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Dear Seminar Participant,

On behalf of the entire FEE staff, welcome to *Rebels with a Cause!* We have an exciting three days ahead of us and are confident that you will have an experience that is fun, educational, and memorable!

Throughout the seminar, we will have a host of lectures, activities, and multimedia presentations designed to teach you more about the foundations of free markets and a free society. After the seminar, you will:

- Understand the basic principles of free markets and the freedom philosophy.
- Be able to apply these principles to today’s world and current events.
- Have the tools and resources to become future leaders and educators of liberty.

Our staff and faculty will be at the seminar to make sure that you get the most out of your experience at FEE. We love it when you ask us questions! Your fellow attendees are also great resources, so make sure to branch out, meet new people and develop a liberty-loving network while you are here! Meals, activities, and breaks are specifically designed to give you the freedom to make the most of your experience.

To kick off the summer, we have provided this online student binder filled with all the things you need for the seminar. Inside, you will find a plethora of awesomeness, including a schedule, lecture outlines, and a glossary of economic terms for you to reference.

We won’t have hard copies of the binder available at the seminar, but it will always be available in the [Seminar Facebook group](#), so you should join if you haven’t yet! You can also pull up the binder on your iPad, Kindle, computer, or other techy device at the seminar.

And don’t forget – at the end of the seminar, you will be an official FEE Alumnus. This means that you will have access to the [FEE Alumni Network](#), a Facebook group chock full of resources, events, and opportunities to help you develop both personally and professionally in the liberty movement.

We are really looking forward to spending the week with you! Can’t wait to see you in August!

Best,

Todd Hollenbeck
College Programs Manager
Rebels with a Cause
August 5-8: Clemson, SC - Clemson University

Monday, August 5
3:30 pm – 4:00 pm: Welcome and Introductions
4:00 pm – 5:15 pm: What is Austrian Economics? (Steve Horwitz)
5:30 pm – 6:45 pm: Dinner
7:00 pm – 8:15 pm: Marginal Revolution: The Origins of the Austrian School (Paul Cwik)

Tuesday, August 6
7:00 am – 8:30 am: Breakfast
8:30 am – 9:45 am: The Science of Human Action (Paul Cwik)
10:00 am – 11:15 am: Profit and Loss: Why are They so Important? (Steve Horwitz)
11:30 am – 12:45 pm: Activity
12:45 pm – 2:00 pm: Lunch
2:00 pm – 3:15 pm: Why Can’t Socialism Work? (Ivan Pongracic)
3:30 pm – 4:45 pm: Dr. Hayek or: How I Learned to Stop Worrying and Love the Market (Alex Padilla)
5:00 pm – 6:30 pm: Dinner
6:30 pm – 7:45 pm: Innovation, Risk, and Progress: How do Entrepreneurs Shape the World? (Ivan Pongracic)

Wednesday, August 7
7:00 am – 8:30 am: Breakfast
8:30 am – 9:45 am: The World is Made of Legos, Not Silly Putty (Alex Padilla)
10:00 am – 11:15 am: We are Forever Blowing Bubbles (Paul Cwik)
11:30 am – 12:45 pm: Politics Without Romance (Ivan Pongracic)
12:45 pm – 2:00 pm: Lunch
2:00 pm – 3:15 pm: The Death Spiral of Regulation (Alex Padilla)
3:30 pm – 4:45 pm: Inflation: The Invisible Force That is Robbing You Blind (Steve Horwitz)
5:00 pm – 6:30 pm: Dinner
6:30 pm – 7:45 pm: Faculty Q & A and Closing
8:00 pm – 10:00 pm: Social

Thursday, August 8
7:00 am – 8:30 am: Breakfast
7:00 am – 11:30 am: Students Depart
PARTICIPANT GUIDELINES
We at FEE believe that every individual should be free to live his life in any way that’s peaceful; however, we also believe in the rule of law! Please take a moment to review FEE’s “Rule of Law” below to ensure that we have a smooth-running seminar. Thank you in advance!

<table>
<thead>
<tr>
<th>GUIDELINES</th>
<th>REASON</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The dress code for the week is business casual, so please dress accordingly.</td>
<td>We want to encourage you to put your best foot forward when making first impressions. The dress code will simply follow the professional environment we hope to create.</td>
</tr>
<tr>
<td>2. Please be on time for all lectures and activities. In fact, try to arrive 5-10 minutes early.</td>
<td>It takes time to get settled, and arriving after a session has started will disrupt the speaker and your fellow students.</td>
</tr>
<tr>
<td>3. When asking questions, please wait to get a microphone from a staff member.</td>
<td>We videotape our sessions and want to make sure that everyone can hear your brilliant questions!</td>
</tr>
<tr>
<td>4. Ask questions and engage the speakers, staff, and fellow seminar participants. Make the seminar your own!</td>
<td>You will get as much out of the seminar as you put into it. Be the key driver of your learning!</td>
</tr>
<tr>
<td>5. After each session and meal, please take a moment to pick up your trash as well as trash around your seat.</td>
<td>If we keep up with the trash throughout the seminar, we will avoid a tragedy of the commons later!</td>
</tr>
<tr>
<td>6. Remember that you are guests of Clemson University. Please help us maintain our good relationship by respecting their policies and being considerate of other patrons.</td>
<td>We want to continue to host seminars at CU, so please help us preserve our great relationship with them!</td>
</tr>
<tr>
<td>7. The university reserves the right to ask unruly guests to leave. If this should happen to you, it means that you must also leave the FEE seminar.</td>
<td>The university is ultimately responsible for what happens in its buildings. As their partner in hosting a professional, safe seminar, we will abide by their rules.</td>
</tr>
</tbody>
</table>
FEE STAFF BIOGRAPHIES

Chuck Grimmett
Director of Web Media

Chuck is a graduate of Hillsdale College, where he studied mathematics, economics, and was the photo editor of the college paper. He was a two-time intern at FEE before joining the staff. Chuck loves to kayak, hike, read, and cook. When not running FEE’s digital media, he is a paleo diet blogger and a freelance photographer.

