

This is a course that will improve your understanding of economics, and broaden your horizon concerning what economists do. We will present you the necessary tools and tricks to tackle very difficult questions concerning the status of economics as a science. The course will cover many exemplary models and their use in theory and policy in order to improve your understanding of economics. We will also have heated (philosophical) debates. Really! After finishing this course, you will be able to defend economics better against criticism and skepticism. But also, you will be able to criticize it better—just in case you would like to do that :) We have one requirement: You should have successfully completed the introduction to economics course.

INSTRUCTORS



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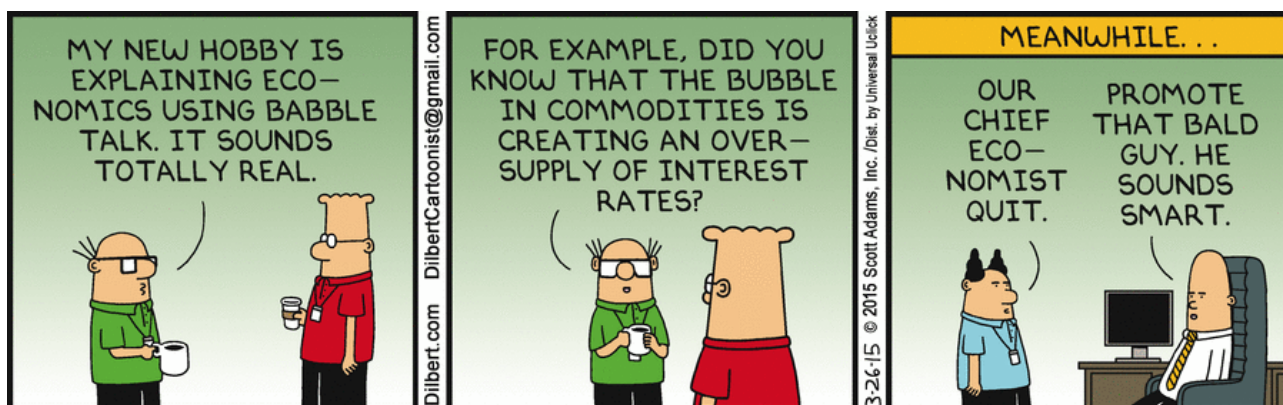
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INTRODUCTION TO THE COURSE

Students of economics sometimes complain about economics and economics education. They say things like the following:

Economics education and textbooks are so far away from the real world that I do not see how they can be useful in any meaningful sense. In fact, we are learning a lot of models that have nothing to do with the real world. Real people are not like Homo Economicus; we are not as calculative, as selfish, and as weird as Homo Economicus. No one I know thinks at the margin. And thanks god, no one is maximizing utility. Of course, even if they want to do that, they do not know enough math. Also, you know, real-world economic decision making is much more complex than choosing between apples and bananas. Monetary incentives do not always work. People are not rational, they are emotional. They do crazy things. Markets are not perfect. The invisible hand is an illusion. And do not get me started with the failure of economics before, during and after the 2007-8 crisis...

OK. Students sometimes complain about economics. So what? Why should we care? Behind these complaints, there are fundamental questions about economics. Understanding economics requires a good understanding of the nature and scope of economic models. Asking these questions is a step in the right direction.

