

**HONR-3000-099**  
“Honors Colloquium on Creative Destruction”

Fall 2008

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**Colloquium Rationale:**

Creative destruction is the process through which innovative new products are created, and the older obsolete products are destroyed. In transportation, for example, cars creatively destroyed the horse and buggy, trains creatively destroyed horse-drawn wagons. Such innovations contribute to longer and richer lives, but may come at the cost of greater uncertainty in the labor market. Schumpeter claimed that the process of creative destruction is the essential fact about capitalism. Although Nobel-prize-winner George Stigler has described creative destruction as “heresy,” a growing number of economists and non-economists have found the concept useful in understanding the world. While most of the emphasis in the colloquium will be on the application of creative destruction to business and the economy, other applications of the concept will also be explored.

**Some Questions Asked in the Colloquium:**

1. To what extent is money the motivator of entrepreneurs, and to what extent do entrepreneurs have other motives?
2. Does capitalism, as envisioned by Schumpeter, encourage and enable more or less ethical behavior on the part of market participants?
3. Does creative destruction capture more of what is important about capitalism than does the standard textbook model of price competition?

4. To what extent do consumers benefit from the new products and processes of creative destruction?
5. To what extent does labor suffer from the new products and processes of creative destruction?
6. If creative destruction is essential for economic growth and progress, what government policies would most promote creative destruction?

### **Method of the Colloquium:**

The course will be taught in a colloquium-style, where student discussion of core readings, based on instructor questions, will predominate. Students will also be expected to deliver a brief presentation, and a longer final presentation.

### **Student Graded Activities:**

Students will be expected to read a book related to creative destruction, write a five page review of the book, post a synopsis of their review to Amazon.com, and give a seven minute presentation of the review to their fellow students. Students will also be expected to research, write a 12 page paper on some aspect of creative destruction, and present their findings in a 10 minute presentation. Student participation in class discussions is also expected.

### **Prerequisite:**

Member of the University Honors Program or permission of the instructor.

### **Required Text:**

Christensen, Clayton M. and Michael E. Raynor. *The Innovator's Solution*. Harvard Business School Press, 2003. [ISBN # 1-57851-852-0] Assigned reading: Chs. 1-3. [This book will be used in the second half of the semester, and may not be available in the bookstore until a couple of weeks into the semester.]

### **Other Required or Supplemental Readings:**

Additional journal articles and chapters from monographs will be assigned on a weekly basis related to the topics that are to be discussed. Readings are listed under the date to which they apply, in the "Partial, Tentative Outline of Readings Assignments" that appears a few pages below.

### Course Requirements:

Course grades will depend on the grades received on classroom participation (30 points), a seven minute presentation of a book related to creative destruction (20 points), a five page critical review of a book related to creative destruction (40 points), a 10 minute presentation on the term paper topic (30 points), a 12 page term paper (100), and a final exam focusing mainly on the course readings (80 points). (Most of the points on the final will be from essay questions, although there will probably also be some multiple choice questions.)

The review should be five pages of double-spaced, typewritten text (not including any footnotes and references). The review should summarize the substantive content of the book, stating the main themes or theses in each major section. The review should state the intended audience for the book, the clarity of the writing style, and the accuracy and usefulness of the information and analysis in the book. A bibliography at the end of the review should include a full bibliographic citation to the book under review, as well as citations to any other cited sources. (Other cited sources are OK, but not required or encouraged.) The correct form for the bibliography is provided later in this syllabus. Most of the guidelines in the syllabus section “Guidelines for Term Papers” also applies to the critical reviews. However, unlike the term papers, the critical reviews do not need an abstract, do not require a literature search in Ingenta and other literature search databases, do not require a “thesis,” and would normally have few, if any, endnotes.

*The critical review should be submitted in paper form and also in digital form in Diamond's digital drop box in BlackBoard. Please name the file with your last name. The review, with due attribution to you as the author, will be posted either to BlackBoard or to Diamond's web site (or both) for future students to read and study.*

**As an educational experiment, Diamond will attempt to record video clips of the critical reviews and also will attempt to load them either to Amazon, or to his web site, or to both. (So try not to say anything in the reviews that you do not want posted to the web.)**

Term papers would generally consist of collection, and effective organization, and analysis of evidence from the research literature on some useful or interesting issue related to the process of creative destruction. The student will prepare a term paper of 12 pages of double-spaced, typewritten text (not including any footnotes and references). Students are encouraged to come up with topics that interest them, but are also encouraged to run the topics by the instructor for advice on the topic's tractability.

