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PHILOSOPHY AND ECONOMICS (Ec449)

COURSE OUTLINE AND READING LIST

Lectures: Monday and Wednesday 10:00-11:40

Aims:

The aim of the course is to understand the meaning, relevance, and implications of the 'and' in 'philosophy and economics'. How is, and how ought economics and ethics be related? Is it a relation of limitation, instrumentality or is ethics integral to both positive and normative economics?

Content:

The first part of the course looks at how moral philosophy has been, is and will continue to be relevant to economics. We look at rationality before turning to how moral considerations may play a role in limiting economic transactions or furthering them. It is also important to understand how markets may affect moral behaviour. The second part of the course looks at how we assess actions, outcomes and institutions and focuses on utilitarianism and efficiency in this regard. The third part of the course examines other relevant moral considerations (or "moral theories"): equality, fairness and equity, justice, and rights.

Reading:

The main textbook will be:

Economics Analysis, Moral Philosophy, and Public Policy, (2006), 2rd edition,
Cambridge University Press by D.M. Hausman and M.S. McPherson.
(Henceforth HM)

In addition, students may wish to consult *On Ethics and Economics*, (1987), Blackwell, Oxford UK by Amartya Sen for a useful bibliography.

However, there is no one single textbook that covers all of the topics adequately and so students are required to read the additional texts as specified in the reading list. Those chapters or articles marked with asterisk are optional.

Course evaluation: Term Paper (40%); Final Exam (40%); Class Participation (10%); Presentation (10%)

1. INTRODUCTION: Ethics and Economics or Economics and Ethics?

An overview of the issues that run through the course as well as of possible approaches. Why should economics be interested in moral questions? Can economics offer any insights into philosophy?

Reading:

HM, chapters 1, 2 and 3.

Broome, J. (2000), Why Economics Needs Ethical Theory, *For the Meeting of the British Association for the Advancement of Science, London*.

*Thaler, R.H., (2000), From Homo Economicus to Homo Sapiens, *Journal of Economic Perspectives*, 14.

*Solow, R.M., (1980), On Theories of Unemployment, *The American Economic Review*, 70, 1

Nussbaum, M., (1997), Flawed Foundations: The Philosophical Critique of (A Particular Type of) Economics, *The University of Chicago Law Review*, 64, 4

2. RATIONALITY AND MORALITY

What is rationality? Rationality and utility theory. Is Rationality a normative concept?

Reading:

HM: chapter 4 and 5 (pp 60-72)

Sen, A. "Choice, Orderings, and Morality" in *Choice, Welfare and Measurement*, Harvard University Press (1982)

*Sen, A. (2002), *Rationality and Freedom*, Harvard University Press, pp3-64

*Broome, J., (1999), "Can a Humean be a Moderate" in *Ethics Out of Economics*, Cambridge University Press.

3. ETHICS AND MARKETS: The moral limits of markets

We look at one fundamental issue: are there any moral limits to market activities and if not what are the implications for citizenship, voting etc. Are there some things that money cannot or should not buy?

Reading:

Fred Hirsch, (1976), *The Social Limits to Growth*, Harvard University Press, chapter. 6.

Sandel, M.J. "What Money Can't Buy: The Moral Limit of Markets," *The Tanner Lectures on Human Values*, Brasenose College, Oxford, 1998.

<http://www.tannerlectures.utah.edu/lectures/documents/sandel00.pdf>

Mankiw. G. and Michael Sandel, "On Selling Votes," Greg Mankiw's Blog, November 21, 2007. <http://gregmankiw.blogspot.com/2007/11/on-selling-votes.html>

Karlan, P., (1994), Not by Money but by Virtue Won? Vote Trafficking and the Voting Rights System, 80 *Virginia Law Review*, pp. 1455-1475.

*Ferejohn, J., (1999), It's Not Just Talk, 85 *Virginia Law Review*, Nov, sec. 1, 3, 5.

*Anderson, E., (1993), *Value in Ethics and Economics*, Harvard Univ. Press, chapter. 7.

*Hirschman, A., (1982), Rival Interpretations of Market Society: Civilizing, Destructive, or Feeble? , *Journal of Economic Literature*, 20, 4.

Radin, M.J. (1987): Market Inalienability, *Harvard Law Review*, 100.

4. MARKETS AND ETHICS: Preferences, Behaviour and Norms

What are the underlying preferences behind market behaviour? Is the market a morally free zone? Can there be any departures from the standard assumptions about preferences? We then look at whether there can be a role for ethical considerations if we relax the other Walrasian assumption of complete contracts.

Reading:

Bowles, S. (1998), Endogenous Preferences: The Cultural Consequences of Markets and Other Institutions, *Journal of Economic Literature*, 36, 1.

Gauthier, D. (1986), *Morals By Agreement*, Oxford University Press, chapter 4

Bowles, S (2004), *Microeconomics: Behavior, Institutions, and Evolution*, Russell Sage Foundation, chapters 6 and 7.

Durlauf, S.N., and M. Fafchamps, (2004), Social Capital, *NBER Working Paper*, No. 10485

Greif, A, (1993), Contract Enforceability and Economic Institutions in Early Trade: The Maghribi Traders' Coalition, *American Economic Review*, 83, 3.

*Becker, G.S. and G.J. Stigler, (1977), De Gustibus Non Est Disputandum, *The American Economic Review*, 67, 2.

HM, pp 80-90

*Elster, J. (1989), Social Norms and Economic Theory, *The Journal of Economic Perspectives*, 3, 4.

5. SELF-INTEREST AND MOTIVATION

Pluralism and monism. Continuing with our theme from the previous module we look at the importance of self-interest in economic theory (Adam Smith) and departures from it: commitment.

