

LDST 355
Competition, Cooperation and Choice (CCC)
Spring 2022
Tuesday, 3:00-5:40, Jepson Hall 102

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Office Hours: by appointment (best bet!); Monday 2:00-3:00

“How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it.” (Smith, *Theory of Moral Sentiments* 1759)

“Man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only.... It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.” (Smith, *Wealth of Nations* 1776)

Course description:

An economic approach to leadership explores how individuals come together in social settings (a market place, an organization, a town or other political entity) to make distributive decisions, and the role of leaders in such settings. This course begins with an examination of Adam Smith’s virtue ethics, based on the impartial spectator, and his analysis of how people make cooperative choices in many economic and moral contexts. Smithian insights into partisan politics (factions) and leadership are the second major focus. From Smith, we move to Jane Austin and J. S. Mill, who each applied Smithian virtue ethics to contemporary problems. Mill outlines why it is so important for people to enjoy wide access to choices; here we come to appreciate the role that discussion plays in leadership. We then turn to game theoretic and experimental research that tests how Smithian insights play out in contemporary times and how cooperative behavior emerges in a setting where individual interests sometimes conflict with the interest of the group (or society). We consider what institutional frameworks most facilitate cooperation in a repeated prisoner’s dilemma setting: competition, repetition, punishment and reciprocity. Finally, we will look at public goods games, in which players choose to cooperate or not; and see what mechanisms facilitate cooperation in this setting.

Learning outcomes: My goal is that you will learn at least three things over the course of the semester, namely—

- People are uniquely able to cooperate.
- And cooperation is responsible for widespread and significant economic and social benefits to humankind.

- However, competition and cooperation are not uniformly “bad” or “good” but rather institutionally and/or contextually determined by the parameters of the situation (or “game”) and leaders within the game.

Economists rarely consider questions of leadership. Micro economists talk about “the individual”, a faceless and nameless agent, the “representative” consumer or firm. But economics is essentially about how individuals come together in social settings (a market place, an organization, a town or other political entity) and make decisions that serve to determine who gets what.

Similarly, leadership scholars often eschew economic analysis. Instead they presume that people should collaborate while ignoring questions such as, At what cost? To What end? Supposing individuals come together to make decisions in a group, what does it mean to say the group has a leader and how does the presence of such a leader affect the outcome? And, is the leader in some way beholden to the idea of cooperation?

Why Choice (competition and cooperation)? What is the role of human agency and choice in society? Are we to make choices for ourselves and when should someone curtail choice? Shall someone make decisions for us? Do the answers to these questions depend on whether we’re essentially cooperative or competitive or are there additional reasons to let some-one/thing else choose for us? Does the answer depend on whether we’re good at making choices?

Why Smith? Adam Smith was the first to treat such economic interactions seriously. First and foremost a moral theorist, Smith’s great book, *Theory of Moral Sentiments* [1759], grounded a theory of morals on the human sentiments. In his *Wealth of Nations*, he stressed that we need to help the self, to be “prudent”, to save for ourselves and our families. The juxtaposition of these two great books – one focused on how we help others, we do the right thing, the other on how we look after ourselves first – presents a central question for the study of leadership and economics: how individuals, motivated by self- and other-regarding interests and connected by language and rules of action, come together and make decisions affecting the group or polity.

Summary: Our central question for the semester is: how do we come together with a combination of self-interest and interests towards others (public interest) and act/make decisions, choose? We will lean heavily on the institution of the market as a means of ensuring we cooperate but we will also think about costs and benefits in terms of approbation as an additional coordinating mechanism. And, we will think about the role of leaders or policy makers in constraining (or not) choices.

Why? To understand and then perhaps to influence the myriad of collective choices in which we all play a part, day in and day out. And to think about how leaders might become a bit more humble as they consider restricting the choices of followers.

How will we proceed?

