

Princeton University
Department of Economics
ECO/CHV 345. *Ethics and Economics*

T. Leonard
Bobst 105
AI: Andrei Hagiu

TuTh 11:00-12:20
Spring 2003

Course description

This course does not offer a survey or a theory of ethical thought. We do not attempt to seriously canvas the demands that morality makes, still less to justify them. Our main project is to consider ethical issues in application - as they arise in the course of social exchange, priced and unpriced.

All human action has a moral dimension. Market behavior and theories of it are no exception. No one denies that ethics are relevant to normative ("welfare") economics. When economists judge economic arrangements to be good or bad, right or wrong, they use, as they must, ethical criteria. But ethics plays a role in "positive" economics too, both as an input and as an output. Ethical commitments affect economic thought, and economic thought can affect ethical commitments.

The input role is easier to see. Ethical commitments affect the choices individuals make and thereby have economic consequences. "People are motivated by ethical considerations," Amartya Sen argues, "whether or not they, in practice, wholly abide by what they morally defend." To the extent that morality is important to economic life, it is important to economic theory. Economic actors, for example, regard some prices (and wages, and interest rates) as unjust; they care about the distribution of gains; they think that some business practices are wrong, and will pay to avoid them; they believe that reward should be connected with effort (and sometimes with performance), but also that the dispersion of income has moral implications; they think that some goods should not be traded, or should not be priced, and they sometimes have a view of what, if anything, the state can rightly do to promote these and other ethical judgments.

The output effect is more indirect, but no less real. Economic thought, whether or not it explicitly considers the ethical inputs to decision making, influences government policies. And government policies, which have ethical consequences of themselves, affect the ethical choices of citizens, choices made in markets and elsewhere. Finally, the very terms in which economists conceptualize and explain individual choices themselves have moral implications (Hausman and McPherson 1996: 214-15), and may even affect the ethical views of persons influenced by them.

Personnel

My office is Fisher 314, 258-4036; tleonard@princeton.edu. My office hours are TuTh 1:30-3:00p.m. My assistant is Ms. Annamarie Scarpati, Fisher 208, 258-6237, scarpati@princeton.edu. The course AI is Andrei Hagiu, 258-0301, hours TBA. ahagiu@princeton.edu.

Requirements

Your grade in the course will derive from four sources: (1) three written assignments (papers of 5-6 pages each), (2) a take-home mid-term examination, and (3) a take-home final examination, and (4) class participation. In determining your course grade, we will use the following weights: papers (27%), mid-term examination (25%), and final examination (43%), and class participation (5%). **In all cases, no late submissions will be accepted.** Assignments will be posted on the course page, and are due to Annamarie Scarpati no later than 4:00 p.m. of 7 days thereafter.

<i>Assignment</i>	<i>Posted to Course Page on</i>	<i>Due to Fisher 208, 4:00 on</i>
1 st assignment	W 2/19	W 2/26
Mid-term	Fr 3/7	Fr 3/14
2 nd assignment	W 4/2	W 4/9
3 rd assignment	W 4/23	W 4/30
Final	M 5/12	M 5/19

Graded assignments can be retrieved from Ms. Scarpati in Fisher 208, Tu Th 2-4pm.

Readings

Required text: Hausman, Daniel and Michael McPherson. 1996. *Economic Analysis and Moral Philosophy (EAMP)* Cambridge: Cambridge University Press.

Other readings listed in the course outline that follows are on e-reserve, accessible through course page or Firestone page, (and) or are posted on course page under "documents", (and) or have direct URL links provided below.

ECO 345/CHV 345 Ethics and Economics: outline

* optional reading

I. Introduction

1) Political Economy out of Moral Philosophy

A) Vignette 1: Should the World Bank encourage migration of dirty industries to LDCs?

Hausman and McPherson, *EAMP* pp. 9-16.

B) *Vignette 2: How the Dismal Science got its name. J.S. Mill vs. Carlyle. Carlyle, a critic of capitalism, defends the racism and brutal slavery that Economists attack.