Todd Hollenbeck
College Programs Coordinator

Todd is currently working on his Masters of Business Administration at the University of Colorado at Colorado Springs (UCCS), where he also received his bachelor’s degree in political science. In addition to his work at FEE, he is the Executive Director of the Free Minds Film Festival, a Colorado Springs-based pro-liberty film festival. In 2011, he was the Colorado Campus Coordinator for Students For Liberty and co-founder of the UCCS chapter of Young Americans for Liberty. He has interned at the Independence Institute in Denver, Americans for Tax Reform, and the Leadership Institute.

Richard Lorenc
Director of Programs & Alumni Relations

Richard Lorenc is the Director of Programs & Alumni Relations at the Foundation for Economic Education (FEE). Founded in 1946, FEE inspires, educates, and connects future leaders with the economic, ethical, and legal principles of a free society. He also serves as Senior Advisor to America’s Future Foundation, where he has expanded leadership development programs for young professional conservatives and libertarians to 12 cities and counting.

Lorenc is a graduate of the Charles Koch Institute's Liberty@Work program, a professional development program focused on the practice of Market-Based Management®. Additionally, he serves on the board of directors of the Coalition to Reduce Spending, an advocacy group dedicated to limiting federal spending through programs such as the "Reject the Debt" anti-spending pledge. He is also a member of the Leadership Committee of Young Conservatives for the Freedom to Marry.
Lorenc is the former Director of Outreach of the Illinois Policy Institute, the state's free market think tank. Recently, he led website development for Truth in Accounting's State Data Lab, a tool that empowers citizens, journalists, and legislators with information on the true financial conditions of the 50 states.

Lorenc's writing has been published in the Wall Street Journal, New York Times, Chicago Tribune, Huffington Post, Daily Caller and others. He is a graduate of Emory University and lives in Chicago.

**Sara Walcott**  
**High School Programs Coordinator**

Sara is an economics graduate from Berry College where she worked as the executive editor of the Undergraduate Business and Economics Research Journal for two years. In addition to her studies, she ran on the cross country and track team at Berry for four years and spent her summers at Strong Rock Camp as a counselor and Program Director. She is currently planning her wedding and is getting used to life in the city.
Paul Cwik  
Professor of Economics and Finance in the Division of Management Systems at Mount Olive College

Dr. Cwik is currently Professor of Economics and Finance in the Division of Management Systems at Mount Olive College. He has earned a B.A. from Hillsdale College, Michigan, an M.A. from Tulane University in Louisiana, and a Ph.D. from Auburn University in Alabama. He has taught classes at several colleges and universities such as Auburn University, Campbell University and Walsh College. He has presented academic papers to the Southern Economic Association, the Society for the Development of Austrian Economics, the Prague Conference on Political Economy and at the Austrian Scholars Conferences. He has been published in academic journals that include: "Economic Affairs", "The Quarterly Journal of Austrian Economics", "New Perspectives on Political Economy: A Bilingual Interdisciplinary Journal", and "Business Ethics: A European Review". He is also a reviewer of "Essays in Economic and Business History" and "The Quarterly Journal of Austrian Economics". He has also published in "The Freeman: Ideas on Liberty". Additionally his dissertation has been cited by "The Wall Street Journal", in February 2006.
Steve Horwitz  
Charles A. Dana Professor of Economics at St. Lawrence University

Steven Horwitz is Charles A. Dana Professor of Economics at St. Lawrence University in Canton, NY and an Affiliated Senior Scholar at the Mercatus Center in Arlington, VA. He is the author of two books, *Microfoundations and Macroeconomics: An Austrian Perspective* (Routledge, 2000) and *Monetary Evolution, Free Banking, and Economic Order* (Westview, 1992), and he has written extensively on Austrian economics, Hayekian political economy, monetary theory and history, and the economics and social theory of gender and the family. His work has been published in professional journals such as *History of Political Economy*, *Southern Economic Journal*, and *The Cambridge Journal of Economics*. He has also done public policy research for the Mercatus Center, Heartland Institute, Citizens for a Sound Economy, and the Cato Institute. Horwitz is also a Senior Fellow at the Fraser Institute in Canada and a contributing editor of *The Freeman*. He has a PhD in Economics from George Mason University and an AB in Economics and Philosophy from The University of Michigan. He is currently working on a book on classical liberalism and the family.

Alex Padilla  
Associate Professor of Economics at the Metropolitan State University of Denver

Alexandre "Alex" Padilla is an Associate Professor of Economics at the Metropolitan State University of Denver. He obtained his bachelors, masters, and doctorate degrees in Economics from the Aix-Marseille University in France. His primary research interests are in the fields of applied microeconomics, industrial organization, and law and economics. His doctoral dissertation was on *Insider Trading, Agency Theory, and Corporate Governance*. He has published several academic papers on insider trading in the Quarterly Journal of Austrian Economics, Commentaries in Law & Economics, Florida State Business Review, Journal of Law, Economics, and Policy. His current research studies self-governance mechanisms in non-traditional industries with a special focus on the adult film.
industry. He teaches Intermediate Microeconomics, Law & Economics, Industrial Organization, Economics of Vice and the traditional introduction to economics course sequence. He also is the Director of the Exploring Economic Freedom Project at the Metropolitan State College of Denver. The Exploring Economic Freedom Project is dedicated to educate students and the general public about the role of economic and political freedom in promoting entrepreneurship, economic growth, prosperity, and peace. His opinion pieces have appeared in Forbes Magazine, the Daily Caller, the Denver Post, the Tampa Bay Tribune, and the Pittsburgh Tribune Review. He has appeared on various local shows and more recently on Studio 12 PBS/Colorado Public Television to discuss Amendment 64.

