

# Economics & Philosophy

Frankfurt School of Finance and Management  
Spring 2017

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Course number: PHI 53060  
Time: Monday, 9:00–12:30  
Office Hours: *By Appointment*

## Course Description

The Victorian historian Thomas Carlyle referred to economics as “the dismal science” – in a stupefying essay advocating the return of slavery, no less. Passions about this “inexact and separate science”<sup>1</sup> have remained high since.

Economic indicators are cited in support of taking one political decision over another, yet with such arguments come a train of assumptions about fairness, justice, rights, human rationality, not to mention the very bearing of economic theory on predicting and explaining individual or group responses to incentives. No wonder passions run high.

This course will look at philosophical and foundational questions in theoretical economics and in the application of economic theory to social and political problems. We will look at the nature and limits of principles of rationality and the forms of reasoning these principles license, the foundations of property rights, the nature of markets and their limits, the testability of substantive economic assumptions, and how to assess economic models. By the end of the course, you should have a better understanding of the underlying assumptions of economic models and you should be in a better position to critically assess those assumptions. As a consequence, you should be in a better position to critically evaluate economic arguments.

## Course Requirements

There are three requirements for the course: (i) in-class participation; (ii) weekly short responses to class readings, and (iii) one end of term essay (~2000 words). All assignments are to be completed in English.

1. *In-class participation*: You will be evaluated by the quality, rather than quantity, of your contributions to class discussion.
2. *Weeklies*: Approximately ten weekly assignments ask you to focus on one part of the upcoming class readings and formulate a question or objection in clear and precise prose. These assignments will be graded anonymously. So, your weekly assignments may be viewed as an opportunity to try out ideas to discuss in the next class, or to pose a question about a particular week’s reading assignment. Specific instructions for each weekly will be given online. The first weekly is due **March 27th**.
3. *Paper*: You are required to write one final essay that is **no longer than 2000 words**. You will be penalized for going over this limit. The strict word limits are designed to help you to economize your writing, since you *only* have 2000 words with which to make a clear argument and substantive philosophical point.

**Note:** To access course readings and submit your assignments, students must register for *Economics and Philosophy* online by sending me an **email to receive an invitation to join the course**.

## Grading

Your final grade will be calculated by a weighted average using the following weights:

Class Participation: 10%

Weeklies (~ 150 – 300 words each): 40%

Final Essay ( $\leq$  2000 words): 50%

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<sup>1</sup>To borrow the title of (Hausman 1992)

## Course Schedule

DATE	LECTURE	TOPIC	<ul style="list-style-type: none"> <li>○ READINGS</li> <li>● PAPER DUE DATES</li> </ul>
MAR 20	(1)	Introduction to Economics & Philosophy	○ (Hume 1738, Book 3, Part 2, §1-4)
	(2)	Property Rights	○ (Locke 1689, Ch 5)
MAR 27	(3)	Property Rights	○ (Nozick 1973, pp. 46–78)
	(4)	Property Rights	○ (Cohen 1995, Ch. 3)
APR 3	(5)	Foundations of Decision Theory (FDT)	○ (Fine 2006a)
	(6)	FDT: Axiomatic Systems	○ (Fine 2006b)
APR 10	(7)	FDT: Dominance Reasoning	○ (Jeffrey 1965, Ch. 1)
	(8)	FDT: Representing Value	○ (Grant and van Zandt 2009)
APR 17		NO LECTURES	
APR 24	(9)	Welfare	○ (Dowding 2009)
	(10)	Welfare	○ (Binmore 2009)
MAY 1		NO LECTURES	
MAY 8	(11)	Pareto Optimality & Social Choice	○ (Sen 1970)
	(12)	Pareto Optimality & Social Choice	○ (Gibbard 1974)
MAY 15	(13)	Markets	○ (Hausman 1992, Ch. 2)
	(14)	Markets	○ (Hausman 1992, Ch. 3)
MAY 22	(15)	Market Failures	○ (Coase 1960)
	(16)	Bounded Rationality	○ (Tversky and Kahneman 1974)
MAY 29	(17)	Bounded Rationality	○ (Gigerenzer and Brighton 2009)
	(18)	Bounded Rationality	○ Jarvstad, et al.(2013)
JUN 5		NO LECTURES	
JUN 12	(19)	Assessing Economic Models	○ (Sugden 2000, §1–4)
	(20)	Assessing Economic Models	○ (Sugden 2000, §5–11)
JUN 19	(21)	Opportunities and Freedom	○ (Sen 2002, Ch. 20)
	(22)	Processes, Liberty and Rights	○ (Sen 2002, Ch. 21)
JUN 30			● FINAL ESSAY

## Required Texts

- Binmore, K. (2009). Interpersonal comparison of utility. In D. Ross and H. Kincaid (Eds.), *The Oxford Handbook of Philosophy of Economics*. Oxford University Press.
- Coase, R. (1960). The problem of social costs. *Journal of Law and Economics* 3, 1–44.
- Cohen, G. (1995). *Self-Ownership, Freedom, and Equality*. Cambridge: Cambridge University Press.
- Dowding, K. (2009). What is welfare and how can we measure it? In D. Ross and H. Kincaid (Eds.), *The Oxford Handbook of Philosophy of Economics*, pp. 511–539. Oxford: Oxford University Press.
- Fine, T. L. (2006a). Probability, foundations of – I. In *Encyclopedia of Statistical Science* (2nd ed.). Hoboken, NJ: John Wiley and Sons, Inc.
- Fine, T. L. (2006b). Probability, foundations of – II. In *Encyclopedia of Statistical Science*. Hoboken, NJ: John Wiley and Sons, Inc.
- Gibbard, A. (1974). A Pareto-consistent libertarian claim. *Journal of Economic Theory* 7, 388–410.
- Gigerenzer, G. and H. Brighton (2009). Homo heuristics: Why biased minds make better inferences. *Topics in Cognitive Science* 1, 107–43.
- Grant, S. and D. van Zandt (2009). Expected utility theory. In P. Anand, P. Pattanaik, and C. Puppe (Eds.), *The Handbook of Rational and Social Choice*, pp. 21–68. Oxford University Press.

- Hausman, D. M. (1992). *The Inexact and Separate Science of Economics*. Cambridge University Press.
- Hume, D. (1738). *A Treatise of Human Nature*. Version by Jonathan Bennett, 2008: www.earlymoderntexts.com.
- Jarvstad, A., U. Hahn, S. K. Rushton, and P. A. Warren (2013). Perceptuo-motor, cognitive, and description-based decision-making seem equally good. *Proceedings of the National Academy of Sciences* 110(40), 16271–16276.
- Jeffrey, R. (1965). *Logic of Decision*. New York: McGraw-Hill.
- Locke, J. (1689). *Second Treaties of Government*. Version by Jonathan Bennett, 2008: www.earlymoderntexts.com.
- Nozick, R. (1973). Distributive justice. *Philosophy and Public Affairs* 3(1), 45–126.
- Sen, A. K. (1970). The impossibility of a Paretian liberal. *Journal of Political Economy* 78(1), 152–157.
- Sen, A. K. (2002). Markets and freedom. In *Rationality and Freedom*. Cambridge, MA: Belknap Press of Harvard University Press.
- Sugden, R. (2000). Credible worlds: The status of theoretical models in economics. *Journal of Economic Methodology* 7, 1–31.
- Tversky, A. and D. Kahneman (1974). Judgment under uncertainty: Heuristics and biases. *Science* 185(4157), 1124–1131.