

Hons Market Process Economics: An Analysis of Time and Ignorance ECO-4053

Wilkes Honors College, Spring 20XX

INSTRUCTOR

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MEETING TIMES & PLACE

TUES/THURS
9:30-10:50AM
HA102

OFFICE HOURS

TUES/THURS:
XXXXX and by appointment

PRE-REQUISITES

ECO 2023-Microeconomic Principles
(*Intermediate Micro* is highly recommended)

3 CREDITS

COURSE DESCRIPTION

This course aims to provide honors students (in economics/business) with the foundations of market process economics. This includes: an understanding of how the market process approach; ideas to generate a market process approach to a variety of research problems; opportunity to improve written and oral communication skills.

This course is an introduction to what is known as “market process” economics, which is best represented by the “Austrian School” of economics. It is a body of work that:

- has its origins in Adam Smith and Carl Menger (a 19th-century Austrian economist who originated the notion of “subjective theory of value” or “marginal utility”);
- proceeds from a thoroughgoing principle of “methodological individualism” (that individuals must be the basic unit of social scientific analysis because it is only individuals who think and act);
- develops in a peculiar direction as a result of engaging directly with the theory and experience of Marxism and Central Planning in the Soviet Union (à la Mises’ and Hayek’s intellectual efforts in the famous “Calculation Debate”);
- places significant weight on the idea that all costs are subjective (à la Buchanan);
- emphasizes the importance and role of human ingenuity and creativity in the process of entrepreneurship (à la Schumpeter, Buchanan and others);
- stresses the fact that most economic decisions involve the passing of time and hence must be modeled as processes through time (which explains the course title);
- in acknowledging the critical element of time, necessarily draws attention to the role that true uncertainty (as opposed to risk), or “ignorance,” plays in human decision making and

socio-economic processes (which explains the course subtitle, “an analysis of time and ignorance”);

- highlights how markets arise as an organic solution to many societal issues;
- is not standard (comparative static) microeconomic business as usual, the latter which focuses on equilibrium-oriented models (that largely ignore time and ignorance).

In addition to providing an introduction to the various ideas that constitute “process” economics, a second aim is to provide some historical and philosophical context. I would also like to provide some basics for making scholarly contributions to the broader economics discipline using these process-oriented/Austrian insights.

LEARNING OUTCOMES: Upon completion of this course, you will:

1. Understand the foundations of market process economics.
2. Understand a number of key areas where market process approaches diverge from the neoclassical mainstream.
3. Be able to build on these ideas to generate a market process approach to your own research problems.
4. Improve your written and oral communication skills.

NOTE ON HONORS DISTINCTION

This Honors course differs from a non-Honors course in the work and intellectual demands it places on students. Students will have over 100 pages of reading each week that they *must* do: they will have quizzes at the start of every class to assure readings have been done. The actual course meetings will be 100 percent seminar oriented, meaning the professor will not “lecture” on the material. As such, 50 percent of the student’s semester grade will be determined by their class participation (which will be regulated as per the rules described below). Students will also write several papers and will be responsible for leading the entire discussion for at least one class meeting. This is the kind of environment that is typically reserved for graduate students.

REQUIRED MATERIALS: The readings for this course come from excerpts from books and journal articles. The list of readings is not intended to be an exhaustive list of all of the relevant readings for any given topic, but rather is intended to provide some of the core concepts in each area on the syllabus.

You need to do all the required readings and come to class prepared to discuss them. More so than other areas of economics, market process economics traverses economic, sociological, philosophical and political dimensions. This makes market process economics intellectually very exciting, but demands that issues be covered in a more nuanced fashion.

REQUIRED BOOKS

- O’Driscoll, Gerald and Mario Rizzo. 2015. *Austrian Economics Re-examined: The Economics of Time and Ignorance*. New York: Routledge.

Additional helpful (and interesting) works include (NOT required):

- Lavoie, Don. 2015 [1985]. *Rivalry and Central Planning*. Arlington: Mercatus Center.
- Kirzner, Israel. 1973. *Competition and Entrepreneurship*. Chicago: Univ. of Chicago Press.
- Vaughn, Karen. *Austrian Economics in America*. Cambridge Univ. Press.
- Menger, Carl. *Principles of Economics*. Grove City: Libertarian Press, 1994.
- Taylor, Thomas. 1980. *An Introduction to Austrian Economics*. Wash DC: Cato.
- Littlechild, Stephen C. 1978. *The Fallacy of the Mixed Economy*. London: Institute of Economic Affairs.

