

SS98in: MARKETS

SS 98in, Fall 2008

Instructor: Dr. Robert Fannion

Office: Hilles Basement Office #9

Office Hours: Tuesday 3-6pm

INTRODUCTION

This course examines the market as a social institution. Living in the modern world, markets shape our lives in profound, pervasive, and often invisible ways. We sell our labor in a market transaction – a choice that determines the content of our daily activities, our social prestige, and often the identity of our colleagues and friends. We choose where and with whom to live based on market transactions for a house or apartment, determining our physical environment and the character of our private lives. We acquire the basic necessities of life through formal, impersonal market transactions. Even our leisure time and most personal pursuits are mediated through the market – the enjoyment of music, literature, communication with our friends, and opportunities to travel or experience new things are usually mediated through market exchanges. The task of interpreting modern society, or indeed our own lives, is impossible without understanding what markets are and how they affect human behavior and social organization.

But despite the importance of markets, the theories that the social sciences have developed to explain them are at best incomplete. The formal theories used by economists rely on questionable assumptions and often ignore the fact that markets as they exist today are created and sustained by a range of private and governmental institutions. More fundamentally, markets are always nested in a broader set of social institutions that shape their actual operation and character. Because of this, it is necessary to draw on a broader range of theories than those offered by neo-classical economics to supplement our ideas of how markets operate and to place our understanding of markets in a meaningful social and political context.

Even as the broader society and politics affect their character, markets shape many aspects of modern social and political life. Because so many problems of social organization in the modern world are dealt with through markets, they affect how society is organized in areas that we normally think of as outside of economics. Our political organization, our social relationships with people and institutions, and even our most basic values are affected by the way in which modern societies use markets.

Over the course of the semester, we will examine markets from the perspectives of economics, political science, and sociology. Theories developed within each discipline will be used to explain how markets are organized, how they affect our political and social lives, and what impact they have on behavior and identity.

By the request of students, this syllabus has been revised to include John Kenneth Galbraith's analysis of the 1929 financial crisis. Week 7 of the course syllabus has been revised to reflect this.

REQUIREMENTS

This seminar requires your participation and engagement in our weekly meetings as well as the completion of a major research paper due at the end of the semester. To facilitate this, you will be asked to submit a 1-page response paper that reflects on the assigned reading each week. This response paper should be sent to the instructor by E-mail (fannion@fas.harvard.edu) before midnight on Tuesday evening. These response papers will be graded on a satisfactory/unsatisfactory basis and will be returned to you each week in class. You may skip *one* response paper over the course of the semester for whatever reason. The eleven response papers will constitute 15% of your final grade in the seminar.

Since this course is a seminar, class participation is essential to its success. Students are expected to come to class prepared to discuss and debate the assigned material. Students are also expected to treat their colleagues in the seminar with courtesy and respect, engaging with their arguments in a manner that is intellectually productive and facilitates learning. Class participation will be worth 15% of the course grade.

You are required to write a 6 page prospectus for your research paper. To fulfill this requirement, you must meet with me once prior to submitting the prospectus (due October 29th) to discuss your paper ideas and review the kinds of research you plan to conduct. After I have returned your prospectus, I will meet with you a second time to review the project you are developing, make suggestions, and insure that your final paper will both fulfill the

objectives for the seminar and help you to use the experience to prepare for your Senior Thesis. The prospectus and our meetings to discuss your project will be worth 20% of your final grade.

The final paper for the seminar should be roughly 25 pages in length and represent a substantial, original research project that addresses a significant theoretical or empirical question. This research paper will be due in our last seminar meeting and will be returned with extensive comments before the end of the final exam period. After I have returned your final papers and you have had a chance to review the comments I made on them, I would like to meet with you to review the paper and discuss your experience in writing it. Though this final meeting is not a requirement, it can be useful for you in applying the lessons you have learned in the seminar and preparing for your future research work. The seminar paper will be worth 50% of your final grade.