Ivan Pongracic
William E. Hibbs/ Ludwig von Mises Professor of Economics at Hillsdale College

Ivan Pongracic, Jr. is the William E. Hibbs/Ludwig von Mises Professor of Economics at Hillsdale College, where he has been teaching since 2000. He received a Bachelor of Science degree in aerospace engineering from Purdue University in 1992, and his Masters and Doctorate degrees in economics from George Mason University in 1996 and 2004, respectively. Prior to coming to Hillsdale he taught at Indiana Wesleyan University.

He came to truly appreciate the importance of free markets to human liberty and prosperity as a result of growing up in communist Yugoslavia, where he spent the first fourteen years of his life. He further developed his passion for the ideas of liberty and principles of economics through working for and being involved in various ways with many classical liberal and conservative institutions, such as the Foundation for Economic Education, the Independent Institute, Mercatus Center at George Mason University, Cato Institute, and Young America’s Foundation. His first book, “Employees and Entrepreneurship,” was released in 2009.
LECTURE OUTLINES
&
RECOMMENDED READINGS
What is Austrian Economics  
Steve Horwitz

Austrian economics is often misunderstood in both the popular press and among intellectuals. It is not “free market economics” nor is it “an ideology.” The Austrian school is a tradition of economic analysis that dates back almost 150 years to the founding work of Carl Menger in Vienna of the 1870s. The work of the Austrians is a set of ideas that is useful for analyzing and understanding the world; it is not a set of policy conclusions about the value of the free market. Making this distinction is important because the only way Austrian ideas will influence the debate over policy is if the Austrian analysis of human action is valid.

In this talk I will attempt to do two things. First, I will explore ten propositions that define the Austrian school and provide an overview of the week’s other talks. Each of these propositions is “value free” in that each is a claim about either how to do economics or how economies work. None are policy conclusions. The second task is to distinguish these analytical propositions from the more normative claims of libertarianism. Not all libertarians are Austrians, and not all Austrians would call themselves libertarianism. Knowing what Austrian economics isn’t is just as important as knowing what it is.

Pre-Reading:
Follow-Up Reading:
Marginal Revolution: The Origins of the Austrian School
Paul Cwik

The history of the Austrian economists is something that a modern Austrian economist can be proud of. The three major early Austrian economists were Carl Menger, Eugen von Böhm-Bawerk, and Friedrich von Wieser.

Menger may not have intended it, but with the publication of his first book, Principles of Economics (1871), he became the founder of the School of Austrian Economics. Menger’s book is significant in that it was a part of the Marginalist Revolution. The classical economists’ theory of value could not explain the observed world. The idea in the Marginalist Revolution, which Menger shared with William Stanley Jevons and Léon Walras, was that value and all decisions were calculated “at the margin.” In other words, value is determined by decisions regarding incremental units and not based upon values of the whole.

Neo-classical economists and Austrians have moved farther and farther apart on the application of the idea of “marginal.” Austrians have long claimed that they examine marginal utility of items, but this is not quite correct. Austrians are looking at the utility of the marginal unit. The adjective “marginal” is associated with the unit, not utility directly. Neo-classical economists, on the other hand, do not use marginal utility in their development of their concept of demand. With indifference curve analysis, they are comparing total utilities and the “marginal rate of substitution.” In such a formulation Neo-classical economists generate paradoxical Giffen goods, while Austrians do not.

Menger further pushed the boundaries by arguing that economic knowledge was not only scientific, but knowable, understandable and universally applicable to all. The German Historical School (GHS) disagreed with Menger on these points. The result of this disagreement is called “The Methödenstreit” or method war. The GHS argued that there was a German Economics, a French Economics, an English Economics, etc. These different types of economic laws were not universal and depended upon culture. Menger waged a one-man war and was ridiculed by the GHS as being merely “Austrian.” The name stuck and now defines the entire school.

Menger also made significant breakthroughs in the areas of subjective value and the application of the equimarginal principle.
Menger had two followers to carry on this tradition, Böhm-Bawerk and Wieser. They are noteworthy in their own right. Wieser invented the term “marginal utility” and was the first to discover and apply the extremely important idea of opportunity cost.

Böhm-Bawerk has also made significant contributions to economics. In addition to extending the logic of the subjective nature of value, he created models of markets that are still the foundations of today’s modern theory. Additionally, he forcefully illustrated the inherent flaws in the Marxist system. However, Böhm-Bawerk is most well known for his work in the fields of capital theory and interest rate theory.

This lecture will focus on their contributions, their legacies and also attempt to describe the men behind the ideas.

Outline:

- Menger’s Life
  - Analysis of the Marginal Unit
  - Methödenstreit
  - Genetic-Causal approach in Explaining Social Relationships
  - Origin of Money
- Eugen von Böhm-Bawerk
  - Value Theory and Basic Principles
  - Capital and Interest
  - Smashing Marx
- Friedrich von Wieser
  - The Origin of Value
  - Natural Value
  - Social Economics
  - Law of Power
- Other Early Austrians
  - David Green
  - Philip Wicksteed
  - William Smart

Pre-readings:
http://socserv2.socsci.mcmaster.ca/econ/ugcm/3ll3/bawerk/austrian


Further Reading:
Caldwell, Bruce (1990). Carl Menger and his legacy in economics, Annual Supplement to vol. 22 of History of Political Economy.


