

KIRZNER'S CONCEPT OF ENTREPRENEURIAL ACTIVITIES IN THE CONTEXT OF MULTINATIONAL COMPANIES

^aSYLVIE KOTÍKOVÁ

*Faculty of Economics, Technical University of Liberec,
Voroněžská 13, 406 01 Liberec
email: ^asylvie.kotikova@tul.cz*

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Abstract: The aim of this paper is to introduce a relatively new theory of Entrepreneurial discovery of Israel Meir Kirzner as an alternative or supplement to mainstream economics as well as point at the importance of entrepreneurs in the market. Within individual parts of this paper is the theory of Entrepreneurial discovery compared with approaches of mainstream economics. Ideas of Kirzner are applied in selected parts on the issue of multinational companies and the localization of foreign direct investment which is exploring new market opportunities closely linked as well as lack of information, uncertainty and speculative behavior – that are, main features of Kirzner's theory.

Keywords: competition, entrepreneur, foreign direct investment, institutions, multinationals companies, the Austrian school, the Theory of Entrepreneurial discovery.

1 Introduction to researched matter

The combination of Keynesian macroeconomics and the neoclassical microeconomics is denoted as a neoclassical synthesis or the mainstream economy. One of its distinguishing features is the creation of models and transforming economic phenomena in mathematical forms. The success of mainstream economy is in its theoretical power, based on the simplification of reality and the resulting simplifying assumptions. Considering this background, this major economic stream is becoming increasingly different from reality and practice. That is the reason why mainstream economics has many supporters and critics.

Divers of the main critics of standard economy are representatives of the Austrian school, which is also Israel Meir Kirzner. Followers of the Austrian approach unlike the neoclassical synthesis look at the economy with realistic view, as the science of real human behavior in a market environment.

The aim of this paper is to introduce a relatively new theory of Entrepreneurial discovery of I. M. Kirzner as an alternative or supplement to mainstream economic theory as well as to highlight the importance of entrepreneurs in the market. Within particular parts of allowance progress compared with the theory of Entrepreneurial discovery approaches mainstream economics. From a methodological point of view, the work uses several scientific methods, especially methods of analysis, description and comparison.

2 Theoretical foundations

I. M. Kirzner included the main features of the Austrian school in his theoretical approach. Man does not live on a desert island, but it is part of society. Each individual decision is influenced by the actions of others. As well as the decision of an individual acts on the deeds and actions of others. Development of particular economies is therefore the result of individual actions of individuals, and therefore should according to Austrian economics approach address precisely analyzing the behavior of individuals (Otáhal, 2008). Every day a man make choices based on their personal preferences. A related key feature - subjectivity, it means - what is valuable to one may not be valuable for other (Holman, 2001).

From the other concepts, the Austrian school distinguishes consistent and unambiguous liberalism and defending the free functioning of the market. One of the characteristic features is the consistent rejection mathematization of phenomena that is so characteristic of mainstream economy. The Austrian school places emphasis on dynamism of the market economics,

therefore, rejects the use of static models, especially the model of perfect competition (Sojka, 2010).

Among the other characteristics of the Austrian School, that were reflected in Kirzner's concept of entrepreneurial activities may include individualism - an understanding of economic phenomena and the functioning of market processes is only possible through understanding the behavior of individuals; liberalism and liberal fully competitive free markets without intervention of the central institutions; protection of private property, an essential prerequisite for the functioning of a healthy economy; pricing system that is due to a fully functioning liberal market, best demonstrates the position of producers and consumers and businesses function as a major player in economic happening (Holman, 2001).

Kirzner's theory of Entrepreneurial discovery is based on the speculative dynamic behavior of individuals emphasized by Mises, because only the individual is consciously able to set their goals. The individual works under conditions of uncertainty, lives at a certain time in a certain place, and could not have comprehensive information. It is therefore not able to even get a comprehensive idea of the state, the world, which is surrounded and can not even be sure of future developments. Each individual only predicts which way the immediate future development will take and act accordingly. Every decision is therefore speculation, therefore, every act is a kind of a entrepreneurial decision (Otáhal, 2008).

Besides L. von Mises can discovery be seen in the theory of Entrepreneurial significant influence of Hayek's ideas. Discovery of entrepreneurial opportunities, according to Hayek, means the acquisition of new knowledge. Competitive advantage stems from the ability of entrepreneurs uncover hidden opportunities and analyze information. However, they are scattered due to the fact that a given individual at a given time moves in only one place (Hayek, 1996).

Kirzner's theory developed as a synthesis of the complementary ideas of Hayek and Mises. I. M. Kirzner considers these two schools of thought as two sides of the same coin (Kirzner, 1998).

