

**CHAPMAN UNIVERSITY**  
**Vernon L. Smith & Bart J. Wilson**  
**Economic Science Institute**  
**Orange, CA 92866**  
**(714) 628-7306**

**COURSE SYLLABUS**

**Honors 357/Economics 420**

**Fall 2009**

**Foundations of Economic Exchange**

Restrictions:

None

Catalog Description:

*Prerequisites:* None: Classical and neoclassical theory of economic exchange. Philosophical critiques and commendations of market exchange. Human nature as self-regarding in market exchange and other-regarding in social exchange. Property right systems in economic exchange. (Offered fall semester.) 3 credits.

Course Objectives:

From the perspectives of two forms of rational orders, constructivist and ecological, this course will study the foundations of economic exchange. We will examine the extent to which reason and the deliberate action of a constructivist order and the undesigned principles of norms and traditions in an ecological order can inform our understanding of impersonal exchange in markets and personal social exchange with friends, neighbors, and family.

Required Texts:

F.A. Hayek. The Fatal Conceit. Chicago: University of Chicago Press, 1991.

J. Surowiecki. The Wisdom of Crowds. New York: DOUBLEDAY, 2004.

M. Ridley. The Origins of Virtue. New York: Penguin, 1998.

You should purchase a 2-inch three ring binder for the other readings available on electronic reserves. Students are expected to bring copies of the readings with them to class.

Essential Facility:

Access to computer lab

Major Study Units:

- Exchange as the foundation for specialization and markets
- Constructivist and ecological lenses for understanding wealth creation
- Knowledge foundations of market exchange
- Self-interest foundations of market exchange
- Other-interest foundations of social exchange
- Biological and cultural foundations of social exchange

Property rights as foundational, social orders  
 Constructivist and ecological rationality in economic systems

### Instructional Methods:

This course uses a combination of hands-on learning in laboratory experiments and Socratic roundtable discussions of readings. In addition to the recent research, the readings range from works by 18th century Scottish philosophers Adam Smith and David Hume to 19<sup>th</sup> century marginalist Jevons and 20th century Nobel economist F.A. Hayek. The students will write an original proposal for an experiment to address an unanswered question raised in class and will present the proposal to class.

### Evaluation:

1. Participation in class discussions (15%)
2. Laboratory experiments (15%)
3. Blog posts and comments (30%)  
 Minimum one post/comment per week; at least half must be posts.
4. Final paper and presentation (40%)

### Additional Requirements for Graduate Courses:

N/A

### Students with Disabilities

In compliance with ADA guidelines, students who have any condition, either permanent or temporary, that might affect their ability to perform in this class are encouraged to inform the instructor at the beginning of the term. Upon recommendation of the Center for Academic Success, adaptations of teaching methods, class materials, including text and reading materials or testing may be made as needed to provide for equitable participation.

### Chapman University Academic Integrity Policy

Chapman University is a community of scholars, which emphasizes the mutual responsibility of all members to seek knowledge honestly and in good faith. Students are responsible for doing their own work, and academic dishonesty of any kind will not be tolerated anywhere in the university.

### Bibliography:

- Bernstein, William. A Splendid Exchange: How Trade Shaped the World. New York: Atlantic Monthly Press, 2008.
- Cunliffe, Barry. Europe Between the Oceans: 9000 BC—AD 1000. New Haven, CT: Yale University Press, 2008.
- Ellickson, Robert. Order Without Law. Cambridge, MA: Harvard U Press, 1991.
- Ellickson, Robert, "A Hypothesis of Wealth-Maximizing Norms: Evidence from the Whaling Industry," *Journal of Law, Economics, & Organization*, 5(1), 83-97, 1989.
- Goodall, Jane. "Order without Law" in Law, Biology, & Culture: The Evolution of Law. M. Gruter and P. Bohannon, editors. Santa Barbara: Ross-Erickson, 1983.
- F.A. Hayek, "Competition as a Discovery Procedure" in The Essence of Hayek, Chapter 13.