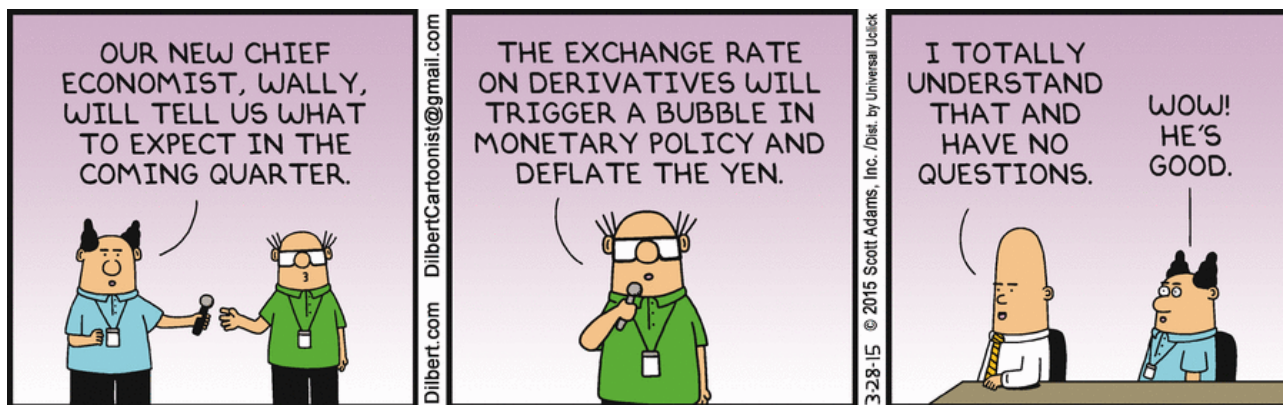


Consider the following seemingly simple questions. Can a false scientific model explain anything? Can it help us understand the real world? If people are mostly irrational creatures when compared with *Homo Economicus*, can economic models help us understand how people behave? If markets are never perfect, can we trust the invisible hand? Before answering these questions, also consider Nobel Prize winner economist Paul Krugman's comment on economics and economists. He said "the economics profession went astray because economists, as a group, mistook beauty, clad in impressive-looking mathematics, for truth." So according to Krugman, economists should not mistake their fancy models with truth. The question is, if this is true, what should they do with these fancy models?



In fact, it is not only our representative student or Krugman who criticizes economics. Heterodox economists and other social scientists also criticize economics for similar reasons. But not only that! Methodological debates concerning economics are abundant in the history of economics. Competing schools of economic thought disagree about the nature and scope of economics, and about the way in which economic research should be conducted. Mainstream economists also disagree about how economics should be. Moreover, now that we have research areas such as behavioral economics, experimental economics, and neuroeconomics (btw, are they different?), there is more disagreement concerning the assumptions that economists make and the models that they use to explain the world.

So, in brief, it is a mess out there! And that is why we have this course. We would like to bring some order to this mess by way of studying economic models with the help of some tools and tricks from philosophy of science. Yes, this is a course in philosophy of economics. But do not worry, we have a practical approach. We will talk about economics all the time and introduce the philosophical tools without you realizing it :)



The main aims of the present course are

- a) to provide the student with the tools and abilities that are necessary to discuss and understand debates concerning the status of economics as a science; and
- b) to give a broader view of different schools of economic thought with a special emphasis on new developments in economics.

The course covers fundamental issues in the philosophy of economics and discusses some of the different schools of thought in economics from a methodological perspective. The mainstream economics (which forms the core of economics education) is at the center of the course and other schools of thought are discussed in relation to this mainstream. Particularly, the course focuses on how alternative schools in economics criticize the mainstream. Defining common assumptions and concepts of mainstream economics (such as rationality, equilibrium, efficient markets) and their criticism will get special attention throughout the course.

If you are still reading this, we assume that you are taking this course. However, if you'd rather not take this wonderfully interesting course, let us give you the answer to all the questions we will ask during the semester. It is 42.

WARNING!

Warning! Philosophy challenges complacency. It is hard to know what the truth is concerning hard questions like the ones we will be addressing this semester.

Dan Hausman's syllabus for his *Philosophy of Economics* (Fall 2006) contains the above warning. Same applies to our course.

EXPECTATIONS

Participation: The course will be interactive and students are expected to make the required readings before coming to the class and to join the discussion throughout the semester. Do not forget! There is a 10% participation bonus!

Attendance: Attendance is required in the sense that in exams you are responsible from the materials covered in lectures.

Response papers (RPs): At least one reading will be assigned for each class. Based on these readings you are required to write *10 response papers* for this course. RPs will be submitted via Moodle before class. In the first week we will explain what a RP is. Briefly, it is a short (e.g., one-page) essay where you evaluate, criticize or amend the required reading. For example, you may consider answering some of the following questions for this task.

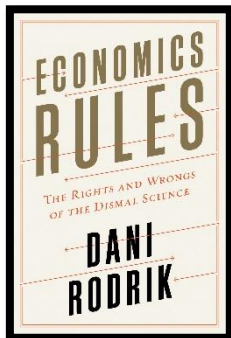
- What question does the paper address? Is it important? Why?
- What is the hypothesis or theoretical argument?
- Is the argument convincing? Why or why not?
- What are the weak and strong parts of the paper?
- How does the paper relate to the other readings (or to your other courses)?

