BADM 327, Section 1 (CRN 12327)
Principled Entrepreneurship & The Free Enterprise System

Tues & Thurs 2:30-3:45pm - Room 166 Bond Hall

Dr. Sobel

Office Hours: 4:15-5:15pm Tuesdays & Thursdays or by appt.
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Fall 2015

Text/Readings:
There is no textbook for this class. Instead we will be using a set of readings compiled from various journal articles and books, in class videos, and my lectures. You must be sure to take good notes in class if you want to do well.

We will read the readings together in class. You will do much better in this course if you actually print them out and bring them, and highlight the parts I’m covering in class. That way when exam/study time comes you can go back and easily re-read the sections we covered in class. We often cover only a few selected paragraphs or pages in each article. I will try to give you an idea of which readings we will be covering for each class, but sometimes it is difficult to predict exactly how quickly or slowly we will get through the articles in advance. Printing ahead is the best option.

You may bring them in electronic format to class (on an iPad or laptop, for example). However, I would strongly suggest you do this only if you have software that can highlight only the sections we read and save the file for you to view later in its highlighted format. Also if you choose to do this, I will not tolerate you using your computer for personal use during class (no email, Facebook, etc.)

All of the readings in PDF format are on the website listed above (follow the link to “Course/Teaching Information”). Note that the full reading list is also provided at the end of this syllabus. Please note that the first reading (Section I, Part 2, by Gwartney, Stroup, Sobel, and Macpherson) is for reference only, you do not need to print it unless you want.

Course Description:
Three Credit Hours. This course explores the role of entrepreneurship in the free enterprise system, how government policies affect entrepreneurial activity within the United States and globally, and the moral and ethical dimensions of principled entrepreneurship. This course focuses on using the tools of economics to understand the entrepreneurial process, including the role of profits and losses, discovery, and creative destruction. Examines the legal forms of business organization, and the challenges involved in opening a business and writing a business plan.
Course Objectives and Learning Outcomes:
Upon completion of this course, you will be able to:
1. Discuss the nature of entrepreneurship and differentiate types of entrepreneurship
2. Understand the role of profits and losses, and of discovery, in the entrepreneurial process
3. Understand the moral and ethical dimensions of entrepreneurship, including the fundamentals of “principled entrepreneurship”
4. Understand the legal framework and financial markets within which entrepreneurs operate
5. Understand the steps involved in opening a business, including business plan development
6. Differentiate between productive and unproductive entrepreneurship
7. Evaluate public policies in terms of how they foster (or inhibit) productive entrepreneurship
8. Understand reasons why developing countries are having trouble fostering entrepreneurship

Grading:
Students will be graded on the basis of two in-class exams, two written assignments, and a combined “attendance/participation” grade (more details on each below). The grading weights and grading scale for the class are:

<table>
<thead>
<tr>
<th>Grading Weights:</th>
<th>Grading Scale:</th>
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<tbody>
<tr>
<td>Mid-term Exam</td>
<td>30%</td>
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<tr>
<td>Final Exam</td>
<td>30%</td>
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<tr>
<td>Attendance/Participation</td>
<td>10%</td>
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<tr>
<td>Writing Assignment 1</td>
<td>15%</td>
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<td>Writing Assignment 2</td>
<td>15%</td>
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<td><strong>100%</strong></td>
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89.50 and up A
79.50 - 89.49 B
69.50 - 79.49 C
59.50 - 69.49 D
below 59.49 F

a) In-class Exams:
There are two in-class exams: one midterm exam and one final exam. We will decide on the date for the midterm in class, and it will cover the material through the end of Section II (Part 5). This exam will likely be during the 5th or 6th week of class, but will be within a week or two after we complete Section II (and definitely before midterm grades are due, October 22). The final exam will be held according to The Citadel’s final exam schedule: Wednesday, December 16 at 1pm (13:00). Note that the first writing assignment (to be discussed below) is due at the beginning of the first in-class exam period (the other is due the last regular day of class, December 8).

b) Attendance/Participation Grade:
I will deduct from your grade in this area if you miss an excessive number of classes, are routinely late or leave early, text or sleep in class, or do not participate in the class discussions.

