

LDSP 355; ECON 260
Competition, Cooperation and Choice (CCC)
Fall 2010
Tuesday, 3:00-5:40, DCR

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Office Hours: by appointment (best bet!); Tuesday 2:00-3:00

“How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it.” (Smith, *Theory of Moral Sentiments* 1759)

“Man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their **benevolence** only.... It is not from the **benevolence** of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.” (Smith, *Wealth of Nations* 1776)

Why economics? Economists rarely explicitly consider questions of leadership. Micro economists talk about “the individual”, a faceless and nameless agent, the “representative” consumer or firm. But economics is essentially about how individuals come together in social settings (a market place, an organization, a political entity) and make decisions that serve to determine who gets what.

Why leadership? Supposing individuals come together to make such decisions in a group, what does it mean to say the group has a leader and how does the presence of such a leader affect the outcome?

Why Smith? Adam Smith was the first to treat such economic interactions seriously. First and foremost a moral theorist, Smith’s great book, *Theory of Moral Sentiments* [1759], grounded a theory of morals on the human sentiments. In his *Wealth of Nations*, he stressed that we need to help the self, to be “prudent”, to save for ourselves and our families. The juxtaposition of these two great books – one focused on how we help others and do the right thing, the other on how we look after ourselves first – presents a central question for the study of leadership and economics: how individuals, motivated by self- and other-regarding interests and connected by language and rules of action, come together and make decisions affecting the group or polity.

I) Course Description:

Summary: We've got two quite different and yet overlapping sets of interests and training here: leadership studies and economics. For both, the central questions are the

same: how do we come together with a combination of self interest and interests towards others (public interest) and act/make decisions, choose? That's the theme we'll explore throughout the semester.

Why? To understand and then perhaps to influence the myriad of collective choices in which we all play a part, day in and day out.

How?

- The course examines these themes using two sorts of texts, one quite old and the other quite recent. We begin with Mandeville and Smith, while considering the context of the work: the development of the modern industrial society and two extraordinarily important policy debates, on slavery and enfranchisement. Today, economists have rediscovered Smithian insights and this will be our second major focus.
- So, our second sort of texts and source of evidence will be experimental economics. We'll read about experiments and conduct some (albeit simple) experiments in class. Contemporary game theoretic and experimental research examines how cooperative behavior emerges in a setting where individual interests sometimes conflict with the interest of the group (or society) and these will help us frame our discussions of the experimental outcomes.
- The prisoners' dilemma game will be an important cornerstone of our investigations along these lines. We consider what institutional frameworks most facilitate cooperation in a repeated prisoner's dilemma setting: competition, repetition, punishment and reciprocity. Finally, we will look at public goods games, in which players choose to cooperate or not; and see what mechanisms facilitate cooperation in this setting.
- So, the class will have an experimental emphasis -- so that we can in and of ourselves come to better understand some of Smith's insights, the "theoretical" pieces of leadership and economics.

Required texts:

Peart, Sandra J. and David M. Levy. 2005. *The "Vanity of the Philosopher": From Equality to Hierarchy in Post-Classical Economics*. Ann Arbor: University of Michigan Press.

Smith, Adam. 1759. *The Theory of Moral Sentiments*. London: A. Millar, 1790. Sixth edition. <http://www.econlib.org/library/Smith/smMS.html>. If you want to purchase it instead (I recommend this!), get the Liberty Fund edition which is very inexpensive. It's edited by D. D. Raphael and A. L. Macfie and a 1982 reprinting (by Liberty Fund) of the 1975 Oxford edition.

Smith, Adam. 1776. *An Inquiry into the Nature and Causes of the Wealth of Nations*. London: Methuen and Co., Ltd Edited by. Edwin Cannan, 1904. <http://www.econlib.org/library/Smith/smWN.html>. If you want to purchase it instead (I recommend this!), get the Liberty Fund edition which is very inexpensive. It's edited by R. H. Campbell and A. S. Skinner, in 2 volumes, 1976 Oxford edition, reprinted in 1979 by Liberty Fund.

Additional Readings:

Mandeville, Bernard, *Fable of the Bees*
(<http://cepa.newschool.edu/het/profiles/mandev.htm>) and
(<http://andromeda.rutgers.edu/~jlynch/Texts/hive.html>)

Malthus, T. R. *Essay on Population*, 1798 (1st Edition), chapter XVIII,
<http://www.econlib.org/library/Malthus/malPop7.html#Chapter%20XVIII>

McCloskey, Deirdre, TBA (something from her last book, *Bourgeois Virtues*, or the next one, in manuscript, as she desires).

Mises, *Human Action*, “Human Society” (chapter VIII, available online at
<http://www.econlib.org/library/Mises/HmA/msHmA.html>)

Peart, Sandra and David Levy. 2010. “Leadership, Cheap Talk and Really Cheap Talk,” accepted manuscript, *JEBO*.

Rapoport, Anatol, “Prisoner’s Dilemma,” in *Game Theory*, ed. by J. Eatwell, M. Milgate and P. Newman, pp. 199-204.

