

**Fall 2011, ISECON 360-02: HISTORY OF ECONOMIC THOUGHT**  
**Tu/Th 12:00-1:45 in Science Center 364**

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Office Hours: **Monday 1:45-2:45, Tu 7:30-8:30 pm, Thursday 1:45-2:45**

**DESCRIPTION:**

Until the 18<sup>th</sup> century, societies condemned greed as one of the seven deadly sins. Then Adam Smith suggested unleashing the profit-motive as the best way to raise the standard of living. For Smith, the character of business people as well as the nature of competition between firms would not permit greed to destroy society. In the 20<sup>th</sup> century, John Maynard Keynes argued that understanding economic forces is essential, but people must design institutions to prevent greed from pulling society apart. Students will read Smith and Keynes and write a series of essays, culminating in a final long essay. By dialoguing with Smith and Keynes, students learn how the free market organizes society, and consider whether human-made institutions are necessary to bring the results of markets (such as free trade and financial speculation) in line with social goals.

**OUTCOMES:**

ISECON 360 will enable students to articulate an understanding of representative theories in the social sciences. This course will help students further develop reading, writing, and critical thinking skills. Students will be able to identify the ethical issues within the discipline of economics, and identify the market as an essential element of modern social structure for the individual and the group.

**INTEGRATIVE STUDIES PROGRAM OUTCOMES:**

- **Critical Reading:** Demonstrate the ability to identify and summarize key points (CR SLO 3).
- **Critical Thinking:** Incorporate multiple perspectives in examining an issue (CT SLO 2).
- **Writing:** Develop complex perspectives, positions, and/or arguments (WR SLO 1).

**REQUIRED TEXTS:**

Adam Smith. **The Theory of Moral Sentiments**, edited by Ryan Patrick Hanley and Amartya Sen. Penguin Books, 2010 [1759].

Adam Smith. **An Inquiry into the Nature and Causes of the Wealth of Nations**, edited by Edwin Cannan. New York: Random House, 1937 [1776].

John Maynard Keynes. **Essays in Persuasion**. Palgrave MacMillan, 2010.

Robert Skidelsky. **John Maynard Keynes, Philosopher Economist Statesman, 1883-1946**. Macmillan, 2003.

## RECOMMENDED TEXTS:

The **Worldly Philosophers** is widely considered the best book ever written about economics, it gives a good introduction to Smith. The **Lords of Finance** is a best-seller about the central bankers of the 1920s, and is a good backdrop to reading Keynes.

Robert Heilbroner. **The Worldly Philosophers: The Lives, Times and Ideas of the Great Economic Thinkers**. New York: Touchstone, 1953.

Liaquat Ahamed. **Lords of Finance: The Bankers Who Broke the World**. New York: Penguin Press. New York: Penguin Press, 2009.

All books listed are available used; I recommend that you purchase the Skidelsky biography of Keynes in the bookstore because there are two different versions.

## Overview:

- This course is designed specifically for people who have already obtained some of the tools necessary to master college through ITW, IQL and introductory social science courses. Under no circumstances should you be registered if you are a freshman. It is NOT designed for freshmen.
- The course will make connections between the historical record and classic economic writings on the one hand, and your first-hand experience and understanding, on the other hand. The course emphasizes personal engagement with some of the most important concerns in economics.
- This is a challenging economic theory course, and yet the theory will come in an unusual form: narrative. Modern economists tend to use mathematics and diagrams much more than their forebears. Economics majors will find that the diagrams they have mastered in earlier courses are largely absent. While diagrams can summarize logic concisely, the narrative format gives more space to explore the *processes* behind the diagrams. Thus if you have been introduced to these concepts in earlier courses, you will consider them from a different perspective here, and come away with deeper knowledge.
- Precisely because other courses in the economics sequence will not prepare students to read theory in the narrative form, this is an interdisciplinary course open to non-majors, and yet required for majors. Majors bring to the class a familiarity with the concepts of scarcity, competition, and possibly international flows of money and goods. Yet non-majors tend to bring greater familiarity with using narrative texts and written essays as the basis for thinking through ideas.
- This course teaches and stresses critical thinking about the ethical aspects of economic activity. Textbooks no longer mention the ethical ramifications of economic decisions, and we will consider whether that silence is a failure, or reflects a transformation in the nature of economic activity itself.
- Please keep in mind the three-week rule as outlined in the Student Handbook. If you miss more than three weeks of class (six individual classes), excused absences or not, I will drop you from the class.