c) Written Assignments:
There are two writing assignments for this class. For each you can choose to write your essay based on the class material with a more academic focus, or to write your essay based on applying the class material through an interview with an actual entrepreneur. If you do not know an entrepreneur and would like to do the interviews, The Citadel Mentor Association may be able to help you find someone. Each essay should be 5 to 10 pages (typed, double spaced, 12 point font, 1 inch margins) and done in your own writing (not copied material from articles or websites or the work of others). You must turn in a hard copy to me, I will not accept them by email. Late assignments will have one letter grade deducted for every class period it is late. To get a good grade on the interview ones you MUST link the material to the “fancy” terminology, ideas, and readings from the class when you write it up for me, even though in the interview you may not use the actual jargon. The topics and due dates are on the next page:
### Topics and Due Dates for Written Assignments:

<table>
<thead>
<tr>
<th>Essay 1</th>
<th>“Academic” Option</th>
<th>“Interview with Actual Entrepreneur” Option</th>
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<tbody>
<tr>
<td>due at</td>
<td>What is capitalism? How does it relate</td>
<td>Is it easy to satisfy all of the government rules and</td>
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<td>first exam</td>
<td>to “economic freedom”? How economically</td>
<td>regulations to open a business in America/South Carolina</td>
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<td>free does the U.S. rank? How do the signals</td>
<td>(etc.)? What are some of the biggest hurdles to opening</td>
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<td>of prices &amp; profits and losses drive the</td>
<td>and operating a business in terms of government laws, rules,</td>
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<td>process of entrepreneurship? What is</td>
<td>regulations, or taxes? How have changes in the prices of the</td>
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<td>creative destruction and why is it important</td>
<td>goods you sell and the prices of the resources, supplies, or</td>
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<td>for progress? Re-read in their entirety</td>
<td>inputs you through time impacted the decisions you have</td>
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<td>Hayek’s “Use of Knowledge” and</td>
<td>made as a business owner? How have you changed your</td>
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<td>“Competition as a Discovery Procedure”</td>
<td>business through time because of the relative profitability of</td>
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<td>articles (Section II), summarize his main</td>
<td>(or losses from) different things you do? Who are your main</td>
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<td>points and discuss the similarities between</td>
<td>competitors? What products or services did your industry</td>
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<td>the articles. Discuss Adam Smith’s</td>
<td>replace or cause to become outdated, and in the future what</td>
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<td></td>
<td>invisible hand principle.</td>
<td>new products/services could end up replacing yours?</td>
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| Essay 2 | What is “crony capitalism” and why is it harmful to an economy and the system of | What legal form of business organization did you choose and |
| due last | capitalism itself? What is the difference | why (sole proprietorship, LLC, corporation, etc.)? Does your |
| regular day of | between productive and unproductive | business have any intellectual property registered (patents, |
| class (12/8) | entrepreneurship? What is rent seeking? | copyrights, trademarks, etc.)? Did your business require |
|          | Why is lobbying wasteful from a societal | special government permits? How hard was it to go about |
|          | point of view and why do broad-based | obtaining these permits and registrations? Did you write a |
|          | policies tend to create less lobbying? What | business plan for your business? If you did, do you think it |
|          | does Bastiat mean by “legal plunder?” | helped make your business more successful? What types of |
|          | What is principled entrepreneurship | financing did you rely on to open your business? What are |
|          | according to John Allison (BB&T)? Re- | the main forms of competition between firms in your |
|          | read in their entirety Charles Koch’s | industry (on location? quality? price?). Do you have any |
|          | article on crony capitalism, Sobel’s | special pricing strategies (do they use price discrimination – |
|          | article “Testing Baumol”, and the one page | charging different prices to different customers for the same |
|          | reading on “Principled Entrepreneurship” | product; or two-part pricing – a fixed fee plus a per unit |
|          | (Section IV), summarize the main points | amount). Why did you decide to become an entrepreneur? Is it |
|          | of each. | important to reward productive employees and to get rid of |
|          | | problem ones, and what are the challenges in doing this? |

### d) Extra Credit “Bump Points”:

In addition to any lectures or special events which I would announce in class that are eligible for extra credit, I also offer an opportunity to earn “bump points”. There are always students who end up “one point away” from the next grade cutoff. Thus, I offer you an opportunity to earn up to two “bump points” that will bump you up to the next letter grade if you end up close to a final grade cutoff. Remember, bump points ONLY come into play if you are near a grade cutoff. My sole intention for making this opportunity available is so that you will not be caught “one point away” from the next letter grade if you have taken the opportunity to do this additional work. If you have earned both bump points for your assignment, you can earn an “A” with a final average of only 87.5 rather than an 89.5.

