falsificationism, or demand that economists change how they do research?*

READINGS: Hausman & Blaug (session 3/4); Popper & Rosenberg for background.

2. *Is Alan Musgrave correct that Milton Friedman's argument for instrumentalism rests on an ambiguous interpretation of what it means for a model's assumption to be "unrealistic"?*

READINGS: Friedman & Musgrave (session 5), as well as Uskali Mäki, "Kinds of Assumptions and Their Truth: Shaking an Untwisted F-Twist," *Kyklos* 53, (2003): 317–35.

3. *Take any of the responses to Julian Reiss's explanation paradox. What is the response, and does it succeed?*

READINGS: Both Reiss papers (session 6), and any *one* of the papers Reiss responds to in Reiss 2013 (session 6).

4. *How do Nancy Cartwright's "isolation" approach and Sugden's "credible worlds" account differ? Which is more convincing?*

READINGS: Cartwright & Sugden (session 7), as well as Sugden, Robert, "Credible Worlds, Capacities and Mechanisms," *Erkenntnis* 70 (2009): 3-27.

5. *Is Lakatos' approach still fruitful in understanding and guiding economics?*

READINGS: Hands & Backhouse (session 8); Lakatos & Rosenberg as background.

6. *Has the development of macroeconomics since World War II followed a roughly Kuhnian model?*

READINGS: Bronfenbrenner (session 10) and Ron Stanfield, "Kuhnian Scientific Revolutions and the Keynesian Revolution," *Journal of Economic Issues* 8 (1974): 97–109. Kuhn (session 10) and Quiggin (sessions 9 & 11) as background.