- The course examines these themes using two sorts of texts, one set quite old and the other quite recent. We begin with Mandeville and Smith, while considering the context of the work: the development of the modern industrial society and extraordinarily important policy debates, on slavery and enfranchisement. Today, economists have rediscovered Smithian insights and this rediscovery (in the laboratory) will be our second major focus.
- Our second set of texts and source of evidence will be experimental economics. We will read about experiments and conduct some (albeit simple) experiments in class. Contemporary game theoretic and experimental research examines how cooperative behavior emerges in a setting where individual interests sometimes conflict with the interest of the group (or society) and these will help us frame our discussions of the experimental outcomes.
- The prisoners' dilemma game and experiments will be an important cornerstone of our investigations along these lines. We will consider what institutional frameworks most facilitate cooperation in a repeated prisoner's dilemma setting: competition, repetition, punishment and reciprocity. Finally, we will look at public goods games, in which players choose to cooperate or not; and see what mechanisms facilitate cooperation in this setting.

Required texts:

Smith, Adam. 1759. *The Theory of Moral Sentiments*. London: A. Millar, 1790. Sixth edition. <http://www.econlib.org/library/Smith/smMS.html>. If you want to purchase it instead (I recommend this!), get the Liberty Fund edition which is very inexpensive. It's a 1982 reprinting of the Oxford edition edited by D. D. Raphael and A. L. Macfie.

Smith, Adam. 1776. *An Inquiry into the Nature and Causes of the Wealth of Nations*. London: Methuen and Co., Ltd Edited by. Edwin Cannan, 1904. <http://www.econlib.org/library/Smith/smWN.html>. If you want to purchase it (I recommend this!), get the Liberty Fund edition which is very inexpensive. It's edited by R. H. Campbell and A. S. Skinner, in 2 volumes, 1976 Oxford edition, reprinted in 1979 by Liberty Fund.

Austin, Jane, *Persuasion*. Any inexpensive edition is fine.

Additional required readings are listed under each topic below. I'll put links or pdfs on Blackboard for many of the readings that are not in *TMS/WofN*, or *Persuasion*.

Course topics and readings:

WEEK 1, Jan. 11:

Introductions, review of syllabus, discussion of competition, cooperation, and choice, as well as capitalism and market-based economy; begin Mandeville's story of morally corrupt behavior

Bernard Mandeville, *Fable of the Bees* https://oll.libertyfund.org/title/kaye-the-fable-of-the-bees-or-private-vices-publick-benefits-vol-1#l/0014-01_head_028

WEEK 2, Jan. 18:

Finish Mandeville, introduction to Adam Smith: Smith on virtue, approbation, and emergent cooperation

Adam Smith, *The Theory of Moral Sentiments* (TMS), Indianapolis: Liberty Classics, 1976, Part VI, “Of the Character of Virtue,” Sections I and II, “Of the Character of the Individual, so far as it Affects his own Happiness; or of Prudence, and “Of the Character of the Individual, so far as it can affect the Happiness of Other People,” pp. 212-237.

TMS, Part I, “Of the Propriety of Action,” Section 1, Of the Sense of Propriety,” Chapters 1-5, pp. 9-26;

Kissinger, Henry, Eric Schmidt and Daniel Huttenlocher, “The Challenge of Being Human in the Age of AI,” WSJ November 2021.
<https://www.sciencedirect.com/science/article/pii/S0167268114001449>

WEEK 3, Jan. 25, continuing with Smith’s TMS; intro to experimental economics.

Part III, “Of the Foundation of our Judgment... and the Sense of Duty,” chapters 1-3, pp. 109-138 and 155-56.

Part IV, “Of the Effect of Utility upon the Sentiment of Approbation,” Chapter 1, pp. 179-193.

Caroline Breashears, “Learning Moral Sentiments with Harry Potter”
<https://www.adamsmithworks.org/documents/caroline-breashars-moral-sentiments-harry-potter>

EXPERIMENT 1: Instructions to follow.

