

Trust as a condition of cooperation

Study the chapter's functional account of virtue as reliable behavior that reduces friction in exchange. Test its claims about trust, restraint, inflation, crime, institutions, and distribution with observable mechanisms and safeguards against moralizing disadvantage.

2 lessons · approximately 5 hours, plus multi-day practice

How to use this workbook

Read the assigned manuscript first. This workbook contains accompanying teaching and invented cases, not a revision of the source. Attempt exercises before consulting the rubrics and explanations. Written work is self-assessed or discussed with a tutor; no secure examination, academic credit or certificate is implied. Use a clearly labelled fictional case when live practice or personal disclosure would be unsuitable. Links use the course's intended publication address; for offline review, open the supplied source PDF at the full-book page numbers shown.

- Operationalize trustworthiness and cooperation costs.
- Trace five friction channels.
- Analyze unequal exposure to inflation and insecurity.
- Distinguish institutional evidence from motive attribution.
- Design proportionate, accessible trust-supporting practices.

[Open the module and source reading links](#)

Lesson sequence

1. Translate virtue into observable cooperation
2. Evaluate moral-economy claims through institutions

Translate virtue into observable cooperation

Allow approximately 100 minutes, plus any continuing activity.

Learning objectives

- Define the chapter's functional use of virtue without judging personal worth.
- Trace five channels through which unreliable behavior can raise costs.
- Distinguish trust, trustworthiness, and proportionate verification.

Assigned source readings

Complete consecutive source range, including its arguments and examples

Full-book PDF pages 79–84. Section links open the chapter at the relevant page.

Develop the argument

A functional definition rather than a moral identity

The chapter defines virtue through behavior: truthful dealing, restraint, reliable promises, and refusing profitable deception. Its infrastructure metaphor means that dependable conduct can make cooperation less costly. This is a book-specific functional use, not a complete philosophical account of virtue or a license to classify groups as morally superior. Operationalize it with observable practices: accurate invoices, fulfilled delivery terms, disclosed defects, consistent enforcement, and fair remedies. A supplier's public moral language is not evidence of reliability. The Burke quotation motivates attention to everyday norms as well as occasional legal intervention. The source's governing claim then links those norms to transaction costs and long-term growth. Treat the mechanism seriously while separating it from unsupported claims that all prosperity reflects character or that poverty reflects personal failure.

Trust, restraint, promises, and honest dealing

Trust is an expectation about another party; trustworthiness is the behavior that can justify it. The chapter explicitly says trust is not naïveté and connects it to reputation, law, and consequences. Appropriate verification can support trust rather than contradict it. Restraint means preserving resources or options for future needs, but the ability to save depends on income, security, care obligations, and shocks. The source later acknowledges that disorder can impose short horizons on poor households. Promises create expectations on which others plan; keeping them reduces costly contingency arrangements. Yet a responsible system also distinguishes deception from genuine inability and provides transparent renegotiation. Honest dealing makes reputation informative, potentially enabling small firms to trade without large compliance departments. None of these norms substitutes for accessible remedies when a stronger party breaks an agreement.

Five friction channels

The vice-as-friction section identifies defensive spending, risk premiums, a narrower scope of exchange, administrative burden, and weaker legitimacy. Trace them separately. Fraud can require additional audits; uncertain repayment can raise required returns; unreliable outsiders can push trade into closed networks; verification can consume time; selective enforcement can weaken willingness to comply. These channels can reinforce one another, but their existence does not establish a numerical growth effect. The source says defensive spending does not increase productivity; a more careful interpretation is that avoidable harm prevention uses resources that could otherwise support production. Security, auditing, and insurance can still create real value by reducing losses and enabling exchange. The relevant comparison is the same economy with lower risk, not an unsafe economy deprived of all safeguards. Measure both the cost and benefit of each protective practice.

Trust collapse and access to the ladder

The primary example links declining trust to more collateral, intermediaries, legal protection, and possible market consolidation. A fixed verification cost can burden a small entrant more heavily than a large firm. However, scale economies, technology, and demand can also cause consolidation; the trust mechanism needs evidence. The chapter describes a worker or entrepreneur forced into defensive, short-term arrangements by unreliable payments, permits, or safety. That is an institutional constraint, not proof of deficient individual character. Its claim that trust allows decentralization and cooperation with less coercion is a proposition about governance to test. The same trusted network can exclude outsiders if reputation is inherited rather than earned. A useful reform makes trustworthy conduct visible, provides fair dispute resolution, and gives newcomers a way to establish a record. Evaluate payment reliability, dispute costs, entry, and who lacks recourse. Trust is economically useful when it is warranted and broadly accessible, not when people are pressured to ignore risk.

