

# International Political Economy

Dr. Ryan Safner

Spring 2017

ECON 304  
Rosenstock Hall 306  
MW 11:30-12:45 PM

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*Hours:* TuTh 3:30-5 PM

## Course Description

“The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design.” - F.A. Hayek, 1974 Economics Nobel Laureate

This course examines the dual role of political institutions and economic forces that determine the relative prosperity, conflict, and/or flourishing of human beings in different social settings. As *political economy*—the enduring tradition that Adam Smith and others developed before technical “economics” emerged in the 20<sup>th</sup> century—it deals with some of the moral and institutional problems that societies must grapple with, and why some succeed or fail more relative to others. While we consider the theory of various political and economic institutions, we often apply them to an *international* context of trade, globalization, foreign aid, conflict, development in our increasingly global-oriented cultures. As a result, a major goal of this course is understanding the state of the world and current events today, as well as being able to reason through political economic problems.

This is an economics course, and as such we use the tools of microeconomics to understand not just economic, but also political, social, and cultural issues. Basic familiarity with microeconomics is essential to understanding how decisions made by agents in different institutional contexts lead to social coordination and the creation of value (or fail to do so). While I would prefer that you have some background, it is possible to take the course with little to no understanding of formal economic theory. The **required prerequisite courses** are **ECON 205, PCSI 215, OR GLBS 200**.

This course will have been successful if you are able to comprehend and apply the tools and insights of political economy towards explaining differences in real world political, economic, and cultural settings and are able to analyze current events. Primarily, this means applying models of rational choices for individual and firm behavior in different social contexts, and understanding the role of market institutions of property rights, prices, and profit and losses in bringing about social coordination.

My standard disclaimer: This class may challenge many of your existing beliefs and conceptions about how the world works, and how it should work. This is the most important

and exciting part of a liberal arts education. This does *not* mean that I want to make you to see everything “my way.” In fact, if you come out of this class thinking exactly like me, then I have probably failed you as a teacher. To the best of my ability, I keep my opinions to myself unless relevant for purposes of discussion, and I respect and invite you to reach your own conclusions on all matters.

**Fair warning:** While we will make minimal (if any) use of formal mathematics in this class, using the economic way of thinking is a skill, it is literally retraining your brain to interpret and analyze the world in a novel way, and is not something that can be memorized. I will do my best to make this class intuitive and helpful, if not interesting. If at any point you find yourself struggling in this course for any reason, please come see me. Do not suffer in silence! Coming to see me for help does not diminish my view of you, in fact I will hold you in *higher* regard for understanding your own needs and taking charge of your own learning. There are also a some fantastic resources on campus, such as the [Center for Academic Achievement and Retention \(CAAR\)](#) and the [Beneficial-Hodson Library](#).

In addition to Blackboard, you can find all course materials at [ryansafner.com/teaching/](http://ryansafner.com/teaching/).

I reserve the right to modify this syllabus with proper advance warning.

## Course Readings

My lecture notes will serve as your primary resource. We do not have a “textbook,” but the following book is **required** as part of your readings. It is a good basic introduction to many of the concepts we will be discussing in class, but is not a comprehensive textbook.

1. Harford, Tim, (2007). *The Undercover Economist* New York: Random House. ISBN: 978-0-345-49401-6

You are welcome to purchase the book by other means (e.g. Amazon, half.com, etc). I have no financial stake in requiring you to purchase this book. You are welcome to use previous version of the book, but carefully verify the reading assignments, as the material may be different across versions.

There are also required readings from scholarly articles and book chapters listed on the schedule below, which I will post on Blackboard. I reserve the right to post and require additional readings as necessary. Check Blackboard **frequently** for announcements and updates to assignments and grading.

