

Princeton University
Department of Economics
ECO 385/CHV 345 Ethics and Economics

T. Leonard
Spring 2007-08

MW 11:00-12:20pm
Friend Center 006

Course description

All human action has a moral dimension. Market behavior and the business of thinking about markets 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 also plays a role in positive economics, both as an input and as an output. Ethical commitments can affect economic thought, and economic thought can affect ethical commitments.

The input role is easier to see. Ethical commitments influence 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 economics and to economic policy. Economic actors, for example, regard some prices (and wages, and interest rates) as unjust; they care about the distribution of gains from trade; 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 distribution of income of itself has moral implications; they think that some goods should not be traded, or should not be priced; they agree that luck is morally arbitrary, 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, if 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, and may even affect the ethical views of persons influenced by them.

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

Personnel

My office is Fisher 314, 8-4036; tleonard@princeton.edu. My office hours are M, W 1.15-2.45p. My assistant is Ms. Geralyn McDermott, Fisher 108, 8-4004, gerlayn@princeton.edu. The course AI is Jade Vishyanond, jvichyan@princeton.edu, Fisher Hall B-10; 258-5409; office hours TBA.

Rescheduling

We will not meet on Monday, March 24 or Wednesday, March 26. These lectures are rescheduled for Friday, February 22 and Friday February 29, respectively (11.00-12.20 in Friend 006, as always).

Requirements

Your grade in the course will derive from four sources: (1) three written assignments (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 (30%), mid-term examination (25%), and final examination (45%). Class participation will count on the margin. In all cases, no late submissions will be accepted. Assignments will be posted on the course page. You must submit, no later than 4.00p on due date, BOTH hard copy to Geralyn McDermott and electronic copy to the Submission Manager, which is located under Assignments on the course page.

<i>Assignment</i>	<i>Posted to Course Page on</i>	<i>Due to Fisher 108, 4:00 on</i>
1st assignment	Tu 2/19/08	Tu 2/26/08
Mid-term	Fr 3/7	Fr 3/14
2nd assignment	Tu 4/1	Tu 4/8
3rd assignment	Tu 4/22	Tu 4/29
Final	M 5/12	M 5/19

Readings

Required text: Hausman, Daniel and Michael McPherson (2006) *Economic Analysis, Moral Philosophy and Public Policy* (2nd edition) Cambridge: Cambridge University Press. Other readings can be found on e-reserves, (and) or are posted on the ECO 385/CHV 345 course page, (and) or have direct URL links provided below.

ECO 385/CHV 345 Ethics and Economics course outline

* denotes optional reading

I. Introduction

Week 1 (2/4,2/6) lectures 1-2

0) Introduction to the course

Hausman and McPherson, pp. 3-11

Summers, Larry (2003) Sermon given in Memorial Church, Harvard University

1) How Moral Philosophy is relevant to Economics and vice versa

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

Hausman and McPherson, pp. 12-23.

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 oppose.

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

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

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

Week 2 (2/11, 2/13) lectures 3-4

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

A) Rationality and utility theory

Hausman and McPherson, (ch. 4) pp. 43-59.

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<751%3ARCASOC>2.0.CO%3B2-6>

*Read, Daniel (2004) "Utility Theory from Jeremy Bentham to Daniel Kahneman: LSE Working Paper

<http://lse.ac.uk/collections/operationalResearch/pdf/working%20paper%20OR64.pdf>

B) Is it always good to get what you prefer?

Hausman and McPherson, (ch. 8) pp. 118-134

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

Week 3 (2/18, 2/20) lectures 5-6

C) Ethics and ethical traditions: consequentialism (esp. utilitarianism) and deontology

Hausman and McPherson, (in ch. 7), pp. 99-117

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

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

i) The trolley problem

Cohen, Jonathan (2005) "The Vulcanization of the Human Brain" *Journal of Economic Perspectives* 19(4): 3-24 (read: pp. 10-13).

D) Welfare: Pareto and Kaldor-Hicks

Hausman and McPherson, (ch. 5.2), pp. 64-67, (ch. 9) 135-140, 144-155

Week 5 (2/27, 2/29 (FRI, n.b) Lectures 9-10

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

A) Ultimatum games: How do people divide a surplus when they have a stake in the division?

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

<http://links.jstor.org/sici?sici=0895-3309%28199521%299%3A2<209%3AAUDAM>2.0.CO%3B2-Q>

Sanfey, Alan et al. (2003) "The Neural Basis of Economic Decision-Making in the Ultimatum Game" *Science* 300: 1755-1758.

Postrel, V. (2003) "Looking inside the brains of the Stingy" *New York Times*, February 2nd

*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<653%3ASDAOBI>2.0.CO%3B2-Y>

* i) Twins and chimps play Ultimatum games

*Wallace, Björn, et al. (2007) "Heritability of ultimatum game responder behavior" *PNAS* 104(40)

<http://www.pnas.org/cgi/reprint/104/40/15631>

*Jensen, Keith et al. (2007) "Chimpanzees Are Rational Maximizers in an Ultimatum Game" *Science* 318 (5847): 107 - 109

<http://www.sciencemag.org/cgi/reprint/318/5847/107.pdf>

B) Fair division: How do people divide when they don't have a stake?