<http://www.econlib.org/library/Columns/LevyPeartdismal.html>

A wealth of primary and secondary historical sources can be found at:

<http://cepa.newschool.edu/het/essays/texts/negroquest.htm#links>

2) Some preliminaries that deserve more time than they'll get: Rationality, Ethics, Welfare and Utility

A) *Rationality*

Hausman and McPherson, *EAMP* pp.27-37.

Hargreaves Heap, Sean. "Rationality" in *The Theory of Choice: A Critical Guide*. Blackwell, pp. 3-25.

*Sugden, Robert. 1991. "Rational Choice: A Survey of Contributions from Economics and Philosophy" *Economic Journal* 101: 751-85.

<http://links.jstor.org/sici?sici=0013-0133%28199107%29101%3A407%3C751%3ARCASOC%3E2.0.CO%3B2-6>

*Mullainathan, Sendhil and Richard Thaler (2000) "Behavioral Economics" MIT working paper 00-27

http://papers.ssrn.com/paper.taf?abstract_id=245828

B) *Ethics*

Hamlin, Alan. 1986. "Five views of ethics" in *Ethics, Economics and the State*.

C) *Welfare and Utility: Is it always good to get what you prefer?*

Hausman and McPherson, *EAMP*, pp. 71-83

Broome, John. 1991. "Utility." *Economics and Philosophy* 7:1-12

*Sen, Amartya and Bernard Williams. 1982. "Utilitarianism and Beyond".
In *Utilitarianism and Beyond* (Sen and Williams. eds.) Cambridge:
Cambridge University Press, pp. 1-21.

3) Inter-temporal Choice: Ulysses and dynamic inconsistency

Rabin, Matthew (1998) "Psychology and Economics" *Journal of Economic Literature*, 36 (1), pp. 18-41 (read 38-41)

<http://links.jstor.org/sici?sici=0022-0515%28199803%2936%3A1%3C11%3APAE%3E2.0.CO%3B2-B>

Loewenstein, George and Richard Thaler (1989) "Intertemporal choice"
Journal of Economic Perspectives 2(4): 181-93.

<http://links.jstor.org/sici?sici=0895-3309%28198923%293%3A4%3C181%3AAIC%3E2.0.CO%3B2-K>

4) Less liberty by agreement: Can welfare maximization (Paretianism) threaten liberty? When?

Sen, Amartya. 1970. "The Impossibility of a Paretian Liberal." *Journal of Political Economy* 78(1): 152-57. (January/February).

<http://links.jstor.org/sici?sici=0022-3808%28197001%2F197002%2978%3A1%3C152%3ATIOAPL%3E2.0.CO%3B2-W>

Landsburg, Steve. "Is Everybody Happy? The cost-benefit analysis of making folks smile". *Slate Magazine*, Nov. 8, 1999.

<http://slate.msn.com/?id=46376>

Hausman and McPherson. *EAMP*, pp. 174-76.

II. Norms, conventions and cooperation

5) The reason of rules: What are norms and conventions and what do they do?

Hausman and McPherson *EAMP*, pp. 51-65.

Ellickson, Robert 1991. *Order without Law*. Cambridge: Harvard, pp. 1-9 and 123-136 (esp. 123-132).

*Elster, Jon. 1989 "Social norms and Economic Theory" *JEP* 3: 99-117.

<http://links.jstor.org/sici?sici=0895-3309%28198923%293%3A4%3C99%3ASNAET%3E2.0.CO%3B2-M>

6) Where do norms and conventions come from: stone tablets, moral philosophers, evolutionary hard wiring or shock-perturbed multiple equilibria in coordination games?

Frank, Robert, 1988. *Passions within Reason: the Strategic Role of the*

Emotions NY: Norton, pp. 43-70.

Sugden, Robert. 1989. "Spontaneous Order." *JEP* 3(4): 85-97.