## Grading

Final course grades will be a weighted combination of the following assignments, to be described in detail below:

1	Paper Presentation	5%
2	Short Papers	20%
1	Midterm	25%
1	Research Paper	25%
-	Participation	25%

Course grades are based on the following traditional scale:

		A	93-100	A-	90-92
B+	87-89	B	83-86	B-	80-82
C+	77-79	C	73-76	C-	70-72
D+	67-69	D	63-66	D-	60-62
		F	0-59		

These grades are firm cutoffs, but I round upwards ( $\geq 0.500$ ) for final grades. A necessary reminder, as an academic, I am not in the business of *giving* out grades, I merely report the grade that you *earn*. I will not alter your grade unless you provide a reasonable argument that I am in error (which does happen from time to time).

### Shorter Papers

There will be two short papers on assigned topics. The first will be early in the semester, covering topics from the first several weeks. The second will cover topics from the remaining weeks. I am looking for 3-5 page papers that explore subjects prompted by questions that I will provide to you in advance. One of these can also serve as the impetus for your longer research paper, though I encourage you to take the less trodden path and research something unique and interesting to you.

### Research Paper & Presentation

Each student will write a term paper on a topic in political economy related to industrial organization. We will discuss this at greater length over the semester and I will dedicate some class time to discussing how to write a good paper and giving some examples. At the end of the semester, students will briefly present their paper to the class.

### Midterm

The midterm will be a combination of multiple choice, graph, and short answer questions to ensure everyone is comprehending the basic material. This provides feedback both to you and to me that ensures everyone is progressing on schedule and apprehending the material. This is *critical*, as the rest of the course will build off of this foundation. The midterm will be on **DATE**.

### Participation

At the end of almost every lesson, we will hold a discussion. During our discussions, we will follow the rules pioneered and perfected by the Liberty Fund seminars. I will provide you with a handout detailing the rules on the first discussion day. These discussions help shift the focus of the course away from me lecturing material at you more towards your learning and building upon material. This requires you to take ownership of your own learning. It is critical that you come to class having done the readings and are prepared for discussion. **You are required to email to me a list of 2-3 questions or points you want to discuss for each discussion day.** Everyone will receive a grade from 0-5 on each discussion day based on their participation. If I feel that students are not diligently doing the readings, *I reserve the right to implement readings-based quizzes and allocate some of the participation grade towards them.*

No extra credit is available.

## Policies & Expectations

**Attendance and Participation:** I expect you to attend class and to come having already done the reading assigned for that day. I will remind you in class and possibly through Blackboard or email which readings I want you to read for the next class. You are all adults and I will treat you as such. I do not take attendance, but missing class will not go unnoticed, and a major portion of your grade is class participation. If you are too distracted or are not prepared to learn, I suggest you stay home, where you can check Facebook more efficiently. I reserve the right to boost the final grades of students that I believe have made consistent, quality contributions above and beyond their peers in class conversations by up to 2.5 points.

**Absences and Make-Ups:** You generally do *not* need to let me know if you are unable to make class, *unless* it is on the day of an exam. It will however, be your responsibility to acquire the notes from a classmate for any missed classes. If you are unable to attend an exam for a legitimate reason (e.g. sports/club events, traveling, illness, family issues), please notify me at least *one week* in advance, and we will schedule a make-up exam date. If you are ill or otherwise unable to attend on the day of the exam, contact me ASAP to make arrangements. Failure to do so, including desperate attempts to make arrangements only *after* the absence will result in a grade of 0 and little sympathy. I reserve the right to re-weight other assignments for students who I believe are legitimately unable to complete a particular assignment.

**Email Accounts:** Students must monitor their Hood email accounts to receive important college information, including messages related to this class. Email is also the best means of contacting me. I will do my best to respond within 24 hours.

**Office Hours:** I am generally in my office Monday-Thursday during normal ‘business hours.’ You are always welcome to walk-in and chat about class, college, careers, or whatever you like. Please try to use the official office hours stated at the head of the syllabus if possible. If you need to meet at a different time, I request that you send me an email or let me know after class so I know when to expect you. If you want to go over material from class, please have *specific* questions you want answered.

**Enrollment:** Students are responsible for verifying their enrollment in this class. The last day to add or drop this class is **Tuesday, September 5**.