GRADES

<u>Cutoff</u>	<u>Cutoff</u>	<u>Cutoff</u>	<u>Cutoff</u>	<u>Cutoff</u>
A 93%	B+ 87%	C+ 77%	D+ 67%	F <60%
A- 90%	B 83%	C 73%	D 63%	
	B- 80%	C- 70%	D- 60%	

ASSESSMENT

Discussion Leadership – 20%

Participation – 50%

Writing (probably 4 short papers) – 30%

Format and Rules for Structured Discussions

(Thanks to Steve Horowitz for the articulation of Liberty Fund discussion rules and his participation outline!)

Discussions will begin after any administrative tasks at the start of class. Please come on time and be prepared to participate throughout. Please help arrange chairs in a circle, if not already done.

Discussion Rules

The discussion will begin with the day’s Discussion Leader highlighting some points within the reading and posing questions to which the other participants might respond. These introductory remarks should take no more than 10 minutes, leaving the balance of the discussion time for participants to respond to those queries, present their own questions, and respond to other discussion participants. This means that you are duty-bound to come prepared, with the text read very carefully, **with notes and/or questions written down** so that you can contribute to a lively and engaged discussion.

After the DL finishes introductory remarks, the “queue” is opened for participants to respond and/or pose their own questions. I will keep the queue and acknowledge whose turn it is to speak. You may indicate your interest in making a comment by raising your hand. If, while another discussion participant is speaking you decide that you would like to make some new point(s), you should “catch my eye” by raising your hand quietly, and wait for a nod from me indicating you have been placed in the queue. I will periodically remind everyone who is in line to speak.

If participants wish to make a brief comment that pertains to something that was just said, you can be put on the “brief comment” queue, which allows you to get your short point in before the conversation moves too far beyond the specific issue being raised. Participants wanting to be put in the short comment queue should put their finger and thumb together (as if to say, “this will be short, I promise”). A position within the brief comment queue does not eliminate a position in the main queue. This helps to assure that brief comments remain brief and that participants will have time to articulate their longer points when their turn in the long comment queue comes around.

I may participate in both queues. I reserve the right to change the order of the queue to ensure that everyone who wants to speak gets the chance. This may include moving people up the queue who have not spoken yet before someone else speaks for a second or third time. I also reserve the right to cut short comments that go on too long and to take other appropriate measures necessary to maintaining order and decorum.

Mutual respect is an absolute in these discussions. That said, one can be respectful while still engaging in lively argument. Striking this balance is the key to a successful discussion and is the responsibility of everyone at the table.

Participation Grading

Each discussion day, students will earn 0 to 10 points. A score of “5” is attributed to those who attend class, but appear inattentive or disengaged from the discussion. A score of “6” is attributed to those who attend and do not say anything, but who “appear” to be engaged and are focused on the conversation. I can tell whether you appear to be engaged and this makes a difference. A student who appears to be disengaged creates a negative externality that casts a pall over what might otherwise have been a lively discussion. Those who appear to be engaged, even if they are silent, encourage others to continue their active participation (hence the 6 points.) The student who makes minor contributions during the course of the discussion earns 7 points. The student who offers frequent thoughtful commentary, connects their comments to the comments of others, sparks debate, etc., earns 10 points. 8’s and 9’s will represent some sliding scale between 7 and 10.

Brief “Response” Papers and In-Class Quizzes

These are specific questions concerned with particular articles, chapters of the book or ideas we’re covering. They’re intended to force you to synthesize the material at hand and analyze it in light of other work that we’ve done in the semester (or in light of insights from other classes).

These should be no longer than two pages, double-spaced, 12pt font. They should be referenced properly and respect all the normal rules of good writing, grammar and formatting.

I will, on most days, start the class with **short quizzes**. I may also come around and “check” that you’ve brought the day’s works to class and that you’ve written notes, in advance, for the class. The average grade for quizzes and/or “note checks” will count as a single paper grade (i.e., they’ll be averaged with the paper grade).

ATTENDANCE

Attendance is absolutely mandatory in this class. Given the heavy participation expectation, unexcused absences receive “0” participation points for the day.