The outline below of this course in Table 1 below shows how we will integrate these concerns during our work together. Table 2 is your guide to specific assignments due before each class.

## READING

If you know right now that you don't plan to do much of the reading, please drop the class. We will often begin a class with a short in-class writing assignment based on the reading assigned. An unprepared presence is the same as an absence.

How to read: As you read, make comments in your text (if you do this in pencil, you can sell back later). Underline the lines that resonate with you, list the questions you have about concepts, look up the words that you don't understand and put the definitions in the margins. Write down in the margins the examples from your life that a passage calls to mind.

When to read: read the text before the date it is due in Table 2. Read the passages a second time before you turn in your reflective essay on that topic. Finally, when you go back to write the final longer essay for the course, return to the readings and read them a third time. *Why? This reading is abstract and profound. On a first reading, you learn the author's rhythm and general structure. When you go back the second time, this will already be familiar to you, and you will see better how his writing fits together. When you re-read the third time, you will have the benefit of a larger understanding of political economy, and so you will see how the author fits into the larger scheme of things.*

For the final paper, I discourage outside reading. *Why? Outside reading is often used as a substitute for your own serious reflection about the ideas of the thinker himself.*

## WRITING ASSIGNMENTS

This course is organized around an integrated sequence of assignments. There are three reflection papers about the authors or schools of thought we are reading, each four pages in length. These reflection papers are designed to help you prepare for writing the twelve page paper due at the end of the semester, in which you will situate your own ideas in relation to those of the thinkers we have read. The reflections give me the opportunity to provide personal feedback that will help you write the final project.

I don't need a book report ("This is what Adam Smith said..."). I've already read these ideas. I don't need to know that John Maynard Keynes was British, or that he wrote **Economic Consequences of the Peace** in 1919. There are in general three things I expect each reflection paper to include:

- A summary in your own words of the economic concepts and/or processes that come up in the reading. This is an economics class, so defining the economic concepts and logic is crucial to your grade.
- A clear statement of how the ideas of the thinker or school of thought resonated with you personally.
- A consideration of the relationship of those ideas to modern society.

I grade the papers in terms of your ability to think through the ideas, and not just to summarize what the author/school of thought said. Find a way to apply it, take a risk. Make me see something in these ideas that I never noticed before!

Duggan's Rule: No long quotes. If you quote a passage, keep it short, and ALWAYS follow the quote with a sentence or two explaining how YOU interpret the passage. *Why? People often use quotes because they don't really understand what the author said.*

For a short quote, please provide a footnote stating what text and PAGE the quote comes from. If the passage you cite is by Keynes, but is in the biography by Skidelsky, please state that **Keynes** is the one who wrote the passage rather than Skidelsky, and also note the name of the original book; i.e., "Keynes (**Economic Consequences of the Peace, 1919**) in Skidelsky 2003, p. xx." You should consider doing this, even if you are not using a direct quote. For example, "In Keynes' discussion of Germany's ability to pay in **Economic Consequences of the Peace** (1919, cited in Skidelsky 2003, p. xx), he argues ..."

#### **GRADING:**

- 16% active prepared attendance (in-class exercise, quick writes, and homeworks on the readings).
- 54% short essays (18% each).
- 30% final paper (5% is for draft, 25% final).

Grades will be based on the following scale: 92% and above = A; 86-91 = AB; 80-85 = B; 75-79 = BC; 70-74 = C; 65-69 = CD; 60-64 = D; 59 or below F.

**ACADEMIC HONESTY:** Plagiarism is a major offense in my book. I report people who cheat to the Dean, and I give them Fs (for the assignment and sometimes for the course) following Keene State's policy on Academic Honesty. Furthermore, I do not give Fs to people who make a concerted effort to grapple with the ideas taught here. You would get a better grade if you did the assignment yourself, even if it wasn't perfect.

