

**Department of Economics**  
**North-Eastern Hill University, Shillong**

**ECO(C) 301: HISTORICAL PERSPECTIVE OF MODERN ECONOMICS**

**Unit-I. The Neo-Classical Micro-Economic Theory**

- 1.1. Axiomatic structure of the Neo-classical Economics – individualism, atomism, hedonism and utilitarianism, profit motive, full knowledge, rational behaviour, certainty, representativism, arithmomorphism, marginalism, equilibrium, scarcity of resources and allocative optimization. Mathematics and physics as role models of economics.
- 1.2. The theory of consumer's behaviour based on hedonism, rationality, continuity, convexity and transitivity of (given and exogenously determined) utility or preference function and its optimization.
- 1.3. The theory of production based on production functions: allocative efficiency, substitutability. Development of production functions from von Theunen to Ryuzo Sato.
- 1.4. Market Equilibrium theory – partial equilibrium vs. general equilibrium; theory of general equilibrium from Walras to Arrow and Debreu.

**Unit-II. The Neo-Classical Macro-Economic Theory**

- 2.1. The micro-economic base of Macro-economics; the Say-Walras Law; aggregation theory; aggregate consumption and production functions; Aggregate savings and investment functions.
- 2.2. The theories of growth – given (exogenous) technology and conventional inputs, labour, physical capital and human capital, the concept of technological neutrality, steady state capital-output ratio, optimal vs. attainable paths, von-Neumann model and path, clay and putty models, reswitching, the embodied and exogenous technical change. A critique of aggregate growth theories.
- 2.3. The theories of Business Cycles – over-investment, under-consumption, multiplier-accelerator, endogenous and shock-dependent theories.
- 2.4. The Input-Output framework, Leontief production function, equilibrium of the productive economy, price formation, stability and growth in the input-output framework. Computable equilibrium.

**Unit-III. The Economics of Knowledge, Transaction Costs and Bounded Rationality**

- 3.1. Paradoxes in the neo-classical theory of consumer's behaviour, intransitive preference structure, multi-commodity consumption baskets, issues of quality and complementarity, experimental findings; the development of experimental economics; major findings.
- 3.2. Imperfect knowledge, multiple mutually inconsistent objectives/goals, partial knowledge of objective functions to optimize, the concept of bounded rationality; satisficing behaviour.
- 3.3. The theory of transaction costs, decision-making with imperfect knowledge, the principal agent problem, epistemological aspects of emergence of uncertainty,

decision-making under risk and uncertainty, emergence of shock and surprise, enterprise, risk and uncertainty.

- 3.4. Growth of knowledge, endogeneity of technological advancement, the knowledge-based economy, Kuhn's theory of growth of scientific knowledge, technology and learning in new growth theory, intellectual property right and emergence of oligopoly.

#### **Unit-IV. Neo-Institutionalist, Evolutionary and Anti-equilibrium Economics**

- 4.1. Equilibrium theory vs. adaptation and evolution theory of large system, anti-equilibrium approach to economics (Kornai), interaction and emergence, learning and adaptive behaviour, complexity and adaptation.
- 4.2. An introduction to the basic tenets of the old institutional economics – its criticism as being devoid of analytical tools, Ronald Coase - development of new institutional economics, basic tenets – methodological issues in (new) institutional economics; Romar (1986), Lucas (1988) and North (1990) on new models of growth.
- 4.3. Evolutionary economics – biological sciences as role model, the dialectics of change, relationship between neo-institutionalism and evolutionary economics, methodology of analysis, the system-theoretic view, models in evolutionary economics, development of neuro-economics, the neural basis of decision-making.
- 4.4. The neo-classical top-down approach vs. bottom-up approach to building economics from interaction among the agents, agent-based (computational) economics, economy as a complex adaptive system, micro-foundations of macro-economics, evolution of institutions.

#### **Reading Materials**

1. Blaug, Marc (1978) *Economic Theory in Retrospect*, Cambridge University Press, Cambridge/New York.
2. Blaug, Marc (1985) *Great Economists Since Keynes: An Introduction to the Lives and Works of 100 Modern Economists*. Harvester Press, Brighton/Barnes & Noble, New York.
3. Bowles, Samuel (2004) *Microeconomics: Behaviour, Institutions and Evolution*, [Indian Edition] Oxford Univ. Press, Delhi.
4. Dopfer, Kurt & Potts, Jason (2007) *The General Theory of Economic Evolution*, Routledge
5. Drobak, J.N. and Nye, JVC (Eds) (1997) *Frontiers of the New Institutional Economics* Academic Press, San Diego/London.
6. Foster, J & Metcalfe, JS [Eds.] (2001) *Frontiers of Evolutionary Economics: Competition, Self-Organization and Innovation Policy*. Edward Elgar, Cheltenham, UK; Northampton, MA, USA (*e-copy available*)
7. Giocoli, Nicola (2003) *Modeling Rational Agents: From Interwar Economics to Early Modern Game Theory*, Edward Elgar
8. Ménard, Claude; Shirley, Mary M. (Eds.) (2005) *Handbook of New Institutional Economics*. Springer Verlag, Berlin/New York.
9. Tesfatsion, L & Judd, KL (2006) *Handbook of Computational Economics*, 2 vols Elsevier.