**Honor Code:** Hood College has an Academic Honor Code which requires all members of this community to maintain the highest standards of academic honesty and integrity. Cheating, plagiarism, lying, and stealing are all prohibited. All violations of the Honor Code are taken seriously, will be reported to appropriate authority, and may result in severe penalties, including expulsion from the college. See [here](#) for more detailed information.

**Students With Disabilities:** Hood College complies with the Americans with Disabilities Act of 1992. Students who are in need of special assistance/accommodation should contact me by the end of the first week of classes. Appropriate reasonable assistance/accommodation will be provided for such students.

# Class Schedule

The following schedule is a tentative outline of topics covered in the course. Expect to spend a week, on average, on each topic. The readings come from the textbook, along with scholarly journal articles that can be found on Blackboard under “Course Readings.” I may remove or post additional required readings, to be announced in advance.

## Unit 1: Foundations

1	THE ECONOMIC WAY OF THINKING & SOCIAL COOPERATION UNDER THE DIVISION OF LABOR
Content	What is economics? This topic focuses on the big picture of economics – what sorts of things we can study, what economists can and must explain, and the types of tools we use to make sense of the world. How is a modern society possible? How can people voluntarily cooperate with one another? Exchange, or trade, is the basis of human interaction and society, and is also the starting point of economics as a social science. In this topic, we explore the question of why people do trade, something that will be critical for all future explorations in economics and human behavior.
Concepts	Scarcity, opportunity cost, marginal thinking, diminishing returns, incentives, exchange, division of labor, specialization, comparative advantage
Readings	<ul style="list-style-type: none"><li>• Bastiat, Frederic, (1995[1848]). “What is Seen and Not Seen”, <i>Essays</i>. Irvington-on-Hudson, NY: The Foundation for Economic Education, Inc. §1, ¶1-21.</li><li>• Boudreaux, Don, (2014). <i>The Hockey Stick of Human Prosperity</i>, <i>Marginal Revolution University</i>, Video.</li><li>• Reed, Leonard, (1999[1958]). <i>I, Pencil</i>, Irvington-on-Hudson, NY: The Foundation for Economic Education, Inc. OR watch the <a href="#">video</a>.</li><li>• Munger, Michael, 2007. “I’ll Stick With These: Some Sharp Observations on the Division of Labor” Library of Economics and Liberty.</li><li>• Smith, Adam, (1776). <i>Wealth of Nations</i>: Book I, Chapters 1-3</li><li>• <a href="#">Thomas Thwaites: How I Built a Toaster From Scratch</a></li></ul>
2	(REVIEW OF) BASIC MICROECONOMICS & RATIONAL CHOICE THEORY
Content	This course uses microeconomic tools to comprehend the choices made by individual actors, and how those choices lead to stable social outcomes. We review the basics of rational choice theory – that people act purposively given their constraints – and equilibrium theory – supply and demand, as necessary.
Concepts	Preferences, utility, constraints, demand, supply, equilibrium, shortage, surplus, efficiency, economic surplus, elasticity, competition, optimization
Readings	<ul style="list-style-type: none"><li>• Varian, Hal, 2014. <i>Intermediate Microeconomics</i>, 9<sup>th</sup> ed. Ch. 1</li><li>• Harford, <i>Undercover Economist</i>, Ch. 3</li></ul>

### 3 MARKET-ENHANCING INSTITUTIONS: PROPERTY & THE RULE OF LAW

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Content Adam Smith and the economists never said that markets work and self-correct in all possible circumstances; only under specific institutional conditions does self-interest lead to social benefit. Here we study those institutions that make markets work well (but do not focus on markets themselves).

