

CONTROVERSIAL ISSUES IN RECENT  
ECONOMIC LITERATURE  
(ECON 508-Section VOA)

Professor F. S. Lee  
Office: Manheim 202D  
Office Hours: TTh 4.00-5.00  
By appt.  
Office Tel. 816-235-2543  
E-mail [leefs@umkc.edu](mailto:leefs@umkc.edu)

Lectures: Tuesday and Thursday, 5.00 – 8.30, Royall Hall, Room 311

Optional Texts: F. Lee, Post Keynesian Price Theory  
W. R. Braze lton, Designing US Economic Policy  
T. Rosenof, Economics in the Long Run: New Deal Theorists and  
Their Legacies, 1933 - 1993  
G. C. Means, Pricing Power and the Public Interest  
E. S. Mason, Economic Concentration and the Monopoly Problem  
G. C. Means, The Structure of the American Economy  
U.S. Senate Subcommittee on Antitrust and Monopoly,  
Administered Prices  
G. J. Stigler and J. K. Kindahl, The Behavior of Industrial Prices  
A. S. Blinder et.al., Asking About Prices: A New Approach to  
Understanding Price Stickiness

Assessment: Paper worth 100% of your final grade. The topic of the paper is based on some aspect of the material covered in the course. It should be based on primary and secondary sources. The paper is to be around 5000 words. The paper is to be typed, complete with footnotes or endnotes, bibliography, and references within the body of the paper. All quotes must be properly reference. For proper formatting and style of the paper consult the Graduate School's Guide to Formatting These and Dissertations found at their web site, J. Gibaldi, MLA Handbook for Writers of Research Papers (5<sup>th</sup> edition), or K. L. Turabian, A Manual for Writers of Term Papers, Theses, and Dissertations (6<sup>th</sup> edition).

Course Description: The course deals with a series of controversies regarding the theoretical adequacy of neoclassical price theory. More specifically, the controversies either directly or indirectly questioned whether prices acted as the allocation and coordinating mechanism as claimed in neoclassical price theory. Starting with the administered price controversy in the 1930s, the course goes on the cover the marginalist controversy in the 1940s through the 1950s, the shape of the marginal cost curve controversy in the 1940s and early 1950s, the concentration and big business controversy of the 1940s through the 1970s, the administrative inflation of the 1950s and 1960s, and the administered price and sticky prices controversy of the 1960s through to the present. What the student should get out of the course is an awareness that

neoclassical price theory has been theoretically challenged and that the challenge may not have been met.

## COURSE OUTLINE AND READING LIST

### I. Introduction

1. W. R. Brazelton, Designing US Economic Policy
2. T. Rosenof, Economics in the Long Run: New Deal Theorists and Their Legacies, 1933 - 1993

### II. Pricing and Price Theories: An Overview

#### A. Administered Price Doctrine

1. Lee, Post Keynesian Price Theory, ch. 2.
2. Lee, F. S. and Samuels, W. J. 1992. The Heterodox Economics of Gardiner C. Means. Armonk: M. E. Sharpe, Inc., chs. 1, 3, 4, 11, 16, and 17.

#### B. Full Cost-Normal Cost Pricing

1. Lee, Post Keynesian Price Theory, chs. 4, 5, and 11.
2. Lee, F. S. 1995. "From Post Keynesian to Historical Price Theory, Part II: Facts, Theory, and Empirically Grounded Pricing Model," Review of Political Economy 7 (January): 72 - 124.

#### C. Neoclassical Price Theory, Inflexible Prices, and Economic Policy

- \*1. Galbraith, J. K. 1936. "Monopoly Power and Price Rigidities." Quarterly Journal of Economics 50 (May): 456 – 475.
- \*2. Lerner, A. P. 1934. "The Concept of Monopoly and the Measurement of Monopoly Power." The Review of Economic Studies 1 (June): 157 – 175.
- \*3. Reynolds, L. G. 1942. "Relations Between Wage Rates, Costs, and Prices." American Economic Review 32 (March): 275 – 289.
4. Reid, G. C. 1981. The kinked Demand Curve Analysis of Oligopoly: Theory and Evidence. Edinburgh: Edinburgh University Press.

### III. Administered Price Controversy, 1930s – 1940s

#### A. Bureau of Labor Statistics and Price Data

- \*1. Humphrey, D. D. 1937. "The Nature and Meaning of Rigid Prices, 1890 – 1933." Journal of Political Economy 45 (October): 651 – 661.

#### B. Gardiner Means's Evidence on Administered Prices

1. Lee, Post Keynesian Price Theory, chs. 1.

2. Lee, F. S. and Samuels, W. J. 1992. The Heterodox Economics of Gardiner C. Means. Armonk: M. E. Sharpe, Inc., chs. 1, 3, 4, 11, 16, and 17.
3. Means, The Structure of the American Economy, ch. 8 and Appendices 1 and 2.
4. Lee, F. S. and Downward, P. 1999. "Retesting Gardiner Means's Evidence on Administered Prices." Journal of Economic Issues 33.4 (December): 861 – 886.

