

Toulouse School of Economics

Master 1 2012-2013

Markets and Organizations

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First semester, Wednesdays 11.00-12.30 and 14.00-15.30

Course Outline

One of the most fundamental facts about modern societies is that they depend on exchange: almost all of the things we need for our daily lives are produced not by ourselves but by others. Many of these exchanges are conducted between complete strangers. Some exchanges take place through the institution of markets, others through firms and a great variety of non-market institutions. It might seem that a disposition to “truck, barter and exchange” (in Adam Smith’s words) is so natural to human beings that it needs no further explanation, but in fact a careful study of our prehistoric past suggests that it is a profoundly unnatural thing to do, and has become a universal feature of human existence only in the relatively recent past.

This course ask four questions:

- 1) How has exchange with strangers become a near-universal feature of human societies when everything suggests it was a very unnatural thing for our prehistoric ancestors to do?
- 2) Under what circumstances do markets provide a natural and relatively efficient means of undertaking these exchanges?
- 3) What kinds of non-market institution provide an alternative means of undertaking these exchanges, and under what circumstances do they work naturally and efficiently?
- 4) How are changes in the technology of information transmission and processing changing the nature of the institutions that mediate economic exchange?

The topics covered will be as follows (the timing is approximate):

Weeks 1 and 2: The psychological foundations of market exchange

Weeks 3 and 4: The evolution of markets through history

Weeks 5 and 6: Non-market institutions and their evolution through history

Weeks 7 and 8: The Coase question: the fluctuating frontiers of market and non-market exchange

Weeks 9 and 10: Signaling, networks and bidirectional choice

Weeks 11 and 12: The New Information Economy and the future of exchange

There is no textbook for the course but you will be encouraged to read very widely, in psychology, biology, anthropology, history and current affairs as well as in economics.

Here are a few readings to get you started; these are all books that take a “big picture” approach to their respective topics, and contain many other useful references, including specialized ones. Other readings will be suggested as the course proceeds. Within topic the books are listed in alphabetical order:

1) Human psychology as related to economic and social decision making:

Ariely, Dan (2008): *Predictably Irrational*, Harper Collins.

Gilbert, Dan (2006): *Stumbling on Happiness*, Knopf.

Kahneman, Daniel (2012): *Thinking Fast and Slow*, Viking Penguin.

2) The evolution of human cooperative and social capacities:

Bowles, Samuel and Herbert Gintis (2011): *A Cooperative Species*, Princeton University Press.

Churchland, Patricia (2011): *Brain Trust*, Princeton University Press.

Cosmides, Leda and John Toobey (1992): *The Adapted Mind*, Oxford University Press.

Mithen, Steven (1996): *The Prehistory of the Mind*, Thames and Hudson.

Ridley, Matt (1998): *The Origins of Virtue*, Viking Penguin.

Seabright, Paul (2010): *The Company of Strangers: A Natural History of Economic Life*, Princeton University Press, 2nd edition.

3) Human societies during prehistory

Boehm, Christopher (2001): *Hierarchy in the Forest*, Harvard U.P. 2nd edition.

Boyd, Robert and Joan Silk (2009): *How Humans Evolved*, WW. Norton.

Hrdy, Sarah Blaffer (2011): *Mothers and Others*, Harvard U.P.

4) The history of human violence

Gat, Azar (2006): *War and Human Civilization*, Oxford University Press.

Pinker, Steven (2012): *The Better Angels of Our Nature*, Viking Penguin.

5) The development of markets

Kay, John (2004): *The Truth About Markets*, Penguin.

Kling, Arnold and Nick Shultz (2011): *Invisible Wealth: The Hidden Story of How Markets Work*, Encounter Books.

McMillan, John (2003): *Reinventing the Bazaar: A Natural History of Markets*, Norton.

6) Non-market organizations and organizational design

Brickley, James, Jerrold Zimmerman and Clifford Smith (2008): *Managerial Economics and Organizational Architecture*, McGraw-Hill.

7) Signaling and sexual selection

Miller, Geoffrey (2009): *Spent: Sex, Evolution and Consumer Behavior*, Viking Penguin.

Seabright, Paul (2012): *The War of the Sexes: How Conflict and Cooperation Have Shaped Men and Women from Prehistory to the Present*, Princeton University Press.

8) The economic approach to human institutions

Harford, Tim (2006): *The Undercover Economist*, Abacus.

Harford, Tim (2011): *Adapt: Why Success Always Starts with Failure*, Little Brown.

Websites:

A post on my website will contain updated copies of this syllabus as well as of the slides of the lectures (after they have been delivered, not before), as well as any other handouts.

The URL is here:

<http://paulseabright.com/?p=544>

News websites:

We shall devote a certain amount of time in class to discussing current economic events, so I shall expect you to be up to date. Good websites where you can obtain economic news are:

www.economist.com

www.ft.com

www.guardian.co.uk

www.lemonde.fr

www.liberation.fr

www.nytimes.com

www.wsj.com

In addition you can find high quality discussion of economics issues on a number of blogs (alphabetical order by title):

[Chris Blattman](#)

[The Conscience of a Liberal](#) (Paul Krugman)

[Grasping Reality with Both Invisible Hands](#) (Brad DeLong)

[Greg Mankiw's blog](#)

[Library of Economics and Liberty](#) (Bryan Caplan, Arnold Kling, David Henderson)

[Marginal Revolution](#) (Tyler Cowen and Alex Tabarrok)

[Overcoming Bias](#) (Robin Hanson)

[Vox](#) (Richard Baldwin/CEPR)