Concepts Coase theorem, externalities, property rights, rule of law, Hobbes, Rousseau, Locke

- Readings
- Coase, Ronald H. (1960). “The Problem of Social Cost,” *Journal of Law and Economics*, 3: 1-44.
  - Demsetz, Harold. (1967). “Toward a Theory of Property Rights,” *American Economic Review*, 57(2): 347-359.
  - Anderson, Terry and P. J. Hill. (1975). “The Evolution of Property Rights: A Study of the American West,” *Journal of Law and Economics*, 18(1): 163-179.
  - Priest, George L. (1977). “The Common Law Process and the Selection of Efficient Rules,” *Journal of Legal Studies* 6(1): 65-82
  - Leeson, Peter T. (2012). “Ordeals,” *Journal of Law and Economics* 55: 691-714
  - Planet Money, (2017). “The Invisible Wall,” *NPR Planet Money Podcast* 599, May 31, 2017.

### 4 ENTREPRENEURSHIP: PROFIT-SEEKING AND RENT-SEEKING

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Content In every society, people seek to better themselves. But do their actions taken primarily to better themselves also improve society? Or do they harm society? Do the “robber barons” of the Gilded Age deserve that title?

Concepts Profit, economic rent, rent-seeking

- Readings
- Harford, *Undercover Economist*, Ch. 1
  - Baumol, William J, (199). “Entrepreneurship: Productive, Unproductive, and Destructive” *Journal of Political Economy* 98(5): 893-921
  - Tullock, Gordon, (1967). “The Welfare Costs of Tariffs, Monopolies, and Theft,” *Economic Inquiry* 3(5): 224-232
  - Alchian, Armen A, (1950). “Uncertainty, Evolution, and Economic Theory,” *Journal of Political Economy* 58(3): 211-221.
  - Hayek, Friedrich A. (1945). “The Use of Knowledge in Society,” *American Economic Review*, 35(4): 519-530.
  - Maugham, W. Somerset, (1950). *The Verger*, Short Story.

5 THE MORAL DILEMMAS OF MARKETS

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Content We explore defenses of the ethics of markets as well as common critiques of their ethical challenges. We explore applications such as price gouging, just prices, kidney sales, the commodification of life, and the nature of coercion. As we will not directly examine markets and capitalism as a system (take any economics course) in this course, this helps ground our perspective when comparing other systems.

Concepts Price gouging, just price, semiotic arguments

- Readings
- Munger, Michael, 2007. “**They Clapped**,” Econlog
  - Video: Sandel–Justice and Virtue <http://www.justiceharvard.org/2011/02/episode-10/>
  - Radford, R. A., 1945. “The Economics of a POW Camp,” *Economica*.
  - Hayek, F.A., 1989. *The Fatal Conceit*, Ch. 1

6 VIOLENCE & ORDER

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Content While economists focus largely on voluntary exchanges, the “dark side of the force” cannot be ignored: violence. Violence or the threat thereof is an important part of the study of political economy, a thinly-veiled possibility in daily life for the majority of the world’s countries, and a reason why lofty development goals and reforms often fail to materialize. A major issue at play will be whom can apply and restrict violence.

Concepts States, State capacity, violence trap, roving vs. stationary bandits

- Readings
- Olson, Mancur, (1994). “Dictatorship, Democracy, and Development,” *American Political Science Review* 87(3): 567-576.
  - EconTalk, (2013). “**Weingast on the Violence Trap**, *EconTalk* Podcast, August 12, 2013.

## Unit 3: Systems of Political Economy

5 FEUDALISM AND “THE NATURAL STATE”

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Content For a thousand years, the West had a stable political economic system known as Feudalism. How did it work? Why was this system so stable? And how did we ever escape it? Many societies today are still trying to get over its residual baggage, or still strongly resemble feudalism in some form.

Concepts Feudalism, manors, lords, serfs, knights, Catholic Church, guilds, Commercial Revolution

- Readings
- Ogilvie, Shelaigh, (2001). “The Economic World of the Bohemian Serf: Economic Concepts, Preferences, and Constraints on the Estate of Friedland, 1583-1692,” *The Economic History Review*, 54(3): 430-453
  - Rosenberg, Nathan and L. E. Birdzell, Jr. (1986). *How the West Grew Rich: The Economic Transformation of the Industrial World*, New York: Basic Books, Ch. 2
  - Smith, Adam, (1776). *Wealth of Nations*, Book 3, Chs. I, III (skim)

