

ECO 372

Exam 3: In-Class Component

10 December 2003

40 points

Skaggs

1. In his *General Theory of Employment, Interest and Money* John Maynard Keynes contrasted his new “general” theory with something he called “classical theory.” If Keynes is to be believed, all economists from Ricardo to Pigou shared a flawed approach. Should Keynes be believed? In his view, what differentiated his theory from the “classical” theory? And what *was* the state of monetary theory in the years preceding 1936? (10 points)
2. With the development of axiomatic mathematics, the nature of mathematical economics changed. To be sure, Paul Samuelson’s *Foundations of Economic Analysis* (1947) was heavily mathematical, but Samuelson relied on the calculus to derive his results. Four years later Arrow and Debreu used set theory to demonstrate the existence of a unique general equilibrium. How did the switch from logic (e.g., Marshall) and calculus (Samuelson) to axiomatics change the way in which economists conceive of equilibrium? Why is this change problematic? (10 points)
3. From the view of mainstream economics, why was the creation of the President’s Council of Economic Advisors a very good thing? (5 points)
4. What is “radical ignorance”? How does it differ from “uncertainty” as included in standard neoclassical models? Provide examples of how the belief in radical ignorance leads Austrian economists to take a different approach toward microeconomics than that taken by mainstream economists. (10 points)
5. In a sentence or two, explain the motivation underlying the development of behavioral economics. (5 points)

Bonus Questions (1 point each)

Name a behavioral economist.

Name a living Austrian economist.