

August 2006

George Mason University
Austrian Exam – 2 pages

Answer 5 out of 8.

1. Surely a central feature of Austrian-oriented theorizing these days is a denial of the New Classical reduction of society to a representative agent. Among other things, the emphasis on coordination, entrepreneurship, and the continual acquisition of knowledge with the passing of time gives an emergent tone to Austrian-style theorizing. A quite different literature, known as econophysics, after the anti-reductionism of quantum physics, has likewise sought to explain macro phenomena without reducing those phenomena to the choices of a representative agent, and has even led to the production of a book manuscript entitled Emergent Macroeconomics by a group of Italians. Based on what you know about the similarities and differences between these two bodies of thought, explore a bit your thoughts on the possible synergies between these bodies of thought.

2. The conventional order of movement in economic theorizing is from production to cost, with cost functions being derived from production functions. (Prior to cost, of course, is demand, and the two together give the Marshallian cross, with price being governed by both utility and cost.) If price is governed only by utility, would not a better order of theoretical movement be from cost to production, from the choice of a plan to its subsequent execution? What difference might it make, and along what analytical dimensions?

3. When economists refer to markets or to market theory, they mostly are thinking in terms of equilibrium price, and perhaps to some extent to a size distribution of firms as well. Surely one of the notable features of markets through time concerns its ecological characteristics. There was a market for cars in 1956 just as there is in 2006, but the differences are huge along many dimensions. How would you go about setting forth some contours for bringing some evolutionary orientation to bear on theorizing about the market-based organization of economic activity?

4. The United States currently has high budget deficits and a high and persistent trade deficit. Yet the rates of economic growth and productivity growth have been high. How might an Austrian interpret this combination of facts? Should an Austrian macroeconomist be optimistic or pessimistic in the current environment?

5. Assess the contributions of Joseph Schumpeter to economics and social science; be as specific as possible.

6. Which idea in Austrian economics has been most neglected by the Austrians themselves? How might it be applied to resolve some outstanding economics questions, puzzles, or issues?

7. Ludwig von Mises argued that rational economic calculation under socialism was impossible. Explain Mises's argument and the debate that emerged surrounding it. What are the strongest points of the argument? What are the weakest points in Mises's argument? Does the argument possess any relevance today given that socialism as a policy option seems to have faded from history (or has it)?

8. In which ways is the economics mainstream becoming more Austrian? Less Austrian? Discuss, using specific examples.