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Content	Within the vestiges of feudalism emerged a type of proto-capitalism focused on paradoxically opening up yet strongly controlling trade between nations. Remnants of this system, known as mercantilism, remain today, and often hold countries back from further development and progress.
Concepts	Mercantilism, balance of trade, trade policy, monopoly, letters patent, guilds, East India Company
Readings	<ul style="list-style-type: none"> <li>• Bastiat, Frederic, (1995[1848]). “<a href="#">The Balance of Trade</a>” <i>Essays</i>. Irvington-on-Hudson, NY: The Foundation for Economic Education, Inc;</li> <li>• Bastiat, Frederic, (1995[1848]). “<a href="#">A Petition</a>”, <i>Economic Sophisms</i>.</li> <li>• Nye, John V. C., (2003). “<a href="#">The Myth of Free Trade Britain</a>,” <i>Econlog</i> March 3, 2003.</li> </ul>

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Content	The 20 <sup>th</sup> century was the battle of big ideas. Unfortunately for about 200 million people, some of the most destructive ideas in human history were put into practice. We focus particularly on the economic history of the Soviet Union as a case study of how socialism operated in practice and why it persisted for 80 years. We compare to <i>national</i> socialism, devised under Mussolini in Italy, but mutated into its more infamous strain in Nazi Germany. How did these work as political and economic systems? And where are their still similarities or impulses today? Can you separate fascist economic policy from the nasty racist theory and policy of fascism/Nazism? How are modern nationalist and populist movements today related to historical movements?
Concepts	socialism, communism, national socialism, fascism, Marxism, Leninism, Soviet Union, central planning, socialist calculation debate
Readings	<ul style="list-style-type: none"> <li>• Mises, Ludwig von, (1990[1920]). <i>Economic Calculation in the Socialist Commonwealth</i>. Auburn, AL: Ludwig von Mises Institute</li> <li>• Mussolini, Benito. <i>The Doctrine of Fascism</i></li> <li>• “The Soviet Experiment with Pure Communism,” “The Political Economy of Utopia: Communism in Soviet Russia, 1918-21,” “Soviet venality: a rent-seeking model of the Communist state,” Chs. 6, 7, 8 in Peter J Boettke, 2001, <i>Calculation and Coordination: Essays on Socialism and Transitional Political Economy</i>, New York: Routledge</li> </ul>

9 PUBLIC CHOICE I: THE ECONOMICS OF DEMOCRACY

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Content	How do democracies work? We apply economics to understand the incentives, constraints, and exchanges made by voters, politicians, interest groups, and bureaucrats to open up the black box of “government” and examine its operation – when it works and when it does not work.
Concepts	rational ignorance, rational irrationality, concentrated benefits and dispersed costs, interest groups, politicians, bureaus
Readings	<ul style="list-style-type: none"><li>• Stigler, George J. (1971). “The Theory of Economic Regulation,” <i>Bell Journal of Economics and Management Science</i>, 2: 3-21.</li><li>• Mitchell, Matthew. (2012). “The Pathology of Privilege: Economic Consequences of Government Favoritism,” <i>Mercatus Research</i>.</li><li>• Somin, Ilya, (2004). “When Ignorance isn’t Bliss: How Voter Ignorance Threatens Democracy,” <i>Cato Policy Analysis</i></li><li>• Plunkitt, George Washington, <a href="#">Plunkitt of Tammany Hall</a> Chs. 1-3</li><li>• Federalist, No. 10 <a href="#">Wikipedia</a></li></ul>

10 PUBLIC CHOICE II: THE ECONOMICS OF AUTOCRACY

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Content	Although nearly all countries today claim to be “democracies,” many are far from the “ideal” Western liberal democracy that many of us imagine. How does politics work in so-called autocracies (a catch-all word for monarchies, dictatorships, juntas, and the like)? Are dictators as all-powerful as they appear to be? How do coups and revolutions start, and how are they prevented or repressed?
Concepts	selectorate, coup d’etats, revolutions
Readings	<ul style="list-style-type: none"><li>• Tullock, Gordon, (). <i>The Social Dilemma: Of Autocracy</i>, pp. 33-106, 186-224</li><li>• Econtalk – Bueno de Mesquita on the Political Economy of Power</li></ul>

