

The Ohio State University
Spring 2009

Issues of the Contemporary World
Capstone Experience

Economics 597.02 - The Economics of Terrorism

Draft Syllabus

Instructor:

Office Hours: TBA

Instructor Resume: Brief resume on Carmen

Instructor SEIs: Student Evaluations of Instructor courses, 2007-2008, on Carmen

Course Web Page: On Carmen

Capstone Experience

Learning Objectives:

1. *Students synthesize and apply knowledge from diverse disciplines to contemporary issues.*

The course shows how to apply knowledge from different disciplines, such as history, religion, and psychology, to analyze and explain terrorist behavior, thus enriching the students' learning experience in the process.

2. *Students demonstrate an understanding of the relationships between information derived from different disciplines by interacting with students from different majors.*

The subject matter of the course, the multidisciplinary approach, the required and graded class participation and student interaction, and coaching by the instructor, will enhance interaction, as the students share information and insights from their respective educational backgrounds.

3. *Students write about or conduct research on the contemporary world.*

Two research-based papers are required, each worth 25% of the course grade.

Course Objectives:

To combat terrorism, one must understand its causes. Economics is the study and analysis of human behavior, not only in the market place, but in every place where rational decision making can be assumed. The course addresses the contemporary issue of terrorism. Terrorism has obvious and significant worldwide implications, requiring global cooperation to combat it.

While anchored in economic theory, the course draws on insights from other disciplines, such as religion, history, psychology, and language, to explain the genesis of, and the driving forces behind, the terrorist phenomenon. Such multi-disciplinary course framework is intended to engage the students with each other, as they share information and insights from their respective majors and challenge their critical thinking abilities.

The course will show how the application of economic methods can provide a systematic explanation of terrorist behavior at the organizational and individual levels. The course will also explore the foreign and military policy implications for the U.S. as the latter seeks to lead a global coalition to combat terrorism.

Following this approach, it will be shown that,

At the micro level:

1. The use of a rationality-based economic model can enhance our understanding of terrorist behavior and allow for testable hypotheses;
2. The long term goal of the organization is driven by political or religious factors, or both;
3. The organization operates in a way similar to that of a profit-maximizing firm;
4. The individual suicide terrorist behaves like a consumer in search of utility maximization, or disutility minimization, and
5. The action of the individual suicide terrorist may be explained by one or a combination of rationally sought objectives.

At the macro level:

1. The human and financial resources diverted to the war on terror have great and long-term economic and social consequences for the U.S.;
2. The war on terror results in negative externalities and unintended consequences;
3. Within the context of game theory, the terrorist organization may adapt and adjust tactical operations in response to counter terrorism actions. However, such actions may remain reactive to the "dominant strategy" position of the terrorist organization;
4. The conclusions of the micro analysis are crucial for informing counter terrorism and foreign policies;
5. In the absence of radical foreign and military policy changes, the current counter Islamist terrorism policies may not be very effective.

Reading List:

Assigned selections from the following sources (all available in paperbacks and at discounted prices from Amazon that would not be more than the cost of an economics textbook) :

Dying to Win, the Strategic Logic of Suicide Terrorism, Richard Pape, Random House, 2006

What Terrorists Want, Louise Richardson, Random House, 2007

The Political Economy of Terrorism, Enders and Sandler, Cambridge University Press, 2006

What Everyone Needs to Know About Islam, John Esposito, Oxford University Press, 2002

The Case for Islamo-Christian Civilization, Richard Bulliet, Columbia University Press, 2006

Islam: A Thousand Years of Faith and Power, Jonathan Bloom, Yale University Press, 2002

Other Resources:

Reference material on library reserve, including texts on Principles of Micro and Macroeconomics

Handouts

Internet sources

Guest Speakers (tentative)

Videos (tentative)

Course Requirements:

Pre-assessment questionnaire

Assessment questionnaire

Class participation (graded)

Regular class attendance (incentive grade)

Two research-based papers

Term Papers:

Two five-page, single-spaced, machine printed, research-based paper on a topic of Interest to the student and relevant to the issues treated in the course. The instructor Welcomes inquiries from the students for advice in this regard.

Term Paper Guidelines

1. Beginning paragraph to indicate the topic and the reason(s) for **Guidelines:** the choice (5 points);
2. An executive summary (maximum 1/2 page) to summarize the main points of the paper (10 points);
3. *Discussion* of the topic's main issue(s) as discussed in the literature (35 points);
4. *Discussion* of the student's view on the issue(s) (35 points);
5. Overall conclusions of the discussion (10 points);
6. Correct grammar and spelling, coherence, and brevity (5 points); and
7. Source references clearly indicated and cited.

Grade Breakdown:

1. Pre-assessment questionnaire	=	5%
2. Final exam - assessment questionnaire	=	30%
3. Class participation and student interaction	=	10%
4. Two term papers	=	50%
5. Regular attendance - to be recorded	=	<u>5%</u>
Total	=	100%

Class Participation and Student Interaction:

The students will be expected to read the assigned material before the respective class session and be ready to discuss it in class. The participation grade will reflect the quality of the discussion, especially of those who get called upon by name.

