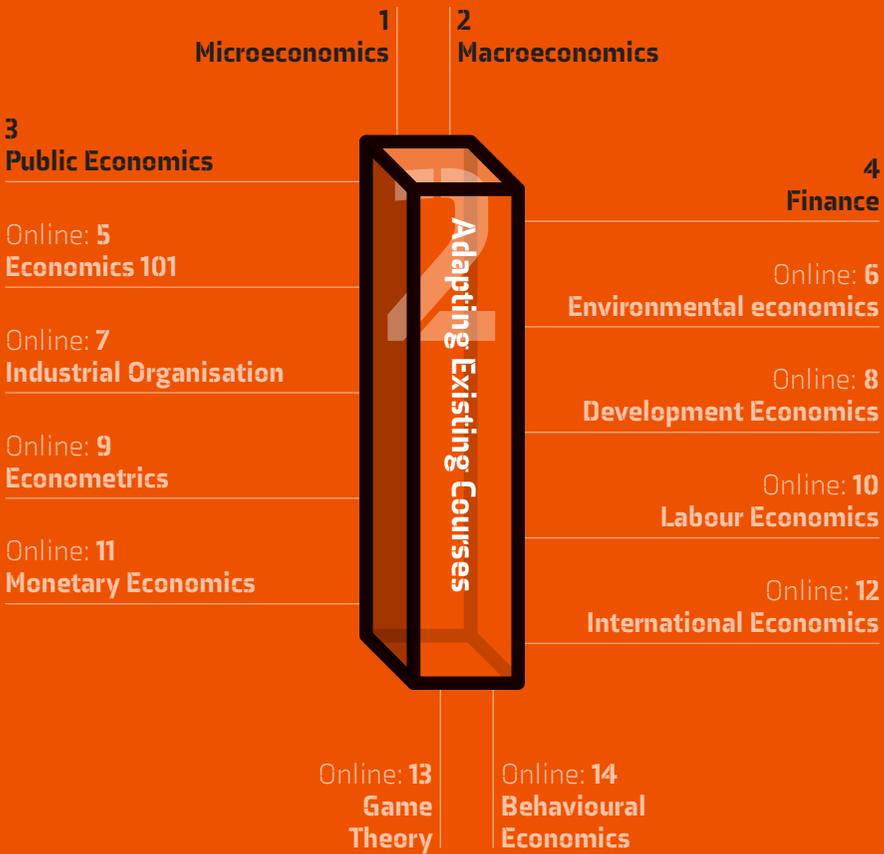




## Tool 2

# Adapting Existing Courses

Suggestions for incremental change to existing economics courses, drawn from the ten building blocks of Economy Studies.



Change often happens incrementally and slowly. In the economics textbook market, for example, there is an unwritten rule that new textbooks cannot differ more than roughly 15% from the standard textbook in order to be ‘acceptable’ (Colander, 2003).

While our book clearly breaks this rule and proposes more far-reaching and fundamental changes in most chapters, in this chapter we focus instead on how existing courses could be adjusted incrementally. By doing so, we hope to assist educators in improving and adapting the courses they teach without needing to rip them up and start again, as well as helping students make suggestions for how this could be done.

We do so by proposing additional contents to the standard set of economics courses. For every course, we start with a short discussion of what is currently included in typical courses on that topic. Secondly, we provide suggestions for what could be included by making use of the building blocks. As in other chapters, we provide a concise set of teaching materials here and a more extensive overview of suggested resources in the online resource Teaching Materials.

The suggestions and descriptions in this chapter are quite brief. For more details, we recommend turning to the building blocks noted above each paragraph.

For the sake of brevity, in the physical book we provide suggestions for four of the most common core courses: Microeconomics, Macroeconomics, Public Economics, and Finance. On our website, we provide the same for the courses Economics 101, Environmental Economics, Industrial Organisation, Development Economics, Econometrics, Labour Economics, Monetary Economics, International Economics, Game Theory and Behavioural Economics. The website also offers more details and teaching materials for the four courses included in this physical book. Hosted by the Institute for New Economic Thinking, we provide an online forum where you can discuss these materials with other educators.

