
**Capitalism and Political Economy:
A Freely Available Video Course,
With Readings and a Sample Final**

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Prof. Michael Munger as the instructor
and
Shaun King as the producer of the video content.*

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But Dr. Michael Munger is solely responsible for the outline and content of these videos; all errors of interpretation are Munger’s; the views expressed here do not necessarily reflect the opinions of the Thomas W. Smith Foundation, Dr. James Piereson, or Duke University

Overview: This course serves three distinct purposes.

- The course is an introduction to economics for *non-majors*. It is a self-contained and non-technical overview of the intellectual history of political economy.
- It introduces the notion of a *political* economy, emphasizing the moral and ethical problems that markets solve, and fail to solve.
- It is a bridge to more advanced courses in political philosophy, politics, and economics for the student who wants to sample these disciplines without committing to several semesters of coursework.

Textbooks: The following books were assigned as texts. You may find it useful to obtain these books if you want to follow the lectures closely. But it is possible to follow the lectures simply by doing the readings linked in the “syllabus” below.

| <i>Author's Name</i> | <i>Title</i> | <i>Ed.</i> | <i>ISBN #</i> | <i>Publisher</i> |
|-------------------------|-------------------------------------|-----------------|---------------|------------------|
| Burton Folsom | <u>Myth of Robber Barons</u> | 6 th | 9780963020314 | YOUNG AMERICA'S |
| M.C./K.M. Munger | <u>Choosing in Groups</u> | 1st | 9781107699625 | CAMBRIDGE UNIV |
| Peter Leeson | <u>The Invisible Hook</u> | 1 st | 9780691150093 | PRINCETON UNIV |

SECTION I: INTRODUCTION

Lecture 1: Class introduction and overview.

VIDEO OF LECTURE: <https://youtu.be/Icv9MxTuaTU>

READINGS:

- **Bastiat, Frederic**, *Essays*, What is Seen and Not Seen
Sections 1-2, paragraphs 1.1-1.36
Section 6, paragraphs 1.95-1.125.
(LINK: <http://www.econlib.org/library/Bastiat/basEss1.html>)
- **Bastiat, F.** *Economic Sophisms*,
Chapter 7, “A Candlemakers’ Petition”
Chapter 8, “Differential Tariffs”
(LINK: <http://www.econlib.org/library/Bastiat/basSoph3.html>)
- **Read, Leonard**, “I, Pencil” (LINK: <http://www.econlib.org/library/Essays/rdPnc11.html>)
- **Video: Pickles** (LINK: <http://www.cbsnews.com/video/watch/?id=50143475n>)
- **Stocks, the Stock Market, & the Basics of Trading** (LINK: <http://www.investopedia.com/university/stocks/>)

SECTION II: KEY CONCEPTS IN *POLITICAL* ECONOMY

Lecture 2: Exchange, Specialization, and Institutions

VIDEO: <https://youtu.be/fKdSDPsVcQg>

READINGS:

- **Agriculture and the Origins of Civilization** (LINK: <http://history-world.org/neolithic.htm>)
- **Industrial Revolution** (LINK: <http://history-world.org/Industrial%20Intro.htm>)
- **Radford, R. A.** 1945. “The Economics of a POW Camp,” *Economica*. <http://www-rohan.sdsu.edu/~hfoad/e111su08/Radford.pdf>
- **Munger, M.C.** 2005. “Everybody Loves Mikey.” (LINK: <http://www.econlib.org/library/Columns/y2005/Mungerinvisiblehand.html>)
- **Video 1:** Michael Munger, “Why Do We Exchange Things?” (LINK: http://www.youtube.com/watch?v=W-qGYIRtCcM&feature=player_embedded)
- **Video 2:** Cosmides and Tooby, “Stone Age Minds,” (LINK: http://youtu.be/nNW_B8EwgH4)

Lecture 3: Property

VIDEO: <https://youtu.be/HQPeJZ7dXqM>

READINGS:

- **Locke, John.** *Second Treatise on Government*, Chapter 5, “On Property,” (LINK: <http://www.constitution.org/jl/2ndtr05.htm>) (OPTIONAL: Background on Locke, Stanford Encyclopedia of Philosophy. LINK: <http://plato.stanford.edu/entries/locke-political/>)
- **Rousseau, Jean-Jacques.** “Discourse on Inequality,” Part II. (LINK: http://www.constitution.org/jjr/ineq_04.htm) (OPTIONAL: Background on Rousseau, Stanford Encyclopedia of Philosophy. LINK: <http://plato.stanford.edu/entries/rousseau/>)
- **Schmidtz, David.** 1994. “The Institution of Property.” *Social Philosophy and Policy*. 11:42-62.
- (LINK: <http://davidschmidtz.com/sites/default/files/research-paper/3/InstitutionProperty2012.pdf>)
- **Hinman v. Pacific Air Transport**, 1936, 9th US Circuit Court of Appeals. (LINK: http://www.leagle.com/xmlResult.aspx?xmlDoc=193683984F2d755_1600.xml&docbase=CSLWAR1-1950-1985)
- **Jacques v. Steenberg Homes, Inc.**, 1997, Wisconsin. (LINK: <http://www.wicourts.gov/sc/opinion/DisplayDocument.pdf?content=pdf&seqNo=17010>)
- **Hardin, Garrett.** 1969. “Tragedy of the Commons.” *Science*. (LINK: <http://www.sciencemag.org/content/162/3859/1243.full>)

Lecture 4: Production and Division of Labor

VIDEO: <https://youtu.be/SiKgyMz2LW4>

READINGS:

- **Smith, A.** *The Wealth of Nations*, Book I, Chapters 1-4 (LINK: <http://www.econlib.org/library/Smith/smWN1.html#B.I> , Ch.1, Of the Division of Labor)
- **Durkheim, Emile.** 1897. *Division of Labor in Society* (summary) (LINK: <http://durkheim.uchicago.edu/Summaries/dl.html>)
- **Munger, Michael.** 2015. “Division of Labor.” <http://www.econlib.org/library/Enc/DivisionofLabor.html>
- **Munger, Michael.** 2007. “I’ll Stick with These...” <http://www.econlib.org/library/Columns/y2007/Mungerpins.html>

Lecture 5: Entrepreneurship I

VIDEO: <https://youtu.be/cNfn63WY-Tc>

READINGS:

- **Maugham, Somerset,** “The Verger.” (LINK: <http://www.sinden.org/verger.html>)
- **Folsom, B.W.,** textbook, Chapters 1-2.

Lecture 6: Entrepreneurship II

VIDEO: <https://youtu.be/kyvQT0BdLeA>

READINGS:

- **Munger, M.C.** “Two Steves and One Soichiro.” (LINK: <http://www.econlib.org/library/Columns/y2006/Mungercollectivism.html>)
- **Kirzner, Israel.** “Competition, Regulation, and the Market Process: An "Austrian" Perspective” *Cato Policy Analysis* #18 (LINK: <http://www.cato.org/pubs/pas/pa018.html>)
- **Kirzner, Israel,** “Creativity and / or Alertness: A Reconsideration of the Schumpeterian Entrepreneur” *Review of Austrian Economics*, 1999 11: 5-17. (LINK: <http://link.springer.com.proxy.lib.duke.edu/content/pdf/10.1023%2FA%3A1007719905868.pdf>)
- **Folsom, B.W.,** *textbook*, Chapters 4-5.
- **Andreessen, Marc.** "Why Software is Eating the World," August 20, 2011, *Wall Street Journal*

Lecture 7: Prices, Just Prices, and Opportunity Cost

VIDEO: <https://youtu.be/95FtkIyvFvA>

READINGS:

- **Munger, MC.** “A Fable of the OC.” Library of Economics and Liberty. (LINK: <http://www.econlib.org/library/Columns/y2006/Mungeropportunitycost.html>)
- **Locke, John.** “Venditio.” <https://reconstructingeconomics.com/2014/06/06/venditio-by-john-locke/>
- **Hayek, FA** “The Use of Knowledge in Society,” *AER* 1945 (LINK: <http://www.econlib.org/library/Essays/hykKnw1.html>)
- **Aquinas, T.** *Summa Theologica*, Questions 75-78. (LINK: <http://www.ccel.org/a/aquinas/summa/SS.html>)
- Video 1: Michael Munger, “What Do Prices Know That You Don’t?” (LINK: <http://youtu.be/WPy-QKXofQs>)
- Matt Zwolinski, “Is Price Gouging Immoral?”
(Link: http://www.youtube.com/watch?feature=player_embedded&v=h9QEkw6_O6w)
- Munger, “They Clapped,” Liberty Fund
<http://www.econlib.org/library/Columns/y2007/Mungergouging.html>

Lecture 8: Money and Banks (Guest Lecture: Prof. Richard Salsman)

VIDEO: <https://youtu.be/IgzDNijWYu4>

READINGS:

- **Selgin, George, and Lawrence White.** 1987. "The Evolution of a Free Banking System." *Economic Inquiry*. Volume 25, Issue 3, pages 439–457.
- **The Importance of the Dollar as World Currency** (Podcast with Barry Eichengreen)
(http://www.econtalk.org/archives/2011/06/eichengreen_on.html)
- **Surowiecki, James,** "A Brief History of Money," <http://spectrum.ieee.org/at-work/innovation/a-brief-history-of-money>

