

**Syllabus for
Advanced Foundations of Economics (Law 123-001)
Thursdays, 6-8**

Instructors:

Professor Kevin McCabe, kmccabe@gmu.edu, (o) 703-993-9441, Law 223

You can meet with Professor McCabe after class or by appointment.

Please limit attempts to contact Professor McCabe at his work office number or email address above. Telephone messages should include your name and a return phone number where you can be reached.

Course description:

The point of view for this course comes from Law and Economics which studies how legal systems, and subsequent decisions, promote economic efficiency. In this course we first examine the process of inter-temporal voluntary exchange as an important source of market inefficiency. We then examine how private treaty solutions, such as reputations, sanctions and exclusion, attempt to overcome this inefficiency. The course then proceeds from the assumption that the law should act incrementally to maximize the gains from exchange by working with and improving on private solutions. At the same time we assume that the legal process is subject to rent seeking, within, by legal professionals, and without, by regulatory capture. This susceptibility implies a need for checks and balances on how the law is used and leads to the recognition that society must be willing to limit the scope of the law as an instrumental tool for social justice.

Suggested course materials:

Robert Gibbons, Game Theory for Applied Economists, Princeton University Press
Friedrich Hayek, Law, Legislation, and Liberty, University of Chicago Press

Requirements and methods of evaluation:

Your grade will be determined by (1) class participation worth 50%, and (2) a final paper worth 50%.

Students with disabilities:

Students with Faculty Contact Sheets for this class need to present them to the instructor as soon as possible. Other students requiring reasonable accommodations, as covered under the Americans with Disabilities Act, should contact the Disability Resource Center (DRC) to open up a DRC file and discuss needed accommodations. Questions and

requests for reasonable accommodations should be directed to DRC, 234 SUB I, phone (703) 993-2474 or email dwyne@gmu.edu.

Honor code:

George Mason University is an honor code university. Students pledge not to cheat, lie, plagiarize or steal in academic matters.

Schedule and Readings:

Thursday, 1/8: Experiments and Games

Readings:

- “Microeconomic Systems as an Experimental Science,” (V.L. Smith), *American Economic Review*, December 1982.
- “Theory, Experiment and Economics,” (V.L. Smith), *Journal of Economic Perspectives*, 1989.
- Economics in the Laboratory. *Journal of Economic Perspectives*, 1994, 8, 113 - 131.
- Chapter One - Gibbons

Thursday, 1/15: Decentralized Price Discovery

- Friedrich Hayek, “The Use of Knowledge in Society,” *The American Economic Review*, 35, 1945, pp. 519-30
- Vernon L. Smith, “An experimental study of competitive market behavior,” *Journal of Political Economy*, 70, pp. 111-37.
- Plott, Charles R., and Vernon L. Smith, “An Experimental Examination of Two Exchange Institutions,” *Review of Economic Studies*, 45: 133-53, February 1978.
- Coursey, Don and Vernon L. Smith, “Price Controls in a Posted-Offer Market,” *American Economic Review*, 73, March 1983.

Thursday 1/22: Free Riding and Property Rights

Readings:

- “The Lighthouse in Economics,” R. H. Coase, *Journal of Law and Economics*, Vol. 17, No. 2 (Oct., 1974), pp. 357-376.
- “Group Size Effects in Public Goods Provision: The Voluntary Contributions Mechanism,” *Quarterly Journal of Economics* (R. M. Isaac and J. Walker), 1988.
- “Disposition, History, and Contributions in Public Goods Experiments,” Anna Gunnthorsdottir, Kevin McCabe, and Daniel Houser, *Journal of Economic Behavior and Organizations*, 62, 2007, pp304-315.

Thursday 1/29: Money and Bubbles

- Kevin McCabe, "Fiat Money as a Store of Value in an Experimental Market," *Journal of Economic Behavior and Organizations*, (12)1989, pp. 215-231.
- Cary Deck, Kevin McCabe, and David Porter, "Why stable fiat money hyperinflates: Results from an experimental economy," *Journal of Economic Behavior and Organizations*, 61, 2006, pp 471-486.
- Vernon Smith, Gerry Suchanek, and Arlington Williams, "Bubbles, Crashes, and Endogenous Expectations in Experimental Spot Asset Markets," *Econometrica*, 1988, pp. 1119-1151.
- Gunduz Caginalp, David Porter, and Vernon Smith, "Initial cash/asset ratio and asset prices: An experimental study," *Proceedings of the National Academy of Sciences*, 95, 1998, pp. 756-761.

Thursday 2/5: Personal Exchange

- "Adam Smith's View of Man," R. H. Coase, *Journal of Law and Economics*, Vol. 19, No. 3, 1776: The Revolution in Social Thought (Oct., 1976).
- Guth, Schmittberger, and Schwarze. 1982. "An Experimental Analysis of Ultimatum Bargaining." *J. Econ. Behav. Organ.* 367-88.
- "Trust, Reciprocity, and Social History," (J. Berg, J. Dickhaut, K. McCabe), *Games and Economic Behavior*, 10, 1995, pp. 122-142.
- "The Two Faces of Adam Smith," (V.L. Smith), *Southern Economic Journal*, 65, 1998, pp. 2-19.

Thursday 2/12: Theory of the Firm

- "The Nature of the Firm," R. H. Coase, *Economica*, New Series, Vol. 4, No. 16 (Nov., 1937), pp. 386-405.
- "The Nature of the Firm: Origin," R. H. Coase, *Journal of Law, Economics, & Organization*, Vol. 4, No. 1 (Spring, 1988), pp. 3-17.
- "The Nature of the Firm: Meaning," R. H. Coase, *Journal of Law, Economics, & Organization*, Vol. 4, No. 1 (Spring, 1988), pp. 19-32.
- "The Nature of the Firm: Influence," R. H. Coase, *Journal of Law, Economics, & Organization*, Vol. 4, No. 1 (Spring, 1988), pp. 33-47.
- "Transaction-Cost Economics: The Governance of Contractual Relations," Oliver E. Williamson, *Journal of Law and Economics*, Vol. 22, No. 2 (Oct., 1979), pp. 233-261

Thursday 2/19: Institutions

- "Institutions," (D. North), *Journal of Economic Perspectives*, 5, 1991, pp. 97-112

- “The New Institutional Economics: Taking Stock, Looking Ahead,” Oliver E. Williamson, *Journal of Economic Literature*, Vol. 38, No. 3 (Sep., 2000), pp. 595-613
- “Constructivist and Ecological Rationality in Economics,” Vernon L. Smith, *The American Economic Review*, Vol. 93, No. 3 (Jun., 2003), pp. 465-508.

Thursday 2/26: Brave New “Virtual Worlds”

Thursday 3/5: Law and Order in Second Life

Thursday 3/12: Spring Break

Thursday 3/19: Reason and Evolution

- Hayek, Chapter One

Thursday 3/26: Cosmos and Taxis

- Hayek, Chapter Two

Thursday 4/1: Principles and Expediency

- Hayek, Chapter Three

Thursday 4/8: The Changing Concept of Law

- Hayek, Chapter Four

Thursday 4/15: Nomos: The Law of Liberty

- Hayek, Chapter Five

Thursday 4/22: Thesis: The Law of Legislation

- Hayek Chapter Six