

**Economics 4540W**  
**Economics of Conflict**  
**Spring 2019**  
**MW 8:45-10:00**  
**Buttrick 201**

Professor Robert Driskill

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Office Hours: Monday 10:15-11:15 and by appointment. I occasionally have other professional obligations that arise, e.g., committee meetings, that overlap with my scheduled office hour. I will try to alert everyone ahead of time when this occurs. If I forget, please email me and we will arrange another appointment time. Also, when you pass by Calhoun 116C and see my door open, you should feel free to stop if you have things to discuss. If I am busy, I'll tell you, but usually if my door is open I am probably chatting or gossiping ("sto chiacchierando" for all of you fellow lovers of Italian) and will be glad to stop to help a student.

TA: Frank Ciarliero

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Office hours: TBA.

This class emphasizes: (1) understanding how economists analyze issues related to conflict, and (2) the formulation and presentation of logical arguments

**Trigger warning:** We at times talk about violence, and you may be required to see a movie that has graphic depictions of violence.

## About the Instructors

I am Robert Driskill. I have taught economics since 1977 at four different universities: The Ohio State University, University of California at Davis, Yale University, and Vanderbilt University. I earned my undergraduate degree in economics at Michigan State University in 1973 and my Ph.D. at Johns Hopkins University in 1978. My CV can be accessed from the economics department web page. Other non-professional information about me can be found from the personal section of my web page accessed via the department web page.

Part of my interest in this class is due to my experiences in the U.S. Army from October 17th, 1968, until May 21, 1970. Those experiences left me with some hearing loss and with one-half of my vocal chords. Hence, occasionally I ask students to speak up, and I ask students to alert me when they cannot hear me. Don't be shy.

I will occasionally miss class due to participation in conferences or due to other

professional obligations.

Frank Ciarliero is an advanced PhD student from Sydney, Australia. He completed his undergraduate economics degree at the University of New South Wales, where he was TA in International Economics for two semesters. Frank has been the TA for courses we have taught in the past, and has been the (well-received) instructor of record for his own Intermediate Macroeconomics course; in many ways, he is as much a co-instructor as a TA.

## Prerequisites

The prerequisite for Econ 4540W is Intermediate Micro.

## Text

The required texts are *Principles of Conflict Economics*, by Anderton and Carter (hereafter AC), and *Castles, Battles, and Bombs: How Economics Explains Military History* by Jurgen Brauer and Hubert van Tuyl; University of Chicago Press; ISBN 978-0-226-07163-3, 2008, (hereafter CBB). Both are available in the bookstore. Other readings will be posted on Brightspace (hereafter BS).

## Class Meetings

The class meets on Mondays and Wednesdays from 8:45-10:00 in Buttrick 201. Please arrive on time. If you don't, the people who do arrive on time will note you tend to be late, will note we will not start real work until you arrive—learning is a cooperative venture, after all—and will then come late themselves. You, then, will arrive even later, others observe this and arrive later themselves, and so on. Ultimately, we have no class time at all, unless I find a way to make sure our class does not play this type of **weakest link** game (a game we will study).

## Course Description

### Subject Matter: the invisible hand versus the visible fist

Economics is the study of the allocation of scarce resources. Economists ply their trade in part by first making a few assumptions about the motivations of people and about their environments, then constructing models that describe how the interactions of these abstract people with each other and with their environment allocate resources. This leads to a small set of key principles used to organize thought about the allocation of resources, e.g., the principle of opportunity cost. We might call this small set of key principles the economist's toolkit.

The economics of conflict—as practiced by economists—is the use of the economist's basic toolkit to study the allocation of scarce resources in situations of conflict. There are at least two major—but intertwined—branches of this study.

First, one branch uses the toolkit to analyze the allocation of resources during a particular conflict or type of conflict. This is the primary approach of CBB, but is also

part of AC. How many resources should a country devote to its armed forces, how should these resources be divided among the navy, the airforce, the army, are some of the questions on which this type of analysis is designed to shed light. Others include: How best to motivate soldiers to fight? How best to understand how the particular informational problems associated with war, e.g., the problems associated with "fog of war," affect decisions about the allocation of resources to achieve victory?

The second branch uses the economist's toolkit to analyze economic choices in an anarchic environment, i.e., in an environment without the legal protection—and enforcement—of property rights. In such an environment, in which might makes right, the economist's toolkit is used to analyze the *choice* to engage in conflict—or to engage in the threat of conflict, or to invest in defense—rather than to analyze choices made in peaceful pursuits. This branch is perhaps where the economics of conflict differs most from the mainstream use of economic analysis.