Lecture 9: Bitcoin, Cryptocurrency, and the Future of Money

VIDEO: <https://youtu.be/eTGSC42lfmQ>

READINGS:

- The History of Bitcoin <http://historyofbitcoin.org/>
- Vigna, P., and M.J. Casey, *The Age of Cryptocurrency*
- Gavin Andreessen on Bitcoin
(Podcast 1: http://www.econtalk.org/archives/2011/04/andresen_on_bit.html)
(Podcast 2: http://www.econtalk.org/archives/2014/05/gavin_andresen.html)

Lecture 10: The Problem of *Voluntary* Exchange & the Origins of Markets

VIDEO: <https://youtu.be/akgBCshzxhk>

READINGS:

- Aristotle, *Nicomachean Ethics*, Books III and V, (LINK: <http://classics.mit.edu/Aristotle/nicomachaen.mb.txt>)
- Video: Sandel—Justice and Virtue <http://www.justiceharvard.org/2011/02/episode-10/#watch>

SECTION III: THE FRAMEWORK OF CHOICE IN POLITICS

Lecture 11: The Paradigm of Public Choice

VIDEO: <https://youtu.be/fthmwmrxiC4>

READINGS:

- Munger, MC, and KM Munger, *Choosing in Groups*, Chapters 1-2

Lecture 12: Basics of Political Choice I—Preferences

VIDEO: https://youtu.be/pyZWh8zp9_E

READINGS:

- Munger-Munger, *Choosing in Groups*, Chapter 3

Lecture 13: Basics of Political Choice II—Politics

VIDEO: <https://youtu.be/qfOPvnBv3YA>

READINGS:

- Munger-Munger, *Choosing in Groups*, Chapter 4

Lecture 14: Political Choice in Multiple Dimensions

VIDEO: <https://youtu.be/vrQiF3JK8og>

READINGS:

- Munger-Munger, *Choosing in Groups*, Chapter 5

Lecture 15: A Problem with Political Choice—Impossibility

VIDEO: <https://youtu.be/J0aI8H8nWyk>

READINGS:

- Munger-Munger, *Choosing in Groups*, Chapter 7

Lecture 16: Market Failure—Information, Monopoly, and Rent-Seeking

VIDEO: <https://youtu.be/zM0ZTzCDS3I>

READINGS:

- **Cowen, Tyler.** “Public Goods.” <http://www.econlib.org/library/Enc/PublicGoods.html>
- **Hardin, G.** “The Tragedy of the Commons,” <http://science.sciencemag.org/content/162/3859/1243>
- **Munger, MC.** “Orange Blossom Special.” (LINK: <http://www.econlib.org/library/Columns/y2008/Mungerbees.html>)
- “When Is A Potato Chip Not Just A Potato Chip?” (LINK: <http://youtu.be/ljrBEdg-QU4>)
- “Everything You Know About Recycling is Wrong. Cato Unbound” (LINK: <http://www.cato-unbound.org/2013/06/03/michael-c-munger/recycling-can-it-be-wrong-when-it-feels-so-right>)
- “Is National Public Radio a Public Good?” (Planet Money) (<http://www.npr.org/blogs/money/2011/03/28/134863998/the-friday-podcast-economists-on-federal-funding-for-npr>)
- **Akerlof, George A.** (1970). "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism". Quarterly Journal of Economics (The MIT Press) 84 (3): 488–500.
- **Marotta, DJ.** “What is Rent-Seeking?” *Forbes*. (LINK: <http://www.forbes.com/sites/davidmarotta/2013/02/24/what-is-rent-seeking-behavior/>)
- **Munger, MC** “Rent Seek and You Will Find,” Liberty Fund, (LINK: <http://www.econlib.org/library/Columns/y2006/Mungerrentseeking.html>)
- Giving Away Money Costs More Than You Think (LINK: http://youtu.be/XwBP_pqkGJA)

Lecture 17: The Theory of the Firm: Pirates!

VIDEO: <https://youtu.be/a9bRw6ZWIVa>

READINGS:

- **Leeson, P.** *The Invisible Hook*, Chapters 1-8.
- **Michael Munger, Duke University.** Sports and “The Code”
http://www.econtalk.org/archives/2013/07/munger_on_sport.html
- **David Skarbek, Kings College.** Social Order of the Underworld
http://www.econtalk.org/archives/2015/03/david_skarbek_o.html
- **Peter Leeson and the Economics of Piracy**
http://www.econtalk.org/archives/2009/05/leeson_on_pirat.html

SAMPLE COPY OF FINAL EXAM: Test your knowledge...Could you answer these questions, in an essay?