Smith, V.L., 1997. “The Two Faces of Adam Smith”. *Southern Economic Journal* 65: 1998. <http://pages.towson.edu/jpomy/behavioralecon/twofaces.pdf>

There may be more! I will be constructing some of this on the fly and will add readings as I come across them.

Topics and readings:

Please Note: I'll put links on the blackboard for the sites that are available. In general, your friend in the class will be the Liberty Fund website (www.econlib.org); and the New School website: <http://cepa.newschool.edu/het/>

Weeks 1-3

Topic 1: (Economic) Competition -- self and public interest; rationality; competitive markets; competition and innovation; leadership and competition

Bernard Mandeville, *Fable of the Bees*
(<http://cepa.newschool.edu/het/profiles/mandev.htm>) and
<http://andromeda.rutgers.edu/~jllynch/Texts/hive.html>.

Adam Smith, *Wealth of Nations*, book 1, chapters I-VII.

Friedrich Hayek, "The Use of Knowledge in Society".

Weeks 3-5

Topic 2: (Economic) Virtue -- Smithian sympathy; virtue & right behaviour

Experiment #1: Instructions to be posted; stay tuned!

Adam Smith, *Theory of Moral Sentiments*, Parts I and VI.

Ludwig von Mises, *Human Action*, "Human Society" (chapter VIII), available
online at <http://www.econlib.org/library/Mises/HmA/msHmA.html>.

Weeks 6-7

Topic 3: Biological competition -- Population growth; evolution; eugenics

T. R. Malthus, *Essay on Population* 1798 (1st Edition), chapter XVIII,
<http://www.econlib.org/library/Malthus/malPop7.html#Chapter%20XVIII>

Sandra J. Peart and David M. Levy, *Vanity of the Philosopher*, chapters 1-4; also,
The Secret History of the Dismal Science at Econlib:
<http://www.econlib.org/library/Columns/LevyPeartdismal.html>.

Online PBS video clip:
http://www.pbs.org/wgbh/evolution/library/02/5/1_025_01.html

Midterm Examination, week 7, October 5th

Weeks 8-9

Topic 4: Cooperation in experimental economics

Experiment 2: Instructions to be posted online; stay tuned!

Vernon Smith, "The Two Faces of Adam Smith," *Southern Economic Journal* 65:
1998. <http://pages.towson.edu/jpomy/behavioralecon/twofaces.pdf>

http://en.wikipedia.org/wiki/Experimental_economics.

Hauser, Padgitt, Levy, Peart, Xiao paper (in manuscript)

Weeks 9-10

Experiment #3 -- instructions to be posted online, stay tuned!

Topic 5: Game theory – Collusion, solution concepts (Nash and subgame perfect, etc.); prisoners' dilemma; repetition; sensible knave solution

Adam Smith, *Wealth of Nations*, book 1, chapters VII-X, book 3, chapter I.

Film clip: *A Beautiful Mind*.

http://en.wikipedia.org/wiki/Prisoner's_dilemma.

Rapoport, Anotol, "Prisoner's Dilemma" in *Game Theory*, ed. J. Eatwell, M. Milgate, I P. Newman, pp. 199-204.

Weeks 11-12

Topic 6: Attacks on competition, cooperation and choice

Peart & Levy, *The 'Vanity of the Philosopher'*, chapters 7-9 and the Appendix (with Ali Khan's remarks); "Happiness, Progress and the 'Vanity of the Philosopher'", Parts 1 and 2 at Econlib (<http://www.econlib.org/library/Columns/y2005/PeartLevymalthus.html> <http://www.econlib.org/library/Columns/y2005/PeartLevymalthus2.html>).

Sandra J. Peart & David M. Levy, "Darwin's unpublished letter at the Bradlaugh–Besant trial: A question of divided expert judgment," *European Journal of Political Economy* 24 (June 2008), pp. 343-353; available at science direct: <http://www.sciencedirect.com/science/article/B6V97-4RDR16F-1/1/b6e8168c24f6a066dda4ade029d1c425>.

PAPERS DUE, November 23rd.

Week 14 (November 30th), Deirdre McCloskey, author of *Bourgeois Virtues*

Grading:

Participation (experiments, discussion)	15
Presentations (written, oral, leading discussion).....	15
Midterm (5 th October).....	20
Paper (November 23 rd).....	20
Final exam	30

Notes:

- a) Attendance and participation will make this class work. I expect you each to take ownership of the readings and of the experimental pieces.
- b) To encourage this (!), I intend to have you each present your summary of an assigned reading, both with a written and an oral summary and leadership element (you will **lead** the discussion of the work you have summarized!).
- c) We'll have a number of visitors to our class and that will require some flexibility on the topics and readings above. As those are finalized, I'll let you know and adjust accordingly. This year as always Jepson will host a number of leading thinkers on themes related to leadership. Attendance at Forum and other events is **strongly encouraged**.
- d) If an emergency develops and you must miss a test or assignment, please have someone contact the dean's office so that we can work out an alternative.
- e) If you have a documented disability that requires accommodation, please let me know at your earliest convenience.