For each of the standard courses, we first provide an overview of the typical contents of current courses and the most frequently used textbooks. We then offer suggestions for additions and changes to this standard content. Within each course, our suggestions are grouped into five categories, each consisting of two building blocks:

- Practical skills and real-world knowledge: *Building Block 2: Know Your Own Economy* and *Building Block 9: Problems & Proposals*.
- A diversity of analytical tools and approaches: *Building Block 7: Research Methods & Philosophy of Science* and *Building Block 8: Economic Theories*.
- Institutions and different ways of organising the economy: *Building Block 5: Economic Organisations & Mechanisms* and *Building Block 6: Political-Economic Systems*.
- Societal relevance and normative aspects: *Building Block 1: Introducing the Economy* and *Building Block 10: Economics for a Better World*.
- History: *Building Block 3: Economic History* and *Building Block 4: History of Economic Thought & Methods*.

Coupled with these suggestions, we offer various options for potential teaching materials. Finally, we briefly discuss how to make space for this additional course content. After all, simply cramming more material into existing courses without freeing up space is not likely to serve students well, except perhaps the most prodigious students.

The suggestions and descriptions in this chapter are quite brief. For more details, we recommend turning to the building blocks noted above each paragraph.

It is important to note that we pose all these suggestions as potential sources of inspiration, not a checklist of all the things that necessarily should be included. After all, there is a practical limit to what can be taught within a single course. Furthermore, as also discussed in *Foundation 6: The Didactics of Economics Education* and *Tool 7: Learning Objectives*, courses can benefit from making more use of active learning activities. Even if this limits the amount of content that can be ‘covered’, it will likely increase the amount of content that students will ‘master’ (Hansen, 2011).

For the most up to date version of suggestions for all fourteen standard economics courses, including a wider selection and more up-to-date range of teaching materials, see our website. We welcome comments and contributions, and offer a platform for discussion with colleagues worldwide.  
[economy.st/adapt](http://economy.st/adapt)



# 1 Microeconomics

First, we set out the typical contents of current microeconomics courses. Second, we provide our suggested additions and changes.

## Typical contents of current courses

Most introductory courses on microeconomics start from the neoclassical idea of the perfect market. This market is generally described as ‘perfect’ in the sense that it is, normatively speaking, optimal, and that it has exactly the following characteristics: rational self-interested behaviour, complete markets, perfect information, perfect factor mobility, no market power, no transaction costs, and no externalities. Later in the course and more advanced microeconomics courses, much attention is devoted to how such perfect markets interact with each other (general equilibrium theory). As well as what happens if one of the assumptions does not apply and the market is imperfect. For example: market power is central in industrial organisation, externalities in environmental economics, transaction costs in the theory of the firm, and information asymmetries in information economics. And finally, welfare economics focuses on whether such market imperfections justify government intervention in the market.

Frequently used textbooks:

- *Principles of Microeconomics* by Gregory Mankiw
- *Microeconomic Theory: Basic Principles and Extensions* by Walter Nicholson and Christopher M. Snyder
- *Microeconomics and Behaviour* by Robert Frank and Edward Cartwright
- *Microeconomics* by Anthony Partrick O’Brien and Glenn Hubbard
- *Microeconomics* by Austan Goolsbee and Steven Levitt
- *Microeconomics* by Daniel L. Rubinfeld and Robert Pindyck
- *Microeconomics* by Paul Krugman and Robin Wells
- *Microeconomics: Principles, Problems, and Policies* By Campbell McConnell, Stanley Brue and Sean Flynn
- *Microeconomics: Theory and Applications with Calculus* by Jeffrey M. Perloff
- *Intermediate Microeconomics* by Patrick M. Emerson
- *Intermediate Microeconomics: A Modern Approach* by Hal R. Varian
- *Intermediate Microeconomics: A Tool-Building Approach* by Samiran Banerjee
- *Advanced Microeconomic Theory: An Intuitive Approach with Examples* by Felix Munoz-Garcia

## Suggested additions and changes

### **Practical skills and real-world knowledge**

When teaching students how markets work, it can be particularly useful to let them explore and analyse real markets and sectors. Here we advise going beyond the typical example boxes in textbooks. While these are useful didactical tools to bring theory across, they do not give students substantial concrete knowledge about the actual economies. Instead, we recommend also treating real markets and sectors as topics in their own right, using theory as a tool rather than as the sole aim of the course.