Reading:

*Sen, A. "Adam Smith's Prudence" in *Theory and Reality in Development*, edited by Sanjay Lall and Frances Stewart.

Sen, A. (1977), Rational Fools: A Critique of the Behavioural Foundations of Economic Theory, *Philosophy and Public Affairs*, 6,4.

*Hirschman, Albert, (1984), Against Parsimony: Three Easy Ways of Complicating Some Categories of Economic Discourse, *Bulletin of the American Academy of Arts and Sciences*, 37, 8.

Griswold, C.L., (1999), "Sympathy and Selfishness, Imagination and Self" in *Adam Smith and the Virtues of Enlightenment*, Cambridge University Press.

Gerschlager, C (2008), Foolishness and Identity: Amartya Sen and Adam Smith, *Working Paper, No. 08-03 RS*, Vienna University of Economics and Business Administration.

*Hirschman, Albert, (1997), *The Passions and the Interests: Political Arguments for Capitalism Before Its Triumph*, Princeton University Press.

* Manent, P., (1998), "The Economic System" in *The City of Man*, Princeton University Press.

6. MARKETS, MOTIVATION AND POLICY

Does the introduction of market mechanisms lead to the crowding out of altruism? We look at the policy implications of markets having an effect on ethical behaviour.

Reading:

Le Grand, J., (2003), *Motivation, Agency, and Public Policy*, Oxford University Press, Chapters: 3 and 4.

Le Grand, J (2001), The Provision of Health Care: Is the Public Sector Ethically Superior to the Private Sector?, *LSE Health and Social Care Discussion Paper no. 1*.

Wright, K., (2002), Generosity versus altruism: Philanthropy and charity in the U.S. and U.K., *Civil Society Working Paper 17*.

*Bowles, S, (2007), Social Preferences and Public Economics: Are good laws a substitute for good citizens?, Santa Fe Institute

Shleifer, A, (2004), Does Competition Destroy Ethical Behaviour?, *American Economic Association Papers and Proceedings*, 94, 2

Titmuss, R., (1972), *The Gift Relationship: From Human Blood to Social Policy*, Vintage Books, pp.70-75, 195-201, and 209-217

*Douglas, M., (2002), *The Gift*, Routledge. Introduction.

*Etzioni, A., (1988), *The Moral Dimension*, The Free Press, Chapter 4.

Frey, B., and R. Jegen., (2001), Motivation Crowding Theory, *Journal of Economic Surveys*, 15, 5

*Besley, T. and M. Ghatak, (2004), Competition and Incentives with Motivated Agents

7. WELFARE AND CONSEQUENCES

We look at utilitarianism and consequentialism, efficiency and cost-benefit analysis as well as their critiques.

Reading:

HM, chapters 7, 8 and 9.

Nussbaum, M., (2000), The Costs of Tragedy: Some Moral Limits to Cost-Benefit Analysis, *The Journal of Legal Studies*, 29, 2

Nussbaum, M., (1985), Aeschylus and Practical Conflict, *Ethics*, 95, 2.

Williams, B. and A. Sen., (1999), *Utilitarianism and Beyond*, Cambridge University Press, Introduction.

*Williams, B., (1993), "Utilitarianism" in *Morality: An Introduction to Ethics*, Cambridge University Press.

Layard, R., (2002), Happiness: Has Social Science A Clue?, *Lionel Robbins Memorial Lectures*

* Sen, A. (1979)., Personal Utilities and Public Judgments: Or what's Wrong With Welfare Economics?, *The Economic Journal*, 89.

8. MORAL THEORIES: Liberty and Rights

In assessing economic outcomes, institutions, processes, should economics be concerned about other moral notions? Here we discuss ideas of liberty and rights.

Reading:

HM, chapter 10.

Sen, A., (2004), Elements of a Theory of Human Rights, *Philosophy and Public Affairs*, 32, 4

*Barr, N., (1998), “Social Justice and the State” in *The Economics of the Welfare State*, Third Edition, Oxford University Press.

9. EQUALITY, EQUITY AND FAIRNESS

Is equality important as a moral ideal and what is the appropriate evaluative space when thinking about equality? What is the relation between equality, priority and justice? Is equality the same thing as equity, fairness?

Reading:

HM, chapter 11.

Frankfurt, H., (1987), Equality as a Moral Ideal, *Ethics*, 98

*Putterman, L. and J.E. Roemer., (1998), Does Egalitarianism Have a Future?, *Journal of Economic Literature*, 36, 2

Sen, A. (2007), *Inequality Reexamined*, Harvard University Press, Preface and Introduction, pp. 1-30.

Walzer, M., (1983), *Spheres of Justice: A Defense of Pluralism and Equality*, BasicBooks, Chapter 1.

Hooker, B., (2005), Fairness, *Ethical Theory and Moral Practice*, 8.

Le Grand, J., (1991), *Equity and Choice*, Harper Collins, chapters 1-5.

*Cuyler, A.J. and A. Wagastaff, (1992), Needs, Equity, and Equality in Health and Health Care, *Centre for Health Economics*, University of York.

Wiggins, D. (1985), “The Claims of Needs” in *Morality and Objectivity*, Routledge, edited by Ted Honderich

*Hont, I. and M. Ignatieff., (1986) “Needs and Justice in the Wealth of Nations”, in *Wealth and Virtue: The Shaping of Political Economy in the Scottish Enlightenment*, Cambridge University Press.

Prafit, D. (1997), Equality and Priority, *Ratio X*

Miller, D., (1997), Equality and Justice, *Ratio X*

10. JUSTICE AND CONTRACTUALISM

We focus on Rawls' Theory of Justice and its importance.

Reading:

HM, chapter 12

Rawls, J. (1985): Justice as Fairness: Political not Metaphysical, *Philosophy and Public Affairs*, 14, 3.