One type of topic would be to focus on what Schumpeter called “a case study in entrepreneurship” in which you would take a well-documented case of entrepreneurship, and try to answer questions such as: What was the innovation? What obstacles did the entrepreneur have to overcome? What motivated the entrepreneur? How important was luck in the innovation? How important was planning (strategic or otherwise)? Do we know anything about the entrepreneur's ethics or religion? Do we know anything about the entrepreneur's psychology? Do we know anything about the entrepreneur's experience or history that may have influenced their innovation (such as past successes, past failures, immigrant status, etc.)? How long had the

entrepreneur lived in the location in which they produced their innovation? Did the entrepreneur come from a close-knit family, with strong mother or father? How many siblings did the entrepreneur have, and what was the entrepreneur's birth order? Before the entrepreneur's innovation, did the entrepreneur know or observe any other entrepreneurs? Are historians agreed on who is the primary entrepreneur responsible for the innovation? How much did the innovation contribute to economic growth and progress? Did the government play any role in encouraging or constraining the entrepreneur?

Some candidates for case studies might be:

Arkwright, Richard	Mellon, Andrew
Brin, Sergey	Morita, Akio
Carnegie, Andrew	Morgan, J.P.
Dell, Michael	Page, Larry
Edison, Thomas	Rockefeller, John D.
Ellison, Larry	Venter, Craig
Ford, Henry	Walton, Sam
Fulton, Robert	Watson, Thomas
Gates, Bill	Whitney, Eli
Jobs, Steve	

An interesting, but probably more difficult, alternative approach would be to consider an innovation that had alternative competing entrepreneurs. For example, in *Steamboats Come True*, a case is made that John Fitch might be considered the inventor of the steamboat, instead of Robert Fulton (but which of them was the main innovator?). Or, more recently, who deserves how much credit for the personal computer innovation (candidates for important credit might include Steve Jobs, Steve Wozniak, Bill Gates, Paul Allen, Andy Grove).

A variety of other topics could also be the subject of term papers. Some examples are given below. But you should also listen for research questions that arise from our class discussions.

1. Are most people likely to be happier under an economy of creative destruction, than an economy of the "steady-state" that was envisioned as inevitable by many of the classical economists? (This topic could be approached mainly from the psychology/sociology literature, e.g., Inglehart, on the determinants/correlates of happiness; or alternatively from the philosophical literature, e.g., Nozick.)
2. What is the empirical evidence on whether innovation is more likely to be achieved by small firms or large firms? (Some of Audretsch's research would be relevant here.)

3. What has the role of the government been in successful episodes of creative destruction?
4. How has the concept of creative destruction been applied in art, literature, and architecture? How consistent are these applications with Schumpeter's original usage of the concept of creative destruction? (I can supply some beginning references here.)
5. There is controversy over whether Schumpeter owes any debt to any earlier thinkers on the concept of creative destruction. Michael Perelman, for instance, claims that Schumpeter owes a debt to David Wells. Other writers claim that creative destruction can be found in Nietzsche, Marx, Sombart or Wieser. To what extent, if any, should Schumpeter share credit for creative destruction with earlier writers?
6. To what extent, and for what reasons, does entrepreneurship tend to be geographically clustered?
7. Do instances of creative destruction occur in periodic, predictable waves? What is the evidence? What are theoretical reasons to believe this might be true or false?
8. Should we take seriously the studies that suggest that entrepreneurship is related to the levels of certain hormones in the system?
9. Are the accounting laws and practices of some countries more favorable to the process of creative destruction, than others?
10. It has been argued that Victorian England fell behind the U.S. in innovation and technological progress. Is this true? Were Victorian companies and entrepreneurs acting irrationally? (Read McCloskey here.)
11. Is Schumpeter correct that creative destruction mainly benefits ordinary people, or are the rich the main beneficiaries? (And does it matter whether we ask this question in the short-run or the long-run?)
12. What is the evidence that certain cultural or religious values are more likely to encourage entrepreneurship than others?
13. What is the evidence on how much unemployment is due to causes that might be related to creative destruction (e.g., technology changes), versus unemployment that is related to other causes (e.g., recessions, global competition, discrimination, poor work habits, etc.)

In addition to the paper, near the end of the course each student will give a 10 minute presentation on her topic, followed by about 3 minutes of questions from the class, and class discussion.

**BlackBoard (aka MyUNO):**

Much information concerning the course will be posted to the web pages of BlackBoard which has a URL of: <https://myuno.unomaha.edu/>. For example, any PowerPoint slides that accompany class discussions will generally be posted to BlackBoard. Assignment grades will also be posted there. Announcements pertaining to the class will either appear on BlackBoard or be sent out via Notes email through BlackBoard.