The shared cold-storage service

Invented for this course.

An invented cooperative stores food for small vendors. Temperature logs are inconsistent, pickup promises are often missed, and vendors each spend two hours weekly checking their goods. A proposed shared log and remedy process costs 100 units per week.

1. Identify the concrete unreliable behaviors rather than calling every participant untrustworthy.
2. With 20 vendors valuing checking time at 10 units per hour, private checking costs 400 weekly. This is stipulated opportunity cost, not a measured cash payment.
3. If the shared system reduces checks by 75%, it saves 300 in time at a cost of 100, a net resource gain of 200 before other effects.
4. Test log accuracy, spoilage, complaint access, and newcomer participation. The shared process may fail if managers can alter records without review.

Reliable information and remedies may reduce defensive duplication. Savings require actual performance and must not be assumed from a trust-building slogan.

Practice and evidence

1. Map the five frictions

Apply all five friction channels to the cold-storage case and distinguish costs already stipulated from predictions.

Deliverable: A five-channel map with indicators and possible confounders.

1. Identify the decision affected by each channel.
2. Estimate only quantities provided or explicitly assumed.
3. Include a useful role for verification rather than treating all paperwork as waste.

Mechanism · 3 points

Separates monitoring, financing, exchange, administration, and legitimacy.

Evidence · 3 points

Marks observed, stipulated, and hypothetical claims.

Balance · 3 points

Recognizes protective benefits and alternative causes.

2. Design warranted trust

Create a reliability and dispute-resolution protocol for new cooperative members.

Deliverable: A one-page protocol and accessibility audit.

1. Specify records, response times, and remedies.
2. Provide a route for newcomers without established reputation.
3. Distinguish mistake, hardship, and deliberate deception in the process.

Reliability · 3 points

Uses observable commitments and proportionate checks.

Fairness · 3 points

Allows appeal and does not require blind trust.

Access · 3 points

Avoids turning verification into an unaffordable entry gate.

Reflection

What reliable practice in your work quietly saves other people time, and how could you make it easier to repeat?

Formative self-check

Choose an answer before looking at the answer key. These questions are open practice, not a secure assessment.

1. Which observation best operationalizes the chapter's functional virtue concept?

- A. A supplier uses moral language
- B. Invoices and deliveries match agreed terms consistently
- C. An owner belongs to a favored group
- D. A firm is large

2. An audit costs money but prevents larger losses and enables trade. How should it be assessed?

- A. It has no economic value by definition
- B. It proves virtue is impossible
- C. Compare its benefits and costs with feasible lower-risk arrangements
- D. Eliminate it because all verification is bureaucracy

3. A household cannot save because essential costs exceed income. What follows?

- A. It lacks moral worth
- B. It necessarily prefers immediate pleasure
- C. Its behavior proves the chapter wrong in every respect
- D. Constraints must be examined before inferring a failure of restraint

Answer explanations

1. B — Invoices and deliveries match agreed terms consistently

Reliable behavior is relevant evidence. Rhetoric, identity, and size do not establish trustworthiness.

2. C — Compare its benefits and costs with feasible lower-risk arrangements

The source's friction argument concerns costly responses to risk. A protective service can still create value given that risk; the counterfactual matters.

3. D — Constraints must be examined before inferring a failure of restraint

The chapter itself acknowledges imposed short horizons. Analysis must distinguish ability, circumstances, and preferences rather than moralizing deprivation.

Evaluate moral-economy claims through institutions

Allow approximately 100 minutes, plus any continuing activity.

Learning objectives

- Analyze inflation, crime, and trust mechanisms without deterministic moral judgments.
- Distinguish criticism of symbolic politics from unsupported motive attribution.
- Design institutional safeguards that reduce predation and preserve rights.

Assigned source readings

Complete consecutive source range, including its arguments and examples

Full-book PDF pages 84–93. Section links open the chapter at the relevant page.

