

# ECON 100A - SECTION NOTES

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## Announcements

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- Deadline Essay planning on Thursday.
- We are going to work on this today and next time. These are by far the most important sections that we will be doing together this semester.
- Here is how we will do it. (1) I will start by giving you a methodology point which I am not writing up here in the notes so make sure to listen carefully and take notes! If you have questions about it, come see me in OH. You might want to deviate from what I will be suggesting today but it seems like a risky strategy. (2) Then, you will be working by groups of 2-3 trying to write the structure of an essay on one prompt from a previous exam. You may use only: a paper and a pen, google scholar, and the list of reference in the course pack to help you. No IA is allowed today. (3) Finally, I will suggest an answer which I will be sharing some reminder bullet points below, along with a fully redacted introduction .
- I will be grading your final exams, and so your attention to these sessions should be excellent predictors of your final score :) On the final exam, you will get a list of essay prompts, choose two, and write an essay for each one. This takes place in person, handwritten, with no notes, and has a total time limit of 2hr 10min.

## Practice Essay Planning

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### Today's Prompt

***The microeconomic way of thinking ignores the role and value of human connection. The market can't be the only way we interact.***

### Introduction Example

*I am giving you below an example of introduction that I redacted and which covers all the criteria. It contains in particular some precise definitions of the terms of the prompt and a discussion of its tensions.*

Microeconomics has long been grounded in a representation of the individual agent (*homo economicus*) as a rational decision-maker guided by self-interest. Within this paradigm, the market, understood as the system of exchange regulated by prices, is conceived as the principal mechanism through which individual actions are coordinated. This vision abstracts from the relational dimension of human life: interactions are reduced to impersonal transactions, and the human bond (trust, cooperation, and the sense of belonging to social groups) is largely effaced. Yet the market cannot exhaust the ways in which human beings relate

to one another. Family, reciprocity, social norms, and non-market institutions also shape economic behavior in fundamental ways. Hence the central question: does microeconomic reasoning neglect the value of social connection, and how might this dimension be integrated into economic analysis? We shall therefore (I) examine the individualistic foundations of standard microeconomics and its conception of the market as a singular mode of interaction; (II) consider the critiques that highlight the importance of human relations and non-market exchanges overlooked by this framework; and (III) analyse the theoretical and empirical efforts to re-embed social ties and the human dimension within contemporary economic thought.

## Essay Plan

*I am suggesting some possible essay planning below. Some very important points about it:*

- *Of course, this is super long and you could only have one/two theoretical and/or empirical points by section (or only have two sections) and do really great! I would rather you explain your argument well rather than trying to fill in as much as you can. I selected a very generic prompt explicitly to be able to fill you with many classic notions that you can re-adapt in your work.*
- *The points I make below are from absolute classic notions and authors, I do not expect you to build an essay on that fully but rather use a combination of some classic ideas/authors and notions from our course along with more recent papers that we have been discussing in sections (either that I brought up, or through the many presentations and reading responses!).*
- *You might want use at least 1-3 classic authors still though (not necessarily the ones cited below), if there are references that you do not know from those I am mentioning below you probably should document yourself about them. They always can be re-used in your essays and are also just usual college references you should be leaving Berkeley with. I will try my best to explain as many as I can.*

## I. The Standard Microeconomic Framework: Methodological Individualism and the Market as a Central Mechanism

**Foundations.** *Homo economicus* lies at the foundation of neoclassical analysis (Walras, Marshall, Pareto). *Methodological individualism* posits that all social phenomena can ultimately be explained by individual choices (Robbins, Friedman). Gary Becker (1960s–1990s) extended microeconomic reasoning to virtually all social domains (family, crime, education) treating non-market behavior as subject to the same logic of optimization. In his *Treatise on the Family* (1981), Becker formalized family altruism by incorporating it directly into individual utility functions: even generosity becomes a matter of individual preference.  $\Rightarrow$  Social interactions are thus instrumentalized, reduced to individual trade-offs.

**The market as allocation mechanism.** The *fundamental theorems of welfare economics* (Arrow & Debreu, 1954) establish that competitive markets aggregate individual preferences

efficiently, leading to Pareto-optimal outcomes. Other coordination modes (hierarchy, tradition, reciprocity) are viewed as defective or inefficient substitutes. F. Hayek (1945) portrayed the market as a “discovery process” through which dispersed information is coordinated by the price system.  $\Rightarrow$  Normatively, the market appears as a universal, self-sufficient mode of interaction, reducing the social bond to anonymous contractual exchange.