COURSE WEBSITE AND YOUR RESPONSIBILITY TO CONSULT IT OFTEN

You are responsible for checking the course website, including the course schedule, frequently and for keeping up-to-date on what reading and other work (including assignments) are required for a particular class meeting. All reading and other work assigned for a given date must be completed prior to the class meeting on that date.

You might be alerted in class and/or through the FAU course website of any class announcements. You will be notified on the website and in class of any changes.

SPECIAL CIRCUMSTANCES AND LATE POLICY

If there are special health or other personal crises affecting your attendance or performance during the semester, you may request special arrangements with supporting documentation. I strongly urge students to see me as soon as possible under such circumstances. Unless there is a prior arrangement (with documentation), I will not accept anything late.

POLICY ON ACCOMMODATIONS

In compliance with the Americans with Disabilities Act Amendments Act (ADAAA), students who require reasonable accommodations due to a disability to properly execute coursework must register with Student Accessibility Services (SAS) and follow all SAS procedures. SAS has offices across three of FAU’s campuses — Boca Raton, SU 131 (561-297-3880); in Davie, LA 131 (954-236-1222); in Jupiter and all Northern Campuses, SR 111F (561-799-8585). Disability services are available for students on all campuses. For more information, please visit SAS website at www.fau.edu/sas/.

POLICY ON RECORDING, PHOTOS, AND FILMING IN THE CLASSROOM

There will be absolutely no recording, filming, or photographing of any sort in my classroom at any time without my previous written permission.

COUNSELING AND PSYCHOLOGICAL SERVICES (CAPS) CENTER

Life as a university student can be challenging physically, mentally and emotionally. Students who find stress negatively affecting their ability to achieve academic or personal goals may wish to consider utilizing FAU’s Counseling and Psychological Services (CAPS) Center. CAPS provides FAU students a range of services – individual counseling, support meetings, and psychiatric services, to name a few – offered to help improve and maintain emotional well-being. For more information, go to <http://www.fau.edu/counseling/>.

ACADEMIC INTEGRITY POLICY

Students at Florida Atlantic University are expected to maintain the highest ethical standards. Academic dishonesty is considered a serious breach of these ethical standards, because it interferes with the university mission to provide a high quality education in which no student enjoys an unfair advantage over any other. Academic dishonesty is also destructive of the university community, which is grounded in a system of mutual trust and places high value on personal integrity and individual responsibility. Harsh penalties are associated with academic dishonesty. For more information, see University Regulation 4.001. [The Honors College's Honor Code is here.](#)

ECONOMICS TUTOR

While you're unlikely to need the economics tutor for any technical requirements for this class, the tutor is available to you. This semester the tutor is: XXXXXX (email: XXXX@fau.edu) and the tutoring hours are XXXXX.

TENTATIVE OUTLINE

(material listed under "Background" is not required)

Week 1: Introduction

Boettke, Peter. 2008. "Austrian School of Economics." *The Concise Encyclopedia of Economics*. (5 pp)

Vaughn, Karen. 1994. "Preface" (pp. 9-12) and "Introduction" (chap 1, pp. 1-11). In *Austrian Economics in America: The Migration of a Tradition*. New York: Cambridge Univ Press.

O'Driscoll, Gerald and Mario Rizzo. 2015. *Austrian Economics Re-examined: The Economics of Time and Ignorance*. New York: Routledge (Parts I & II, pp. 3-42):

- "A Changing World"
- "What is Austrian Economics?"

Klein, Daniel. 2012. "Rinkonomics: A Window on Spontaneous Order." In *Klein Knowledge and Coordination: A Liberal Interpretation*. New York: Oxford Univ. Press. (6 pp)

BACKGROUND (not required):

Boettke, Peter. 1996. "What is Wrong with Neoclassical Economics (and What is Still Wrong with Austrian Economics)." In Fred Foldvary (ed.), *Beyond Neoclassical Economics*. Edward Elgar Publishing. (11 pp).

Fundamental physics is frustrating physicists (Economics isn't the only discipline with disagreement in ranks!) Economist, Jan '18.

Week 2: Historical Setting of the Movement

Vaughn, Karen. 1994. "Carl Menger and the Foundations of Austrian Economics" (chap 2). In *Austrian Economics in America: The Migration of a Tradition*. New York: Cambridge Univ Press.

