

# ECON-271: Foundations of Market Economies

**Time of Class:** MW: 09:00 AM-10:30 AM.

**Room:** MCNB 395

**Instructor:** Professor Jesús Fernández-Villaverde.

**Office:** McNeil 440.

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**Office Hours:** Wed., 2.00-3.00 pm.

**TA:** Harun Alp.

**Office:** McNeil 417.

**Office Hours:** Tuesdays, 4.00-6.00pm.

## 1. Course Outline and Overview

This course will study the historical and intellectual forces behind the appearance of market economies on the world stage. The voyages of exploration undertaken by Europeans in the 15th and 16th century created, in just a few decades, a global economy. By 1600, silver from Mexico was exchanged in Manila for ceramics made in Nanjing (China). After a long trip through the Pacific, Mexico, and the Atlantic, the ceramics ended up in the tables of prosperous merchants in Bruges (modern-day Belgium). How did this integrated global economy appear? How did global interconnections over the centuries shape our current world? How did markets emerge and influence these interconnections? Who were the winners of globalization? And who were the losers? How did economists, political scientists, and others think about the strengths and weakness of market economies? What do theories of justice have to say about market economies? This course will explore these questions and the role that markets have played in history.

Even if the economic theory will structure much of the discussion, insights from intellectual history, cultural history, microhistory, legal history, and institutional history will help to frame the main narrative.

The course will be, as well, truly global. First, beyond the traditional focus of economic history courses on Europe and the Americas, particular attention will be devoted to Africa and Asia. Second, the priority will be to highlight the interconnections between the different regions and to understand how the people living in them negotiated the opportunities and tensions created by the economic transformations triggered by globalization and how they conceptualized the changing lives around them.

Finally, the class will highlight how diverse intellectual traditions handled the challenges presented by historical change.

## 2. Instructor

A few words about myself. My name is Jesús Fernández-Villaverde. I am originally from Spain. I received my undergraduate degree in economics and a law degree from ICADE at Madrid, Spain. I got my Ph.D. in Economics from the University of Minnesota. My research focuses on macroeconomics, econometrics, economic history, and law and economics.

I want to be available for your questions as much as possible. You can always ask questions in or after class. Also, I will hold office hours in my office 440, McNeil Economics Building by appointment. The best way to reach me is via email at [jesusfv@econ.upenn.edu](mailto:jesusfv@econ.upenn.edu). I usually answer questions via email within half a day. Besides, our T.A., Harun Alp, will also hold office hours every week.

### 3. Textbook

Please purchase:

1. The reading package at <http://www.study.net/>.
2. *The Industrial Revolution: A Very Short Introduction*, by Robert Allen, Oxford University Press. We will use it for several readings (I will refer to it as “Allen”). It is very cheap and easy to find on Amazon or other bookstores.

We will also use several chapters from a book on global economic history I am currently writing. I will post pdfs of these chapters online. I will refer to them as “JFV.”

### 4. Course Requirements and Grades

The evaluation of this class will be based on two items: two midterms and class participation.

#### 4.1. Exam

There will be two closed-book midterms. The first midterm will be on October 18 and the second midterm will be on December 11.

Each midterm will consist of three essay type questions, each worth 20 points, and four short questions, each worth 10 points, for a total of 100 points. As we get closer to the exam, I will present some examples of each type of questions.

If you have a problem with the dates of the midterms, please let me know *before* September 30. After September 30, I will NOT accommodate your requests. Note that travel, job interviews, or non-emergency family matters are NOT acceptable reasons to re-arrange the exam.

#### 4.2. Class Participation

During each lecture, I will ask for one or several volunteers (depending on the length of the reading). The volunteers should summarize the readings (or part of, depending on the day) for the day in 5 minutes and offer critical remarks. If there are several volunteers, I will randomize among them (with a preference toward those who have not participated yet). After that summary, we will start a short discussion, where you should show that you read and understood the material.

## 5. Grading Standards

Students taking the course for a letter grade will receive grades from A through D or an F. Students that take the class on a Pass/Fail basis need at least a D+ to pass the class. Poor performance is not a valid reason for an incomplete (I). An incomplete is given only under exceptional circumstances and requires satisfactory completion of a substantial part of the course. Any incomplete must be arranged **before** December 1.

The grade will be equal, in case you participated in class:

$$\text{Points} = 0.5 * \text{best midterm} + 0.25 * \text{worst midterm} + 0.25 * \text{class participation}$$

If you did not,

$$\text{Points} = 0.5 * \text{best midterm} + 0.5 * \text{worst midterm}$$

Note that the grading system is designed to help those who participate in class: their worst midterm will only weight of 25% of the final grade (and I will be more generous grading class participation than grading the midterms). Furthermore, the exam will cover the material in the readings. You will need to go over the readings in any case.

The mapping of points into letter grades is given by:

Points Achieved	Letter Grade	Points Achieved	Letter Grade
96 - 100	A +	72 - 75.75	C +
92 - 95.75	A	68 - 71.75	C
88 - 91.75	A -	64 - 67.75	C -
84 - 87.75	B +	60 - 63.75	D +
80 - 83.75	B	56 - 59.75	D
76 - 79.75	B -	less than 56	NP

## 6. Contents of the Course

In the next pages I present an outline on the topics that I intend to cover and the dates when I intend to do so. We may re-arrange some material once we see how the class develops.

## Part I: From Antiquity to the Middle Ages

- **Lecture 1**, September 6: Administrative details. Introduction.