Houser, Daniel, “A note on norms in Experimental Economics”
<https://link.springer.com/article/10.1057/palgrave.eej.9050005>

WEEK 4, Feb. 1, MIDTERM #1

WEEK 5, Feb. 8, Jane Austen, *Persuasion*; start Smith on competition, prices, and trade

Jane Austen, *Persuasion*

Adam Smith, *Wealth of Nations*, book 1, chapters I-VII.

DEBATE 1: Markets, morality, and trade (instructions to follow)

WEEK 6, Feb. 15, Debrief, Ethics of Choice conference; begin Smith on competition, prices and trade; Cournot duopoly model.

Adam Smith, *Wealth of Nations*, book 1, chapters I-VII (continued).

Note: On Feb. 10-12, Jepson/UR is hosting the “Ethics of Choice” conference—more information to follow. You are asked to participate in at least one session, including that with Tyler Cowen, Thursday (evening), Feb. 10.

Don Boudreaux, Smithian and Anti-Smithian Economists,
<https://www.aier.org/article/smithian-and-anti-smithian-economists/>

WEEK 7, Feb. 22, On the benefits of choice; Leadership and Choice (Stackelberg model)

J. S. Mill, *On Liberty*, Chapter 3 “Of Individuality,” and my *Essential J. S. Mill* (I will give you copies!)

Sandra Peart, “On Making and Remaking ourselves” (article forthcoming in *Journal of Behavioral Economics*)

Stackelberg model.

WEEK 8, March 1: Economic competition continued—self-interest, interest in others, rationality, competitive markets, knowledge problem, international trade & policy, introduction to game theory

Any intro econ textbook—definition of “rationality” (I may add selections from Rizzo and Whitman here!)

Lynn Kiesling video on the Knowledge Problem

Cournot/Stackelberg models compared—intro to strategic behavior & game theory

EXPERIMENT 2

March 8: Spring Break

WEEK 9, March 15: Continuing with game theory (zero- and positive-sum games, repeated games, emergent cooperation)

Anatol Rapoport, “Prisoners’ Dilemma” in *The New Palgrave*

WEEK 10, March 22: MIDTERM EXAM 2

Video: A Beautiful Mind (segments)

WEEK 11: March 29: Topics in game theory (contingent strategies, threats & commitments, cooperative games, solution concepts)

Thomas Schelling, *The Strategy of Conflict* (Chapter 5)

WEEK 12, April 5: Experimental economics, leadership, and emergent cooperation

Vernon Smith, “The Two Faces of Adam Smith,” *Southern Economic Journal* 65: 1998.
https://www.jstor.org/stable/1061349?seq=1#metadata_info_tab_contents

Levy, Padgitt, Peart, Xiao, and Houser, “Leadership, cheap talk and *really* cheap talk,” *Journal of Economic Behavior and Organization*, Jan. 2011.
<https://www.sciencedirect.com/science/article/pii/S0167268110001769>

WEEK 13, April 12: Continuing with experimental economics as needed; begin Rizzo and Whitman *Escaping Paternalism*

Houser, Levy, Padgitt, Peart, and Xiao, “Raising the Price of Talk: An experimental analysis of transparent leadership”, *Journal of Economic Behavior and Organization*, 2014.
<https://www.sciencedirect.com/science/article/pii/S0167268114001449>

Makowsky, Michael, Wafa Orman, and Sandra J. Peart, “Playing with other people’s money: Contributions to public goods games by trustees,” *Journal of Behavioral and Experimental Economics* (2014).

Rizzo and Whitman, *Escaping Paternalism*, Chapter 10.

DEBATE 2: CCC and speech

WEEK 14, April 19: Finish Rizzo and Whitman, *Escaping Paternalism*, Chapter 10; Wrap up

Grading:

Participation (experiments, debates, chosen passages & discussions)	25*
Assignment from Ethics of Choice.....	15
Midterms (February 1, March 1; 2x15)	30
Final exam	30

*I’ll assign participation points in five 3-week blocks so you will have an idea of how you are doing, early on.