**RESPECT IN THE CLASSROOM:** Do the reading, and turn in ON TIME assignments that are paginated and proofread for spelling and grammatical errors. It's lunchtime, so if you must eat in class, a) keep it to the first fifteen minutes, b) remove distracting noisy paper, c) refrain from messy, aromatic meals which could distract your neighbor. Do not surf the net, check Facebook, etc. with a laptop, or I will ask you to stop bringing it to class. Texting during class is rude; please keep cell phones tucked out of sight with ringer off. Do not start to pack up until class is over. Bring the book we are reading at the time to class.

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**Syllabus Table 1. Topical Outline**

| <b>Week</b>              | <b>Focus</b>                                 | <b>Key Concerns</b>  | <b>Specific Problems</b>   |
|--------------------------|--|--|--|
| 1: Aug. 30, Sept. 1      | Introduction                                 | <ul style="list-style-type: none"> <li>• Course Overview</li> <li>• Economics as process necessary to reproduce society.</li> <li>• Scholastic economics, 1200-1400.</li> <li>• Avarice and the profit-motive.</li> <li>• Oeconomía and chrematistiké</li> </ul>   | <ul style="list-style-type: none"> <li>• Why markets make exchange less personal.</li> <li>• How price signals organize markets.</li> <li>• When price is an ethical choice.</li> <li>• Does one man's profit come at another's expense? If not, where does profit come from?</li> </ul>   |
| 2-3: Sept. 6&8, Sept. 13 | Adam Smith, Theory of Moral Sentiments, 1759 | <ul style="list-style-type: none"> <li>• Adam Smith as moral philosopher in <i>Treatise on Moral Sentiments</i>.</li> <li>• Is Smith's self-interest distinct from the avarice condemned by Scholastics?</li> <li>• Words from female contemporaries of Smith.</li> </ul>  | <ul style="list-style-type: none"> <li>• Sympathy as an automatic check on self-interest.</li> <li>• The impartial spectator.</li> <li>• The virtues of ambition for Smith.</li> <li>• Smith advocated unleashing self-interest, but only for men.</li> <li>• Scholastics had predicted that society would fall apart, why didn't it?</li> </ul> |
| 3-5: Sept. 15, 20&22, 27 | Economics of Adam Smith, Part II: 1776 WON   | <ul style="list-style-type: none"> <li>• The birth of political economy through <i>The Wealth of Nations</i>.</li> <li>• Transformation of Smith when he meets the French Physiocrats.</li> <li>• Competition as creating automatic justice in prices.</li> <li>• Sympathy and competition as (possibly) conflicting explanations for automatically checking self-interest.</li> </ul> | <ul style="list-style-type: none"> <li>• How Smith defines competition.</li> <li>• Division of labor leads to higher standard of living.</li> <li>• Division of labor, dependence on market, growing impersonality of transactions.</li> <li>• Laissez-Faire and the Society of Perfect Liberty.</li> <li>• Subsistence wage.</li> </ul>         |

| Week                                  | Focus  | Key Concerns  | Specific Problems   |
|---------------------------------------|--|---|---|
| 5-6:<br>Sept. 29,<br>Oct. 4&6.        | Keynes,<br>Economic<br>Consequences<br>of the Peace,<br>1919         | <ul style="list-style-type: none"> <li>• Keynes as member of the generation that suffered WWI, only to see it repeat itself tragically as WWII.</li> <li>• Well-being of community taking priority over self-interest of individual.</li> <li>• Keynes as a theorist deeply involved in practice of economics: speculator, negotiator, policy-maker.</li> </ul>   | <ul style="list-style-type: none"> <li>• Moral of Economics Consequences of the Peace, 1919: economic interdependence, i.e., punishing the vanquished with debt will destroy the victor's economy.</li> <li>• Balance of payments.</li> </ul>   |
| 7-9:<br>Oct. 11, 13,<br>18, 20,<br>25 | Keynes,<br>Economic<br>Consequences<br>of Mr.<br>Churchill,<br>1925. | <ul style="list-style-type: none"> <li>• Gold standard in theory (Hume's specie flow)</li> <li>• Central Bankers and the Rules of the Game.</li> <li>• Raising interest rates and the pain on the working class.</li> <li>• Trade-off between exchange rate and wage.</li> </ul>  | <ul style="list-style-type: none"> <li>• The way Central Bankers actually behaved 1924-31.</li> <li>• How interest rates affect investment.</li> <li>• General Strike.</li> </ul>   |
| 9-11:<br>Oct. 27,<br>Nov. 1,<br>3, 8  | Keynes'<br>International<br>Clearing<br>Union, 1944.                 | <ul style="list-style-type: none"> <li>• <i>Institutions</i> determine whether competition and free trade benefit or capitalists, industry or finance.</li> <li>• Hitler's anti-laissez faire way to balance trade.</li> <li>• Bretton Woods proposals, 1944: An opportunity to manage aggregate demand globally through the <i>financial account</i> of the <i>balance of payments</i>.</li> <li>• <i>Buffer stocks</i>: another way to balance over the cycle.</li> </ul> | <ul style="list-style-type: none"> <li>• US as creditor nation, Britain as debtor nation.</li> <li>• Why Keynes' clearing union would force surplus nations to import or invest in factories overseas.</li> <li>• Why world currency instead of dollar standard.</li> <li>• Harry Dexter White, a patriot with communist sympathies.</li> </ul> |