## Unit 5: Advanced Topics & Applications [Time Permitting]

11 ECONOMIC DEVELOPMENT

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Content	How do some countries grow rich and others poor? Much of our analysis thus far has tried to answer this question implicitly. We now consider the formation of self-recognized “development economics,” and the policies that economists have recommended, and governments and NGOs have tried, to stimulate development in the “Third World,” and why they have largely failed.
Concepts	development economics, foreign aid, IMF, World Bank, structural adjustment lending
Readings	<ul style="list-style-type: none"><li>• Easterly, William. (2002). <i>The Elusive Quest for Growth: Economists’ Adventures and Misadventures in the Tropics</i>, Cambridge MA: MIT Press, Chs. 4-7</li><li>• Harford, <i>Undercover Economist</i>, Ch. 8</li></ul>

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Content	The process of post-WWII global integration, liberalization, and international institution-building is a major achievement in human history. It has also been the subject of a virulent political backlash, one which has moved to center stage in much of the Western world in current electoral cycles in the U.S., U.K., France, Germany, and other places.
Concepts	Neoliberalism, GATT, WTO, NAFTA, TPP, populism, economic nationalism
Readings	<ul style="list-style-type: none"> <li>• Harford, <i>Undercover Economist</i>, Ch. 9</li> <li>• Fukuyama, Francis, (2014). “America in Decay: The Sources of Political Dysfunction,” <i>Foreign Affairs</i>, September/October 2015.</li> <li>• Rauch, Jonathan, (2015). “Political Realism: How hacks, machines, big money, and back-room deals can strengthen American democracy,” <i>Brookings Institution</i>, May 2015.</li> </ul>

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Content	Several major developing countries warrant particular interest and challenge our theories of how countries become rich. Time permitting, we look at how the former Soviet Union, particularly Russia, have tried to transition from socialism to capitalism, and its successes and failures; we explore how China and India have tried to do the same thing in different ways, and the fascinating cases of countries like Singapore and Korea which have used economic freedom but not political freedom to develop fantastically.
Concepts	industrial policy, reformer’s dilemma, import substitution, Great Leap, Forward, “one country two systems,” chaebols
Readings	<ul style="list-style-type: none"> <li>• Harford, <i>Undercover Economist</i>, Ch. 10</li> <li>• Planet Money, (2014). “<a href="#">The Secret Document that Transformed China</a>, <i>NPR Planet Money Podcast 337</i>, May 14, 2014.</li> <li>• Monitola, G., Qian, Y., and Weingast, B. R. (1996). “Federalism, Chinese Style: The Political Basis for Economic Success,” <i>World Politics</i>, 48(1):50-81</li> <li>• Shleifer, A. and Treisman, D. (2005). “A Normal Country: Russia after Communism,” <i>The Journal of Economic Perspectives</i>, 19(1):151-174</li> </ul>

## Content

Concepts In many parts of the world, both in “developing” and “developed” countries, there exist pockets of anarchy: places where government-protected social cooperation and public goods provision is either unreliable or nonexistent. How do people cooperate? We will find that human beings are remarkably creative in solving economic and social problems even in the worst-case scenarios. Exactly what role government does or should government have in a prosperous society?

- Readings
- Skarbek, David. 2011. “Governance and Prison Gangs,” *American Political Science Review* 105(4): 702-716.
  - Leeson, Peter T. and Christopher J. Coyne. (2012) “**Conflict-Inhibiting Norms**,” in Michelle Garfinkel and Stergios Skaperdas, eds., *Oxford Handbook of the Economics of Peace and Conflict*. Oxford: Oxford University Press
  - Leeson, Peter T. (2007) “**An-arrgh-chy: The Law and Economics of Pirate Organization**,” *Journal of Political Economy* 115(6)