BOOKS TO BUY

- Williamson, Oliver. The Economic Institutions of Capitalism. New York, NY. The Free Press. 1985.
- Roy, William G. Socializing Capital: The Rise of the Large Industrial Corporation in America. Princeton University Press. 1997
- Gellner, Ernest. Nations and Nationalism. Ithaca, NY. Cornell University Press, 1983.
- Lindblom, Charles. Politics and Markets. New York, NY. Basic Books. 1977.
- Hochschild, Arlie. The Managed Heart: Commercialization of Human Feeling. Berkeley, CA. University of California Press. 1983. Ch. 2-3 and 6-9.
- Veblen, Thorstein. The Theory of the Leisure Class. New York, NY. Dover Publications. 1994 (1899).
- **[Late Addition]: Galbraith, John. The Great Crash 1929. Boston, MA. Houghton Mifflin. 1954.**

COURSE OUTLINE

UNIT I: THE ECONOMICS OF THE MARKET

Week 1: The Market and Human Nature

- Hirschman, Albert O. The Passions and the Interests: Political Arguments for Capitalism Before Its Triumph. pp. 9-66 (all of part 1)
- Weisskopf, Walter A. "Individualism and Economic Theory." *American Journal of Economics and Sociology*, Vol. 9, No. 3 (April, 1950), pp. 317-333.
- Kahneman, Daniel; Knetsch, Jack L.; and Thaler, Richard. "Fairness as a Constraint on Profit Seeking: Entitlements in the Market." *The American Economic Review*, Vol. 76, No. 4. (Sep., 1986), pp. 728-741.
- Kahneman, Daniel and Tversky, Amos. "Rational Choice and the Framing of Decisions." *The Journal of Business*, Vol. 59, No. 4, Part 2: The Behavioral Foundations of Economic Theory. (Oct., 1986), pp. S251-S278.
- Hirschman, Albert O. "The Concept of Interest." In Rival Views of Market Society and Other Recent Essays. Cambridge, MA. Harvard University Press. 1986.
- Frank, Robert H. Choosing the Right Pond: Human Behavior and the Quest for Status. New York, NY. Oxford University Press. 1986. Chapters 1-2. (pp. 3-35)

Week 2: The Neo-Classical Model and Its Critics

- Marshall, Alfred. Principles of Economics. Amherst, NY. Prometheus Books. 1997 (1920, 1890). pp. 14-28 (Chapter II).
- Stigler, George J. "Perfect Competition, Historically Contemplated." *The Journal of Political Economy*, Vol. 65, No. 1. (Feb., 1957), pp. 1-17.
- Simon, Herbert. "Rationality in Psychology and Economics." *The Journal of Business*, Vol. 59, No. 4, Part 2: The Behavioral Foundations of Economic Theory. (Oct., 1986), pp. S209-S224.
- Hosseini, Hamid. "The Archaic, the Obsolete and the Mythical in Neoclassical Economics: Problems with the Rationality and Optimizing Assumptions of the Jevons-Marshallian System." *American Journal of Economics and Sociology*, Vol. 49, No. 1. (Jan., 1990), pp. 81-92.

Week 3: Institutional Economics – Firms and Contracts

- Coase, Ronald H. "The Nature of the Firm." *Economica*. 4-16: November, 1937. pp. 386-405.
- Williamson, Oliver. The Economic Institutions of Capitalism. New York, NY. The Free Press. 1985. Prologue (1-14), Ch. 1 Transaction Cost Economics (15-42) Ch. 2 Contractual Man (43-67) Ch. 11 The Modern Corporation (273-297)
- Boudreaux, Donald J and Holcombe, Randall G. "The Coasian and Knightian Theories of the Firm." *Managerial and Decision Economics*, Vol. 10, No. 2. (Jun., 1989), pp. 147-154.
- Lazonick, William. Business Organization and the Myth of the Market Economy. New York, NY. Cambridge University Press. 1991. Chapters 2-3. (pp. 59-111)

Week 4: Power in Market Relations

- Marglin, Stephen. "What Do Bosses Do? The Origins and Functions of Hierarchy in Capitalist Production." In Gorz, Andre (ed.) The Division of Labour: The Labour Process and Class Struggle in Modern Capitalism. Sussex, UK. The Harvester Press. 1976. (photocopied)
- Williamson, Oliver. The Economic Institutions of Capitalism. New York, NY. The Free Press. 1985. Chapter 9 The Organization of Work (pp. 206-239)
- Landes, David S. "What Do Bosses Really Do?" *The Journal of Economic History*, Vol. 46, No. 3. (Sep., 1986), pp. 585-623.