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

<http://links.jstor.org/sici?sici=0022-0515%28199803%2936%3A1<11%3APAE>2.0.CO%3B2-B>

C) Covenants without the sword: can norms help 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<187%3AAC>2.0.CO%3B2-2>

Week 6 (3/3, 3/5) Lectures 11-12

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

J.-F de Quervain, D. et al. (2004) "The Neural Basis of Altruistic Punishment" *Science*

305: 1254-1258

*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<1281%3AIFIGTA>2.0.CO%3B2-X>

III. The just price

9) Unjust prices (wages, interest rates), unjust *changes* in prices (gouging), and unjust *dispersion* of prices (price discrimination)

A) Unjustly high wages, or taxing Brad Pitt's rents.

Week 7 (3/10, 3/12) Lectures 13-14

B) How ordinary people judge price and wage changes: by cause or consequence

Kahneman, Daniel 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<728%3AFAACOP>2.0.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<385%3APATFMT>2.0.CO%3B2-M>

C) Differential pricing: Unfair price discrimination or efficiency enhancement?

Varian, Hal (1996) "Differential Pricing and Efficiency" *First Monday* 1(2) August.

<http://www.firstmonday.org/Issues/issue2/different/>

Odlyzko, Andrew (2003) "Privacy, Economics and Price Discrimination on the Internet"

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=429762#PaperDownload

Varian, Hal (2000) "Economic Scene: Examining Differences in Drug Prices" *New York Times* (September 21st)

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

Balakrishan, Aditi (2007) "New Aid Plan Targets More Affluent Families" *Harvard Crimson*, December 11.

<http://www.thecrimson.com/article.aspx?ref=521265>

D) Price gouging: when do price increases constitute gouging?

Gary Becker and Richard Posner (2005) "Should Price Gouging in the Aftermath of Catastrophes Be Punished?" (Becker-Posner blog, October 23)

http://www.becker-posner-blog.com/archives/2005/10/should_price_go.html

Mankiw, Greg (2007) Some economics of Post-Katrina gas-station ownership

<http://gregmankiw.blogspot.com/2007/06/veto-threat.html>

E) Fair Trade Coffee: Paying higher prices in the hope of higher wages for coffee farmers. But who monitors the fairness monitors?

“Voting with your trolley” *The Economist* December 7. (see course page)

Weitzman, Hal (2006) “The bitter cost of ‘fair trade’ coffee” *Financial Times*, September 8.

<http://www.ft.com/cms/s/2/d191adbc-3f4d-11db-a37c-0000779e2340.html>

F) “Socially responsible” mutual funds: paying higher prices for screening out undesirable companies.

Week 8 Spring Break

Week 9 No lectures this week.

Week 10 (3/31, 4/2) Lectures 15-16

10) Just exchange: Ethical aspects of the terms and location of trade

A) Costs and benefits of trade that crosses national political borders

Ben S. Bernanke (2007) “Embracing the Challenge of Free Trade: Competing and Prospering in a Global Economy” *Federal Reserve Board*

<http://www.federalreserve.gov/newsevents/speech/bernanke20070501a.htm>

B) Can non-fraudulent, informed consensual exchange be coercive? Distinguishing coercive (your money or your life) from non-coercive offers (take it or leave it).

C) LDC labor markets: outsourcing is good, but for whom?

Hausman and McPherson, (section 5.3) pp. 67-72.

Kristoff, Nicholas and Sheryl WuDunn (2002) “Two Cheers for Sweatshops” *New YorkTimes*

<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” *New York Times* April 22.

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

Krugman, Paul (1997) “A Raspberry for Free Trade” in *Slate* November 21

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

D) Remedies for low wages: wage floors or income subsidies

i) Minimum wages: how much do poor workers gain?

CBO (2007) “The Effects of Increasing the Federal Minimum Wage Versus Expanding the Earned Income Tax Credit.” January 9.

<http://www.cbo.gov/ftpdocs/77xx/doc7721/01-09-MinimumWageEITC.pdf>

Burkhauser, Richard V. and Joseph Sabia (2005) “Raising the Federal Minimum Wage: Another Empty Promise to the Working Poor.” EPI

http://www.epionline.org/studies/burkhauser_08-2005.pdf

ii) When actual wages are less than a living wage, who should pay the difference?

Living wages at Harvard University

<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

E) When comparing the costs and benefits of trade, what is the relevant moral community?

Tabarrok, Alex (2007) “International Trade and the Moral Community” *Marginal Revolution Blog*, April 30.

http://www.marginalrevolution.com/marginalrevolution/2007/04/trade_and_the_m.html

Week 11 (4/7, 4/9) Lectures 17-18

IV. Commodification: what goods should not be traded or should not be priced?

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

Sandel, Michael (1998). “What Money Can’t Buy: The Moral Limits of Markets” Tanner Lectures on Human Values, May 11 and 12.

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

Radin, Margaret Jane (1996) *Contested Commodities: The trouble with trade in sex, children and body parts*. Harvard, pp. 1-29.