3 Entrepreneur of Kirzner

In contrast to L. von Mises, Kirzner's entrepreneur is an exceptional person (Holman, 2001). F. e. J. A. Schumpeter by the entrepreneur person highlights efforts to fight and a will to win. Schumpeter's entrepreneur is a creative being, is happy when he sees that his plans are realized, if it does not waste his energy and he is able, thanks to their achievements, to move the company forward (Říkovský, 2004). Kirzner's entrepreneur is just as Mises's entrepreneur does in conditions of imperfect information (Mises, 1990).

L. von Mises and von Hayek F., of which presumption Kirzner works, point out that a given individual lived at a certain point at a certain place (Holman, 2001). In order to individuals could communicate together, they need to find a common ground. Price works as a communication tool and everyone can take their individual position to it. He does not need to evaluate all with relevant information which contains price, takes his subjective attitude toward price (Otáhal, 2008).

Another typical feature, which is combined with Kirzner's entrepreneur, is the uncertainty that faces every time when he makes his decisions. And any positive discovery represents for entrepreneur pleasant surprise. On the other hand, in the neoclassical theory the owner of a firm maximizes the difference between revenues and costs. Revenues and costs are given. Profit that maximizes owner of the firm is fully expected and known before the actual decision is made. In the neoclassical model is no surprise, to maximize of profit suffices just to perform a plan,

which is compiled in advance. But in the reality the decision-making of the entrepreneur is completely different. The entrepreneur, who discovers and exploits profitable opportunity, suddenly saw a possibility that you have not seen yet neither he nor anyone before him. If someone had seen him before, it would be utilized (Kirzner, 1998).

4 Entrepreneurial discovery

This theory presents "Austrian" view of the market functioning. The theory of entrepreneurial discovery acts as a complement to mainstream theories because it is based on criticisms of its models; in particular by the model of perfect competition, perfect information assumption and concept of equilibrium.

Kirzner argues that mainstream economics does not explain how markets actually start. Only explains in detail the relationships that arise on already functioning markets but it does not deal with the essence of the processes that lead to their formation (Kirzner, 1998).

Kirzner's theory explains the functioning of markets through the decisions of entrepreneurs, which are made in terms of imbalance. Due to these decisions, changes on the quantity of goods and services on the market are made. The success what the market economies show consists in the constant discovery - there is substitution of inefficient manufacturing and production good prospects newfound opportunities to meet customer needs is through more effective options such as f.e. producing better goods or using previously unknown sources.

In contrast to mainstream economics, a person in the theory of Entrepreneurial discovery can mistake and based on "discovery" corrects its wrong decision. Kirzner criticizes neoclassical approach that in terms of neoclassical economics, the individual did not freedom decide (Kirzner, 1997).

According to Kirzner, an individual decides in the real world through instinct or concerns, therefore factors that the neoclassical approach ignores. Kirzner's theory has a strong emphasis on individual choice.

The entrepreneur discovering market gaps fill them with their creativity and innovation. His entrepreneurial creativity changes and transforms the current economic reality. The market process is not according to the Kirzner's theory the process that cleans the markets, as is the case in the neoclassical synthesis models, but an ongoing process of learning and discovery. The central concept of this theory is not equilibrium, but rather imbalances and market imperfections, whose discovery leads to continual streamlining and correcting these deficiencies (Holman, 2001). Because the theory of Entrepreneurial discovery sees an equilibrium as a kind of unattainable ideal as well as model of perfect competition, which in practice does not exist. The key Kirzner sees the fact that on the market should exist such institutional conditions that do not prevent market participants recognize profitable opportunities.

Thanks to the entrepreneurial activities shifting resources is constantly taking place, from less efficient production toward the desired productions. Because of these shifts needs of consumers are to meet. Secondly, this happens in the sense that it is produced, what the customer wants, but at the same time, thanks to these transfers toward more effective productions products are manufactured in better quality, using new technologies and new sources etc. The same can be said about the services. Thanks to the entrepreneurial discovery attend to permanently improve offered services in two ways: the quality and composition. Discoveries in entrepreneurial activities causing the improvement of products and services, due to this satisfying the needs of consumers, but also at the same time there are changes in consumer preferences (Kirzner, 1998).

In the context of Kirzner's entrepreneurial discovery an analogy with foreign direct investment and the expansion of multinational companies can be found. Given the institutional

conditions of individual economies is to explore new revenue opportunities via the use and utilization of investment incentives, rebates or subsidies, or in terms of transfer of production and construction of so-called Greenfields or the use of so-called Brownfields in regions with higher capitalization options, labor productivity or conversely with less production costs and cheaper labor force. In the sphere of cross-border investment and particularly foreign direct investment is the theory of Entrepreneurial discovery exercisable practically since the very location of these investments.