10. Vromen, J. J. (1995) *Economic Evolution: An Enquiry into the Foundations of New Institutional Economics*. Routledge, London/New York.

### **Additional Reading Materials (a)**

- Alan G. Sanfey, James K. Rilling, Jessica A. Aronson, Leigh E. Nystrom, Jonathan D. Cohen (2003) The Neural Basis of Economic Decision-Making in the Ultimatum Game, *SCIENCE*, VOL 300, pp. 1755-1757.
- Ali, A.M. Crain, W.M. (2002) Institutional Distortions, Economic Freedom, and Growth *Cato Journal*, Vol. 21(3), pp. 415-426.
- Brunn, C (????) Agent-Based Computational Economics - An Introduction.
- Claude Ménard, C (2001) Methodological Issues in New Institutional Economics by, J. of Economic Methodology Vol. 8(1), pp. 1-12.
- Coase, R. (1998) The New Institutional Economics, *The American Economic Review*, Vol. 88(2), pp. 72-74.
- Czegledi, P. (2006) Economic Growth and Institutional Coherence. *New Perspectives on Political Economy*, Vol. 2(2), pp. 1 – 25
- Hodgson G.M. (1998) The Approach of Institutional Economics, *Journal of Economic Literature* Vol. XXXVI (March), pp. 166–192
- Kaufman, Bruce E. (2007) The Non-existence of the Labor Demand/Supply Diagram, and Other Theorems of Institutional Economics
- Lee, F.S. and Keen , S (2004) "The Incoherent Emperor: A Heterodox Critique of Neoclassical Microeconomic Theory", *Review of Social Economy*, LXII(2), 169-199.
- Mallard, G (2003) Bridging Culture and Rationality: Four Modes of Explanation in Economic Sociology.
- Monasso, T (2006) Institutional Economics: Kuhn versus Lakatos, *Wm0391 Philosophy of Science*, pp. 1-6.
- Richter, R (2003) The New Institutional Economics - Its Start, Its Meaning, Its Prospects. Discussion Paper, PaperNIEHist2.doc 11/24/03
- Shiller, R.J. (2005) Behavioural Economics and Institutional Innovation, Cowles Foundation Discussion Paper no. 1499
- Toboso, F (2001) Institutional individualism and institutional change: The search of middle way mode of explanation, *Cambridge J. of Economics*, Vol. 25(6) pp. 714-783.

### **Additional Reading Materials (b)**

- Interview with Ronald Coase
- Chaos theory and institutional economics: Metaphor or model? by van Staveren, Irene
- Expanding the Dialogue between Institutional Economics and Contemporary Evolutionary Economics: Veblen's Methodology as a Framework by Brette, Olivier
- Sent, Esther-Mirjam (???? ) Pluralisms in Economics
- Alessandro Innocenti (????) Paradoxes versus formalism in economics. Evidence from the early years of game theory and experimental economics.
- Business Cycle Theories
- Schools of Thought in Economics
- Garrison, RW ( ????) Hayekian Trade Cycle Theory: A Reappraisal
- Löwe's and Hayek's influence on Harrod's trade cycle theory by Daniele Besomi
- Galor, Oded (2005) "From Stagnation to Growth: Unified Growth Theory"

- New Growth Theory, Technology and Learning
- Kuhn's theory of the growth of scientific knowledge, Part I
- The Concept of Equilibrium in Old Institutional Economics: J. M.Clark, T.B.Veblen and J.R.Commons. by Katia Caldari
- Original Institutional Economics: A Theory for the 21st Century? By Jairo J. Parada
- Giocoli, Nicola (????) "Blanqui Lecture - In the Sign of the Axiomatic Method: Mathematics as the Role Model for Neoclassical Economics"
- Who's afraid of new institutional economics' ideas of institutional change? Michel Zouboulakis

All the papers listed above and many more are available for free download from <http://www.webng.com/economics>