Mises, Ludwig von. 1969. *The Historical Setting of the Austrian School of Economics*. Auburn: Mises Institute. (pp.1-21)

Leonard, Robert. 2010. "Equilibrium on Trial: The Austrian Interwar Critics." Von Neumann, Morgenstern, and the Creation of Game Theory: From Chess to Social Science, 1900–1960. New York: Cambridge Univ. Press. pp. 77-92. (15 pp)

Robert Leonard. 2010. "From Austroliberalism to Anschluss: Morgenstern and the Viennese Economists in the 1930." Von Neumann, Morgenstern, and the Creation of Game Theory: From Chess to Social Science, 1900–1960. New York: Cambridge Univ. Press. pp. 140-181. (41 pp)

Some old photos of some of the "protagonists" (from Leonard).

BACKGROUND:

Stefan Zweig. *The World of Yesterday* (Chapter I)

Bostaph, Samuel. 1994. "Methodenstreit." *Elgar Companion to Austrian Economics*. Cheltenham: Elgar: pp. 459-464.

Week 3: Marx & Mises

Tues:

Mises, Ludwig von. 1949. *Human Action*, London: William Hodge. (pp. 1-29).

Thurs:

Lavoie, Don. 2015 [1985]. *Rivalry and Central Planning*. Arlington: Mercatus Center. CHAP 2: "Marx's Socialism" (20 pp)

Boettke, Peter. 2001. "The Soviet Experiment with Pure Communism." *Calculation and Coordination: Essays on Socialism and Transitional Political Economy*. New York: Routledge. (pp. 77-98).

Soviet Gulags (wikipedia). [this is not "officially" for class; just have a brief look for background, especially "Intro," and from "Brief History" to "Economic role ("During World War II"); can be skimmed in less than 10 minutes].

BACKGROUND:

Apocalypse – Stalin Documentary [three episodes; see 1hr55min for Jewish relocation and 1hr56 for economic "plan", agric confiscation, "kulaks," etc.].

Meng, Xin (et al.). "Institutional Causes of China's Great Famine, 1959-61." NBER Working Paper.

Doctor Zhivago (movie) by Boris Leonidovich Pasternak

Commanding Heights Movie (PBS) Episode 1

Anderson and Boettke. 1997. "Soviet Venality: A Rent-seeking Model of the Communist State." *Public Choice*, 93.

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Week 4: Economic Calculation

Tues:

Mises, Ludwig von. 1935[1920]. *Economic Calculation in the Socialist Commonwealth*. Translated by S. Adler in Hayek (1935). pp. 1-48.

Thur:

Lange, Oskar. 1936 *On The Economic Theory of Socialism Part I*.

Lange, Oskar. 1936. *On The Economic Theory of Socialism Part II*. ONLY 123-133

Paper #1

Week 5: Hayek

Tues:

Hayek, Friedrich. 1948. *Individualism and Economic Order*. Chicago: Univ. of Chicago Press. (chaps 1,2,4,5: 86pp)

- Individualism: True and False (ch 1)
- Economics and Knowledge (ch 2)

Thur:

- The Use of Knowledge in Society (ch 4)
- The Meaning of Competition (ch 5)

BACKGROUND:

- The Facts of the Social Sciences (ch 3, pp. 57-76)

Friedrich v. Salma

The Lives of Others (Sony Film)

Michael Polanyi (Wiki) on Tacit Knowledge

Unbearable Lightness of Being (novel) (or movie) by Milan Kundera

Week 6: Hayek

Tues:

Hayek, Friedrich. 1948. *Individualism and Economic Order*. Chicago: Univ. of Chicago Press. (chaps 7,8: 60 pp.)

- Socialist Calculation I: Nature & History of Problem (ch 7)
- Calculation II: State of the Debate (ch 8)

Thur:

Hayek, Friedrich. [1968]2002. "Competition as a Discovery Procedure." *Quarterly Journal of Austrian Economics*, 5(3): 9-23.

Paper #2

BACKGROUND:

- Free Enterprise & Competitive Order (ch 6)
- Socialist Calc III: The Competitive “Solution” (ch 9)

McNulty, Paul. 1968. “Economic Theory and the Meaning of Competition.” *Quarterly Journal of Economics*, 82: 639-56.