- Stanford, CA: Hoover Institution Press, 1984.
- Hayek, F.A. "The Use of Knowledge in Society," *American Economic Review*, 35(4), 519-530, 1945.
- Hoffman, Elizabeth, McCabe, Kevin, and Smith, Vernon. "Behavioral Foundations of Reciprocity: Experimental Economics and Evolutionary Psychology," *Economic Inquiry*, 36(3), 335-52, 1998.
- Hoffman, Elizabeth, McCabe, Kevin, Shachat, Keith, and Smith, Vernon. "Preferences, Property Rights and Anonymity in Bargaining Games," *Games and Economic Behavior*, 7, 346-380, 1994.
- Hume, David. Essays, Moral, Political and Literary. Available online at <http://www.econlib.org/library/LFBooks/Hume/hmMPL.html>
- Hume, David. A Treatise of Human Nature. 1739. F. Norton and D. Norton, editors. New York: Oxford University Press, 2000.
- Jevons, W. Stanley. The Theory of Political Economy. 1871. New York: A. M. Kelley, 1965.
- Kimbrough, Erik, Smith, Vernon, and Wilson, Bart. "Building a Market: From Personal to Impersonal Exchange," in Moral Markets: The Critical Role of Values in the Economy, P. Zak, editor. Princeton, NJ: Princeton U Press, 2008.
- Mandeville, Bernard. The Fable of the Bees and Other Writings. E. Hundert, editor. Indianapolis: Hackett Publishing Co., 1997.
- Marx, Karl. Capital: A Critique of Political Economy. 1867. Available online at <http://www.econlib.org/library/YPDBooks/Marx/mrxCpA.html>
- McCabe, Kevin, Rigdon, Mary, and Smith, Vernon. "Positive Reciprocity and Intentions in Trust Games," *Journal of Economic Behavior and Organization*, 52, 267-275, 2003.
- Nietzsche, Friedrich. The Gay Science. W. Kauffmann, translator. New York: Vintage, 1974.
- Nietzsche, Friedrich. Basic Writings of Nietzsche. W. Kauffmann, translator. New York: Modern Library, 2000.
- Ridley, Matt. Nature via Nurture. New York: Harper, Collins, 2003.
- Ridley, Matt. The Origins of Virtue. New York: Penguin Books, 1998.
- Rigdon, Mary, McCabe, Kevin, and Smith, Vernon. "Sustaining Cooperation in Trust Games," *Economic Journal*, 117, 991,-1007, 2007.
- Smith, Adam. Wealth of Nations. 1776. Available online at: <http://www.econlib.org/library/Smith/smWN.html>
- Smith, Adam. The Theory of Moral Sentiments. 1790. Available online at: <http://www.econlib.org/library/Smith/smMS.html>
- Smith, Vernon. "Human Nature: An Economic Perspective," *Daedalus*, 133(4), 67-76, 2004.
- Smith, Vernon. "Markets as Economizers of Information: Experimental Examination of the 'Hayek Hypothesis,'" *Economic Inquiry*, 20(2), 165-79, 1982.
- Smith, Vernon. "Markets, Institutions, and Experiments," in the Encyclopedia of Cognitive Science. L. Nadel, editor. New York: Macmillan Publishers (Nature Publishing Group), 2003.
- Smith, Vernon. "The Two Faces of Adam Smith," *Southern Economic Journal*, 65(1), 1-19, 1998.
- de Waal, Frans B. M. "How Animals Do Business," *Scientific American*, 292(4), 54-61, 2005.

Prepared by: Bart J. Wilson, Fall Term, 2008

Last revised by: Bart J. Wilson, Fall Term, 2009

## Tentative Course Schedule and Outline

Monday, 8/31

Organization  
Experiment

Wednesday, 9/2

Readings:

- William J. Bernstein, A Splendid Exchange: How Trade Shaped the World, Chapter 1: Sumer & Chapter 3: Camels, Perfumes, and Profits.
- Barry Cunliffe, Europe Between the Oceans: 9000 BC—AD 1000, Chapter 7: Taking to the Sea—Crossing the Peninsula: 2800—1300 BC.

Monday, 9/7

Holiday

Wednesday, 9/9

- Adam Smith, Wealth of Nations: Book I, Chapters I-III.
- David Hume, Essays, Moral, Political and Literary, *Of the Jealousy of Trade*.
- Matt Ridley, The Origins of Virtue
  - Chapter 2: The Division of Labour (In which self-sufficiency proves to be much overrated)
  - Chapter 10: The Gains from Trade (In which exchange makes two plus two equal five)

Monday, 9/14

Experiment

Wednesday, 9/16

Readings:

- Karl Marx, Capital: A Critique of Political Economy, Vol. I, Part I, Chapter I, Section IV, *The Fetishism of Commodities and the Secret Thereof*
- Karl Marx, Capital: A Critique of Political Economy, Vol. III, Part III, Chapter XV, Paragraphs 45-49.
- Vernon Smith, “Markets as Economizers of Information: Experimental Examination of the ‘Hayek Hypothesis,’” *Economic Inquiry*, April 1982: Sections I-III.
- F.A. Hayek, “The Use of Knowledge in Society,” *American Economic Review*, September, 1945.

Monday, 9/21

Readings:

- W. Stanley Jevons, The Theory of Political Economy, Chapter 4 (Definition of a Market; Definition of Trading Body).
- F.A. Hayek, “Competition as a Discovery Procedure,” The Essence of Hayek, Chapter 13.
- F.A. Hayek. “The Meaning of Competition,” Individualism and Economic Order, Chapter V.