1. The “Median Voter Theorem” is an idealized, hypothetical account of how politics “should” work in democracies.” State the assumptions, and give a sketch of the “proof” of the Theorem. If there is more than one “dimension,” or issue being voted on, we expect that the MVT will no longer work very well. What does this mean for real democracies? What *should* politicians, and political parties, do? How would political scientists analyze the actual performance of an electoral system *compared to that ideal*? Is the “spatial model” plausible as a way to think of politics? Can you think of any alternatives that might be better or more useful? (NOTE: Related to L. Jenke’s lecture)
2. If you were a consultant to the impoverished country of Mungeria, which has hired you to help them develop, what would you recommend? Should they work to develop political institutions, such as political parties, freedom of speech, and elections first? Or should they develop economic institutions, such as property rights, enforceable contracts, and financial institutions such as banks and a stock market first? In your answer make sure you give examples of countries that have tried, and succeeded (and failed) in following these paths. (NOTE: Related to A. Do’s lecture)
3. What are the four classic types of “Market Failures”? Give a detailed definition of each, including why markets left to themselves will fail to achieve Pareto Optimality. (And make sure you define Pareto Optimality!). Then give an example of each, and describe how—at least in principle—direct action by the state might improve outcomes compared to what would be observed in private markets if government does nothing but regulate property, provide legal system, manage currency, etc.
4. What are the major categories of “Government Failure”? Is government failure simply the failure to fix market failures, or is it something deeper? Give an original example of each type of government failure you identify, and describe—at least in principle—which actions might be taken (and by whom) to make government failure less of a problem.
5. What are the best arguments *for*, and the best arguments *against*, a system of private property? What is the alternative? Under what circumstances would a system without private property be preferable? Make sure you discuss the differences in assumptions, and conclusions, for John Locke and Jean-Jacques Rousseau.
6. Thomas Hobbes claims that "covenants, without the sword, are but words." It is possible to represent this claim as a "Prisoner's Dilemma," where everyone would prefer that everyone would "keep their covenants," but given the chance everyone will cheat. The problem is that no one, acting alone, can change the outcome. Explain why "break covenants" is the Nash Equilibrium for the "state of nature" game, and describe how Hobbes' analysis gives a justification for the creation of legitimate state. (NOTE: Related to U. Wen’s lecture)
7. Read the article on “Nail House” (<http://www.thestar.com/news/world/article/1291912--the-story-behind-the-nail-house-sticking-up-in-the-middle-of-a-new-highway-in-china>) and discuss how it illustrates the problems of “collective choice.” What should the government do? Who is wrong here? Why?
8. Sometimes people act alone, sometimes they make choices in markets, but sometimes they choose in groups using tools to help aggregate preferences. In the Mungers (2015) book, an account is given of the Corps of Discovery, commanded by Lewis and Clark. Lewis and Clark were officers, with the formal military rank of Captain. How did the Captains choose to decide where to spend the winter of 1805-1806? Was there a definitive

choice, or was the result confusing? Why might it be valuable, even in a hierarchically organized “group” or society like the CoD, to use some kind of voting procedure?

9. What would it mean for an exchange to be “voluntary”? Why do we care whether an exchange is voluntary or not? Given your answer to the first part, choose one of the following (a. Prostitution; b. Organ Sales; c. Price-Gouging/Scalping) and discuss why we might be concerned about whether an exchange is *eu*voluntary. Should the activity you choose be illegal, or should it be allowed? Why?

10. What is “money”? What makes for a good money? What determines the demand for money? How about the supply of money? What price equilibrates supply of credit and demand for credit? Is “BitCoin” a “good” money? What would it take for BitCoin to become a viable currency for everyday transactions?

11. If markets and prices are so great, why are there firms? Could a system that uses only the price mechanism actually work? We learned that pirate “firms” used a system that relied partly on prices and incentives, and partly on democracy. What are the main features of pirate economics? In particular, explain how the following problems were solved by pirate “firms.”

- a. Control of predation by officers/captains
- b. Problem of incentives to fight bravely
- c. Problem of inducing potential captives not to fight at all

12. What's the difference between rent-seeking and profit-seeking? What is the objective of “political entrepreneurs” and how does it differ from the objective of “economic entrepreneurs?” Which type of entrepreneurial activity adds more (net of costs) to societal well-being, and what type of political systems encourage the one versus the other entrepreneurial type? Give at least two examples of each (and don't take them from Folsom's book!)