PART ONE: INTRODUCTION

Week 1 Introduction

1. Pre-assessment questionnaire
2. Review of syllabus
3. Assigned readings (*Richardson: chapter 1, Enders: chapter 1, class notes*)
4. Terrorism - definition
5. Why terrorism
 - a. Asymmetric warfare
6. Terrorism - overview
7. Suicide terrorism - overview
8. Profiling terrorists
 - a. Psychological profile
 - b. Terrorism and poverty
 - Poor countries and terrorism vs. poor individuals and terrorism

Week 2 Theories of Terrorism

1. Assigned readings (*Pape: chapter 1, class notes*)
2. Theories of terrorism
 - a. National liberation theory - *country specific*
 - Examples
 - b. Political restructuring theory - *country specific*
 - Examples
 - c. Ideology and the absolutist long-term goal(s) of terrorism
 - Existentialist theory - *Transnational*
 - Al Qaeda
4. The debate concerning the resurgence of Al Qaeda
 - CIA report
 - Pentagon report
 - Terrorism experts

Week 3 Islam

1. Assigned readings (*Esposito: chapter 4 , Bloom: chapter 8, Bulliet: chapter 1, class notes*)
2. Is Islam a religion?
3. How many Islams?
4. Islam - tenets
5. The Qur'an
 - a. Absolute commands
 - b. Relative commands
6. The sunna
7. Sunni and Shiite
8. Church vs. state - why an irrelevant concept
9. Position on violence
 - a. The Lesser Jihad
 - b. The Greater Jihad
10. Cultural practices vs. religious teachings
11. Interreligious relations
12. Islamic civilization
13. Clash of civilizations or clash of interpretations

PART TWO: THE MICROECONOMICS OF TERRORISM

Week 4 The Market for Terrorism

1. Assigned readings (*chapter on Demand and Supply in a micro textbook, class notes*)
2. Introduction
3. Market structure
3. The terrorist organization
 - a. The single producing firm
 - b. The single firm as a franchiser of ideology
 - c. Entrepreneurial initiatives - micro enterprises
 - d. The continuing debate concerning centralized vs. entrepreneurial initiatives
5. Demand and Supply analysis
 - a. Defining demand
 - b. Defining supply
6. Change in demand
7. Change in supply

Week 5 The Consumer Theory of Suicide Terrorism

1. Assigned readings (*chapter on Theory of Consumer Choice in a micro textbook, class notes*)
2. Introduction

3. Present value of a future outcome
4. Individual disutility minimization theory
5. Household utility maximization theory
6. Powerlessness theory
7. Eternal bliss theory
8. Revenge theory
9. Utility preferences and resource constraints
10. Utility optimization
11. First paper due

Week 6 The Product and Factor Markets

The Product Market

1. Assigned readings (*chapter on Production Costs in a micro textbook, class notes*)
2. Introduction
3. Producing terrorism
4. Organizational capital
5. Fixed costs
6. Variable costs
7. Marginal cost
8. Economies of Scale

The Factor (Input) Market

1. Assigned readings (*chapter on Labor Input Market in a micro textbook, class notes*)
2. Introduction
3. Market structure
4. Demand for factors of production (labor inputs)
5. Supply of labor inputs
6. Principal - agent problem
7. Asymmetric information
 - a. Adverse selection
 - Monitoring compliance
 - Binding covenants

Week 7 Conclusions

1. Conclusions of microeconomic analysis
2. Discussion

PART THREE: THE MACROECONOMICS OF TERRORISM

Week 8 Costing the War on Terror

Economic Costs

1. *Class notes*
2. Estimation problems
3. Direct costs
4. Indirect costs
 - a. Transaction costs
 - b. Veterans maintenance and rehabilitation costs
5. Financing the war
 - a. Budget deficits
 - b. Financing the deficits
 - In a closed economy
 - The loanable funds market
 - Crowding out effect
 - The debate over the ultimate bearers of the burden
 - The intergenerational transfer of the burden
 - In an open economy
 - The loanable funds market
 - Inflow of foreign funds
 - Crowding out effect
 - The foreign exchange market and the exchange rate of the dollar
 - c. The counterfactual case - deficits due to alternative programs

Social Costs

1. Class notes
2. Issues of privacy vs. security
3. Social reintegration of veterans

International Public Relations Costs

1. Class notes
2. Abu Ghraib
3. Guantanamo
4. Rendition
5. Secret prisons abroad
6. Love-hate relationship with America
 - a. The Ajami Fallacy

PART FOUR: THE POLITICAL MACROECONOMICS OF TERRORISM

Week 9 Implications of the Microeconomic Analysis

1. *Class notes*
2. Review of the conclusions of the Microeconomic analysis and implications of the various theories of terrorism for U.S. foreign policy

- a. National liberation theory
 - Radical foreign and military policy change
- b. Political Restructuring Theory - U.S. allied countries
 - Apply pressure for democratization
 - Provide economic development aid
- c. Poverty of nations theory
 - Extensive institutional restructuring and investment aid
 - Economic restructuring
 - Soft regime change in U.S. allied countries
- c. Existentialist theory
 - Radical foreign and military policy change
 - Bridging an intractable millennial cultural gap
3. The war on terror in a game theory context
 - a. Dominant strategy?
4. Conclusions
5. Second paper due

Week 10 Counterterrorism Policies

1. *Class notes*
2. Retaliation and preemption
 - a. Military
 - b. Intelligence
 - c. Technological
 - d. Economic and social aid
 - e. Financial.
 - f. Diplomatic: international cooperation - U.S. and EU agree to share intelligence data
 - g. Cultural
 - Winning the hearts and minds of Moslems and Arabs
 - Reestablishing the US Agency for Information
3. International externalities
4. Unintended consequences:
 - a. Afghanistan:
 - The poppy fields: from eradication under the Taliban to bumper crops under Karzai
 - b. Iraq:
 - Two million internally displaced
 - Two million Iraqi refugees in Jordan and Syria
 - Potential pool of recruits for terrorism
 - Poverty and thwarted education of future generation
 - Child and adult prostitution
 - c. Christian exodus from Iraq: ½ million and continuing

Week 11 Final Exam - Assessment Questionnaire, Completion of SEI