<http://links.jstor.org/sici?sici=0895-3309%28198923%293%3A4%3C85%3ASO%3E2.0.CO%3B2-S>

Young, H. Peyton. 1996. "The Economics of Convention" *JEP* 10(2): 105-122.

<http://links.jstor.org/sici?sici=0895-3309%28199621%2910%3A2%3C105%3ATEOC%3E2.0.CO%3B2-H>

7) Why does *homo economicus* sometimes cooperate? Does he observe norms out of duty, in consent, to reciprocate, in fear of reprisal?

A) How do people divide a surplus, and why? How would they?

Camerer, Colin and Richard Thaler. 1995. "Ultimatums, Dictators and Manners" *Journal of Economic Perspectives* 9(2): 209-219.

<http://links.jstor.org/sici?sici=0895-3309%28199521%299%3A2%3C209%3AAUDAM%3E2.0.CO%3B2-Q>

Rabin, Matthew (1998) "Psychology and Economics" *Journal of Economic Literature*, 36 (1), pp. 18-41 (read 16-21).

<http://links.jstor.org/sici?sici=0022-0515%28199803%2936%3A1%3C11%3APAE%3E2.0.CO%3B2-B>

*Hoffman, Elizabeth, et al. 1996. "Social Distance and Other Regarding Behavior in Dictator Games." *American Economic Review* 86(3): 653-660.

<http://links.jstor.org/sici?sici=0002-8282%28199606%2986%3A3%3C653%3ASDAOBI%3E2.0.CO%3B2-Y>

*Andreoni, James and Lise Vesterlund. (2001) "Which is the fair sex: gender differences in altruism" *QJE*

<http://www.ssc.wisc.edu/~andreoni/WorkingPapers/fairsex.pdf>

B) Covenants without the Sword: norms in collective-action problems

Ostrom, Elinor (2000) "Collective Action and the Evolution of Social Norms" *Journal of Economic Perspectives* 14(3): 137-158.

<http://www.e-jep.org/archive/1403/14030137.pdf>

Dawes, Robyn M and Richard H. Thaler (1988) "Cooperation," *Journal of Economic Perspectives*, 2(3): 187-97.

<http://links.jstor.org/sici?sici=0895-3309%28198822%292%3A3%3C187%3AAC%3E2.0.CO%3B2-2>

8) Enforcement costs: How much will individuals pay to punish unethical behavior and to reward ethical behavior?

*Rabin, Matt. 1993. "Incorporating Fairness into Game Theory and Economics" *American Economic Review*. 83(5): 1281-1302.

<http://links.jstor.org/sici?sici=0002-8282%28199312%2983%3A5%3C1281%3AIFIGTA%3E2.0.CO%3B2-X>

A) Meta-norms: how moral force attenuates at higher orders

*Axelrod, Robert. 1986. "An Evolutionary Approach to Norms." *American Political Science Review* 80(4): 1095-1111 (December).

<http://links.jstor.org/sici?sici=0003-0554%28198612%2980%3A4%3C1095%3AAEATN%3E2.0.CO%3B2-4>

B) Prices of life saving drugs: Might price discrimination help the impoverished sick? Might enforcing one price hurt them?

Hal Varian "Economic Scene: Examining Differences in Drug Prices" *New York Times* Sept 21, 2000.

<http://www.nytimes.com/2000/09/21/business/21SCEN.html?printpage=yes>

C) Fair Trade: what is fair about politically correct coffee?

Rushford, Greg. 2002 "Fair Trade: Does this emperor wear clothes" *Milken Institute Quarterly (1st quarter): pp. 40-47.*

<http://www.milken-inst.org/poe.cfm?point=review>

D) Investors and "socially responsible" mutual funds

III. The just price: trade and exploitation

9) Terms of trade: Unjust prices (wages, interest rates) and unjust changes in prices (gouging).

A) Is trade positive- or zero-sum? Is usury trade?

*Thomas Aquinas. *Summa Theologica* in Barry Gordon

B) Who's gouging whom?