This could be done by spending a lecture on a sector, its structure, its different actors, its dominant business models or other ways of functioning, and its relationship to the rest of the economy. Subsequently, students could be given assignments to conduct further analyses of the sector, through case studies and/or quantitative research. Here it can also be especially enriching for students to go and talk to people in the sector. Guest lectures are one form for this, but these contacts could also double as research methods training: interviews or field visits.

For more detail, see *Building Block 2: Know Your Own Economy* and *Building Block 9: Problems & Proposals*.

### **A range of analytical tools and approaches**

When teaching students microeconomics it is helpful and important to make students realise that what they are learning are theories, not direct descriptions of reality. This might seem like an obvious point for any economist or scientist, but it is often not for students, including ourselves when we started studying economics. Before going into the various theories and ideas, courses could, for example, pay attention to philosophy of science and what it means to scientifically study the (economic) world and develop theories about it.

For more detail, see *Building Block 7: Research Methods & Philosophy of Science*.

It can be very useful to teach students other theories too, besides neoclassical microeconomic theory. The concept of competition is central to microeconomics and therefore it would help students to explain both the classical and neoclassical conceptions of competition.

Besides markets, households play a key role in microeconomics. Students could benefit from learning about neoclassical ideas to do with rational utility maximisation within the household as well as feminist economics on the unequal division of unpaid labour.

Relatedly, it is important for students to learn that power relations and institutions have an enormous impact on markets and on economic processes more broadly. In this case we advise going beyond the mainstream notions of market power and transaction costs, and also include insights from Marxian and feminist economics to better understand how class, gender and politics play crucial roles in the economy.

Finally, it is relevant to discuss the meaning of consumption with students, as this has a uniquely central role in microeconomics courses. Besides neoclassical ideas, institutional and ecological economics are of particular importance as these focus on how preferences are socially constructed and how material consumption relates to human wellbeing.

*Pragmatic Pluralism* offers more detail on the above topics, especially in the sections *Markets, Households, Inequality and Consumption*.

[economy.st/pragmatic](http://economy.st/pragmatic)



### Teaching Materials

- *Economics After The Crisis* by Irene van Staveren, from 2015, chapters 1, 2, 3, 4, and 5. This textbook discusses the topics of households, consumption, firms and markets from the neoclassical, institutional, social and post-Keynesian perspectives.
- *Economics: The User's Guide* by Ha-Joon Chang, from 2014, chapter 6, 7 and 9. This book provides a pluralist and accessible introduction into, among others, different economic approaches, the world of production, happiness and inequality.
- *Introducing a New Economics* by Jack Reardon, Maria A. Madi, and Molly S. Gato, from 2017, chapters 4, 9, 10, and 13. This textbook introduces the topics of economic value, markets, firms, consumption, and power from the post-Keynesian, Austrian, Marxian, and neoclassical perspectives.
- *The Economy* by The CORE Team, from 2017, chapters 3, 4, 5, 6, 7, 8, 11, 12, and 19. This textbook discusses many microeconomic topics, such as supply and demand, the firm, social interactions, power and inequality, while including recent mainstream insights and empirical findings.
- *The Microeconomics of Complex Economies: Evolutionary, Institutional, Neoclassical and Complexity Perspectives* by Wolfram Elsner, Torsten Heinrich, and Henning Schwardt, from 2014, chapter 17. This innovative textbook makes readers familiar with new insights coming from frontier mainstream economic research, with particular attention to

game theory, agent-based modelling, system dynamics, and empirical realities.