The response papers are worth 50% of your final grade. You need to send in your response papers on time. If you are late, there will be a penalty. Here is how it works. If you miss the deadline you'll lose 25 points (out of a 100). If you miss the deadline, we will give you another chance to submit your response paper. If you also miss the second deadline, you will not be able to submit your response paper anymore.

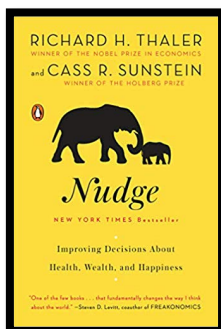
GRADING

1. Response papers: 50%
2. Midterm exam: 10%
3. EXAM: 40%
4. Participation Bonus: 10% of the final result (1+2+3).

RECOMMENDED READINGS



Economics Rules
The Rights and Wrongs of the Dismal Science
Dani Rodrik



Nudge
Improving Decisions about Health, Wealth, and Happiness
Richard Thaler & Cass Sunstein

WEEKLY PLAN			
1	5.09	NEA MN	Vocational Guidance Counsellor Why be an economist? Why not a lion tamer? What is wrong with economics education? What do critics say?
2	12.09	NEA	The Funniest Joke in the World Could a science that cannot answer its core questions explain the logic of life?
3	19.09	MN	Intermission Let's have a look at some experiments in economics... Perhaps, it is not so easy to justify what the critics say after all!
4	26.09	NEA	How to Irritate People Economists I How? Tell them that their models are unrealistic and that they cannot explain anything. This is our introduction to philosophy of models!
5	03.10	NEA	How to Build Certain Interesting Things I A perfect market, a world where everyone has the same tastes, a linear city... Take your pick! Is possible to give a true explanation with a "false" (unrealistic) model?
6	10.10	NEA	The Dirty Fork How can a customer's complaint about a dirty fork at a restaurant trigger a series of actions ending up with the restaurant manager stabbing himself in the stomach with the dirty fork? Some unintended consequences are important for economics. This week we will study the wonders of the invisible hand.
7	17.10	NEA	The Dead Parrot In 1898 Thorstein Veblen criticized economists for not accepting the fact that <i>Homo Economicus</i> is like a dead parrot. OK he did not say dead parrot. He said " <i>He is not the seat of a process of living.</i> " This is our introduction to institutional economics!
TBA		EXAM	
8	31.10	MN	How to Build Certain Interesting Things II Economists can build perfect models of markets. But real markets are not perfect. So why not make real markets similar to our perfect model markets? This week we will study how economists construct real markets from abstract models.
9	07.11	NEA Guest	And for Now Something Completely Different Guest lecture on Complexity Economics by Aaro Hazak (TalTech)
10	14.11	MN	How to Irritate People Economists II What's wrong with the "invisible handwave", economists' usual response to the criticisms that people are not rational? This is our introduction to behavioral economics.
11	21.11	MN	How to Irritate People Behavioral Economists Is behavioral economics economics or psychology? Let's dive into the conceptual mess of what we mean by "rationality".
12	28.11	MN	Nudge, nudge Economists have built models. They have built markets. Now they are trying to build better people and better societies. Nudge, nudge! Wink, wink! Say no more!
13	05.12	MN	Seduced Milkmen A seductive woman "nudges" the milkman into entering her house, the milkman ends up in a room with other milkmen, some of whom are very old, including one who is a skeleton. What is a nudge and how much of it is too much?
14	12.12	NEA MN	Self Defense Against Fresh Fruit How to defend economics against an attacker armed with fresh fruit?
TBA		EXAM	

Weekly Plan & Reader

[*] indicates a required reading

05.09.2019 | VOCATIONAL GUIDANCE COUNSELLOR

(WHAT IS WRONG WITH ECONOMICS EDUCATION?)

Introduction to the course. Please make sure that you have read the following article before coming to the lecture. (You do not need to write a response paper!)

- [*] Vromen, Jack (2009) "Economics and philosophy: More than having fun and making fun", inaugural speech at Erasmus University Rotterdam.