Yagi, Kiichiro, (2011). Austrian and German Economic Thought: From subjectivism to social evolution,
The Science of Human Action
Paul Cwik

The Austrian approach to economics is radically different in its methodology when compared to the mainstream, neo-classical economics of most textbooks. The difference is that Austrian economics follows the Axiomatic-Deductivist approach. The Axiomatic-Deductivist method allows the user to apply economic models to the real world so that an understanding of the real world can be gained. In contrast, the neo-classical method does not allow the user to be completely certain of his conclusions. For example, the neo-classical economist may believe that demand curves slope downward today because they sloped downward yesterday. However, for the neo-classical economist there is no guarantee that demand curves will slope downward tomorrow. If the basic building block of economics is in question, then how can one ever be certain of any conclusion?

There is no such confusion for the Austrian economist. The Austrian school rejects the application of the positivist methodology, which is correctly applied in the natural sciences, to the realm of the social sciences in general and to economics in particular. The Austrian method replaces the standard scientific method with the Axiomatic-Deductivist method. As a result, the Austrian economist’s principles and conclusions are not the results of tests. Austrian economists’ analyses are the result of applied logic.

This lecture begins with an overview of the Human Action Axiom of purposeful choice. From this axiom the core of economics, the law of diminishing marginal returns and the law of increasing opportunity costs, is established. We continue to use the deductivist method to derive the laws of demand and supply. With supply and demand established a model of the market is created. The lecture then compares the results of a free and unburdened market with that of a market hampered with interventionism.
Outline:

- The Scientific Method
- Criticism of Empiricism
- Deduction and Inference
- Praxeology & Axiomatic-Deductivism
- Creating Economic Theory
- Diminishing Marginal Utility & The Law of Demand
- Increasing Opportunity Costs & The Law of Supply
- Applying Praxeology
- Austrian vs. the Mainstream

Definitions:

Methodological Individualism—people are influenced by others, but action can only be undertaken by individuals. Therefore, the analysis must always be centered on the individual. Be careful of the use of collective nouns.

Axiom of Human Action—is purposeful behavior by humans over economic (scarce) goods. To satisfy our wants and desires, we act. However, not all goals or wants can be satisfied at once. This is due to Scarcity.

Praxeology—is the science of human action. Economics is the most developed branch.

Utility—is a measure of satisfaction that the consumption of goods or services yields an individual.

Principle of Diminishing Marginal Utility—is when the more of a good or service being consumed, the smaller is the marginal utility obtained by consuming one additional unit of the good or service, all other factors being equal.

The Law of Demand—is when the price of a product or service and the amount consumers are willing and able to purchase are inversely related. If price rises, then quantity demanded falls; if price falls, quantity demanded increases, all other things held constant.

The Law of Supply—it when the price of a product or service and the amount that producers are willing and able to offer for sale are positively related. If price rises, then quantity supplied rises; if price decreases, then quantity supplied decreases.
Pre-readings:

Further Reading:
Profit and Loss: Why are They so Important?
Steve Horwitz

At the heart of market economies is the need to decide among alternatives. There are often numerous “technological” ways of accomplishing a particular task, and deciding which of those is the most economically rational, that is, which uses the least valuable resources to achieve the goal, is the question that concerns economics. In the market, it is money prices that enable actors to engage in the monetary calculation necessary to make these decisions, and profit and loss that tell us after the fact whether our decisions were good.

This lecture explores that process of monetary calculation, beginning with the role played by prices as indicators of scarcity and then discussing how that enables entrepreneurs to engage in budgeting to formulate their plans. Profit and loss in a competitive market inform entrepreneurs of their success, enabling them to engage in a new round of monetary calculation to determine what, if any, changes in their production processes are needed. This entire process is best understood as a form of social learning, without which we would be unable to determine whether resources are being used efficiently. Laws that limit profits or bail out losses prevent us from discovering how best to use resources.

Pre-Reading:

Follow-Up Reading:
Why Can’t Socialism Work?
Ivan Pongracic

- Mises showed that it is impossible under socialism to know which goods should be produced and how they should be produced, i.e. to have a rational socialist economic system, due to the absence of market prices and private property which are necessary to making rational economic decisions.
- Hayek added that we all confront the ‘knowledge problem’, the fact that economically important knowledge is dispersed among multitudes of economic actors.
- The only way to overcome it is to allow competition to act as a discovery procedure in order to generate market prices and reveal what should be done and how it should be done.

Readings:


Dr. Hayek or: How I Learned to Stop Worrying and Love the Market
Alex Padilla

Outline:
1. The Economic Problem of the Society
   a. Scarcity
   b. Uncertainty
   c. The Big Question
2. Two Types of Knowledge
   a. Scientific Knowledge
   b. Experiential Knowledge
3. The Use of Knowledge in the Society
   a. The Price Mechanism
   b. Prices & Knowledge
4. Planned Chaos
   a. Central Planning: The Priceless System
   b. The (Impossible) Use of Knowledge in the Socialist Commonwealth

Readings/Videos:
Michael Munger, "What Do Prices “Know” That You Don’t?" LearnLiberty, Available at: http://learnliberty.org/videos/what-do-prices-know-that-you-dont

Innovation, Risk, and Progress: How do Entrepreneurs Shape the World?
Ivan Pongracic

- Capitalism is a dynamic economic system whose primary feature is the ‘perennial gale of creative destruction,’ an economic process whereby new products and processes displace old ones - innovation. Entrepreneurs innovate by putting into practice new ideas. Economic development is completely dependent on this sort of innovation.
- The entrepreneur’s function is to act as the speculator and risk-taker by determining the employment of the factors of production. Successful entrepreneurs are better able to pierce the ‘fog of uncertainty’ than the rest of us.
- Entrepreneurs are thus the driving force of the market, the element tending toward unceasing innovation and improvement, the pioneers of economic progress.