- *Rethinking Economics: An Introduction to Pluralist Economics* by Liliann Fischer, Joe Hasell, J. Christopher Proctor, David Uwakwe, Zach Ward Perkins, Catriona Watson, from 2017. This collection of essays provides an accessible introduction into post-Keynesian, Marxian, Austrian, institutional, feminist, behavioural, complexity and ecological economics.
- *Real World Micro*, by Dollars & Sense, most recent edition from 2020. This collection of essays explores the empirical reality of many microeconomic topics, such as the minimum wage, trade policy, and stock markets.
- *Towards a political theory of the firm*, by Luigi Zingales, from 2017. In this paper Zingales argues for paying more attention to the role of power in firms as well as providing a brief history of different theories of the firm.
- *Firms as political entities* by Isabelle Ferreras, from 2017. A provocative book on the economic history and theories of the firm, arguing for a reappraisal of the role of power in the firm.
- *An Evolutionary Alternative to Mainstream Microeconomics* by Joseph E. Pluta, from 2015. A critical book proposing a more dynamic approach to the microeconomics of firms and markets building on behavioural, institutional as well as evolutionary insights as the title suggests.
- *Classical vs. Neoclassical Conceptions of Competition* by Lefteris Tsoulfidis, 2011. This paper juxtaposes the static and dynamic views of competition, respectively held by neoclassical economists on the one hand, and classical, Marxian, Austrian economists and business scholars on the other hand.
- *Rethinking Microeconomics: A Proposed Reconstruction* by Anwar Shaikh, from 2012. Shaikh argues microeconomics education could be more robust, rigorous and empirically grounded, building on old and new insights, in particular concerning emergent properties and shaping structures. Interestingly, he also builds on the insight of Becker (1962, "Irrational Behavior and Economic Theory." *Journal of Political Economy*) that the key empirical consumption patterns, such as downward sloping demand curves, Engel's Law, and Keynesian type consumption functions, can be derived without assuming rational utility maximisation and only requires two assumptions: that there is a budget constraint and a minimum level of consumption for necessary goods. His book *Capitalism* can also be useful for teaching.

### **Institutions and different ways of organising the economy**

Microeconomic courses are generally centred on studying markets. The market is, however, only one of the coordination and allocation

mechanisms through which economies are organised. Commons and hierarchies (both private and public) are other widespread mechanisms, and crucial concepts for understanding how economies function. Microeconomic courses could thus be enriched by adding other coordination and allocation mechanisms, such as hierarchies and commons. Besides discussing mechanisms, it could also be fruitful to discuss the different forms of economic organisation with students, ranging from multinational corporations, state institutions, and households to democratic cooperatives, family firms and civic organisations.

For more detail, see *Building Block 5: Economic Organisations & Mechanisms*.

### Teaching Materials

- *Introducing a New Economics* by Jack Reardon, Molly S. Cato, Maria A. C. Madi, from 2018, chapters 10, 11 & 12. Three accessible and brief chapters, with accompanying classroom activities and questions, introducing students to what public goods, commons and firms are and how they can be governed, for example as a corporation owned by shareholders or as a cooperative owned by its workers or consumers.
- *Economics: The User's Guide* by Ha-Joon Chang, from 2014, chapter 5. A short well-written chapter on different economic actors and organisational forms, from multinational corporations, cooperatives, and labour unions, to governments and a variety of international organisations.
- *Organisations: A Very Short Introduction* by Mary Jo Hatch, from 2011. A brief, accessible and yet highly informative book full with scientific theories and ideas on what organisations are, how they can be structured, how they change, and their internal dynamics and interaction with markets and society.
- *Governing the Commons: The Evolution of Institutions for Collective Action* by Elinor Ostrom, most recent edition from 2015, chapters 1, 2 & 3. A sharp and rigorous discussion of commons, how they are different from markets and hierarchies, how we should theorize them and real-world examples that help us better understand how they can be successful.
- *Contemporary Capitalism: The Embeddedness of Institutions* by J. Rogers Hollingsworth and Robert Boyer, most recent edition from 2012, chapter 1. An instructive analytical introduction and overview of different coordination and allocation mechanisms, such as markets, public and private hierarchies, networks, communities and associations.

### Societal relevance and normative aspects

Like economics 101 courses, microeconomics courses could benefit from helping students understand what it means to be studying the economy,

what it is and why it is relevant. Microeconomic courses can further be enriched by explicitly discussing the variety of normative principles that guide decision making. Here, it is particularly enriching to discuss both utilitarian welfare criteria and other normative principles such as fairness, legitimacy, and stability. The main goal would be to help students understand normative trade-offs and be able to clearly communicate them to non-economists.

In addition, when discussing markets and other coordination and allocation mechanisms, one could make students familiar with normative debates about what their roles in the economy should be. A particularly relevant debate seems to be whether the entirety of human life and society should be marketized and commodified, or whether there should be ‘moral limits of markets’ and if so where should those limits be.