This analysis of the choices associated with the possibility of some entities appropriation—by use or threat of use of force—of goods produced by others is the subject matter of this second branch of the economics of conflict. Thus, we could—and might—deal with specific topics such as war, crime, litigation, family quarrels, strikes, rent-seeking contests, power politics, bankruptcy fights, and more. The potential warrant for study of this branch of the economics of conflict is broad.

As a class, though, we of course cannot do everything and must focus on a small number of areas. First, we study how individuals—and organizations—choose between (1) appropriation activities, i.e., pillage and plunder, (2) activities to protect against pillage and plunder, i.e., defense, and (3) productive activities.

This branch of conflict economics generates a conundrum: the threat of conflict would seem to eliminate actual conflict. Writing about labor strikes, the Nobel-prizewinning economist Oliver Hart put this succinctly:

"Strikes are generally regarded as an important economic phenomenon, and yet good theoretical explanations of them are hard to come by. The difficulty is to understand why rational parties should resort to a wasteful mechanism as a way of distributing the gains from trade. Why could not both parties be made better off by moving to the final distribution of surplus immediately (or if it is uncertain to its certainty equivalent) and sharing the benefits from increased production?" ("Bargaining and Strikes, by Oliver Hart, *The Quarterly Journal of Economics*, Vol. 104, No. 1 (Feb., 1989), pp. 25-43, Stable URL: <http://www.jstor.org/stable/2937833>)

Hence, this second branch leads to a sub-branch that analyzes the causes of **bargaining failure**. What are the reasons people—and organizations such as countries—fail to reach negotiated settlements?

## Evaluation

This is a "W" course, so expect to write and rewrite. Your final grade will be determined by:

## A journal (25%)

You are required to keep a journal. This journal will be where you respond in writing to in-class experiences and outside reading material. By "respond" I mean that you carry on a written conversation with yourself about what in the class you think is confusing, what in the class you think you understand, and what questions you have arising from the class. You are expected to have one response per class.

Your grade will depend on the quality and quantity of your responses. In terms of quantity, not having an entry for a class will reduce your grade. In terms of quality, I ask the following questions: are you attempting to formulate questions about what we do in class and what we read; are you reading carefully; are you being "mindful" of how you are learning, that is, are you being introspective about the learning process. The more a journal helps me understand what or what not you understand, the better the journal grade. Here are some sample questions that your journal entries might address:

What is new to you about this material?

What did you know already?

What confused you in class or in your readings?

What questions remain in your mind?

Among other things, the journal is a way for you to take control of your own learning. In some entries, you might recreate or replicate material from class or reading, but you should go beyond this along the lines suggested above.

Each class entry should be the result of about fifteen minutes (or more) of concentrated thinking and writing. This corresponds to roughly one or two pages of single-spaced prose (normal margins). The writing you are doing here is not designed to make you a better formal writer, but to help you learn. That is, I am not grading on grammar and style.

I do need to be able to read on a regular basis the writing, though, so it needs to be typed in a format that can be transmitted electronically. By no later than the morning after each class (7:00 AM the next day) I expect to have your journal entries in my email box. I need this because occasionally use responses from the preceding classes as the basis for the next day's class discussion.

In addition, in this journal you need to keep track of and comment upon your classroom participation. This provides me with another record of participation, and provides you with a way to critique your contributions.

The first journal entry is due after the third class (Monday January 14). It should be based on any material covered over those first three days; if you did not join the class until that day, the entry should be based on the readings. The last journal entry will be for the 17th class on Wednesday March 13.

## Class participation (15%).

This class is in many ways run as a seminar. Some of class participation may be

directed, e.g., you may be assigned to lead a discussion on a topic, or recap material from a preceding class.

This grade component unalterably depends on my subjective analysis of your participation. If this makes you uncomfortable, you shouldn't take this course.

## Exam (20%)

There will be one and only one exam

## A Joint Project Paper and Presentation (30 %)

Immediately after drop-add, aka "shopping week," we will organize the class into groups of three (3)—with perhaps a few groups of two (2) members. The project paper will proceed in stages: choice of a topic (one-page description) due on **the seventh (7th) class (Wednesday January 30)**, an outline due on **the twelfth (12th) class (Monday February 18)**, a first draft due on the **(23rd) class (Wednesday April 3)**, a final draft on the **last day of class (Monday April 22)**. During the last few weeks each of you—as a group but with every member participating—will present your work. You will be graded at each stage (although some, but not all, past sins can be forgiven at later stages). The paper topic can be anything related to economics and conflict, subject to my approval.