Daniel Kahneman, Jack L. Knetsch, Richard Thaler 1986. "Fairness as a Constraint on Profit Seeking: Entitlements in the Market" *The American Economic Review*, 76 (4): 728-741.

<http://links.jstor.org/sici?sici=0002-8282%28198609%2976%3A4%3C728%3AFAACOP%3E2.0.CO%3B2-I>

Robert J. Shiller, Maxim Boycko, Vladimir Korobov. 1991. "Popular Attitudes Toward Free Markets: The Soviet Union and the United States Compared" *The American Economic Review* 81(3): 385-400.

<http://links.jstor.org/sici?sici=0002-8282%28199106%2981%3A3%3C385%3APATFMT%3E2.0.CO%3B2-M>

10) Terms of trade: Can non-fraudulent, informed consensual exchange be exploitive?

A) Distinguishing coercive threats (your money or your life) from non-coercive offers (take it or leave it).

*Katz, Leo 199x. *Ill-gotten Gains*.

B) LDC labor markets: a choice among evils

Taylor, Timothy (2002) "The truth about globalization" *The Public Interest*, pp. 24-44. (On course page)

Kristoff, Nicholas and Sheryl WuDunn (2002) "Two Cheers for Sweatshops" (note the vituperation of the respondents).

<http://www.nytimes.com/library/magazine/home/20000924mag-sweatshops.html>

Krugman, Paul (1997) "In Praise of Cheap Labor" *Slate* March 20.

<http://web.mit.edu/krugman/www/smokey.html>

Krugman, Paul. (2001) "Hearts and Heads" *NYTimes* 4/22/01

<http://www.pkarchive.org/column/42201.html>

Krugman, Paul, "A Raspberry for Free Trade" in *Slate*

<http://web.mit.edu/krugman/www/berries.html>

*Krugman, Paul (1993) "What do Undergrads need to know about trade?"

AER 83(4): 23-26.

<http://links.jstor.org/sici?sici=0002-8282%28199305%2983%3A2%3C23%3AWDUNTK%3E2.0.CO%3B2-T>

C) DC Labor markets: a living wage at Harvard

<http://www.harvard-magazine.com/on-line/010238.html>

"The Connection" radio program on Harvard's living wage

http://realserver.bu.edu:8080/ramgen/w/b/wbur/connection/audio/2001/05/con_0507a.rm

D) Are the gains (and losses) from technological improvements morally different from gains from trade, especially trade with foreigners?

Landsburg, Steve. Chapter two of *Fair Play*

<http://www.netacc.net/~fairplay/chapter.htm>

Cook, Clive. *Economist Survey of Globalization* (Sept 29, 2001)

<http://www.economist.com/surveys/showsurvey.cfm?issue=20010929>

IV. What property should be exchanged?

11) Everything for sale? Should some goods not be tradable (votes, endangered animal skins, cocaine, liberty)?

*Rose-Ackerman, Susan, 1985, "Inalienability and the Theory of Property Rights," *Columbia Law Review*, 85:931.

A) Should some goods be tradeable but not (*explicitly*) priced (sex, human organs, human blood, blackmail-quality information). If some trade is good, why isn't more better?

Radin, Margaret Jane. *Contested Commodities The trouble with trade in sex, children and body parts* Harvard, pp. 1-29.

Arrow, Kenneth. 1997. "Invaluable Commodities." *Journal of Economic Literature* 35(2): pp. 757-65.

<http://links.jstor.org/sici?sici=0022-0515%28199706%2935%3A2%3C757%3AIG%3E2.0.CO%3B2-6>

Archard, David 1998. A Review of Margaret Jane Radin, *Contested Commodities: The trouble with trade in sex, children and body parts*, *Economics and Philosophy* 14(2): 362-68.

i) Human blood

Titmuss, Richard 1971. *The Gift relationship: from human blood to social policy*. (Selections).