Readings:


The World is Made of Legos, Not Silly Putty
Alex Padilla

1. What is Capital?
   a. Roundabouts of Production
   b. Heterogeneous Capital
2. Interest Theory
   a. Time Preference
   b. Interests and the Coordination Problem
3. The Wealth of Nations
   a. The Division of Labour
   b. The Division of Capital

Readings:
http://www.econlib.org/library/Enc/AustrianSchoolofEconomics.html

http://www.econlib.org/library/Enc/bios/BohmBawerk.html

http://www.fee.org/the_freeman/detail/austrian-capital-theory-why-it-matters#axzz2VZUOwFuj
The amount of attention that is focused on business cycle theory itself goes through cycles. When the economy turns sour, politicians, the news media, and the average person looks for people to blame for the mess and more importantly a way out. Many theories come and go, but the Austrian theory endures. Its origin can be traced back to Ludwig von Mises’ book, *The Theory of Money and Credit* first published in 1912. Mises, himself, did not think of his theory as being particularly “Austrian” because he said that he was simply extending the British Currency Schools ideas, adding them to Knut Wicksell’s ideas on interest, and finally mixed them with Eugen von Böhm-Bawerk’s ideas on capital.

The Austrian Theory was one of the major theories of economic booms and busts in the 1920s and ’30s. It was the main rival to the ideas of John Maynard Keynes. Unfortunately, the economics profession took the Keynesian path. Keynesian economics was the dominant theory from the late 1940s through the early/mid-1970s. Today while no respectable economist is a traditional Keynesian, economic textbooks still teach it chapter and verse.

The modern Austrian theory has been mischaracterized, misjudged and set aside by mainstream economists. It has been called an over-investment theory, a hang-over theory and an unscientific, antique of the pre-modern era. The Austrian theory is none of these things.

Actually, the Austrian theory is more complex than the dominant modern theory of the New-Keynesians. The Austrian theory differs from the modern theories in several ways, and perhaps the most significant difference is its treatment of capital. It does not assume that capital as a homogeneous blob like the alternative theories do. For Austrians, capital is heterogeneous. Capital has complementarities and substitutes. There is a production process that takes time. Production has a structure.

The Austrian theory is more of a complete theory when compared to others in that it is a theory of the entire cycle. Keynesian theory begins with the assumption that the economy is in a depression. Monetarist and New-Keynesian theories are not cycle theories, but are of deviations from trend lines. The Austrian theory is a true cycle theory by including not only the economic downturn, but it also closely
examines the artificial booms (the bubbles) that are a consequence of monetary expansion.

This lecture explains the work of modern Austrian Macroeconomists and presents the material in a logical and graphical manner that can be used by those that are new to economics as well as by those who are well versed in the literature.

Outline:

- Questions to be Answered
- Elements of the Model
- Three graph Model
- Working the Model
  - Assume more Patience
  - Assume a Price Ceiling
- Credit Expansion
- Malinvestment Boom
- Upper Turning Point
- Crunch
  - Interest Rate Crunch
  - Real Resource Crunch
- Liquidation Phase
- Recession and Recovery
- Solutions and Policy Recommendations
- Comparing ABCT with Other Schools
  - Keynesians
  - Monetarists
  - New Classicals
  - New Keynesians
- Summation and Assessment

Pre-readings:
Cwik, Paul F. (2003), “The Economy Pulls an All-Nighter,”
http://mises.org/daily/1340
http://mises.org/tradcycl/tcintro.asp
http://mises.org/tradcycl/theorsum.asp
http://mises.org/tradcycl/austcycl.asp


**For Further Reading:**


Politics Without Romance
Ivan Pongracic

- Public Choice economics is based on the assumption that all men, including those acting within government institutions, are self-interested, thus limiting the ability of democracies to achieve outcomes reflecting majority preferences.
- Voters exhibit ‘rational ignorance’ and are therefore often taken advantage of by ‘rent-seekers,’ those who receive wealth transfers through political means.
- Rent-seeking activity drives the political process by concentrating political benefits on well-organized special interest groups while dispersing the costs of transfers across the electorate, largely hiding them from most ordinary voters.
- We should account for these problems when evaluating potential effectiveness of a proposed political solution to some social or economic problem.

Readings:


Friedrich Hayek, “Chapter 10: Why the Worst Get on Top,” The Road to Serfdom, The University of Chicago Press, 1944


The Death Spiral of Regulation
Alex Padilla

Outline:
1. Why (Should We) Regulate (Markets)?
   a. Market Failures Defined
   b. Examples of Market Failures: Externalities, Public Goods, Tragedy of Commons, Market Power, Asymmetric Information

2. Why (Do We) Regulate (Markets)? Regulation without Romance
   a. Rent Seeking
   b. Regulatory Capture

3. Why (Choose) Markets (over Government Regulation)?
   a. A Knowledge Problem – Part I
   b. A Knowledge Problem – Part II
   c. Case Study: Market Solutions to Information Problems

Readings:

Inflation: The Invisible Force That is Robbing You Blind
Steve Horwitz

Inflation is one of the stranger topics in economics because it is a rare situation where the public’s folk wisdom about it runs ahead of what professional economists say. The public understands how damaging inflation can be, even as many economists minimize its costs and treat it far less seriously. The Austrians, however, are an exception to the rest of the economics profession, as they have long argued that inflation is incredibly damaging to economies and is a policy by which governments acquire additional, and problematic, powers. Austrians have a deeper appreciation for inflation’s problems, I will argue, precisely because of some of the features of Austrian analysis that are absent in mainstream economic discussions of inflation.