### Videos:

1. **Milton Friedman - Lesson of the Pencil (10 m.)**: <https://www.youtube.com/watch?v=4ERbC7JyCfU>
2. **Joseph Stiglitz - The State of the Market (4 m.)** <https://www.youtube.com/watch?v=rj8kbn7ojvk>
3. **Michael Sandel - Morality and the Free Market (6 m.)**: <https://www.youtube.com/watch?v=DFVdX4Tje2E>

- **Lecture 2**, September 11: The market economy in Classical Greece.

**Reading:** **Josiah Ober**, *The Rise and Fall of Classical Greece*, Chapters 4 (*Wealthy Hellas: Measuring Efflorescence*) and 5 (*Explaining Hellas Wealth: Fair Rules and Competition*). Princeton University Press.

- **Lecture 3**, September 13: The market economy in Rome.

**Reading:** **Peter Temin**, *The Roman Market Economy*, Chapter 1 (*Economics and Ancient History*). Princeton University Press.

- **Lecture 4**, September 18: The market economy in the Islamic World.

**Reading:** **Avner Grief** (1989), "Reputation and Coalitions in Medieval Trade: Evidence on the Maghribi Traders," *Journal of Economic History* 49:4, pp. 857-882.

- **Lecture 5**, September 20: The market economy in Song's China.

**Reading:** **Dieter Kuhn**, *The Age of Confucian Rule: The Song Transformation of China*, Chapters 10 (*A Changing World of Production*) and 11 (*Money and Taxes*). Harvard University Press.

## Part II: The Age of Exploration

- **Lecture 6**, September 25: Population and Economic Growth.  
**Reading:** JFV, *Treasure fleet*.
- **Lecture 7**, September 27: Geography, Climate, and Environment (I).  
**Reading:** JFV, *Limitations to sovereign power in Western Europe*.
- **Lecture 8**, October 2: Geography, Climate, and Environment (II).  
**Reading:** JFV, *Technological innovation and adoption in the middle ages*.
- **Lecture 9**, October 4: Geography, Climate, and Environment (III).  
**Reading:** JFV, *Big trips*.
- **Lecture 10**, October 9: Energy: The Mover of Output (I).  
**Reading 6:** JFV, *Sea Empires I (Portugal and Spain)*.
- **Lecture 11**, October 11: Energy: The Mover of Output (II).  
**Reading:** JFV, *Sea Empires II (Netherlands and Britain)*.
- **Lecture 12**, October 16: Energy: The Mover of Output (III).  
**Reading:** JFV, *Sea Empires III (Economic Consequences)*.

## Part III: The Dawn of Modern Economic Growth

- **Lecture 13**, October 23: Europe gets ahead: an industrial revolution?  
**Reading:** Allen, Chapters 1 (*Then and now*), 2 (*The Pre-Industrial Revolution, 1500-1700*) and 3 (*Why the Industrial Revolution was British*).
- **Lecture 14**, October 25: Cradle of Modernity: the World Economy from 1870 to 1914.  
**Reading:** Allen, Chapters 4 (*The condition of England*), 5 (*Reform and democracy*) and 6 (*The spread of the Industrial Revolution abroad*).
- **Lecture 15**, October 30: Reactions to the industrial revolution I: Adam Smith, Thomas Robert Malthus, John Stuart Mill.  
**Reading:** Adam Smith, Thomas Robert Malthus, John Stuart Mill: Selections.
- **Lecture 16**, November 1: Reactions to the industrial revolution II: Karl Marx, Friedrich Engels, Max Weber.  
**Reading:** Karl Marx, Friedrich Engels, Max Weber: Selections.
- **Lecture 17**, November 6: Catching Up, Falling Behind (I).  
**Reading:** Alexander Gerschenkron, *Economic Backwardness in Historical Perspective*.
- **Lecture 18**, November 8: Catching Up, Falling Behind (II).  
**Reading:** Noel D. Johnson and Mark Koyama (2017), “States and economic growth: Capacity and constraints” *Explorations in Economic History*, forthcoming.
- **Lecture 19**, November 13: Socialist economies.  
**Reading:** F.A. Hayek (1945), “The Use of Knowledge in Society.” *American Economic Review*, Vol. 35, 519-530.
- **Lecture 20**, November 15: Les Trente Glorieuses.  
**Reading:** Barry Eichengreen (2008), *The European Economy Since 1945*, Chapters 1 (*Introduction*) and 2 (*Mainsprings of Growth*). Princeton University Press.

## Part IV: The Contemporary World

- **Lecture 21**, November 20: Long-run growth.  
**Reading:** *Can innovation save the US economy?* (33 m.): <https://youtu.be/mmQgygsbMps>.
- **Lecture 22**, November 27: Justice in a market economy.  
**Reading:** *John Rawls, Theory of Justice*, Chapter 1 (Justice as Fairness). The Belknap Press of Harvard University Press.
- **Lecture 23**, November 29: Inequality.  
**Reading:** *Branko Milanovic (2016), Global in equality: a new approach for the age of globalization*, Chapter 1 (*The Rise of the Global Middle Class and Global Plutocrats*). Harvard University Press.
- **Lecture 24**, December 4: Limits to markets?  
**Reading:** *Michael Sandel, "What Money Can't Buy: The Moral Limits of Markets."* *The Tanner Lectures on Human Values*.
- **Lecture 25**, December 6: Basic Income.  
**Reading:** *Philippe Van Parijs (1991). "Why Surfers Should Be Fed: The Liberal Case for an Unconditional Basic Income," Philosophy & Public Affairs, Vol. 20, 101-131.*