| <b>Week</b>                                    | <b>Focus</b>                                  | <b>Key Concerns</b>   | <b>Specific Problems</b>  |
|--|---|---|---|
| 11-13:<br>Nov.<br>10,<br>Nov.<br>15, 17,<br>22 | Connecting<br>and<br>contrasting<br>the ideas | <ul style="list-style-type: none"> <li>• Keynes and the Scholastics.</li> <li>• Laissez faire for (Smith) and against (Keynes).</li> <li>• The writing process.</li> <li>• Assessment.</li> </ul> | <ul style="list-style-type: none"> <li>• Draft of Final due.</li> </ul> |
| 13: Th.<br>Nov.<br>24                          |   | <ul style="list-style-type: none"> <li>• THANKSGIVING BREAK</li> </ul>  |   |
| 14-16:<br>Nov.<br>29,<br>Dec.<br>1,6, 8        | Writing<br>Process                            | <ul style="list-style-type: none"> <li>• Revising</li> </ul>  | <ul style="list-style-type: none"> <li>• Final Paper Due</li> </ul>     |

**Syllabus Table 2. Assignments.**

| <b>Week</b>                                       | <b>Date</b>                                    | <b>Readings</b>  | <b>In-class Ex.</b>              | <b>Homework Due</b>                          |
|---|--|--|----------------------------------|--|
| 1: Intro  | Tu, Aug. 30                                    | None due.  | Tradition,<br>Command,<br>Market |  |
|   | Th, Sept. 1<br><i>Scholastic<br/>economics</i> | None due.  | Need vs.<br>Ignorance            |  |
| 2-3:<br>Smith<br>TMS<br>1759                      | Tu, Sept. 6<br><i>Sympathy,<br/>ambition</i>   | Read Smith,<br>TMS, Sec. 1, Ch.<br>1-4, pp. 16-30;<br>Sec. 3, Ch. 2, pp.<br>62-78. |                                  |  |
|   | Th, Sept. 8<br><i>Conscience</i>               | Smith, TMS, Part<br>3, Ch. 3, pp. 156-<br>180<br>Part 4, Ch. 1, pp.<br>209-217     |                                  |  |
|   | Tu, Sept. 13                                   | Continuation of<br>TMS.  |                                  |  |
| 3-5:<br>Smith,<br>Wealth<br>of<br>Nations<br>1776 | Th, Sept. 15<br><i>Division of<br/>Labor</i>   | Read Smith<br>WON, Book I,<br>Ch. 1-3, pp. 1-21                                    |                                  |  |
|   | Tu, Sept. 20.<br><i>Price</i>                  | Read Smith,<br>WON, Book I,<br>Ch. 6-7, pp. 47-<br>63.                             | Invisible<br>Hand                | <b>Most important reading in<br/>course!</b> |

