George Mason University
School of Law
Economic Foundations of Legal Studies 108-003

Professor: Dr. Thomas Carl Rustici
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Phone: (703) 993-1137
Class Time: Arlington Campus 225, MW 6:15-7:30 pm
Office: Enterprise Hall Room 322 (Fairfax Campus)
Office Hours: MWF 9:30-10:15am, 1:00-2:00pm
Tues. 3:30-4:00pm

Course Objectives:

The lectures and readings in this course are designed to familiarize students with the fundamentals of microeconomic theory. The central focus this course takes is an understanding of the process of price formation in a free exchange economy. We rigorously examine the various legal rules and economic incentives that operate within the constitutional free enterprise system. Market institutions such as: the firm, advertising, profit-loss mechanism, futures speculation, and property rights are explored for their role in the coordination of economic activity. Finally these principles are applied to the larger issues of economic regulation, environmental quality, and the “political marketplace” of representative democracy.

Grades:

There are three exams in this course, two midterms and a comprehensive final. Make-up for exams is only permissible if the student notifies the instructor before the scheduled testing or because of extraordinary circumstances. All cases of unexcused absences for tests receive a zero. The course grade is weighted as follows:

Exam 1: 25%
Exam 2: 25%
Final: 50%

Required Texts:

*Microeconomics* by J. Gwartney and R. Stroup (GS)
*Principles of Economics* by Carl Menger (CM)
*Economics in One Lesson* by Henry Hazlitt (HH)
*Capitalism: The Unknown Ideal* by Ayn Rand (AR)
*Regulation, the Constitution, and the Economy* by James R. Edwards (JE)
Attendance:

Regular attendance is crucial for successful completion of this course. A large portion of the test material comes from the class lecture. If for any reason regular attendance becomes difficult, inform me as soon as possible. Disruptive students will be removed from the class and receive an immediate “F” for the course.

Honor:

This course demands the highest standard of conduct. Cheating and plagiarism of any kind are not tolerated. Violation of this code results in an immediate failure for the course.

Lecture 1  
**Spontaneous Order: The Big Picture**

(GS) Chapters 1-2  
(HH) Chapters 1-3  
(JE) Chapter 1  
Dwight Lee and Robert McKnown, *Order from Chaos*  
Leonard Reed, *I, Pencil*

Lecture 2  
**The History of Economic Thought: Aristotle Through Classical School**

(GS) Chapter 3  
(CM) Chapters 1-2

Lecture 3  
**The Neoclassical Revolution: Marginalism and Subjectivism**

(GS) Chapter 4  
(CM) Chapters 3-4  
(HH) Chapters 8-10  
(LM) Chapter 1  
Hans Sennholz, *The Formation and Function of Prices*

Lecture 4  
**The Law of Supply and Demand**

(GS) Chapter 7  
(CM) Chapters 5-6

Lecture 5  
**The Role of the Price System**

(GS) Chapter 12  
(HH) Chapters 15-19  
(LM) Chapter 3  
Thomas Rustici, *A Public Choice View of The Minimum Wage*  
D. Deere, K. M. Murphy, and Finis Welch, *Sense and Nonsense on the Minimum Wage*
Lecture 6   Opportunity Costs, Comparative Advantage, and International Trade

(GS) Chapter 8, 16-17
(HH) Chapters 11-14
(LM) Chapter 5
David Ricardo, On Foreign Trade
Frederic Bastiat, The Candlemaker’s Petition

Lecture 7   Production: The Economic Theory of The Firm

(GS) Chapter 8-9
(JE) Chapters 2, 11
(AR) Chapter 1, 20
Ronald Coase, The Nature Of The Firm
A. Alchian and H. Demsetz, Production, Information Costs and Economic Organization

Lecture 8   Public Choice: The Economics of Politics

(JE) Chapters 3-4
(GS) Chapter 5-6 & Special Topics 1, 9
(LM) Chapter 6
(AR) Appendix, Chapters 2, 19, 21
Robert Nisbet, Cloaking the State’s Dagger
Thomas Rustici and Alan Koczela, Public Goods and Public Choice
James Madison, Federalist 10 & 51
Economist Magazine, State and Market

Lecture 9   The Economics of Regulation

(JE) Chapters 5, 9
(AR) Chapters 5, 6, 10, 11, 16
Richard Posner, Taxation by Regulation
George Stigler, The Theory of Economic Regulation
F. McChesney, Rent Extraction and Rent Creation in the Economic Theory of Regulation
Bruce Yandle, Bootleggers and Baptists

Lecture 10   Competition and Monopoly Theory and Practice

(JE) Chapter 6
(GS) Chapter 10-11
(LM) Chapter 2
(AR) Chapters 3, 4, 7
Thomas DiLorenzo, *The Origins of Antitrust: An Interest-Group Perspective*
Fred S. McChesney, *Antitrust*
Faith, Roger L, Leavens, Donald R, Tollison, Robert D, *Antitrust Pork Barrel*
John McGee, *Predatory Price Cutting: The Standard Oil (NJ) Case*

**Lecture 11  The Economics of Information**

(GS) Chapter 13 & Special Topics 2, 4, 6  
(AR) Chapter 9, 12, 13  
Paul Heyne, *Information, Middlemen and Speculators*  
Independent Institute: *Theory, Evidence, and Examples of FDA Harm*

**Lecture 12  The Theory of Income Determination**

(JE) Chapter 7  
(AR) Chapters 8, 22  
(GS) Chapters 12, 13, 15 & Special Topics 3, 5, 7, 8  
(HH) Chapters 20-22  
(LM) Chapter 4  
W. Kip Viscusi, *Job Safety*

**Lecture 13  Economics and the Environment**

(GS) Special Topics 10-11, Chapter 14  
(JE) Chapters 8, 10  
(AR) Chapters 14, 15, 23, 24  
John Baden and Richard Stroup, *Saving the Wilderness*  
Robert Smith, *Resolving the Tragedy of the Commons*  
Terry Anderson, *Nature’s Entrepreneurs*  
Fred Smith, *Risks and the Modern World*

**Final Exam**