## II. Critiques of the Individualist Paradigm: Rediscovering the Social Bond and Non-Market Interaction

**A. The economy embedded in society (Polanyi, Granovetter).** Karl Polanyi (*The Great Transformation*, 1944): before capitalism, economic exchange rested on reciprocity and redistribution, not markets. The nineteenth-century “disembedding” of the economy subordinated society to market logic.  $\Rightarrow$  The market is neither natural nor universal, but a historically contingent institution.

Mark Granovetter (“Economic Action and Social Structure,” 1985): critiques both the under-socialization of neoclassical economics and the over-socialization of sociology. Introduces the concept of *embeddedness*: economic action is embedded in networks of social relations (family, friendship, reputation). Empirical illustrations include job networks, relationship-based finance, and trust-based trade.

**B. Gift, reciprocity, and the moral economy.** Marcel Mauss (*The Gift*, 1924): the triple obligation to *give–receive–reciprocate* constitutes the foundation of social life. The gift is not a market exchange; it creates recognition, bond, and status.  $\Rightarrow$  Economic activity thus carries symbolic and moral dimensions irreducible to calculation.

Alain Caillé and Jacques Godbout (1990s): the “gift economy” as a necessary complement to the market order.

Amartya Sen (“Rational Fools,” 1977): *Homo economicus* is a “rational fool,” mistaking self-interest for rationality. Acts of moral commitment cannot be reduced to instrumental preferences.  $\Rightarrow$  Distinction between moral and utilitarian rationality.

Kenneth Arrow (1972): “Virtually every commercial transaction has within itself an element of trust.” Trust constitutes an informal but fundamental institution (a form of tacit social capital *see*: Coleman, Putnam on which all exchange depends).

**C. Empirical evidence of social behaviour.** Experimental economics (Kahneman, Tversky, Fehr, Gintis, Bowles):

- Ultimatum game: systematic rejection of unfair offers  $\Rightarrow$  sense of fairness.
- Trust game: recurrent cooperation even in the absence of sanction.

$\Rightarrow$  Existence of social preferences (altruism, fairness, conditional reciprocity. Result: human connection directly shapes economic decisions) a phenomenon unexplained by the standard model.

### III. Re-embedding the Human Bond: Towards a Social and Institutional Microeconomics

**A. Behavioural and experimental economics.** Kahneman & Tversky: bounded rationality, heuristics, and cognitive biases. Fehr & Schmidt (1999): model of inequity aversion. Bolton & Ockenfels (2000): ERC model (equity, reciprocity, competition). Samuel Bowles (*The Moral Economy*, 2016): monetary incentives may crowd out civic motivations. Public policy must acknowledge moral motives (civic duty, altruism). Distinction between *homo economicus* and *homo reciprocans*. Herbert Simon (1955): bounded rationality and “satisficing” rather than maximizing behaviour.

**B. Neo-institutionalism and the political economy of social relations.** Douglass North (1990): institutions reduce uncertainty and foster cooperation. Oliver Williamson: transaction governance relies on trust and reputation. Elinor Ostrom (*Governing the Commons*, 1990): management of common resources without market or state; mutual monitoring, graduated sanctions, direct communication.  $\Rightarrow$  Empirical demonstration of viable non-market cooperation. Robert Putnam (1993): social capital (networks and trust norms) enhances institutional performance.

**C. Evolution of preferences and the endogeneity of the social.** Bowles & Gintis (2002): co-evolution of institutions and preferences (evolutionary economics). Akerlof & Kranton (2000): *Economics and Identity* : social identities shape economic choices. Henrich *et al.* (2005): cross-cultural evidence of socially conditioned preferences. Amartya Sen (*Development as Freedom*, 1999): capability approach ie. well-being as real freedom, including participation and social belonging.

**D. New criteria for well-being and economic success.** Stiglitz, Sen & Fitoussi (2009): report on measuring well-being : emphasizing social cohesion and connection. Atkinson (2015): rethinking public policy around equity and social participation. Alternative indicators: Gross National Happiness, social capital, sustainable well-being.