Investor's motives are associated with finding a new location, new additional profits and business activities. He can be motivated for example by a conquest of new markets, cheap workforce and the search for tax reliefs. Nowadays the country do not attract potential investors only thought the potential of his country - whether it's qualified workforce, good infrastructure links to the main sea routes, plenty of mineral wealth or other benefits, but now the country also tend to attract institutional conditions for using business.

4.1 The concept of profit and loss

The net profit is from the perspective of this theory perceived as a motivation for entrepreneurial activity. Entrepreneurial profits can be identified when Robinson found that he had discovered the value of its own resources, which for him had so far scant weight. Robinson until the present day spent time by catching fish with bare hands. But today he found out that he could spend time by making of ship or net. He discovered that his time so far attributed wrong too low value. Reallocation of time spending by catching the fish toward making the net and building ship, represents a entrepreneurial decision that imply a net profit in the form of additional discovered the value of free time. The discovery means that the potential of the case or resources have been underrated. Act of discovery presents a discovery of hitherto unsuspected value of unsuspected resources (Kirzner, 1997). Another example of a discovery comes when a worker moved from a sector where wages are low in the other industry where it is evaluated under the same performance better. In this case, the discovery of the net profit is in the form of wage differential.

Kirzner mentions that if an entrepreneur reaches the loss, it means that he made a wrong decision. This decision is a chance for other entrepreneurs who have opportunity to correct this mistake and make a profit now. Business loss is therefore an essential part Kirzner's theory of Entrepreneurial discovery and innate part of the market process. Because the economy where the companies do not go bankruptcy, is not naturally and healthily evolving society.

In contrast to the neoclassical model, in this theory it may not arrive to usage of profitable opportunities. Individual profit opportunities may not be recognized or are long time overlooked. Such an opportunity may remain unused e.g. due to lack of information or when the information necessary to seize this opportunity are expensive too. Consequently, it may happen that after some time the individual will recognize the opportunity and will act of discovering the profit, which was previously untapped.

Earlier wrong decisions can be gradually discovered as a result of the ability to sense and feel where can be achieved some profits. This feature of the market process is based on the human ability to intuit (without deliberate search), in which situations are hiding unused potential. Under the right recognizing of proper conditions can so-called the Entrepreneurial alertness (Kirzner, 1998).

4.2 Lack of awareness and living in ignorance

Any market participants do not have comprehensive information. From reasons of lack of awareness participants live in ignorance which may take the form of excessive optimism when the entrepreneur expected that buyers will be eager for their goods

and services. However, it appeared that there was the opposite. The excessive optimism of entrepreneurs caused incorrect determination of the price of their goods and services. Nonequilibrium prices caused by the thwarting of his optimistic plans. It is expected that thwarted plans to force the entrepreneur to change the prices which will encourage buyers to make purchases his goods and services and consequently there is equilibrium.

The ignorance may also take the form of excessive pessimism. Just pessimism represents an opportunity for one another. The fact that someone is too pessimistic causes that some options are not used. The fact that anybody thinks that the situation is not favorable, that the industry is not profitable or that to implement certain plans simply did not dare, there is consequently a scope for discovering these opportunities other entrepreneurs.

The Kirzner's concept of living in ignorance which underlies undue optimism or undue pessimism can be likened to decide the localization edging direct investment: investor living in ignorance is able to collect only limited data on the situation in the host economy. On the basis of which the finals will be excessively optimistic in terms of locating in the form of e. g. construction of Greenfield investments or unduly pessimistic in the form of withdrawal from the investment plan.

However, in the real world of constant change, it may happen that entrepreneurial discovery new revenue opportunities can be interrupted or even thwarted. It may happen that due to a lack of information may be individual efforts on discovering new possibilities to disturb or confuse each other. Because the discovery is connected with the error, thwarting a surprise.

Surprise and happiness are factors associated with the discovery (Kirzner, 1998). In this regard exists another stark difference between mainstream economics and the Kirzner's theory. In contrast to neoclassical synthesis in this concept play these factors an important role as Kirzner mention happiness and surprise are an essential part of being human, therefore of entrepreneurial activities¹.

4.3 The concept of competition

The ideal in the mainstream economics is a model of perfect competition where an endless amount of buyers and sellers exists. Sellers offer an identical product, buyers move away from advertising and other marketing factors.

Although Kirzner is a strong critic of this model, the model of perfect competition and the theory of entrepreneurial discovery has common one condition, namely the freedom of entry and exit from the sector. Just the dynamic competition is one of the basic features Kirzner's theory.