Wednesday, 9/23

Readings:

- James Surowiecki, The Wisdom of Crowds, Intro & Chapters 1-4.

Experiment

Monday, 9/28

Readings:

- David Hume, A Treatise of Human Nature: Book III, *Of Morals*, Part I, *Of Virtue and Vice in*

*General.*

- Matt Ridley, The Origins of Virtue
  - Chapter 3: The Prisoner's Dilemma (In which computers learn to cooperate)
  - Chapter 4: Telling Hawks from Doves (In which developing a good reputation pays)

Wednesday, 9/30  
Experiment

Monday, 10/5

## Readings:

- David Hume, A Treatise of Human Nature: Book III, *Of Morals*, Part II, *Of Justice and Injustice*, Sections I-VI.

Wednesday, 10/7

## Readings:

- Robert Ellickson, "A Hypothesis of Wealth-Maximizing Norms: Evidence from the Whaling Industry," *Journal of Law, Economics, & Organization*, 1989.
- Matt Ridley, The Origins of Virtue
  - Chapter 11: Ecology as Religion (In which living in harmony with nature proves harder than expected)
  - Chapter 12: The Power of Property (In which governments are found wanting)

Monday, 10/12

## Readings:

- Adam Smith, The Theory of Moral Sentiments:
  - Part I, Section I, Chapter I, *Of Sympathy*.
  - Part III, Chapter I, *Of the Principles of Self-approbation and of Self-disapprobation*
  - Part VI, Section II, Introduction and Chapter I, *Of the Order in which Individuals are Recommended by Nature to Our Care and Attention*
- Matt Ridley, The Origins of Virtue
  - Chapter 7: Theories of Moral Sentiments (In which emotions prevent us being rational fools)

Wednesday, 10/14  
Experiment

Monday, 10/19

- Kevin McCabe et al. "Sustaining Cooperation in Trust Games," *Economic Journal*, 2007.
- Kevin McCabe et al. "Positive Reciprocity and Intentions in Trust Games," *Journal of Economic Behavior and Organization*, October, 2003.
- Matt Ridley, The Origins of Virtue
  - Chapter 13: Trust (In which the author suddenly and rashly draws political lessons)

Wednesday, 10/21

## Readings:

- Friedrich Nietzsche, *On the Genealogy of Morals*, Second Essay: "Guilt", "Bad Conscience" and the Like, Sections 1-9.
- Friedrich Nietzsche, *The Gay Science*, Section 21: To the teachers of selfishness.
- Adam Smith, The Theory of Moral Sentiments:
  - Part VII, Section II, Chapter 4, *Of Licentious Systems*
  - Part VII, Section III, Introduction and Chapter I, *Of those Systems which deduce the Principle of Approbation from Self-Love*.

- Bernard Mandeville, *The Fable of the Bees* (we'll read this out loud in class)

Monday, 10/26

Readings:

- Frans B. M. de Waal, "How Animals Do Business," *Scientific American*, April 2005.
- Jane Goodall, "Order without Law" in Law, Biology, & Culture: The Evolution of Law, eds. M. Gruter and P. Bohannan.
- Ridley, Matt. Nature via Nurture, Chapter 8: Conundrums of Culture.

Wednesday, 10/28

Due dates for Papers and Presentations are Set  
Experiment

Monday, 11/2

Readings:

- Elizabeth Hoffman et al., "Preferences, Property Rights and Anonymity in Bargaining Games," *Games and Economic Behavior*, 1994. *Note:* Read the appendix of the experiment instructions first and then read to understand the results in terms of the different treatments (sets of instructions).
- Todd L. Cherry et al., "Hardnose the Dictator," *American Economic Review*, 2002.
- Robert Ellickson, Order Without Law, Chapter 3: The Resolution of Cattle-Trespass Disputes.

Wednesday, 11/4

Readings:

- F.A. Hayek, The Fatal Conceit, Chapters 1-3.

Monday, 11/9

Readings:

- F.A. Hayek, The Fatal Conceit, Chapters 4-6.

Wednesday, 11/11

Experiment

Monday, 11/16

Readings:

- Erik Kimbrough, Vernon Smith, and Bart Wilson, "Building a Market: From Personal to Impersonal Exchange," in Moral Markets: The Critical Role of Values in the Economy, ed. P. Zak.
- Vernon Smith, "The Two Faces of Adam Smith," *Southern Economic Journal*, 1998.

Wednesday, 11/18

Experiment

Monday, 11/23

Readings:

- James Surowiecki, The Wisdom of Crowds, Chapters 5, 6 (sections I-IV), 10 (section V), & 11.

Wednesday, 11/25  
Holiday

*Student presentations and Paper Due Dates* (Plan Now; Dates are Set on 10/28)

Wednesday, 11/30

Monday, 12/2

Monday, 12/7

Wednesday, 12/9