Develop the argument

Inflation, leverage, and heterogeneous exposure

The inflation sections argue that unstable purchasing power can shorten planning horizons, complicate contracts, and change incentives to hold money or debt. The source labels this moral hazard and says inflation rewards leverage. Treat that as a conditional claim: unexpected inflation can reduce the real burden of fixed nominal debt, but variable-rate debt, refinancing needs, falling real income, or rising interest rates can make borrowing more dangerous. Cash holders and fixed-income recipients may lose purchasing power, while wages, assets, and benefits adjust unevenly. A sound exercise identifies contract terms and timing rather than describing all savers as prudent and all borrowers as reckless. The chapter's broader claim that inflation changes character is contestable; observable portfolio and contract responses do not establish a person's moral worth. Stable rules and usable price information are the institutional issues to evaluate.

Crime, location, and the limits of a single explanation

The crime example connects victimization to shorter opening hours, security costs, relocation, fewer services, and a weaker local tax base. Include harms to people directly, not only investors. The proposed feedback loop is plausible, but a neighborhood study must distinguish crime from other changes in rents, demand, transport, insurance, and financing. The source warns that insecurity can invite intrusive enforcement. A course application must therefore evaluate safety measures alongside legality, proportionality, civil rights, and disparate burdens. No rise in crime automatically justifies unlimited surveillance or aggressive policing. People unable to relocate may face especially severe costs, while those with resources can buy protection or leave. This is the chapter's distributional argument: defensive costs can intensify existing disadvantage. It is not a basis for stigmatizing residents or treating poverty as a cause or sign of vice.

Norms, status politics, and the hypocrisy test

The envy-politics section criticizes choosing policies to punish symbolic enemies instead of improving outcomes. Translate that criticism into a test of stated goals, mechanisms, and results. Do not infer envy from disagreement about redistribution, or infer virtue from support for markets. Norms may coordinate behavior cheaply, but some norms preserve exclusion; their content and accountability matter. The moral-economy and restraint sections connect reliable cooperation to long-term maintenance, savings, and institution building. The source's wording about restraint includes 'no deferred maintenance'; read the larger argument as valuing responsible future provision, without silently editing the original phrase. The hypocrisy section supplies a practical standard: judge reliability rather than a public pose. Apply that same standard to officials, firms, community leaders, and the policy analyst. Transparent correction of a mistake can support trust more than an impossible claim of purity.

The state's role and measurable outcomes

An unstyled section lists state practices the author favors: predictable property and contract protection, consistent action against theft and fraud, reliable money, simple rules, limited discretion, and rewards for competence. It contrasts arbitrary enforcement, gaming, and symbolic bureaucracy. These lists belong in the analysis even though the section is not formatted as a heading. Design institutions with accessible remedies, published standards, appeal, privacy safeguards, and independent evaluation. The closing picture of a virtuous society is a system where cooperation is inexpensive and predation costly, not one where everyone is uniformly kind. Chapter notes and repeated examples link trust, inflation, crime, and corruption to research; their summaries do not establish causality or universal magnitudes. Assess reforms using dispute resolution times, losses, access, safety, compliance costs, and distribution. A supported recommendation can favor more or less formal enforcement depending on evidence; agreement with the author's preferred state size is not the learning objective.

Two borrowers during a price surge

Invented for this course.

In an invented town, one shop has a fixed 4% loan and another has a variable loan that resets from 4% to 9%. Prices rise 6%, but neither shop's revenue is guaranteed to keep pace. Residents propose expanded surveillance after thefts.

1. Distinguish fixed from resetting debt before saying inflation benefits both borrowers. Calculate payment exposure only after obtaining loan balances and terms.
2. Check revenue, wage, and input-cost changes; higher nominal sales do not necessarily mean higher real profit.
3. Separate the inflation problem from the theft problem while recognizing that both can shorten planning horizons.
4. Evaluate theft prevention options by effectiveness, cost, rights, and access. Do not infer that a security concern authorizes every form of surveillance.

The chapter's institutional concerns can guide inquiry, but contract details and proportional safeguards determine the defensible response.

Practice and evidence

1. Test an inflation-incidence claim

Create four hypothetical profiles: fixed-rate debtor, variable-rate debtor, cash saver, and wage earner. Analyze an unexpected price rise without recommending investments.