The following table provides the grading scale in terms of percentages, and total points in the course:

Grades	Percentages	Points
A+	93-100	279-300
A	88-92	264-278
A-	83-87	249-263
B+	80-82	240-248
B	76-79	228-239
B-	73-75	219-227
C+	70-72	210-218
C	66-69	198-209
C-	63-65	189-197
D+	60-62	180-188
D	56-59	168-179
D-	53-55	159-167
F	52 or less	158 or less

**Cheating:**

Exams will be attentively monitored. The result of academic dishonesty will be a grade of F for the colloquium.

**Plagiarism:**

Copying the work of others without attribution is a form of intellectual theft known as plagiarism.

Most clearly, any material that is directly quoted, should appear within quotation marks, if a sentence or less, or indicated with a 'block indent' if more than a sentence (which means that the whole quote is indented 5 spaces from the left edge of the text). **Failure to use either quotation marks, or block indent, with direct quotations will result in zero points for the assignment.**

When a source is used in the text, internal references should be given in the text that consist of a parenthetical mention of the author's last name, the date of the publication and a specific page number (if appropriate). For each brief parenthetical reference, a complete bibliographic reference should be provided in the Bibliography.

**Mandatory Statement on Disability Services**

“Reasonable accommodations are provided for students who are registered with Disability Services and make their requests sufficiently in advance. For more information, contact Disability Services (EAB 117, Phone: 554-2872, TTY: 554-3799) or go to the website: [www.unomaha.edu/disability](http://www.unomaha.edu/disability).”

**Partial, Tentative Outline of Readings Assignments:**

Some of the special value of a special topics seminar is that we can be especially responsive to the special and evolving interests of the students and professor; and can include the latest breaking research on the topics studied. As a result, the following schedule is very tentative and may be modified and expanded as the semester progresses. Readings with an asterisk (\*) in front of them are recommended, but not required.

1. 8/26/08 **Why Does Creative Destruction Matter?**

2. 9/2/08 **Preface and Ch. 1 “Introduction”**

Schumpeter, on creative destruction

\*McCraw. "Schumpeter Ascending."

\*Cabellero. entry in Palgrave on Creative Destruction

Rosenberg, Nathan. "Joseph Schumpeter: Radical Economist."

**(Book choice for critical review due.)**

3. 9/9/08           **Research Tools in Economics of Entrepreneurship; How to Write Clearly; How to Present Clearly**

McCloskey, Donald. "Economical Writing." *Economic Inquiry* 23 (April 1985): 187-222.

Tufte, Edward R. *The Visual Display of Quantitative Information*. Cheshire, Conn.: Graphics Press, 1983, pp. 13-15, 53-54, 93-96, 107-110.

4. 9/16/08           **Ch. 2 "The Benefits of Creative Destruction"**

DeLong, "Cornucopia."

Gordon. "Does the New Economy Measure Up to the Great Inventions of the Past?"

5. 9/23/08           **Ch. 3 "The Labor Pains of Creative Destruction"**

Cox and Alm, on churn

Greenspan, on economic flexibility

6. 9/30/08           **Ch. 4 "The Labor Gains from Creative Destruction"**

Levy and Murnane, on creation of better jobs.

**(Tentative term paper topics due.)**

7. 10/7/08 **Ch. 5 “Implications of Creative Destruction for Research and for What Economists Teach”**

\*Griliches: My final section of my Griliches paper.

Johansson, Dan. "Economics without Entrepreneurship or Institutions: A Vocabulary Analysis of Graduate Textbooks." *Econ Journal Watch* 1, no. 3 (2004): 515-38.

Baumol, William J. "Textbook Entrepreneurship: Comment on Johansson." *Econ Journal Watch*. 3, no. 1 (2006): 133-36.

Metcalfe, J. S. "The Entrepreneur and the Style of Modern Economics." *Journal of Evolutionary Economics* 14, no. 2 (2004): 157-75.

8. 10/14/08 **Critical Review Presentations (and written critical reviews due).**

9. 10/21/08 **UNO Fall Break---no class**

10. 10/28/06 **Ch. 6 “Implications of Creative Destruction for Institutions, Policies, and Choices”**

DeLong and Summers, on policies to encourage creative destruction.

Garrett, Thomas A., and Howard J. Wall. "Creating a Policy Environment for Entrepreneurs." *Cato Journal* 26, no. 3 (2006): 525-52.