Singer, Peter. 1977. "Freedoms and utilities in the distribution of health Care" In *Markets and Morals*. Dworkin et al.eds. NY: Wiley, pp.149-173

Arrow, Kenneth. 1972. Gifts and exchanges. *Philosophy and Public Affairs* 1:343-62.

ii) Human organs

<http://www.nytimes.com/2001/05/27/magazine/27ORGAN.html>

Against organ sales:

<http://sunsite.berkeley.edu/biotech/organswatch/pages/nsh.html>

B) Do trade prohibitions work or is this cure worse than the disease?

Steven E. Landsburg. (2001) "Should we stop Paul Morgan from amputating his feet on the Web? *Slate Magazine* November 26th

<http://slate.msn.com/?id=2058968>

V. What the state can do

12) Paternalism: When does the state know best? When is this sufficient for intervention?

*New, Bill 1999 "Paternalism and Public Policy" *Economics and Philosophy* 15(1): 63-83.

Leonard, Thomas, et al. 2000. "Professor New on Paternalism and Public Policy" *Economics and Philosophy* 16(2): 323-331.

- A) Paternalism or utility interdependence? Payments in kind or cash transfers?
Schelling, Thomas. 1984. "Economic Reasoning and the Ethics of Policy."
In *Choice and Consequence*, Cambridge: Harvard University Press,
pp. 3-26.
Kelman, Steve 1986. "A case for in-kind transfers" *Economics and
Philosophy* 2(1): 55-73

VI. Distribution

13) Ethics of Distribution: (1) who gets what; (2) what do they get; (3) why do they get what they get; (4) should they be getting something else; and (5) does what they get have economic consequences of its own?

- A) Well being or resources?
- B) What's so great about equality, anyway? How to regard Pareto-improving increases in income dispersion?
Hausman and McPerson, *EAMP*, pp. 135-149.
- C) Do changes in pie slicing shrink or enlarge the pie? Do the pie-slicers-in-chief care about pie shrinkage?
- D) Should we regard the distribution of natural talents as morally arbitrary? Should individuals own their inherited human capital? What about their acquired human capital? And if individuals don't own their own human capital, who does and can they be trusted?
Nozick, Robert. 1973. "Distributive Justice" from *Anarchy, State and Utopia*, pp. 149-182 (On course page).
*Dworkin, Ronald 1981a,b. "What is Equality? Parts I and II" *Philosophy and Public Affairs*
*Roemer, John. 1985. "Equality of Talent" *Economics and Philosophy* 1: 151-88.
Varian, Hal. 1985. "Distributive Justice, Welfare Economics and The Theory of Fairness" *Philosophy and Public Affairs*
- E) How do we measure performance, effort and need?

VII. Other

14) Consumption ethics: is more always better? Does greater consumption increase happiness?

- A) Puritanical school: Too much is indecent, or doesn't express "true" preferences.
- B) Relative consumption school. Too much is an inefficient arms-race.
Frank, Robert. 2000. *Luxury Fever*. Princeton: PU Press.
- C) Skeptical school: Is happiness the ultimate goal, anyway?
Sictovsky, Tibor. 1992. *The Joyless Economy* (revised ed.) New York: Oxford.

AS TIME PERMITS:

15) Do economists' views of human behavior influence the behavior of those exposed to them?

*Carter and Irons, 1991. "Are Economists Different and if So, Why?" *JEP* 5(2): 171-177.

Frank, Robert, Thomas Gilovich and Dennis Regan. 1993. "Does Studying Economics Inhibit Cooperation?" *Journal of Economic Perspectives* 7(2): 159-71.

Yezer, Anthony, Robert Goldfarb and Paul Poppen. 1996. "Does studying Economics Discourage Cooperation? Watch What We Do, Not What We Say or How We Play." *Journal of Economic Perspectives* 10(1): 177-86.

Frank, Robert, Thomas Gilovich and Dennis Regan. 1996. "Do Economists Make Bad Citizens?" *Journal of Economic Perspectives* 7(2): 187-92.