Deliverable: Four conditional exposure statements and a list of missing information.

1. Specify interest, wage, and benefit adjustment rules.
2. Distinguish nominal and real changes.
3. Identify circumstances reversing the expected effect.

Mechanics · 3 points

Uses contract terms and purchasing power correctly.

Heterogeneity · 3 points

Avoids universal labels for borrowers or savers.

Scope · 3 points

Treats examples as instruction rather than personal financial advice.

2. Build a rights-preserving trust reform

Design a response to theft and payment disputes in a fictional shopping street.

Deliverable: A 400-word plan with outcome measures and a review trigger.

1. Include resident, worker, business, and newcomer perspectives.
2. Compare prevention, remedies, and enforcement options.
3. Specify privacy, appeal, and proportionality safeguards.

Causality · 3 points

Tests crime and trust channels alongside alternative causes.

Safeguards · 3 points

Preserves rights and avoids stigmatizing residents.

Evaluation · 3 points

Measures safety, service access, costs, and unequal burdens.

Reflection

What institutional change would make reliable behavior easier for people with the least time, money, or power?

Formative self-check

Choose an answer before looking at the answer key. These questions are open practice, not a secure assessment.

1. Unexpected inflation occurs while a borrower's rate resets sharply upward. Which conclusion is warranted?

- A. All leverage is rewarded
- B. Debt terms and income changes determine the effect
- C. The borrower must be irresponsible
- D. Nominal debt always disappears

2. A reform critic supports redistribution. What would establish that the position is driven by envy?

- A. The policy label alone
- B. Disagreement with the book
- C. The motive cannot be inferred from that preference; evaluate reasons and consequences
- D. Any concern about inequality

3. Which measure best tests a trust-building program?

- A. How often officials say trust
- B. The number of moral slogans displayed
- C. Whether it abolishes every check
- D. Verified reliability, dispute costs, newcomer access, and fair remedies

Answer explanations

1. B — Debt terms and income changes determine the effect

The source's general claim needs contract-specific analysis. Resetting rates and income shortfalls can outweigh erosion of principal's real value.

2. C — The motive cannot be inferred from that preference; evaluate reasons and consequences

Policy disagreement is not evidence of a psychological motive. The course assesses arguments and evidence, not moral identity.

3. D — Verified reliability, dispute costs, newcomer access, and fair remedies

Behavioral and institutional outcomes operationalize the chapter. Messaging and blind removal of verification do not establish warranted trust.

Module assessment

Rebuild a trading district's reliability

A fictional trading district reports unpaid invoices, theft, rising prices, high verification costs, and falling small-firm entry. Officials propose a moral-awareness campaign and mandatory intensive monitoring of every trader.

Required evidence

- A diagnosis separating the reported problems and potential interactions.
- A comparison of the proposed package with two targeted alternatives.
- A rights-preserving implementation and evaluation plan.

Assessment criteria

Mechanism · 5 points

Traces reliability, financing, entry, and location channels without assuming one cause.

Distribution · 5 points

Includes people unable to buy protection or absorb delays.

Safeguards · 5 points

Addresses privacy, appeal, proportionality, and newcomer access.

Evidence · 5 points

Uses measurable outcomes and states how findings could reverse the recommendation.

Model response: consult after your attempt

A strong response does not assume that slogans change behavior or that more monitoring is always efficient. It investigates payment practices, theft exposure, contractual inflation effects, and fixed compliance costs separately, then identifies reinforcing mechanisms. It may propose shared verified records, prompt dispute resolution, targeted safety measures, and simpler standards. It assesses real benefits and rights costs, avoids blaming residents for structural constraints, and specifies a review if entry or safety deteriorates.

Source cautions and interpretation

- Footnotes 21–24, all chapter notes, all Heading3 virtue definitions, repeated Hazlitt examples, and the unstyled state-role section were read.
- Trust-growth associations do not alone establish causality. Inflation-character, crime-consolidation, and regressive-incidence claims remain source arguments requiring context.
- The source phrase about deferred maintenance is retained unchanged; the course flags its tension with the broader long-term-care argument.

- No figure blocks occur. Exercises are institutional analysis, not judgments of personal moral worth or financial advice.

Source coverage

Chapter 5: Virtue Without Sermons

The complete opening quotation and chapter introduction establish the problem and author's governing position; the first teaching section reconstructs the argument and separates its assumptions from evidence.