12.09.2019 | THE FUNNIEST JOKE IN THE WORLD

(POP-ECONOMICS EXPLAINS THE GLOBAL FINANCIAL CRISIS)

- [*] Krugman, Paul R. 2009. "How Did Economists Get It So Wrong?" The New York Times Magazine, September 2. <http://www.nytimes.com/2009/09/06/magazine/06Economic-t.html>.
- Robbins, Lionel (1945) "Chapter 1: The Subject Matter of Economics", in An Essay on the Nature and Significance of Economics, London: MacMillan, pp. 1-23.
- Backhouse, R. E. & S. G. Medema (2009) "On the definition of economics", Journal of Economic Perspectives, 23 (1): 221—33.

19.09.2019 | INTERMISSION

(EXPERIMENTS AND ECONOMICS)

- [*] Becker, William E. "Economics for a higher education." International Review of Economics Education 3.1 (2004): 52-62.
- Redpath, Steve M., et al. (2018) Games as tools to address conservation conflicts. Trends in Ecology & Evolution 33.6: 415-426

26.09.2019 | HOW TO IRRITATE PEOPLE ECONOMISTS I

(ECONOMISTS AND THEIR ASSUMPTIONS)

- [*] Hall, R. L. and C. J. Hitch (1939) "Price Theory and Business Behaviour", Oxford Economic Papers, 2 (May): 12-45.
- Vromen, Jack (1995) Economic Evolution: An Enquiry into the Foundations of New Institutional Economics, London: Routledge. Chapter 1
- Friedman, M. (1953) "The Methodology of Positive Economics", reprinted in Uskali Mäki (ed.) The Methodology of Positive Economics: Reflections on the Milton Friedman Legacy, Cambridge: Cambridge University Press, pp. 3-43.
- Gibbard, A., & Varian, H. R. (1978). Economic Models. *The Journal of Philosophy*, 75(11), 664–677.

03.10.2019 | HOW TO BUILD CERTAIN INTERESTING THINGS I

(E.G., A LINEAR CITY, A FICTIONAL MARKET AND A STABLE EQUILIBRIUM)

- [*] Reiss, Julian. (2012) "The Explanation Paradox." *Journal of Economic Methodology* 19 (1): 43–62..

- [*] Mäki, U. (2013). On a Paradox of Truth, or How Not to Obscure the Issue of Whether Explanatory Models Can Be True. *Journal of Economic Methodology*, 20(3), 268–279.
- Rosenberg, A. (2001) “Why Philosophy of Science” in *Philosophy of Science: A Contemporary Introduction*, London: Routledge, Chapter 1
- Little, D. (2005) “Philosophy of Economics” in Sarkar, S. & J. Pfeifer (eds) *The Philosophy of Science: An Encyclopedia*, London: Routledge.
- Rosenberg, A. (2001) “Explanation, causation and laws” in *Philosophy of Science: A Contemporary Introduction*, London: Routledge, Chapter 2
- Glennan, S. (2005) “Explanation” in Sarkar, S. & J. Pfeifer (eds) *The Philosophy of Science: An Encyclopedia*, London: Routledge.
- Mäki, Uskali (1992), ‘On the method of isolation in economics’, in Uskali Mäki and C. Dilworth (eds.), *Intelligibility in Science (Poznan Studies in the Philosophy of the Sciences and the Humanities*, 26; Atlanta and Amsterdam: Rodopi), 319-54.

10.10.2019 | THE DIRTY FORK

(HOW THINGS GET OUT OF CONTROL WITH THE INVISIBLE HAND)

- Any introductory economics textbook on the invisible hand (**Homework**: before coming to the lecture prepare a summary of how the invisible hand is explained in an introductory textbook)
- [*] Stiglitz, J. E. (1991). The invisible hand and modern welfare economics. NBER Working Paper.
- Sugden, Robert (2000), ‘Credible Worlds: The Status of Theoretical Models in Economics’, *Journal of Economic Methodology*, 7 (1), 1 – 31.
- Cartwright, Nancy (2009), ‘If no capacities then no credible worlds’, *Erkenntnis*, 70 (1), 45-58.

17.10.2019 | THE DEAD PARROT

(FROM THE LIGHTNING CALCULATOR TO ‘INSTITUTIONS MATTER’)

- [*] Veblen, T. (1898). Why is Economics not an Evolutionary Science. *The Quarterly Journal of Economics*, 12(4), 373–397.
- Coase, R. (1937). The Nature of the Firm. *Economica*, 4, 386–405.
- Coase, R. H. (1960). The Problem of Social Cost. *Journal of Law and Economics*, 3, 1–44.