\*Fogel, Kathy, Ashton Hawk, Randall Morck, and Bernard Yeung. "Institutional Obstacles to Entrepreneurship." Ch. 20 in *Oxford Handbook of Entrepreneurship*, edited by Mark Casson, Bernard Yeung, Anuradha

Basu, and Nigel Wadeson. Oxford, UK: Oxford University Press, 2006, pp. 540-79.

11. 11/4/08 **Ch. 7 “Implications of Creative Destruction for Industrial Organization and Antitrust Policy”**

Becker, Gary S. "Make the World Safe for 'Creative Destruction'." *Business Week*, February 23 1998, 20.

Katz and Shelanski, on implications of creative destruction for antitrust policies.

\*Klapper, Leora F., Luc Laeven, and Raghuram G. Rajan. "Entry Regulation as a Barrier to Entrepreneurship." *Journal of Financial Economics* 82, no. 3 (2006): 591-629.

\*Dean, Andrea M., and Russell Sobel. "Has Wal-Mart Buried Mom and Pop?" *Regulation* (2008): 38-45.

**(Initial bibliography due, in format that will be used in the term paper.)**

12. 11/11/08 **Ch. 8 “Implications of Creative Destruction for Labor Policy”**

13. 11/18/08 **Chs. 9, 10 & 11 “Conclusions; Afterword on the Growing Recognition of Schumpeter and Creative Destruction; and Afterword on Why Creative Destruction Has Been Neglected”**

Robinson, Joan. "Review of Capitalism, Socialism and Democracy." *Economic Journal* 53, no. 212 (1943): 381-83.

Drucker, Peter. "Modern Prophets: Schumpeter or Keynes?"

Krugman, Paul. "Reckonings; Create and Destroy." *The New York Times*, October 8, 2000.

\*Diamond, Arthur M., Jr. "Fixing Ideas: How Research is Constrained by Mandated Formalism." *Journal of Economic Methodology* (forthcoming 2008).

14. 11/25/08      **Christensen**  
Christensen & Raynor. *The Innovator's Solution*, Chs. 1 - 3
15. 12/2/08      **Additional Topic To Be Determined**
16. 12/9/08      **Student Presentations/Discussions; summing up. Papers due.**
17. 12/16/08     **Final Exam.** (Exam is comprehensive and may cover anything covered in course.)

### Presentations

Presentations should make use of PowerPoint slides. PowerPoint will not be taught during the class, but the instructor can guide the student toward resources, that will help the student to learn the basics of PowerPoint.

### Guidelines for Term Papers

Late papers will be accepted, but will have 5% of the possible paper points deducted initially and an additional 1% deducted for each day the paper is late beyond the first day (so, e.g., if a paper is five days late, 9% of the possible paper points will be deducted). Late papers may result in a grade of I (incomplete) for the course on the initial grade report.

The paper should be written at a consistent level of difficulty. In most cases, the paper should be written to be understandable by a conscientious undergraduate economics major. That means you should assume that you are writing for someone who is intelligent, interested, short on

time, and does not have a deep knowledge of science or the higher level technical details of economics.

The paper should have a title page including the title, your name, the name of the course, the course number and the date on which the paper is turned in. Following the title page, on a separate page should be a 100 word abstract. Neither the title page nor the abstract page counts toward the page limit of the paper. Pages in the body of the text (beginning with the Introduction) should be consecutively numbered. The whole paper should be double-spaced and should have inch and a half margins on the top, bottom, right and left. The font size should either be 10 point or 12 point in size. Any quotations longer than one sentence should be presented in “block indent” form (meaning that the whole quote is indented 5 spaces from the left edge of the text). Please do not put your paper in a special binder that would limit the space for my comments. Instead, staple or clip it together.

Use endnotes rather than footnotes. (But endnotes should be used only if really necessary.) When a source is used in the text, internal references should be given in the text that consist of a parenthetical mention of the author's last name, the date of the publication and a specific page number (if appropriate). For each brief parenthetical reference, a complete bibliographic reference should be provided in the Bibliography (that is not counted in the page limit). The ultimate arbiter for reference format is style “A” described in the latest edition of *The Chicago Manual of Style*.

Before you turn in your final draft, be sure to submit it to a spell-checking program (available with all major word-processing programs).

As you work on the text of your paper, be sure to periodically backup your latest draft onto a floppy disk, or other medium. Also be sure to keep a clean copy of your paper for your files---the copy you turn in to me will be marked-up in red ink.