This lecture will cover a number of the basics in Austrian monetary theory, starting with definitions of the supply and demand for money and moving to both inflation and deflation. We will then look at the process by which inflation takes places, both in the banking system and as it works its way through the economy. With an Austrian understanding of the microeconomic market process in mind, we will see the ways in which inflation distorts price signals, leading to a degree of economic discoordination often overlooked in mainstream analyses. The Austrian theory of the business cycle is one form this discoordination takes, but we will look at several others. That discoordination also helps to explain the broader political economy effects of inflation, as the inability of inflation-ridden markets to engender coordination leads to calls for political intervention and a growth in government that multiplies that discoordination. We will end by looking at the ways in which hyper-inflation can undermine the market economy.

Pre-Reading:
Follow-Up Reading:
<table>
<thead>
<tr>
<th>First Name</th>
<th>Last Name</th>
<th>Email</th>
<th>State/Province or Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harshavardhan</td>
<td>Abburi</td>
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GLOSSARY OF TERMS
Aggregate: a gathering or summing of data for all members of a society or group.

Allocation Problem: determining how to distribute a fixed amount of resources to a given number of activities in order to achieve the most effective or productive results.

Antitrust Law: the government’s policy for dealing with monopoly. Stated purpose is to protect competition and promote trade.

Arbitrage: the practice of taking advantage of a price difference between two or more markets by buying a good at a low price in one market and selling it a higher price in another market.

Arbitrage Profit: the profit gained from taking advantage of a price difference between two or more markets by buying a good at a low price in one market and selling it a higher price in another market.

Axiom of Human Action: is purposeful behavior by humans over economic (scarce) goods. To satisfy our wants and desires, we act. However, not all goals or wants can be satisfied at once. This is due to Scarcity.

Barrier to Entry: obstacles that make it difficult or costly for new firms to enter into a particular market.

Capitalism: an economic system in which the means of production are privately owned and operated for profit.

Cartel: an agreement between two or more firms in the same industry to fix prices high or to restrict output in an effort to increase profits by reducing competition. Members of cartels face a strong incentive to break the agreement by lowering prices in order to undercut other members, thereby gaining all the profit. They are also threatened by potential new entrants into the market who could undercut prices. Thus it is rare to find a stable cartel in a free-market system economy.

Catallactic Competition: exchange and emulation between individuals who wish to surpass each other in societal standing.

Catallactic Science: the science of exchange, a way of explaining human action and economic adjustments through the process of individuals exchanging their goods for goods they desire more.
Classical Economics: The dominant theory of economics from the 18th century to the 20th century. Classical economists, who included Adam Smith, David Ricardo, and John Stuart Mill, believed that the pursuit of individual self-interest produced the greatest possible economic benefits for society as a whole through the power of the Invisible Hand. They also believed that an economy is always in equilibrium or moving towards it.

Communism: a social and political system structured around a classless society, common ownership of the factors of production, free access to consumption goods and the end of wage labor and property rights.

Comparative Advantage: a situation in which an individual or country can produce a certain good at a lower opportunity cost than another individual or country.

Competitive Advantage: some factor that gives a firm (or country or individual) an edge over their competitors (such as lower cost of production) allowing that firm to earn a greater profit.

D

Demand: the amount of a good or service that people are both willing and able to buy. Demand curve measures the relationship between the price of a good and the amount of it demanded. Usually, as the price rises, fewer people are willing and able to buy it.

Division of Labor: the specialization of cooperative labor in specific, circumscribed tasks and like roles.

E

Economic Calculation: a criticism of central economic planning (socialism). The problem referred to is that of how to distribute resources rationally in an economy. The free market solution is the price mechanism, wherein people individually have the ability to decide how a good or service should be distributed based on their willingness to pay money for it. The price conveys embedded information about the scarcity of resources. Without the information provided by market prices, socialism lacks a method to rationally allocate resources.

Economic Profit: when revenue exceeds the opportunity cost of inputs. All monetary costs are covered and the capital is being employed in the most effective way.

Economies of Scale: In many industries, as output increases, the average cost of each unit produced falls. One reason is that overheads and other fixed costs can be spread over more units of output.

Economize: making choices that minimize costs while maximizing benefits.

Efficiency: the ability of a firm to maximize the outputs they produce from a given set of inputs.
**Efficiency and Innovation**: a firm’s ability to maximize the outputs produced for a given set of inputs and employ new technology, methods of production and new product ideas in order to remain competitive.

**Entrepreneur**: Somebody who has the idea and enterprise to mix the other factors of production to produce something valuable. An entrepreneur must be willing to take a risk in pursuit of a profit.

**Entrepreneurial Error**: a bad investment or misjudged decision which results in the temporary misallocation of goods to a less productive sector of the economy.

**Equilibrium**: when supply and demand in balance such that the quantity supplied is equal to the quantity demanded causing the market to clear.

**Excise Tax**: a tax on a good produced for sale within the country.

**Exogenous Changes**: changes from outside the economic system such as technological improvements.

**Expected Cost**: the predicted expenditures (money, time, effort, opportunity cost) of pursuing a certain course of action.

**Expected Return**: the monetary and non-monetary benefits individuals think they will get if they pursue a certain course of action.

**F**

**Fixed Prices**: government mandated maximum (price ceilings) or minimum (price floors) price levels set at which a price cannot legally be charged above or below respectively.

**G**

**Good**: a physical object or service that has value to people and can be sold for a non-negative price in the marketplace.

**Government Fiat**: an arbitrary order or decree made by a central government. This can concern economic allocation, social regulation and other issues.

**Government Intervention**: government regulation of the market economy aimed at fixing or avoiding so called market failures.
**H**

**Hobbesian State of Nature:** man enjoys absolute freedom and as a result everyone is constantly at war with everyone else trying to claim and defend their means of subsistence.