C. Price Flexibility, Product Characteristics, and Market Structure

1. Means, The Structure of the American Economy, ch. 8 and Appendices 2 and 9.
2. Mason, Economic Concentration and the Monopoly Problem, chs. 3 and 6.
- \*3. Backman, J. 1940. "The Causes of Price Inflexibility." Quarterly Journal of Economics 54 (May): 474 – 489.

D. Ideological and Political Controversy over Administered Prices

IV. The Marginalist Controversy, 1939 to the 1950s

A. Lester, Machlup, and the American Marginalist Controversy

1. Lee, F. S. 1984. "The Marginalist Controversy and the Demise of Full Cost Pricing." Journal of Economic Issues 18 (December): 1107 – 1132.
2. Mongin, P. 1992. "The Full-Cost Controversy of the 1940s and 1950s: A Methodological Assessment." History of Political Economy 24 (Summer): 274 - ???.
3. Heflebower, R. B. 1955. "Full Costs, Cost Changes, and Prices." In Business Concentration and Price Policy, pp. 361 – 392. Princeton: Princeton University Press.

B. Andrews and the British Marginalist Controversy

1. Lee, F. S. and Irving-Lessmann, J. 1992. "The Fate of an Errant Hypothesis: The Doctrine of Normal-Cost Prices." History of Political Economy 24 (Summer): 273 – 309.
2. Streeten, P. 1949. "The Theory of Pricing." Jahrbucher fur Nationalokonomie und Statistik 161 (October): 161 – 187.

V. The Cost Controversy, 1930s to the 1950s

1. Dean, J. 1976. Statistical Cost Estimation. Bloomington: Indian University Press, pp. 3 – 35 and part I.
2. F. S. Lee, Post Keynesian View of Average Direct Costs: A Critical Evaluation of the Theory and the Empirical Evidence," Journal of Post Keynesian Economics (1986): 400 - 424.

- \*3. Apel, H. 1948. "Marginal Cost Constancy and its Implications." American Economic Review 38 (December): 870 – 885.
- VI. Concentration and Big Business Controversy, 1940s to the 1970s
- 1. Mason, Economic Concentration and the Monopoly Problem, chs. 1, 5, and 16 – 19.
  - 2. Lee, F. S. 1997. Philanthropic Foundations and the Rehabilitation of Big Business, 1934 – 1977: A Case Study of Directed Economic Research." Research in the History of Economic Thought and Methodology 15: 51 – 90.
  - \*3. Adelman, M. A. 1951. The Measurement of Industrial Concentration." Review of Economics and Statistics 33 (November): 269 – 296.
  - 4. Glover, J. D. 1954. The Attack on Big Business. Boston: Harvard University.
- VII. Administrative Inflation, Administered Prices, and Sticky Prices Controversies, 1950s to 1990s
- A. Administrative Inflation
    - 1. Means, Pricing Power and the Public Interest.
    - 2. Means, G. C. 1962. The Corporate Revolution in America: Economic Reality vs. Economic Theory. The Crowell-Collier Press, chs. 3, 5, and 6.
    - 3. Lustgarten, S. 1975. Industrial Concentration and Inflation. Washington, D.C.: American Enterprise Institute.
    - 4. U.S. Senate Subcommittee on Antitrust and Monopoly, Administered Prices.
  - B. Administered Prices
    - 1. Lee, F. S. 1999. "Administered Price Hypothesis and the Dominance of Neoclassical Price Theory: The Case of the Industrial Prices Dispute." Research in the History of Economic Thoughts and Methodology 17: 23 – 42.
    - 2. Stigler and Kindahl, The Behavior of Industrial Prices.
    - \*3. Carlton, D. 1986. "The Rigidity of Prices." The American Economic review 76 (September): 637 – 658.
    - 4. Strevig, W. E. 1961. "Administered Prices: A Review and Appraisal." The Southwestern Social Science Quarterly 42 (September): 135 – 148.
  - C. Sticky Prices
    - 1. A. S. Blinder et.al., Asking About Prices: A New Approach to Understanding Price Stickiness.

- VIII. Controversy, Testing, Politics, and the Rise to Dominance of Neoclassical Economics Since 1945
- A. Role of Congress
  - B. Big Business and Ideology
  - C. Rise to Dominance of Neoclassical Economics

The articles marked by an \* can be found on JSTOR that can be found at:

<http://www.jstor.org/cgi-bin/jstor/listjournal>

JSTOR includes the following economic journals:

American Economic Review

Econometrica

Economic Journal

Journal of Economic History

Journal of Economic Literature

Journal of Industrial Economics

Journal of Political Economy

Quarterly Journal of Economics

Review of Economic Studies

Review of Economics and Statistics