To behave entrepreneurially means to enter the market with a new idea, with a new concept, with a more interesting service, with more attractive price, with a better product or with a breakthrough manufacturing process. Any such act necessarily competes with the behavior of others.

The difference between the neoclassical concept of competition and the concept of the theory of Entrepreneurial discovery can be demonstrated on the problem of awareness. In the neoclassical model information is a necessary prerequisite for perfect competition, without perfect information is the competition imperfect. For the Kirzner's theory, a competition is a process by which is information discovered and shared.

The Kirzner's theory points out that an entrepreneur has to be more circumspect towards substitute products than towards their

direct competitors. Direct competition produces identical product, used to produce the resources that are "our" entrepreneur well-known. But the producers of substitutes and producers of other goods and services use other sources, on which "our" entrepreneur may not have any idea. Ignorance of this information can lead to excessive optimism or excessive pessimism and mistakes. The fiercest competition is according the Austrian approach is sell of substitutes products. Given the scarcity of resources all companies compete, whatever the branch in which they operate. All entrepreneurs compete for consumer money (Kirzner, 1998).

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4.4 Cartel arrangement

The cartel arrangement is according to Kirzner an agreement like any other, because no one is able to determine what size the company is ideal, what is acceptable and what has not (Kirzner, 1997). Hinder cartel arrangements according the theory of Entrepreneurial discovery would mean hinder business agreements and activities as such. Which would in its essence mean a violation of the conditions of free enterprise and free entry to the sector, respectively breaches of liberalism (Kirzner, 1998).

Even in this case we can find an analogy with multinational corporations whose size, through localization of foreign direct investment, not only notionally beyond the boundaries of individual economies, but often multinational companies figuring in several sectors, often only distantly related to the branch of the parent company.

Kirzner mentions that whoever controls the size of the company is the entrepreneur himself. Thus, it is only on him and his decisions, whether into any agreements, whether cartels or otherwise, enters. Only entrepreneur should decide in which way his business will develop.

Economies of scale often lead to the merging firms in the sector, thus departing from the model of perfect competition. The total connection of all the dominant companies in the sector may result in one company, entry to the sector to other companies due to this new situation is not blocked. Thus, the created company will use economies of scale, does not create a barrier. Exactly opposite. According to Kirzner's joining of companies that leads to the exploitation of economies of scale a cutting costs and accumulation of earnings is correct entrepreneurial activity and a basis of process of entrepreneurial discovery.

The pitfall of cartel is not its existence but the effort of state authorities to control the size and structure of companies, thus indirectly influence and create barriers to entry to the sectors. The only government action and government organization and agencies which is needed to ensure sustained competitive dynamic is to remove legislative and other barriers hampering the entrepreneur's decisions. The market alone is unable to create such barriers. It is therefore an artificial intervention in the market which distorts competition.

What is necessary to the support the spontaneous dynamics of the competitive process, according the theory of Entrepreneurial discovery, is not a amount of small manufacturers who produce the same product in the same way; the condition is free entry of firms in the sector and the elimination of privileges for selected manufacturers, which could break potential competitor's efforts on finding profitable opportunities.

The theory also looks same at the issue of price-setting. Price policies of firms according Kirzner are legitimate competing strategies, because "appropriate" price can not be objectively determined. Given the price is the subjective value formulation.

¹ Neoclassical world eliminates surprises. The phenomena are explained as choices between different alternatives. The probability functions are well known and clearly defined. Neoclassical concept involves an element of luck only in the sense that one knows exactly what his chances are. However this opinion of luck has nothing to do with surprise.

And it is only on the contract partner if he takes the prize and will make the exchange or not. As an extreme example of this assumption may be a situation where one producer owns all the apples in the world. From the neoclassical perspective, it would mean that the producer has a monopoly on the market for apple juice. According to Kirzner and as well as other followers of the Austrian school a new competitive process should arise from this situation when all other entrepreneurs would start to try and achieve to their orange, strawberry and other juices are better than apple (Kirzner, 1998). To this, they can use all means what the market makes possible - the searching for new resources, production technology but also using advertising and other marketing and communication tools.

4.5 Socialism and entrepreneurial activity

The critique of the market economy is based on the reason of injustice. It criticizes the income inequality, the institute of private property and that capitalism acknowledges the existence of a profit which was created at the expense of workers. It is therefore a profit that is not deserved, because it is produced through the exploitation or as a result of undeserved good fortune. It is therefore, according critics of the unfair system. Rating of profits in terms of fairness is very delicate, which stems from the very nature of profit. No part of it is necessary to ensure the sale of goods or services. This need is already included in the cost required to manufacture a product or service implementation. The sale is therefore feasible without profit. But the theory of entrepreneurial discovering regards profit as a discovery of vigilant entrepreneur who recognized and discovered a new opportunity.