In your introduction, you should describe your problem and your thesis. This might be a good place to mention the contents of any broadly relevant articles that you turned up in your Ingenta, EconLit and other literature searches. If there is no relevant material on Ingenta or EconLit for your topic, mention the absence of relevant material (and include in the appendix, a list of the keywords that you used to search under and the articles that resulted). (That is, it would be very unusual to have no relevant articles appear, so if you claim that there are none, the burden of proof is on you.) Briefly (in a few sentences) summarize what you will be doing in the rest of the paper.

## SOME SPECIFIC REQUIREMENTS:

- a. The paper should have inch and a half margins on the left hand side, the right hand side, the top and the bottom. (Ample margins make it easier for me to jot down comments.)
- b. The style for references should follow the sample form provided on p. 12 of this syllabus. It should be consistent and should provide enough information for the reader to track down a reference, if necessary. Perhaps the most widely used style format in economics is that found in: *The Chicago Manual of Style*, latest edition, The University of Chicago Press.) Of the two “basic” styles the *Manual* discusses, the one used in economics is a variant of what is called style “A.”
- c. Attempt to write as McCloskey suggests in "Economical Writing".
- d. Do not place your paper in a plastic cover or other binder.
- e. Make a photocopy of your paper before turning it in.
- f. The paper is due at the beginning of class on the last day of classes.

*The term paper should be submitted in paper form and also in digital form in Diamond's digital drop box in BlackBoard. Please name the file with your last name. The paper, with due attribution to you as the author, may be posted either to BlackBoard or to Diamond's web site (or both) for future students to read and study.*

### **Sample Form for Bibliographic References**

The following sample bibliography is intended to illustrate the mandated reference format for several different kinds of publications. The last entry is for a web resource, and gives an example where a lot of information is available---you may not always be able to provide quite as much detail, but should provide what you can. (The Jones entry is fictitious, and is adapted from: <http://www.lib.ohio-state.edu/guides/chicagogd.html>)

Ackermann, Robert John. *Data, Instruments and Theory*. Princeton, N.J.: Princeton University Press, 1985.

Acs, Zoltan J., David B. Audretsch and Maryann P. Feldman. "Real Effects of Academic Research: Comment." *The American Economic Review* 82, no. 1 (March 1992): 363-367.

Adams, James D. "Fundamental Stocks of Knowledge and Productivity Growth." *Journal of Political Economy* 98, no. 4 (August 1990): 673-702.

Alchian, Armen A. "Private Property and the Relative Cost of Tenure." In *Economic Forces at Work*. Indianapolis: Liberty Press, 1977 (essay originally published in 1958).

American Chemical Society. *Directory of Graduate Research 1989*. Washington, D.C.: American Chemical Society, 1989.

Becker, William E., Jr. "Maintaining Faculty Vitality through Collective Bargaining." In Shirley M. Clark and Darrell R. Lewis, eds. *Faculty Vitality and Institutional Productivity: Critical Perspectives for Higher Education*. New York: Columbia University, Teachers College Press, 1985, pp. 198-223.

Davis, Elizabeth. "Compensation Gains of Faculty Unions and the Unemployment Effect of Extending Unemployment Insurance Coverage." (PhD Dissertation, University of Michigan, 1988).

Diamond, Arthur M., Jr. "Age and the Acceptance of Cliometrics." *The Journal of Economic History* 40, no. 4 (December 1980): 838-841.

"The Career Consequences of Accepting a Scientific Mistake." working paper, 1992.

Friedman, Milton. "An Open Letter for Grants." *Newsweek* (May 18, 1981): 99.

Garfield, Eugene, (chairman). *Science Citation Index*. Philadelphia: Institute for Scientific Information, Inc., 1961-present.

Jones, Sarah Jean. "The Country of Last Resort." [online]. New York: Columbia University, Academic Information Systems, Bartleby Library, posted Jan. 2, 1996 [cited October 12, 1998]. Available from World Wide Web: (<http://www.columbia.edu/acis/.bartleby/jones>)

Lucas, Robert E., Jr. "Incentives for Ideas." *New York Times* (April 13, 1981): 23.

Moore, Rich. "Compaq Computer: COMPAQ Joins the Fortune 500 Faster Than Any Company in History." In Businesswire [database online]. San Francisco: Business Wire. 1986-[updated 9 April 1986: cited 10 March 1990].  
Accession no. 000782: NO=BW420. 5 screens. Available from DIALOG Information Services, Inc., Palt Alto, Calif.

**Important Dates:**

October 14: critical review presentations; and critical reviews due.  
October 21: class cancelled for fall break.  
November 7: Last day to drop course with a grade of "W".  
December 9: presentation on term paper topic; and term paper due.  
December 16: Final exam 1:00 – 3:40 PM