You can earn up to two bump points by turning in a 4 to 6 page (typed, double spaced, 12 point font, 1 inch margins) essay on either (1) a specific U.S. state or country’s entrepreneurial climate using and presenting data both on the business climate and entrepreneurship measures; or (2) on Ayn Rand’s book *Atlas Shrugged*. Based on the quality of the essay I will give either one or two bump points for the assignment. To receive credit you must satisfy the following conditions (continued on next page):
1. The essay is due by the beginning of class on Wednesday, November 19. You are welcome to turn it in as early as you like in the semester, but none will be accepted after this due date.

2. You may not copy or plagiarize any part of your essay from another source, it should be your own personal writing—this is an individual assignment.

3. Because this is an extra credit opportunity, it will be YOUR responsibility to remember this opportunity exists and take advantage of it in a timely manner. I will NOT remind you.

Option 1 (state or country report) Additional Requirements

4a. You MUST frame your argument/essay around the material covered in class, and MUST cite & reference at least three of the articles from class in your essay.

5a. You must use and include data from the readings in Section 3, Part 9.

Option 2 (Atlas Shrugged) Additional Requirements

4b. The book is LONG so you can’t wait to do this at the end of the semester.

5b. Your write up MUST address the following specific questions or topics as numbered answers, and give examples from the book:
   - Compare and contrast the events in the book to the current government efforts.
   - In Atlas Shrugged, the heroes want to “make” money while the villains want, on the surface at least, to “have” money. What is the difference between these views of money?
   - What are the main points John Galt is trying to make in his final speech?

Study Tips and Other Suggestions:

The questions on exams will come from my lecture notes, in class videos, and from the readings we cover in class. The only real source of this material is in class, and thus I can assure you that your final grade will reflect your class attendance and whether you pay attention and take notes during the class sessions (including any videos).

Students with Disabilities:

If you need accommodations because of a disability, please contact Dr. Jane Warner in 103 Thompson Hall or call 843-953-1820 to schedule an appointment. If your request for accommodations has already been approved, and you have your accommodation letter, please see the instructor as soon as possible during office hours.

CSBA Student Code:

You are expected to understand and live by The Citadel School of Business Administration (CSBA) student code provided below.

CIVILITY
I will treat classmates, professors, and CSBA staff with respect.
I will display a healthy tolerance for individual differences in demographics, gender, race, religion, and thought.
I will respect the authority rules, and regulations of The Citadel.

SCHOLARSHIP
I will continue to develop and demonstrate a passion for learning.
I will be intellectually honest.

BEHAVIOR
My behavior will be professional and ethical and reflected in my preparation for class, my attendance in class, my conduct in class, and my relationships within the CSBA community.

ATTITUDE
My attitude will reflect teamwork, personal responsibility, and a positive approach to being a member of the class.
Tentative Course Outline:

Section I: Entrepreneurship & Economic Theory

Part 1: What is the Definition of an “Entrepreneur”
1. What is the Definition of an Entrepreneur?
2. Types of Entrepreneurship
3. Is Self-Employment Entrepreneurship?