McNulty, Paul. 1967. “A Note on the History of Perfect Competition.” *Journal of Political Economy*, 75: 395-399.

Pelikan, Pavel. 2006. “Markets vs. Government when Rationality Is Unequally Bounded: Some Consequences of Cognitive Inequalities for Theory and Policy.” working paper.

Friedrich von Hayek Interviewed by Axel Leijonhufvud – Nov 1978

Caldwell, Bruce. 1997. “Hayek and Socialism.” *Jour of Econ Lit*, 35.

Lavoie, Don. 2015 [1985]. *Rivalry and Central Planning*. Arlington: Mercatus Center. (chap 3, “Mises’ Challenge: Informational function of Rivalry.”)

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Week 7: Rivalry and Central Planning/Buchanan on Cost

Tues:

Lavoie, Don. 2015 [1985]. *Rivalry and Central Planning*. Arlington: Mercatus Center. (chap 4: 38 pp)

- “Diversion of the Debate into Statics: Rivalry Assumed Away”

BACKGROUND:

- Lavoie: Market Socialists’ “Competitive” Response: Rivalry Ignored (ch 5)
- Lavoie: Austrian Rejoinder: Learning from Rivalry (ch 6)
- Jason Barker. “Happy Birthday, Karl Marx. You Were Right!” NYT

Thurs:

Buchanan, James. 1969. *Cost and Choice: An Inquiry in Economic Theory*. Chicago: Univ. of Chicago Press.

- Preface, Acknowledgements & Chapter 1 (20 pp.).

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Week 8: Buchanan: Cost & Choice

Tues:

Buchanan, James. 1969. *Cost and Choice: An Inquiry in Economic Theory*. Chicago: Univ. of Chicago Press (up through chap 3 is here).

- Chapters 2, 3 & Chap 6 is here (53 pp.)

Thur:

Buchanan, James. 1964. "What Should Economists Do?" *Southern Economic Journal*, 30(3): 213-222. (9 pp)

Buchanan, James. 1979. "Natural and Artifactual Man." Lecture presented at the Liberty Fund Series Conference in Blacksburg, VA (July). Printed in *What Should Economists Do?* Indianapolis: Liberty Press. (13 pp)

Buchanan, James. 1999. "Order Defined in the Process of Emergence." In *Collected Works of James M. Buchanan, Vol 1: The Logical Foundations of Constitutional Liberty*. Indianapolis: Liberty Fund. (2 pp)

BACKGROUND:

Buchanan on "Nobelity." 2001. Nobel Foundation.

Theroux, Mary. "Remembering Buchanan." Independent Institute.

Birgitta Swedenborg on Buchanan.

Buchanan. "Rights, Efficiency, and Exchange: The Irrelevance of Transaction Costs." In *Collected Works of James M. Buchanan, Vol 1: The Logical Foundations of Constitutional Liberty*. Indianapolis: Liberty Fund.

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Week 9 (Mar 13): Causation, Coase, Start T&I

Tues:

Coase, Ronald. 1937. "The Nature of the Firm." *Economica*, 4(16): 386-405.

Thur:

Cowan, Robin. 1994. "Causation and Genetic Causation in Economic Theory." In Boettke (ed.) *Elgar Companion to Austrian Economics*. Cheltenham: Elgar. pp. 63-71.

O'Driscoll, Gerald and Mario Rizzo. 2015. *Austrian Economics Re-examined: The Economics of Time and Ignorance*. New York: Routledge (pp. 49-77):

- Acknowledgements,
- Intro: Time & Ignorance after 10 Years
- Overview of Subjectivist Economics

Paper #3...

BACKGROUND:

Yeager, Leland B. "Why Subjectivism?" *The Review of Austrian Economics* 1(1): 5-31. (Read ONLY page 17-29)

Cowan, Robin and Mario Rizzo. 1996. "The Genetic-Causal Tradition and Modern Economic Theory," *Kyklos*, 49(3):1-44.

Week 10 (Mar 20): T&I

Tues:

O'Driscoll, Gerald and Mario Rizzo. 2015. *Austrian Economics Re-examined: The Economics of Time and Ignorance*. New York: Routledge (pp. 78-104):

- (ch 2) "Static vs. Dynamic Subjectivism"
- (ch 3) "Knowledge and Decisions".