| <b>Week</b>                                       | <b>Date</b>                                       | <b>Readings</b>   | <b>In-class Ex.</b>  | <b>Homework Due</b>   |
|---|---|---|--|---|
|   | Th, Sept. 22<br><i>Society of Perfect Liberty</i> | Read Smith, WON, Book I, Ch. 8-9, pp. 64-98; read also Ch. 11, pp. 248-250. Read Book IV, Ch. 9, pp. 651-652; skim Book 5, Ch. 1 to see how Smith thinks government should spend, and read pp. 734-740 with care. |  |   |
|   | Tu., Sept. 27<br><i>Intro to WWI</i>              | <i>All Quiet on the Western Front</i>   |  | Essay I: Define the invisible hand and explain how Smith envisioned it as channeling ambition toward social good in both TMS and WON.   |
| 5-6: Keynes, Econ Consequences of the Peace, 1919 | Th, Sept. 29<br><i>Intro to Keynes</i>            | Read Skidelsky, introduction, part IV, pp. xxviii-xxxii   | What connection does he make between priests and economists? |   |
|   | Tu. Oct. 4<br>Econ Consequences                   | Read Essays, xvii-xix, p. 3-32  | Duggan explains what book is, how to cite it.                |   |
|   | Th, Oct. 6  | Read Skidelsky, pp. 220-249   | Reparations  |   |
| 7-9: Keynes, Mr. Churchill, 1925                  | Tu, Oct. 11                                       |   | Gold   |   |
|   | Th. Oct. 13                                       | Read "Economic Consequences of Mr. Churchill" in <i>Essays</i> , pp. 207-230  | Homework on Mr. Churchill.                                   | Essay II (Keynes Option A): Use the balance of payments to explain how the Treaty of Versailles damaged Britain's economy in the 1920s, in terms of both trade and finance. On what grounds did Keynes believe the US |

|   |  |   |   |   |
|---|--|---|---|---|
|   |  |   |   | should have provided money more freely to Europe after WWI?<br>Was Keynes just looking out for Britain's interest, or does he have some larger insight?   |
|   | Tu. Oct. 18:<br><i>Rules of the Game.</i>  |   | Lecture: what central bankers did to make gold standard work. |   |
|   | Th. Oct. 20<br>General Strike              | Read Skidelsky<br>p. 337, pp. 345-356   |   |   |
|   | Tu. Oct. 25                                |   |   |   |
| 9-11 Keynes' Against Laissez Faire (philosophy and ICU) | Th. Oct. 27                                |   |   | Essay II (Option B): Explain how the theory of the gold standard connects to laissez faire. Explain why Keynes argued that putting the pound back on gold at the pre-war rate would make Britain's trade deficit worse, using the arguments of <i>Mr. Churchill</i> . People today also say US can't export because wages are too high in US. What does this essay suggest as an alternate explanation? |
|   | Tu. Nov. 1:<br>Keynes and the Scholastics  | Skidelsky, Read pp., 730-738, pp. 760-776, pp. 777-780.                                 |   |   |
|   | Th. Nov. 3<br>Keynes Against Laissez Faire | <i>Read Essays, "The End of Laissez Faire" 1926, pp. 272-294, Skidelsky pp. 364-375</i> |   | .   |



| Week                       | Date   | Readings  | In-class Ex.   | Homework Due  |
|----------------------------|--|---|--|---|
|                            | Tu. Nov. 8:                                  | <i>Read Wealth of Nations, Chapter 10 of Book I</i> |  |   |
| 11-13:<br>Connecting Ideas | Th. Nov. 10                                  |   |  |   |
|                            | Tu. Nov. 15<br><i>Keynes and Scholastics</i> | Read pp., 730-738, pp. 760-776, pp. 777-780.        |  | Essay III: Keynes Critique of LF. Review why Adam Smith believed markets would self-regulate, and how laissez faire was supposed to balance trade through the gold standard. Then explain in some detail the specific ways in which Keynes critiques laissez faire. Along the way, explain what social Darwinism is and how it differs from Smith's theory. |
|                            | Th. Nov. 17<br>Smith and Keynes              |   |  |   |
|                            | Tu. Nov. 22                                  |   |  | Draft of final paper due. No late papers!   |
|                            | Th. Nov. 24                                  | THANKSGIVING BREAK                                  |  |   |
| Week 14-15                 | Tu. Nov. 30                                  |   | In class exercise on writing.                                      |   |
|                            | Th. Dec. 1<br>Writing process                | Keynes at Bretton Woods: A Middle Way               | Read Skidelsky Chapter 34, and the first 3 sections of Chapter 36. |   |
|                            | Tu. Dec. 6                                   |   |  |   |
|                            | Th. Dec. 8                                   | Final paper due.                                    |  |   |

By Dec. 8, we will know each other well, and you will have learned a lot about the market system, writing, and yourself! We will both be glad when it is all over, but we will be sad, too. All the best.