Each group will present their project during one of the last five (5) days of class.

## Critiques (10%)

Each student will individually—not as a member of their group—write a short two-or-three paragraph critique of each of the other groups' presentations/projects. These need to be submitted to me electronically by 5:00 PM on **Friday April 26**

## Tentative schedule

The readings are to be done ahead of time: it's a seminar. The first 10 weeks are devoted to coverage of a variety of topics, while the last four weeks are devoted to presentations of student work-in-progress and discussions of these presentations.

The schedule is tentative because we might find unforeseen topics for discussion that displace others listed below.

### Week 1:

#### 1 Monday Jan 7

Introduction: Course organization; What is conflict economics?

#### 2 Wednesday Jan 9

Allocation of scarce resources.

Readings: AC Ch. 1,2; CBB Preface, Ch. 1.

Need a review of intermediate econ? AC Ch. 2,3.

### Week 2:

Game theory; Group organization.

Readings: AC Ch. 4

#### 3 Monday Jan 14

Game theory I

**4 Wednesday Jan 16**

Organize group project teams; 6-7 groups of 3 members each (or 2 if necessary); Game theory II

**Week 3:**

**Monday Jan 21 MLK Day: No class**

**5 Wednesday Jan 23**

Contest success functions; a model of war

Readings: AC Ch. 12.1; Ch. 9.3

**Week 4:**

**6 Monday Jan 28**

Applying some concepts: Castles, Paradox of civilization, Hobbes

Readings: CBB, Ch. 2; "Failed states and the paradox of civilization," (BS)

**7 Wednesday Jan 30**

Bargaining Failure

Readings: AC Ch. 5, Ch. 12.2; Jackson-Morelli (BS); Appendix B; CBB Ch. 4

**One-Page Group Project Proposals Due Wed. Jan 30**

**Week 5:**

**8 Monday Feb 4**

Interstate war

Readings: AC Ch. 6.

**9 Wednesday Feb 6**

Applying some concepts: Strategic bombing, American Civil War

Readings: CBB, Ch. 5, Ch. 6;

**Week 6:**

Tentative topic: getting people to fight

Readings: EconofWarDFriedman (BS); EconomicsOrganIdentAkerlof (BS).

**10 Monday Feb 11**

**11 Wednesday Feb 13**

Movie: TBA

**Week 7:**

Tentative topic: Terrorism.

Readings: CBB, Ch. 8.1

**12 Monday Feb 18**

**Four-five Page Group Project Description Due Monday Feb 18**

**13 Wednesday Feb 20**

**Week 8:**

Tentative topic: Who does the fighting?

Readings: CBB, Ch. 3, 8.2,8.3

**14 Monday Feb 25**

**15 Wednesday Feb 27**

**Week 9:**

**Spring Break**

**Week 10:**

Tentative topic: Tranche warfare (financial crisis of 2007-8 and role of MBS).

Readings: GlaeserforeclosureWSJ (BS), Mortgagefragmentation (BS),  
WSJOct10TrancheWarfare (BS).

**16 Monday March 11**

**17 Wednesday March 13**

**Week 11: Catch up, review, exam**

**18 Monday March 18**

Review, catch-up.

**19 Wednesday March 20**

**Exam.**

**This is the only exam. The date will not change. Plan your schedule accordingly. Only if you have a documented unforeseen emergency will I make alternative arrangements concerning this component of your grade.**

**Week 12:**

**20 Monday March 25**

No class: Group project preparation

**21 Wednesday March 27**

No class: Group project preparation

**Week 13:**

**22 Monday April 1**

No class: Group project preparation

**23 Wednesday April 3**

No class: Group project preparation

**By 5:00 PM: 20 page (max!) group project reports available to everyone in class**

**Week 14:**

**24 Monday April 8**

Group Project Presentation (1,2)

Readings:

**25 Wednesday April 10**

Group Project Presentations (2)

**Week 15:**

**26 Monday April 15**

Group Project Presentations (2)

**27 Wednesday April 17**

Group Project Presentations (2,1)

**Week 16:**

**28 Monday April 22**

Wrap up; discussion of group projects.

Last day of class: Monday April 22.

We will not have a final. Do not make plans to be gone before Monday April 22!