Thur:

Part III/Section I: 4 & 5 (pp. 105-134).

- (ch 4) "Dynamic Conception of Time"
- (ch 5) "Uncertainty in Equilibrium"

BACKGROUND:

Schultz, Theodore. 1975. "The Value of the Ability to Deal with Disequilibria." *Journal of Economic Literature*, 13,(3/Sep): 827-846.

Yeager, Leland B. 1999. "Should Austrians Scorn General-Equilibrium Theory?" *The Review of Austrian Economics* 11(1-2): 19-30.

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Week 11 (Mar 27): T&I and Entrepreneurship (Schumpeter)

Tues:

O'Driscoll, Gerald and Mario Rizzo. 2015. *Austrian Economics Re-examined: The Economics of Time and Ignorance*. New York: Routledge (pp. 135-160):

- (ch 6) "Competition and Discovery"

Thur:

Schumpeter, Joseph. 1934. *The Theory of Economic Development*. London: Transaction Publishers: "Entrepreneurial profit," (ch 4), pp 128-156.

Schumpeter, Joseph. 1950. *Capitalism, Socialism, and Democracy*. New Harper and Row: New York. ch 7 "Process of Creative Destruction," pp. 81-86.

BACKGROUND:

Schumpeter, Joseph. 1934. *The Theory of Economic Development*. London: Transaction Publishers. "Introduction to Transaction Edition." p. vii-li (this is historical background)

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Week 12 (Apr 3): Entrepreneurship (Kizner, Holcombe, B&V)

Tues:

van Praag, C. Mirjam. 1999. "Some Classic Views on Entrepreneurship." *De Economist*, 147(3): READ ONLY 311-330.

Kirzner, Israel M. 1997. "Entrepreneurial Discovery and the Competitive Market Process: An Austrian Approach." *Journal of Economic Literature* 35(1): 60-85.

Thur:

Holcombe, Randall G. 1998. "Entrepreneurship and Economic Growth," *Quarterly Journal of Austrian Economics* 1(2): 45-62. (16pp.)

Buchanan, James and Victor Vanberg. 1991. "Market as a Creative Process." *Economics and Philosophy*, 7(2): 167–186. [in this E-text, you'll find this paper as Chap 7, pp. 113 to 125 of the PDF pages).

Background:

Klein, Daniel. 2012. "Discovery Factors of Economic Freedom." In *Klein Knowledge and Coordination: A Liberal Interpretation*. New York: Oxford Univ. Press. (13pp)

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Week 13 (Apr 10): Entrepreneurship (KJ and Friends)

Tues:

Jakee, Keith and Heath Spong. 2003. "Uncertainty, Institutional Structure and the Entrepreneurial Process." In S. Metcalfe and U. Cantner (eds.) *Change, Transformation and Development*. New York: Springer-Physica (18pp).

Jakee, Keith and Heath Spong. 2003. "Praxeology, Entrepreneurship and the Market Process: A Review of Kirzner's Contribution." *Journal of the History of Economic Thought*, 25(4): (23pp)

Paper #4

Thur:

Jakee, Keith and Heath Spong. 2011. "The Normative Bias in Entrepreneurial Theory." *Division of Labour & Transaction Costs*, 3(2): 81–105

Jakee, Keith, Terje Hoim, and Blaine Pfaum. 2012. "Nonlinearity and Entrepreneurship: A Prolegomena." *Wilkes Honors College Mimeo*. (43 pp)

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Week 14 (Apr 17): Extending Austrian Insights

Tues:

Jakee, Keith and Stephen Turner. 2002. "The Welfare State as a Fiscal Commons: Problems of Incentives versus Problems of Cognition." *Public Finance Review*, 30(6): 481–508.

Thur:

Jakee, Keith and Stephen Jones. 2016. "Rescuing Coase from the Margins: An Inframarginal Approach to Transaction Costs." *Wilkes Honors College Mimeo*.

BACKGROUND:

Jakee, Keith and Stephen Jones. 2015. "Certain Governments and Uncertain Futures: The Welfare State as a Static Solution to a Dynamic World." Wilkes Honors College Mimeo.

USAID. 2017. Avanska Agrikultura Project: Annual Report. USAID.

3 Ways to Improve Your Decision Making. Walter Frick. Harv Bus Rev. Jan'18