Finally, students could be introduced to the normative aspects of theoretical approaches. Showing students that analytical tools have values embedded in them can be an eye-opener that will help them in their future careers to be able to identify and distinguish normative and positive aspects. For instance, show a few examples of values embedded in analytical tools, such as the normative assumptions made in cost-benefit analyses or those underlying theoretical approaches like neoclassical, Marxian and ecological economics, as discussed in chapter *Foundation 4: Values*.

For more details, see *Building Block 1: Introducing the Economy* and *Building Block 10: Economics for a Better World*.

### Teaching Materials

- *Economic Analysis, Moral Philosophy, and Public Policy* by Daniel Hausman, Michael McPherson, and Debra Satz, most recent edition from 2016. A great introduction into normative economics, covering its many areas and topics from welfare economics and utility theory to liberty, equality and justice.
- *A Guide to Ethics and Public Policy: Finding Our Way* by D. Don Welch, from 2014. A brief but insightful book providing a broad framework for evaluating policy proposals and outcomes, organised around five moral principles: benefit, effectiveness, fairness, fidelity, and legitimacy.
- *Political Ideologies: An Introduction* by Andrew Heywood, most recent edition from 2021. A useful and accessible introduction into a wide variety of political ideologies, from liberalism, socialism, and conservatism to feminism, nationalism, and green ideology, that shape much of our normative thinking on the economy.
- *Moral Views on Market Society* by Marion Fourcade and Kieran Healy, from 2007. An insightful overview paper on the key different normative

perspectives on capitalism, enabling readers to better understand and place ideas and arguments prevalent in many debates about the economy.

- *What Money Can't Buy: The Moral Limits of Markets* by Michael J. Sandel, most recent edition from 2012. A highly influential and well-written book reflecting on the moral place of markets in society and asking the key question whether everything should be up for sale. The Institute for New Economic Thinking has also launched a video series on the book and topic.

## History

When introducing students to (micro)economic concepts, it can be very informative for them to understand when and how these were developed. There is no need to set out how the details of the models evolved over time, but it can be helpful to know of a few important breakthroughs in their development, the context in which they occurred and the contributions they made to the debates within the discipline. Besides this history of economic thought, economic history can also enrich microeconomic courses as it can help students get a better understanding of the roles that markets can play in economies. By discussing the history of markets, key insights and facts can be conveyed to students in a different way from explaining models and theories. Key questions could be: how did markets emerge and evolve over time; which different institutional frameworks concerning markets have existed and how did they perform; are there important differences between different kinds of markets, such as product markets in goods and services, and factor markets in land, labour and capital?

For more detail, see *Building Block 3: Economic History* and *Building Block 4: History of Economic Thought & Methods*.

## Teaching Materials

- *The Worldly Philosophers: The Lives, Times and Ideas of the Great Economic Thinkers* by Robert Heilbroner, most recent edition from 1999. While first published in 1953, it remains perhaps the best introduction into the history of economic thought to this day. In a remarkably well-written and accessible manner it discusses the ideas of key economists and puts them into historical context.
- *Grand Pursuit: The Story of Economic Genius* by Sylvia Naser, from 2012. Another very accessible but more recent book introducing the history of economic thought through captivating narratives.
- *A Companion to the History of Economic Thought* by Warren J. Samuels, Jeff E. Biddle, and John B. Davis, from 2003, chapter 24 & 25. An extensive and detailed collection of contributions covering many

periods and developments in the history of economic thought, with two chapters specifically devoted to the history of post-war neoclassical microeconomics and formalist revolution in economics.

- *The Great Transformation: The Political and Economic Origins of Our Time* by Karl Polanyi, most recent edition from 2001. This classic explores the economic history of the rise and fall of the market economy and how this transformed society.

### **What to take out**

To create space for the above suggested additions, we advise focussing more on the key ideas and intuitions behind the taught models and devote less teaching time to their technicalities and mathematics. As teaching students to reproduce and work through mathematical models often takes up a large part of the teaching time, this would give the teachers the opportunity to devote more time to practical knowledge, the relevance, institutions, and history. Furthermore, a more even balance between neoclassical economics and other economic approaches could be achieved by decreasing the number of neoclassical ideas and models that are taught.

