

ECON-271: Foundations of Market Economies

Time of Class: MW: 2:00 PM-3:30 PM.

Room: STIT B26

Instructor: Professor Jesús Fernández-Villaverde.

Office: PCPE 521.

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Office Hours: Wednesday, 10.00-11.00 am.

TA: Cuimin Ba, cuiminba@sas.upenn.edu.

Office Hours: Wednesday, 4:00-5:00 pm at PCPE 500 and Thursday, 8:00-9:00 am at PCPE 141.

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 in 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 at my office PCPE 521. The best way to reach me is via email at jesusfv@econ.upenn.edu. I usually answer questions via email within half a day. Besides, our T.A., Cuimin Ba, 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.”

Please do note that no material from this class cannot be shared with those outside of the class and CANNOT be posted online.

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 17 and the second midterm will be on December 10.

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**, August 29: 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 5: 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 10: The market economy in Rome.

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

- **Lecture 4**, September 12: The market economy in the Islamic World.

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

- **Lecture 5**, September 17: 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 19: Population and economic growth (I).
Reading: JFV, *Treasure fleet*.
- **Lecture 7**, September 24: Population and economic growth (II).
Reading: JFV, *Limitations to sovereign power in Western Europe*.
- **Lecture 8**, September 26: Geography, climate, and environment (I).
Reading: JFV, *Technological innovation and adoption in the middle ages*.
- **Lecture 9**, October 1: Geography, climate, and environment (II).
Reading: JFV, *Big trips*.
- **Lecture 10**, October 3: Guest lecture by Eric Chaney.
Reading: JFV, *Sea Empires I (Portugal and Spain)*.
- **Lecture 11**, October 8: Geography, climate, and environment (III).
Reading: JFV, *Sea Empires II (Netherlands and Britain)*.
- **Lecture 12**, October 10: Buffer time and review for midterm.
Reading: JFV, *Sea Empires III (Economic Consequences)*.

Part III: The Dawn of Modern Economic Growth

- **Lecture 13**, October 15: 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 22: 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 24: 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**, October 29: Reactions to the industrial revolution II: Karl Marx, Friedrich Engels, Max Weber.
Reading: Karl Marx, Friedrich Engels, Max Weber: Selections.
- **Lecture 17**, October 31: Catching Up, Falling Behind (I).
Reading: JFV, Energy I
- **Lecture 18**, November 5: Catching Up, Falling Behind (II).
Reading: JFV, Energy II.
- **Lecture 19**, November 7: Socialist economies.
Reading: F.A. Hayek (1945), “The Use of Knowledge in Society.” *American Economic Review*, Vol. 35, 519-530.
- **Lecture 20**, November 12: 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 14: Long-run growth.
Reading: *Can innovation save the US economy?* (33 m.): <https://youtu.be/mmQgygsbMps>.
- **Lecture 22**, November 26: 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 28: 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 3: 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 5: Buffer time and review for midterm.
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.*