TBA | EXAM

- Midterm Exam

31.10.2019 | HOW TO BUILD CERTAIN INTERESTING THINGS II

(CONSTRUCTING REAL MARKETS FROM ECONOMIC MODELS)

- [*] Roth, A. E. (2002), The Economist as Engineer: Game Theory, Experimentation, and Computation as Tools for Design Economics. *Econometrica*, 70: 1341-1378.
- Guala, Francesco. (2007) "How to do things with experimental economics." In Donald MacKenzie, Fabian Muniesa, and Lucia Siu (eds) *Do economists make markets?*: 128-162.

07.11.2019 | AND NOW FOR SOMETHING COMPLETELY DIFFERENT
(COMPLEXITY & EVOLUTIONARY ECONOMICS)

Guest lecture by Aaro Hazak (Tallinn University of Technology).

- [*] Kirman, A. (2016). Complexity and economic policy: A paradigm shift or a change in perspective? A review essay on David Colander and Roland Kupers's Complexity and the Art of Public Policy. *Journal of Economic Literature*, 54(2), 534-72.
- Foster, J., & Metcalfe, J. S. (2012). Economic emergence: An evolutionary economic perspective. *Journal of Economic Behavior & Organization*, 82(2-3), 420-432.

14.11.2019 | HOW TO IRRITATE PEOPLE ECONOMISTS II
(CRITICS OF THE "INVISIBLE HANDWAVE", OR STANDARD ECONOMIC THEORY OF RATIONAL CHOICE)

- [*] Thaler, R. H. (2016). Behavioral economics: Past, present, and future. *American Economic Review*, 106(7), 1577-1600.
- Kahneman, Daniel and Amos Tversky (1979) "Prospect theory: An analysis of decision under risk." *Econometrica* 47.2 (1979): 363-391.

21.11.2019 | HOW TO IRRITATE PEOPLE BEHAVIORAL ECONOMISTS
(IRRATIONAL, BOUNDEDLY RATIONAL, OR ECOLOGICALLY RATIONAL?)

- [*] Hudik, M. (2019). Two interpretations of the rational choice theory and the relevance of behavioral critique. *Rationality and Society* 1-26.
- Erwin Dekker, Blaž Remic. (2018) Two types of ecological rationality: or how to best combine psychology and economics. *Journal of Economic Methodology* 0:0, pages 1-16.
- Enrico Petracca (2017) A cognition paradigm clash: Simon, situated cognition and the interpretation of bounded rationality, *Journal of Economic Methodology*, 24:1, 20-40

28.11.2019 | NUDGE, NUDGE
(BEHAVIORAL ECONOMISTS GO TO WASHINGTON)

- [*] Thaler, Richard H., and Cass R. Sunstein (2003) "Libertarian paternalism." *The American Economic Review* 93.2: 175-179.
- [*] Beaulier, Scott, and Bryan Caplan. (2007) "Behavioral economics and perverse effects of the welfare state." *Kyklos* 60.4: 485-507.
- Christian Berndt (2015) Behavioural economics, experimentalism and the marketization of development, *Economy and Society*, 44:4, 567-591.

05.12.2019 | SEDUCED MILKMEN
(NUDGE AND ITS CRITICS)

- [*] Infante, Gerardo, Guilhem Lecouteux & Robert Sugden (2016) Preference purification and the inner rational agent: a critique of the conventional wisdom of behavioural welfare economics, *Journal of Economic Methodology*, 23.1: 1-25.
- Sugden, Robert (2017) Do people really want to be nudged towards healthy lifestyles? *International Review of Economics* 64: 113-123.

- Sunstein, C.R. (2018) "Better off, as judged by themselves": a comment on evaluating nudges, *International Review of Economics* 65: 1-8.

12.12.2019 | SELF DEFENSE AGAINST FRESH FRUIT

(DEFEND ECONOMICS AGAINST AN ATTACKER ARMED WITH FRESH FRUIT)

- [*] Boyer, P., & Petersen, M. (2018). Folk-economic beliefs: An evolutionary cognitive model. *Behavioral and Brain Sciences*, 41, E158
- Swedberg, Richard (2018) Folk economics and its role in Trump's presidential campaign: an exploratory study. *Theory and Society* 47.1: 1-36
- Shiller, Robert J. 2017. "Narrative Economics." *American Economic Review*, 107 (4): 967-1004

TBA | EXAM

- Exam