[Read source section: full-book PDF page 79](#)

The Governing Claim

Defines virtue functionally as reliable conduct and distinguishes it from judgments of personal worth.

[Read source section: full-book PDF page 80](#)

Virtue in plain terms: the economic content of character

Operationalizes promises, invoices, truthful dealing, and remedies rather than piety or public moral identity.

[Read source section: full-book PDF page 80](#)

Trust: the cheapest form of capital

Distinguishes warranted trust from blind trust and pairs reliability with proportionate verification.

[Read source section: full-book PDF page 80](#)

Restraint: the moral engine of investment

Treats future-oriented resource preservation as constrained by income, safety, care, and shocks.

[Read source section: full-book PDF page 80](#)

Promises kept: the precondition of cooperation at scale

Connects kept commitments to coordination costs while allowing transparent renegotiation after genuine inability.

[Read source section: full-book PDF page 81](#)

Honest dealing: why small firms can exist

Explains reputation and small-firm access without assuming every large organization reflects moral failure.

[Read source section: full-book PDF page 81](#)

Vice as friction: the economics of moral decay

Teaches five channels: defensive cost, risk premium, restricted exchange, administration, and legitimacy.

[Read source section: full-book PDF page 82](#)

Primary Example (51): Trust collapse—when cooperation becomes expensive

Tests fixed verification burdens, consolidation, and alternative explanations in the cold-storage exercise.

[Read source section: full-book PDF page 83](#)

Virtue and the ladder: why character is mobility's hidden rung

Connects unreliable payments, permits, and safety to structural barriers rather than individual blame.

[Read source section: full-book PDF page 83](#)

Inflation as moral hazard: when vice is subsidised

Distinguishes the source's moral-hazard rhetoric from observable contract and portfolio responses.

[Read source section: full-book PDF page 84](#)

Primary Example (47): Inflation rewards leverage

Compares fixed and resetting debt, wages, cash, and expectations before claiming inflation rewards leverage.

[Read source section: full-book PDF page 84](#)

Crime and investment flight: the geography of decay

Traces security costs and location responses alongside rents, demand, transport, and financing confounders.

[Read source section: full-book PDF page 85](#)

Primary Example (52): Crime and investment flight

Includes direct victim harms, service loss, and unequal ability to relocate, with rights-preserving safety evaluation.

[Read source section: full-book PDF page 85](#)

Vice disguised as compassion: envy-politics and status games

Replaces inferred envy with tests of goals, mechanisms, and outcomes; disagreement is not motive evidence.

[Read source section: full-book PDF page 86](#)

The “moral economy”: why norms beat statutes

Tests how norms and law can complement one another and whether norms themselves exclude.

[Read source section: full-book PDF page 87](#)

The hidden economics of restraint: time horizons and civilisation

Connects long horizons to maintenance and buffers, flags the deferred-maintenance wording, and includes the unstyled state-role lists.

[Read source section: full-book PDF page 87](#)

Why “virtue talk” fails: the hypocrisy trap

Uses consistent behavior and transparent correction rather than moral messaging as the reliability test.

[Read source section: full-book PDF page 88](#)

The distributional truth: moral decay taxes the poor first

Measures unequal exposure to delay, loss, and inability to buy protection without stigmatizing low-income groups.

[Read source section: full-book PDF page 89](#)

What a virtuous society looks like, in economic terms

Translates cheap cooperation and costly predation into accessible remedies, standards, privacy, and evaluation.

[Read source section: full-book PDF page 89](#)

The Lesson Line

Applies the transaction-cost claim as a measurable distributional hypothesis rather than a literal universal bill.

[Read source section: full-book PDF page 90](#)

Chapter 5 Notes

Marks trust-growth associations and the inflation, crime, and corruption summaries as evidence requiring contextual verification.

[Read source section: full-book PDF page 91](#)

The "Hazlitt" Examples (Primary)

Revisits trust collapse, leverage, and investment flight in the trading-district synthesis assessment.

[Read source section: full-book PDF page 92](#)

The role of the state: protect virtue, do not impersonate it

Teaches both the supporting and corroding state-practice lists, then designs predictable remedies, simple rules, limits on discretion, and rights safeguards.

[Read source section: full-book PDF page 87](#)