The entrepreneur discovering looks to profit as on the activity of a vigilant entrepreneur who observed her proper judgment how shall be relocated sources, which the society valued less for the products that the society valued considerably more. It is therefore a creative approach of an entrepreneur who is awarded (Kirzner, 1998).

The theory of Entrepreneurial discovery emphasizes the freedom of business and Kirzner belongs among the uncompromising supporter of private property. Generally, followers of the Austrian school are considered as a key factor of success a subjective spontaneous activity that leads to the achievement of individual goals. I.M. Kirzner as well as F.A. von Hayek, L. von Mises and other representatives of the Austrian approach is characterized by a dynamic view of the market economy (Holman, 2001).

The active role of entrepreneur as the main coordinator of economic activity represents a strong argument against central planning and state regulation. Due to the nature of the entrepreneur in the theory of Entrepreneurial discovery, where he is described as a creative person with a creative approach and through its active approach as well as the driver of current economic development, the theory stands in opposition to the socialist doctrines (Volejníková, 2006).

Democracy and protection of property rights in the decision-making process regarding the localization of investment has a higher weight than any other investor's motives for an entrepreneurial activity. If in the economy is this fundamental institution of property rights and other democratic freedoms respected, the investor faces a whole series of obstacles to the free entrepreneurial activity.

In this case on a potential investor crown in the rigors of living in ignorance and lack of information, which indicates a number of risks: the politico-administrative upon discontinuation of contracting. However the biggest is problematic payment discipline and the general financial distress, as is currently the case of Cuban foreign trade enterprises - financing for 360 days is a regular condition of the Cuban side (Ministry of Foreign Affairs, 2015).

Another institutional problem is the difficulty of law enforcement which logically causes significant difficulties in

defending of own rights in possible disputes. Therefore the risks of investing mainly come from imperfect and non-transparent legal framework and law enforcement difficult. Foreign investors often face high bureaucracy, potential corruption, inertia of government officials, frequent sudden rule changes and modifications of conditions in many specific technical barriers and other institutional obstacles. The problem of foreign direct investment can be relatively low return on capital in comparison with the mother country.

With a different market system, there is associated the overall diversity of the business environment and mentality of people that have the effect of western investor abstruse compliance with the agreements (agreements are usually respected where it is advantageous for the other side), and so on.

5 Summary

The Kirzner's theory often faces a wave of criticism because it can act as a mere "footnote" the mainstream theory. It can be argued that this "footnote" also presents an explanatory guide to "text above the line". As described above, the neoclassical synthesis contains in their models simplifying preconditions. Kirzner does not simplify reality, contrary he works with the elements and factors that are economic entities own - like instinct or concerns.

In the Kirzner's concept people are mistaken persons who make mistakes and trying to correct them. In the theory of Entrepreneurial discovery is an economic entity, an entrepreneur, a person operating in the market described as it really is. In some situations, overly optimistic, sometimes pessimistic, faulting, correcting his wrong decisions and discovering new opportunities.

The theory of Entrepreneurial discovery belong among the actual, the current economic approaches, because the reality in this theory is not "distorted". Kirzner illustrates the actual behavior of people in the market environment. In a market environment where there is never enough information available, we can talk about them enough. In an environment what is dynamic and subject to constant change - discoveries and correcting erroneous decisions.

The entrepreneurial activity, creativity of entrepreneurs creates and changes economic reality. However the economic reality is not ideal. The theory of Entrepreneurial discovery criticizes the decision-making of economic subjects in a neoclassical microeconomics, which Kirzner considers mechanical, artificial and stylized. An individual has in neoclassical models clearly defined goals, it is precisely known set of resources with which could he deal with (Kirzner, 1998). Decision making is managed by maximizing and limited set conditions. For the entrepreneur in neoclassical economics does not exist a manipulation space. The entrepreneur can say "mechanically" allocates resources based on given parameters and restrictions (Holman, 2004). However, in the theory of Entrepreneurial discovery the entrepreneur determines its goals in the course of its decision-making. Wherein in each time he faces situations "open-ended". The decision is not only the mathematical calculation but also depends on the sagacity and the correct appraisal of reality.

The state and state institutions should be there to support entrepreneurial creativity. In order to create the conditions that does not act as a barrier or obstacle to entrepreneurial discoveries on the market. State institutions have to function as a support means for the search of profitable opportunities and the realization of new discoveries (Voight, 2008).

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