**Homo Economicus:** the economist’s model of human behavior. In traditional classical economics and in neo-classical economics it was assumed that people acted in their own self-interest.

**I**

**Ignorance:** the inability of any individual to know all relevant data to their economic decision results in a state of ignorance of some important information.

**Incentives:** any factor (monetary or otherwise) that influences or motivates an individual to choose a particular option or course of action over the alternatives. Generally it is the expected benefit of choosing that option or action.

**Inelastic Demand:** a situation in which the quantity demanded for a good or service is relatively unaffected when the price of that good or service changes. Such goods are usually necessities. For example a life someone will still demand a life saving drug even if the price rises drastically.

**Inflation:** an increase in the general level of prices over time.

**Interventionism:** government regulation of the market economy aimed at fixing or avoiding so called market failures.

**Interest Groups:** an organization of individuals (not elected officials) who attempt to change public policy through advocacy of legislation (see Political Action Committee).

**K**

**Knowledge Problem:** the observation that the data required for rational economic planning are distributed among individual actors, and thus unavoidably exist outside the knowledge of a central authority. No one person holds all the relevant economic information needed to run an economy.

**L**

**Laissez Faire System:** the belief that an economy functions best without any government interference. A free-market system with no government regulation.

**The Law of Demand:** when the price of a product or service and the amount consumers are willing and able to purchase are inversely related If price rises, then quantity demanded falls; if price falls, quantity demanded increases, all other things held constant.
The Law of Supply: when the price of a product or service and the amount that producers are willing and able to offer for sale are positively related. If price rises, then quantity supplied rises; if price decreases, then quantity supplied decreases.

Lobbying: attempting to actively influence legislative decisions on behalf of special interest groups.

Market: A market is any place where the sellers of a particular good or service can meet with the buyers of that goods and service where there is a potential for a transaction to take place.

Market failure: when the outcome of a free market is not efficient, meaning that there is another possible outcome where scarce resources are allocated in a way that creates greater net benefits.

Market Institutions: the formal and informal mechanisms and structures of an economy that govern behavior within the society’s economy. Examples include property rights, trade unions and banking regulations.

Market Power: When one buyer or seller in a market has the ability to exert significant influence over the quantity of goods and services traded or the price at which they are sold.

Market Process: the adjustments of economic factors like price and quantity driven by the underlying supply and demand forces which bring the free market towards equilibrium; more broadly, the concatenation of all the actions of heterogeneous individuals with differential knowledge and different expectations about the future who pursue their projects and plans through exchange with one another. From the perspective of Austrian economists, a market is a process of discovery and dissemination of relevant information, through which we attempt to correct earlier ignorance; an entrepreneurial discovery of opportunities for profit.

Market Share: the percentage or proportion of the total available market or market segment that is being serviced by a company. It can be expressed as a company’s sales revenue (from that market) divided by the total sales revenue available in that market.

Marxism: a socio-political system that intends to bring an end to class struggle and achieve the equality of communism by first implementing a strong socialist state.

Mergers: When two businesses join together in order to increase efficiency and production capabilities.

Methodological Individualism: people are influenced by others, but action can only be undertaken by individuals. Therefore, the analysis must always be centered on the individual. Be careful of the use of collective nouns.
**Monopoly**: when production and supply of a good or service with no close substitutes is controlled by one firm with the power to set the price of the good or service.

**N**

**Natural Monopoly**: When a monopoly occurs because it is more efficient for one firm to serve an entire market than for two or more firms to do so, because of the sort of economies of scale available in that market.

**Net Advantage/Benefit**: The total benefit of an action minus the total cost of the action.

**Network Effects**: The effect that one user of a good or service has on the value of that product to other people. When network effect is present, the value of a product or service increases as more people use it. The typical example is the telephone. If only one person has a telephone, it has no value since there is no one to call. The more people own telephones the more value they have because they can call more people.

**Normative Science**: A field of inquiry that seeks to find the way things should be and the best ways to achieve those goals.

**O**

**Opportunity Cost**: what you have to give up getting something. The true cost of a good, service or action is the next best alternative that you could have had if you did not choose the first. For example in an economy with only two goods A and B if you choose good A the opportunity cost is good B.

**P**

**Path Dependence**: the way in which apparently insignificant events and choices can have huge consequences for the development of a market or an economy. The theory is that once a market begins on a path it is “locked in” and will continue on that path regardless if there are better alternatives. The QWERTY keyboard is often cited as an example of a product benefitting from path dependence.

**Perfect Competition Model**: an economic model that attempts to explain the workings of the market. It assumes that there are many buyers and sellers to the extent that no single one has any effect on the overall market; there is perfect information so every individual makes the best choices for their situation; all firms create homogeneous (identical) products; there is free entry and exit into the market; and there is only one market price that everyone trades at. The result of this is that firms make only enough profit to stay in business.

**Per se Rule**: an act is intrinsically illegal regardless of the surrounding circumstances. Some antitrust laws make certain actions illegal per se not leaving room for any defense.
Political Action Committees (PACs): a private group organized to support specific political candidates or legislation in order to advance a political agenda favorable to members of the committee.

Positive Science: any field that attempts to explain how things are as opposed to how they should be. Economics is a positive science.

Praxeology: a study of human choice under conditions of scarcity; the value-free science of human action, based on human purposefulness, methodological individualism, and the subjective theory of value. The science of human action. Economics is the most developed branch.

Predatory Pricing: charging low prices now so you can charge much higher prices later. The predator charges so little that it may sustain losses over a period, in the hope that its rivals will be driven out of business. Clearly, this strategy makes sense only if the predatory firm is able eventually to establish a monopoly.

