Journal of Economics Library

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Volume 7 — September 2020 — Issue 3

Sonia Jaffe, Robert Minton, Casey Mulligan, & Kevin Murphy, *Chicago Price Theory*, Princeton University Press, 2019, 231 pp. $59.73 Hardcover

***By* Scott Alan CARSON †**

Abstract. The University of Chicago's Economics Department is a leading program within the discipline, and its Graduate Microeconomics 301 is an important course in its graduate training. *Chicago Price Theory* extends the influence of the University's microeconomics and provides the next generation of Chicago price theorists rudimentary examples and techniques that keep Chicago a formidable program in economics.

Keywords. Microeconomics, Price Theory, Chicago Price Theory.
JEL. C92, E20, J00, J01, J08.

Book review

At the peak of its influence, the 20th century's University of Chicago economics. Department was among the most productive and innovative within the discipline. Milton Friedman was Mr. Macro. George Stigler was Mr. Micro, and Gary Becker —applied micro extraordinaire— expanded economics into fertility, discrimination, crime and punishment, the family, time allocation, and human capital. Robert Fogel revolutionized economic history, and Aaron Director, Gary Becker, George Stigler, and Robert Bork recast Law & Economics over at the law school. The Cowles Commission fundamentally changed econometrics, primarily through simultaneous equation modeling, and the Chicago industrial economics approachwith George Stigler, Richard Posner, and Sam Peltzman permanently changed theoretical and policy approaches toward anti-trust economics and regulation. If there was one course that tied them together, it was graduate microeconomics, Economics 301, or as the Chicago School distinguishes, "price theory." Course development pre-dated the time in which there was a distinguishable Chicago School, when early Chicago pillar, Jacob Viner, began the tradition that became the lasting hallmark of Chicago graduate training. Economics 301 has since been taught by Friedman, Stigler, Becker, and Kevin Murphy (Friedman, 1962; Stigler, 1966; Becker, 1971). Except Viner, each has produced a microeconomics text book that solidifies the Chicago approach, and Sonia Jaffe, Robert Minton, Casey Mulligan, and Kevin Murphy extend the text

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books written by the Chicago microeconomics faculty in their book *Chicago Price Theory.*

The corpus of contemporary microeconomic theory goes back to the Marginalist thinkers in the late 19th century with William Stanley Jevons, Carl Menger, and Leon Walras. With seamless adoption, Alfred Marshall, Arthur Cecil Pigou, Eugene Slutsky, John Hicks, and the Cambridge School created the tools of modern microeconomics. Like so much of its influence, the 20th Chicago view addressed contemporary questions with existing techniques to create a new way of looking at existing phenomenon. However, there is a subtle difference between traditional microeconomics and Chicago's price theory. Where contemporary microeconomic theory addresses consumer theory, producer theory, comparative statics, and game theory, Chicago's price theory assumes perfect competition, applying Occum's Razor to only include those necessary entities in a model to explain the question under study and focuses heavily on the theory of price determination. So, while traditional microeconomics and Chicago's price theory trace their roots back to the Marginalists, Marshall, and the Cambridge School, there is a distinction between them.

Chicago Price Theory is organized much along the lines of a traditional microeconomics graduate text into consumer theory, producer theory, market equilibrium, and technological progress, with accompanying mathematical explanation. True to its Chicago Economics 301 roots, the book uses abundant examples of advanced microeconomicsto practical topics yet does not appeal to more widespread popular illustrations used in intermediate microeconomics textbooks. However, *Chicago Price Theory* lacks the more in-depth coverage to be a graduate text, and may serve as an advanced undergraduate micro text, a complementary graduate text, or microeconomics book for a sophisticated reader in economics.

From Milton Friedman, an early Chicago position was economic positivism, or the strength of an economic argument was not in its assumptions or realism but in its predictions (Friedman, 1953). An extension is Chicago practitioner's willingness to use simple, abstract models to explain seemingly sophisticated questions that are addressed using direct models. The strength of a model need not be in the number of variables it includes but the accuracy of its predictions. As a methodology, economic positivism served the mainstream of the profession well for several decades. However, with the increase in measurement accuracy, omitting relevant and significant factors in the name of a parsimoniousmodel, elegant explanations may lead to inconsistent conclusions from omitted variables. Subsequently, this willingness to accept simplified models may be a weakness in today's economics discipline, where the realism of including relevant variables is paramount.

The pervasiveness of the 20th century University of Chicago's Economics Department is unquestioned. Agree or disagree, positions staked out by its advocates and students have influenced the discipline economics has become. Like its predecessorswith Friedman, Stigler, and Becker, *Chicago*

Price Theory extends Chicago's influence into microeconomics into the 21st century, with an even more refined Chicago economic perspective. For the dedicated student in Chicago price theory or devoted traditional microeconomic practitioner, Jaffe, Mitton, Mulligan, and Murphy have updated their predecessor's work in microeconomics and given their book a distinctively Chicago flair. Graduate students, contemporary practitioners, and historians of economic thought are well served with the authors' contribution.

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