A) The price is wrong: goods that can be traded but not priced (sex, human organs, human blood, blackmail-quality information)?

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<757%3AIG>2.0.CO%3B2-6>

Leonard, Thomas (2004) “The Price is Wrong: Causes and Consequences of Ethical Restraint of Trade” *Journal des Economistes et Sciences Humaines* 14(2): 133-150.

Roth, Alvin (2007) “Repugnance as a Constraint on Markets” *JEP* 21(3): 37-58

<http://kuznets.fas.harvard.edu/~aroth/papers/Repugnance.pdf>

i) Human blood

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

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

Engber, Dan (2006) “The Business of Blood” *Slate Magazine* (Sept 11).

ii) Human kidneys

Satel, Sally (2007) "Supply, Demand and Kidney Transplants" *Policy Review* 144

<http://www.hoover.org/publications/policyreview/8818392.html>

Roth v. Elias "Should there be a market in kidneys" *WSJ*, November 13, 2007

<http://online.wsj.com/article/SB118901049137818211.html>

*See also, in same *WSJ* issue: <http://online.wsj.com/article/SB119490273908090431.html?mod=Econ-One-on-One>

*The effects of framing on "taboo exchange"

*Alan Page Fiske; Philip E. Tetlock (1997) Taboo Trade-Offs: Reactions to Transactions That Transgress the Spheres of Justice. *Political Psychology* 18(2): 255-297.

<http://www.jstor.org/view/0162895x/ap070065/07a00040/0>

Week 12 (4/14, 4/16) Lectures 19-20

iii) Location in queues

Oberholzer-Gee, Felix (2006) "A Market for Time: Fairness and Efficiency in Waiting Lines" *Kyklos* 59 (3): 427-440.

*Bertram, Chris (2003) "Buying into the Queue"

iv) Pricing human health and human life

Ackerman, Frank, Maureen Cropper, James Hammitt, Cass Sunstein (2004) "Is it moral to create markets in human health and life?" *The Environmental Forum* Sept/Oct, pp. 44-50.

B) Does ethical restraint of trade work or is the 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 and should do

12) Paternalism

A) When does the state know best? When is this sufficient for intervention?

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

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

B) Libertarian Paternalism: Oxymoron, or nudging people toward their better angels?

Sunstein, Cass and Richard Thaler (2003) "Libertarian Paternalism" *American Economic*

Review 93(2): 175-179.

Whitman, Glen (2006) "Against the New Paternalism: Internalities and the Economics of Self Control" *Cato Institute Policy Analysis* no. 563, pp. 1-16.

*Glaeser, Edward (2006) "Paternalism and Psychology" *Regulation* (summer): 32-38.
<http://www.cato.org/pubs/regulation/regv29n2/v29n1-6.pdf>

Week 13 (4/21, 4/23) Lectures 21-22

C) Paternalism or utility interdependence? Payments in kind or cash transfers?

Hausman and McPherson, pp. 140-44.

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) Why equalize: is equality intrinsically good or instrumentally good? When is it neither? How to regard Pareto-improving increases in income dispersion?

Hausman and McPherson (ch. 11) pp. 174-183.

i) Poverty vs. inequality: Priority for the least well-off vs. narrower distribution with or without poverty?

B) Equality of what? Liberty, Welfare, Resources, Opportunity, Leisure?

Hausman and McPherson (ch. 11) pp. 183-197.

Landsburg, Steve (2007) "Why do the poor have more free time than the rich?" *Slate*, March 9.

<http://www.slate.com/id/2161309/>

Week 13 (4/28, 4/30) Lectures 23-24

C) Contractualism: Rawls and the veil-of-ignorance connection between rationality and principles of distributive justice

Hausman and McPherson (ch. 12) pp. 199-213

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 the human capital they possess, who does, and can they be trusted?

Nozick, Robert. 1973. "Distributive Justice" from *Anarchy, State and Utopia*, pp. 149-182.

Nozick, Robert, pp. 213-15; 228-31.

*Dworkin, Ronald 1981a,b. "What is Equality?" Parts I and II *Philosophy and Public Affairs*

i) Why should Rawlsian justice stop at the water's edge?

Interview with Lance Pritchett "Ending Global Apartheid" *Reason* Feb 2008.

<http://www.reason.com/news/show/123912.html>

E) How do we measure inequality (and effort and need)?

VII. Other

14) Consumption ethics: is more always better? Can more choice make us *worse* off?

A) Puritanical school: Too much consumption is indecent, or doesn't express "true" preferences.

B) Relative consumption school. Too much is an inefficient arms race.

Frank, Robert. 2000. *Luxury Fever*, pp. 122-58.

Leonard, Thomas (2008) Review of Robert Frank, *Falling Behind. Constitutional Political Economy*

C) Does *too much* choice make us worse off? How?

Chris Caldwell (2004) "Can you have too many choices?" *Slate* February 23

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.

A) What makes people think like economists?

Caplan, Bryan (2001) “What Makes People Think Like Economists? Evidence on Economic Cognition from the Survey of Americans and Economists on the Economy” *Journal of Law and Economics* 44(2), pp.