Preferences: what a consumer wants or desires revealed by what they choose to consume.

Prices: in ordinary use, price is the quantity of payment or compensation given by one party to another in return for goods or services.

Price Collusion: agreements by firms in the same industry to set prices in order to reduce competition and raise profit (see cartel).

Price Discrimination: When a firm charges different customers different prices for the same product in order to increase revenue.

Price (and wage) Floor: a government imposed limit on how low a price or wage can fall. Minimum wage laws are an example of this. If the market equilibrium price is below the price floor then the artificially high price enforced by the government will create an excess supply of the good known as a surplus.

Price Ceiling: a government imposed limit on the price charged for a good or service. If the market equilibrium price is above the price ceiling then the artificially low price enforced by the government will cause a shortage of the good or service.

Price System: an economy that effects the allocation of goods and services with prices based on some consistent monetary or debt tokens.

Principle of Diminishing Marginal Utility: is when the more of a good or service being consumed, the smaller is the marginal utility obtained by consuming one additional unit of the good or service, all other factors being equal.
**Product Differentiation**: a competitive advantage where a firm produces a number of different products in order to fill every niche market. Each similar but separate product creates value for the firm.

**Profit**: the reward for creating value out of scarce resources. Simply put a firm’s total revenues minus its total costs.

**Profit Seeking Actor**: an individual or group (firm/company) whose actions are aimed at maximizing their revenues and minimizing their costs.

**Property Rights**: the legal control over the occupation and use of physical property. Well defined and enforceable property rights are important to a functioning economy.

**Public Debt**: money or credit owed by a central (or state or local) government.

**Public Finance**: the field of economics that looks at how government activity is funded and how those funds are administered.

**Public Interest**: the common well being or general welfare of a society, not defined in quantitative terms but just as a notion of what is beneficial to a community as a whole.

**R**

**Rational Behavior**: the assumption that individuals know what makes them happy or better off and they will choose this over something that makes them worse off.

**Rational Choice**: the assumption that individuals know what makes them happy or better off and they will choose this over something that makes them worse off.

**Rational Ignorance**: the state of not knowing all the facts because the costs of learning exceed the benefits of having the knowledge.

**Relevant Market**: the market in which one or more goods compete. Therefore, the relevant market defines whether two or more products can be considered substitute goods and whether they constitute a particular and separate market for competition analysis.

**Rent Control**: a mandated fixed price on apartment or housing rentals acting as a price ceiling.

**Rent Seeking**: attempting to seize more of the existing wealth in a society without creating any new value.

**Residual Claimants**: the agent who receives the net income (income after deducting all costs).

**Revenue**: income that a company receives from its normal business activities, usually from the sale of goods and services to customers.
Rule of Reason: the Supreme Court rule that only the actions of a firm that are unreasonably restraining trade or restricting competition are subject to regulation through antitrust laws.

Scarcity: the supply of a desired good, service or factor of production has a limited supply. Scarcity is what creates prices. If everything was unlimited no one would have to sacrifice anything in order to get something else.

Search Cost: the cost of finding what you want. This involves time, energy and money invested into looking for what you want, comparing it to alternatives, researching the product and finding the best price.

Self-Interested Actors: Individuals who seek to increase their personal satisfaction through their actions. This is different from selfishness where people try to increase their wealth even if it is at the expense of others. Compassion and charity can be explained by self-interest but not by selfishness.

Selling Cost: expenses incurred in the marketing and distribution of a product.

Shortage: there is a greater quantity demanded by consumers for a certain product than producers are willing to supply because the price is held artificially low by government mandated price ceiling.

Socialism: an economic system in which the state controls all factors of production and there is heavy regulation (if not complete control) of the economy by the political authority.

Social Welfare: the well being of a society as a whole.

Spontaneous Order: the existence of an organized and functioning society that did not emerge as a result of any central planning board but through the exchange between private actors.

Subjective: depending on an individual’s personal perspective, not the same for everyone.

Subjective vs. Objective: subjective refers to an individual’s personal feelings and beliefs on an issue. In economics, this applies to what brings an individual utility or satisfaction. Objective on the other hand refers to information that is considered facts, anything devoid of opinion or bias.

Sunk Cost: in economics and business decision-making, sunk costs are retrospective (past) costs that have already been incurred and cannot be recovered.

Super Majorities: a requirement to pass a proposition requiring the consent or vote of a proportion greater than 50% of the individuals voting.
Supply: the amount of a good or service available at any particular price. The law of supply is that, other things remaining the same, the quantity supplied will increase as the price increases.

Surplus: when there is a greater quantity supplied by producer of a certain product than consumers demand because a government holds the price artificially high by mandating a price floor.

T
Technically Efficient: a firm’s ability to produce the most output possible from a given set of inputs.

Trade Off: a situation that involves losing one quality or aspect of something in return for gaining another quality or aspect.

Transaction Costs: The costs incurred during the process of buying or selling, on top of the price of whatever is changing hands. These include search costs, travel costs and costs of learning about a product.

Tying Contracts: The practice of making the sale of one good to the customer conditional on the purchase of a second distinctive good.

U
Uncertainty: A state of having limited knowledge where it is impossible to exactly describe existing state or future outcome.

Unintended Consequences: the unexpected results of a purposeful action. Often used in reference to the effects of government policies which change the incentive structure such that individuals act in an opposite manner than the policy intended.

Utility: is a measure of satisfaction that the consumption of goods or services yields an individual.

Utility Functions: the relationship between a quantity of goods and a consumers’ level of satisfaction with that quantity.

Utility Maximizer: An individual whose actions aim at increasing his positive utility (satisfaction) and minimizing his disutility (unhappiness, stress, etc.)