Microeconomics: Behavior, Institutions and Evolution

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Map of South German cities about 500 (Figure 13.1) from Turning Swiss: Cities and Empire, 1450-1550 (Cambridge, UK: Cambridge University Press, 1985) used with permission of author T. A. Brady.

Map of Italy in the 15th century (Figure 13.2) from Atlas of Medieval Europe (New York: Facts on File, 1991) by Donald Matthew. Permission pending from Andromeda, UK.
Preface

This book grew out of two courses for doctoral candidates at the University of Massachusetts I have taught over the past decade, one addressed to new developments in micro-economic theory, and the other a seminar in institutional, behavioral and evolutionary economics. These courses develop economic models to address real world problems using a series of mathematical problem-solving exercises. The book is intended for readers interested not only in a synthesis of contemporary social science reasoning applied to problems of economic institutions and behavior but also wanting to learn the basic modeling skills necessary to participate -- as a user or a producer -- in further development of the field.

The book is intended for use in graduate level microeconomics courses, as well as courses in institutional and evolutionary economics, and formal modeling courses in sociology, anthropology, and political science. The book could also be used in advanced undergraduate courses in these subjects. General readers may find the book a useful introduction to the emerging paradigm of evolutionary social science. Little previous exposure to economics is presumed. The mathematical techniques used are limited to what is generally covered in a two-semester calculus sequence.

The book originated long ago when over a period of years I taught the advanced microeconomic theory course to doctoral candidates at Harvard University. While the content of the course reflected the then-unquestioned neoclassical model, seeds of doubt were nurtured in long discussions with my co-teachers Wassily Leontief, Tibor Scitovsky, and David Kendrick, as well as from reflection on our students’ often puzzled reactions. The difference between the text published based on that course (Bowles, Kendrick, and Dixon (1980)) and this book measures the distance traveled by economic theory in the intervening decades.

But the two books share a common emphasis on the importance of acquiring basic modeling skills through exposure to intellectually challenging yet mathematically tractable problem-solving exercises. The extensive problem sets at the end of this book offer practice in developing these skills, as well as examples of applications of the theory to important real world problems. In the body of the text, I have italicized frequently used terms where they are first introduced (and defined) in the text (the definitions can be located by consulting the index). The quotes that head each chapter serve to remind you that the problems to which these pages are addressed have been around for a while and probably will not be fully resolved anytime soon, and that they extend far beyond economics. (If you suspect the authors of the headquotes are among those with whom I conduct imaginary conversations, you would not be far wrong, though I would not want to invite them all to dinner on the same evening!)

I draw on recent developments in evolutionary economics, game theory, the theory of economic institutions, behavioral and experimental economics, and other contributions to micro-economics. While the tools of analysis are from economics (with some borrowing from biology), the subject matter is non-disciplinary, augmenting the usual economic subject matter with concerns of culture, power, asymmetric social relationships, social networks, and norms. I also make considerable reference to empirical studies, beginning each chapter with an
empirical puzzle that an adequate theory should be able to address. I do this both because economic theory benefits from the challenge of illuminating real world problems, and in order to ground the assumptions of the models in what is known about actual human behaviors and institutions.

While the exercise of power in the economy plays an important role in the models I develop, the need to limit the length of the book has precluded more than passing attention to governments, other centralized allocation processes, and political decision-making.

Much of the book reflects my long term research collaboration with Herbert Gintis whose text in game theory (Gintis (2000) ) constitutes a valuable complement to this book. Many of the ideas presented here were developed jointly with him (especially in those in chapters 8, 9, 10 and 14). Important contributions to these pages have come as well from my graduate students at the University of Massachusetts, whose suggestions and criticisms account for many improvements in the text. Some of the material in chapters 11, 12 and 13 draws on my collaboration with Jung-Kyoo Choi, Yong-Jin Park and Astrid Hopfensitz. I have also benefitted from the comments of the doctoral candidates I have taught at the University of Siena. My teaching assistants over the years -- especially Katie Baird, Christina Fong, Jung-Kyoo Choi, Minsik Choi, James Heintz, Mehrene Larudee, Edward McPhail, Yong-Jin Park, Dori Posel, and Eric Verhoogen, -- are also responsible for numerous improvements.

Comments on the entire manuscript by Kaushik Basu, Jung-Kyoo Choi, Greg Dow, Karla Hoff, Suresh Naidu, Ugo Pagano, Peter Skott, Michael Wallerstein, and Elisabeth Wood have made it a much better book. I have also benefitted from the contributions of Robert Boyd, Steven Burks, Jeffrey Carpenter, Henry Farber, Duncan Foley, Gerald Friedman, Herbert Gintis, Carol Heim, James Jaspers, Richard Lewontin, Mehrene Larudee, Paul Malherbe, Karl Ove Moene, Melissa Osborne, Peter Richerson, Jinx Roosevelt, D. Eric Smith, Eric Alden Smith, Kenneth Sokoloff, Jorgen Weibull, Peyton Young, Junfu Zhang, [acknowledgments to be completed.]

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Works cited