UNIT II : THE POLITICS OF THE MARKET

Week 5: Constructing the Market: Laws, Property Rights, and Institutions

- Getzler, Joshua. "Theories of Property and Economic Development." *Journal of Interdisciplinary History*, Vol. 26, No. 4. (Spring, 1996), pp. 639-669.
- Alchian, Armen and Demsetz, Harold. "The Property Right Paradigm." *The Journal of Economic History*, Vol. 33, No. 1, The Tasks of Economic History. (Mar., 1973), pp. 16-27.
- Chandler, Alfred D. Scale and Scope: The Dynamics of Industrial Capitalism. Harvard University Press. 1990. (ch. 2-3)
- Roy, William G. Socializing Capital: The Rise of the Large Industrial Corporation in America. Princeton University Press. 1997. (ch. 1, 3, 5)

Week 6: Political Resources, Freedom, and Democracy

Note: Research paper prospectus due in class today

- Pipes, Richard. Property and Freedom. New York : Alfred A. Knopf, 1999. Chapter 3 England and the Birth of Parliamentary Democracy (pp. 121-151)
- Friedman, Milton, Capitalism and Freedom. Chicago, IL. The University of Chicago Press. 1962 (pp. 1-36: Introduction, Ch 1: The Relationship Between Economic Freedom and Political Freedom, Ch. 2: The Role of Government in a Free Society)
- Dahl, Robert. Dilemmas of Pluralist Democracy. New Haven, CT. Yale University Press. 1982. Chapters 2-3.
- Lindbloom, Charles E. "The Market as Prison." *The Journal of Politics*, Vol. 44, No. 2. (May, 1982), pp. 324-336.
- Lindbloom, Charles E. Politics and Markets: The World's Political-Economic Systems. New York, NY. Basic Books. 1977. Chapters 1-6 (pp. 3-76) and 12-14 (pp. 161-200)

Week 7: Power, Order, and Violence (Revised)

- Polanyi, Karl. The Great Transformation: the Political and Economic Origins of Our Time. New York, NY. Beacon Press. 2004 (1948). Ch. 3-8 and 10-14.
- Hayek, Friedrich A. "Individualism: True and False," "The Use of Knowledge in Society," and "The Principles of a Liberal Social Order" (photocopied)
- Lukes, Steven. Power: A Radical View. New York, NY. Palgrave-Macmillan. 2005. Chapter 1.
- **Galbraith, John. The Great Crash 1929. Boston, MA. Houghton Mifflin. 1954. All**

UNIT III : THE SOCIOLOGY OF THE MARKET

Week 8: Creating Workers and Consumers

- Gellner, Ernest. Nations and Nationalism. Ithaca, NY. Cornell University Press. 1983.
- DiMaggio, Paul J. and Powell, Walter W. "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields." *American Sociological Review*, Vol. 48, No. 2. (Apr., 1983), pp. 147-160.
- Veblen, Thorstein. The Theory of the Leisure Class. New York, NY. Dover Publications. 1994 (1899). Chapters 2-3.

Week 9: Consumerism

- Dittmar, Helga. The Social Psychology of Material Possessions. Hempstead, UK. St. Martin's Press. 1992. Chapter 1, Chapter 3 (skim), Chapter 4 (skim), Chapters 5-7.
- McCracken, Grant. "Culture and Consumption: A Theoretical Account of the Structure and Movement of the Cultural Meaning of Consumer Goods." *The Journal of Consumer Research*, Vol. 13, No. 1. (Jun., 1986), pp. 71-84.
- Veblen, Thorstein. The Theory of the Leisure Class. New York, NY. Dover Publications. 1994 (1899). Chapter 7.
- Galbraith, John Kenneth. The Affluent Society. New York, NY. Houghton Mifflin. 1958. Chapters 10-11 and 23. (pp. 114-131 and 243-254)

Week 10: Labor Markets, Inequality, and Social Difference

- Tilly, Charles. Durable Inequality. Berkeley, CA. University of California Press. 1998. Chapters 2-3.
- Tilly, Charles. "Changing Forms of Inequality." *Sociological Theory*, Vol. 21, No. 1. (Mar., 2003), pp. 31-36.
- Lin, Nan. "Social Networks and Status Attainment." *Annual Review of Sociology*, Vol. 25. (1999), pp. 467-487.
- Chang, Mariko Lin. "The Evolution of Sex Segregation Regimes." *The American Journal of Sociology*, Vol. 105, No. 6. (May, 2000), pp. 1658-1701.

Week 11: Identity and Morality

- Hochschild, Arlie. The Managed Heart: Commercialization of Human Feeling. Berkeley, CA. University of California Press. 1983. Ch. 2-3 and 6-9.
- Hirschman, Albert O. "Rival Views of Market Society." In Rival Views of Market Society and Other Recent Essays. Cambridge, MA. Harvard University Press. 1986.
- Pollay, Richard W. "The Distorted Mirror: Reflections on the Unintended Consequences of Advertising." *Journal of Marketing*, Vol. 50, No. 2. (Apr., 1986), pp. 18-36.