Notes:

- a) I love the material for this class but your attendance and participation will make it work! I expect you each to take ownership of the readings and experiments. That said, I know we need to be mindful and flexible in the event of covid-related (or

- other) illnesses and I will do my best to work with you in the event that you (or I) become ill.
- b) I also want you to be mindful that the course meets once a week but the work needs to be spread across the week. To this end, I will ask that you read at least some of the material for the upcoming week by the end of the week before we meet (that is, between our Tuesday meeting and the end of that week). ***Later in the week (typically on Saturday by 5 pm), please email me about a passage that struck you—what it says and why it is important.*** I will choose a few of these for discussion, led by you, at our following Tuesday meeting. Also, I will send you a few discussion questions to think about in advance of each class. Thank you for making this work!
 - c) UR is hosting a conference on the theme of “The Ethics of Choice” and as one of your assignments for class I ask that you participate in several sessions (topics forthcoming) and provide remarks to your colleagues in class on the topic at hand.
 - d) To keep the material relevant to today’s choice-making, we will conduct and discuss some low-stakes experiments in class and we’ll host some low-stakes debates.
 - e) If an emergency develops and you must miss a test or assignment, please have someone contact the dean's office asap so we can work out an alternative.

ADDITIONAL NOTES:

Awarding of Credit

To be successful in this course, you should expect to devote 10-14 hours each week, including class time and time spent on course-related activities.

registrar.richmond.edu/services/policies/academic-credit.html

Disability Accommodations

Students with a Disability Accommodation Notice should contact their instructors as early in the semester as possible to discuss arrangements for completing course assignments and exams.

disability.richmond.edu/

Honor System

The Jepson School supports the provisions of the Honor System. The shortened version of the honor pledge is: "I pledge that I have neither received nor given unauthorized assistance during the completion of this work."

studentdevelopment.richmond.edu/student-handbook/honor/the-honor-code.html

Religious Observance

Students should notify their instructors within the first two weeks of classes if they will need accommodations for religious observance.

registrar.richmond.edu/planning/religiousobs.html

Additional information and Offices:

Academic Skills Center (<http://asc.richmond.edu>, 289-8626 or 289-8956): Assists students in assessing their academic strengths and weaknesses; honing their academic skills through teaching effective test preparation, critical reading and thinking, information conceptualization, concentration, and related techniques; working on specific subject areas (e.g., calculus, chemistry, accounting, etc.); and encouraging campus and community involvement. Hours at the Center are: **Sunday through Wednesday 3:00-9:00 p.m. and Thursday 3:00-7:00 p.m. On-call tutors are also available.**

Career Services (<http://careerservices.richmond.edu> or 289-8547): Can assist you in exploring your interests and abilities, choosing a major or course of study, connecting with internships and jobs, and investigating graduate and professional school options. We encourage you to schedule an appointment with a career advisor early in your time at UR.

Counseling and Psychological Services (<http://wellness.richmond.edu/offices/caps/> or 289-8119): Assists currently enrolled, full-time, degree-seeking students in improving their mental health and well-being, and in handling challenges that may impede their growth and development. Services include short-term counseling and psychotherapy, crisis intervention, psychiatric consultation, and related services.

Speech Center (<http://speech.richmond.edu> or 289-6409): Assists with preparation and practice in the pursuit of excellence in public expression. Recording, playback, coaching and critique sessions offered by teams of student consultants trained to assist in developing ideas, arranging key points for more effective organization, improving style and delivery, and handling multimedia aids for individual and group presentations.

Writing Center (<http://writing.richmond.edu> or 289-8263): Assists writers at all levels of experience, across all majors. Students can schedule appointments with trained writing consultants who offer friendly critiques of written work.

Boatwright Library Research Librarians (<http://library.richmond.edu/help/ask/> or 289-8876): Research librarians assist students with identifying and locating resources for class assignments, research papers and other course projects. Librarians also provide research support for students and can respond to questions about evaluating and citing sources. Students can email, text or IM or schedule a personal research appointment to meet with a librarian in his/her office on the first floor Research and Collaborative Study area.