Part 2: Basic Economic Concepts
1. Eight Guideposts to Economics
2. Transactions Costs & Middlemen
3. Mechanisms of Trust / Personal & Impersonal Exchange

Section II: Capitalism & The Free Market: Understanding the Environment in which Entrepreneurship Takes Place

Part 3: Capitalism and Adam Smith’s Invisible Hand
1. Capitalism vs. Socialism: The Concept of Economic Freedom
   Reading: Gwartney, James, Robert Lawson, and Joshua Hall, Economic Freedom of the World, Chapter 1, Vancouver, B.C.: Fraser Institute.
2. Adam Smith the Father of Economics
3. The Invisible Hand Principle
   Reading: Read, Leonard, “I, Pencil,” Copyright from the Foundation for Economic Education.
4. The Types and Roles of “Institutions” as ‘Rules of the Game’
5. Specialization and the Division of Labor - Limited by the Extent of the Market
6. Is Greed Good? Selfishness and Cooperation

Part 4: The Role of Prices & The Profit & Loss System
1. Local Knowledge, Spontaneous Order, and The Results of Human Action not Human Design
2. The Role of Prices
3. The Profit & Loss System and Creative Destruction
   Reading: Schumpeter, Joseph A. “Creative Destruction,” from Capitalism, Socialism, and Democracy (1942).
4. Why Business Failure is Good
5. Market Discipline

Part 5: The Austrian Economics View of Entrepreneurship
1. The Austrian View
2. Do Profits Incentivize Discovery?
Section III: Entrepreneurial Ventures and The Marketplace

Part 6: Entrepreneurship & The Structure of the Firm
1. Legal Forms of Business Organization
2. Entrepreneurship vs. Intrapreneurship
3. Methods of Competition and Industrial Structure
4. The Economics of Pricing Policy

Part 7: Intellectual Property: Patents, Trademarks, and Copyrights
1. Understanding “Rights”: Natural Rights vs. Granted Rights / Positive vs. Negative Rights
2. The Incentives Created by Property Rights
3. The Argument for Patents
4. Types of Intellectual Property

Part 8: Starting a Business: Business Planning & Financing Entrepreneurial Ventures
1. Idea Assessment: Value Proposition
2. The Business Plan
Reading: Components of a Business Plan
3. Financing Entrepreneurial Ventures
4. Debate: Can Entrepreneurship be Taught?

Part 9: Location Matters: Government Policies, the Business Climate, and Entrepreneurship
1. Measuring Entrepreneurship
Reading: State Rankings of Entrepreneurial Activity
Global Entrepreneurship Monitor Rankings
2. Measures of the Overall Business Climate
Reading: Economic Freedom of the World Chapter 1
Doing Business Excerpt
Economic Freedom of North America Excerpt
Two Tables on Various State Business Climate Rankings
3. Economic Freedom and Prosperity

Section IV: Principled Entrepreneurship, Crony Capitalism, & The Distinction Between Productive & Unproductive Entrepreneurship

Part 10: Legal Plunder, Crony Capitalism, Productive & Unproductive Entrepreneurship
1. Introduction & Framework
2. Defining Voluntary vs. Coercion: Legal Plunder & Rent Seeking
Reading: Bastiat, Frederic, The Law [1850] excerpt (pp. 1-21 only).
3. Beneficial vs. Destructive Competition: Political and Legal Entrepreneurship
4. Crony Capitalism
... Part 10 continued on next page...
5. Baumol’s Productive & Unproductive Entrepreneurship


Part 11: Principled Entrepreneurship, Ayn Rand, and Market Based Management

1. Principled Leadership: BB&T’s John Allison
2. Ayn Rand, Objectivism, & Atlas Shrugged

Readings: Francisco d’Anconia’s Speech on Money from Atlas Shrugged by Ayn Rand (1957)  
John Galt’s Speech from Atlas Shrugged by Ayn Rand (1957) (mini-version excerpt)

3. Market Based Management
4. Summary: What is “Principled Entrepreneurship”?

Reading: What is “Principled Entrepreneurship”?

Section V: Government Policy & Entrepreneurship


1. Richard Florida’s Rise of the Creative Class


2. Venture Capital & Entrepreneurship


3. Business Incubators
4. Tax Policy and Entrepreneurship
5. School Choice and Entrepreneurship


Part 13: Entrepreneurship in Developing Countries

1. Foreign Aid and the Natural Resource Curse
2. Micro lending
3. The Impact of Diversity and Fractionalization
4. The Importance of Property Rights & The Rule of Law


5. Entrepreneurship & Institutions: Lessons from the History of Entrepreneurship