For the most up to date version of these course adaptation suggestions, including a wider selection and more up-to-date range of teaching materials, see our website. We welcome comments and contributions. We also offer a platform for discussion and exchange of teaching materials with colleagues worldwide.

[economy.st/adapt/micro](http://economy.st/adapt/micro)



## 2 Macroeconomics

First, we set out the typical contents of current macroeconomics courses. Second, we provide our suggested additions and changes.

### Typical contents of current courses

Current macroeconomics courses typically focus mainly on ideas and models of the neoclassical-Keynesian synthesis, sometimes also called neo-Keynesian macroeconomics, frequently complemented with monetarist critiques and alternative models. Key models to which a lot of teaching time is devoted are the aggregate demand-aggregate supply model, IS-LM model, and the Phillips curve. Sometimes the topic of economic growth, in particular the Solow and Ramsey growth models, are also included. In more advanced macroeconomics courses, dynamic stochastic general equilibrium (DSGE) models, with both their new classical and new Keynesian variants, are often central. In this way, topics, such as unemployment, inflation, growth, monetary and fiscal policy, are analysed using concepts such as adaptive and rational expectations.

Frequently used textbooks:

- *Principles of Macroeconomics* by Gregory Mankiw
- *Macroeconomics* by Andrew B. Abel, Ben Bernanke, and Dean Croushore
- *Macroeconomics* by Campbell R. McConnell, Stanley L. Brue and Sean Masaki Flynn
- *Macroeconomics* by Glenn Hubbard, Anthony Patrick O'Brien and Matthew P. Rafferty
- *Macroeconomics* by Olivier Blanchard
- *Macroeconomics* by Paul Krugman and Robin Wells
- *Macroeconomics* by Robert J. Gordon
- *Macroeconomics* by Stephen Williamson
- *Macroeconomics* by William Boyes, Michael Melvin
- *Macroeconomics: Policy and Practice* by Frederic Mishkin
- *Macroeconomics: Principles and Policy* by Alan Blinder and William Baumol
- *Macroeconomics: Theories and Policies* by Richard T. Froyen
- *Intermediate Macroeconomics* by Dennis W. Jansen, Charles D. Delorme and Robert B. Ekelund
- *Intermediate Macroeconomics* by Robert Barro
- *Advanced Macroeconomics* by David Romer

## Suggested additions and changes

### Practical skills and real-world knowledge

Macroeconomics courses are often strongly focused on theoretical models. While theory is crucial, it is also important to make students familiar with the real-world economy around them. In particular, it can be useful to teach students about the main institutions that shape the national economy in which the course is given, such as its regulatory or social security system, its economic ministries and central bank, labour unions and employers associations. Besides this, it can be helpful to show students how various indicators, such as unemployment, inflation, life-satisfaction, income and wealth inequality, carbon footprint, and household, corporate, and public debt levels, have developed. These indicators are often variables in models, so this real-world knowledge will enable them to also better understand and put in context the theories they are learning.

For more detail, see *Building Block 2: Know Your Own Economy* and *Building Block 9: Problems & Proposals*.

### A range of analytical tools and approaches

Macroeconomic theory is a relatively contested field. Nevertheless, there are many important insights that students could learn. Besides the key ideas and models of the neoclassical-Keynesian synthesis, it could be interesting and relevant to introduce students to Austrian and post-Keynesian ideas about how macroeconomies function and how malinvestment and effective demand are crucial. Since government policy has a central role in macroeconomics, it could also be useful to introduce students to the different economic perspectives on governments with ideas such as discretion, rule-bound policy, the entrepreneurial state and nudging.

The topics *Business Cycles* and *Governments* in the online resource *Pragmatic Pluralism* provide more details.  
[economy.st/cycles](http://economy.st/cycles)



[economy.st/governments](http://economy.st/governments)



Furthermore, it is important to discuss, and let students debate, how these various theories and models can and should be used and applied in practice. How should one choose a model or theoretical approach when trying to tackle a real-world problem? How should one use the theories, what can they tell you about the world and what are their limitations? These matters can be discussed systematically by teaching philosophy of science to students.

For more detail, see *Building Block 7: Research Methods & Philosophy of Science*, *Building Block 8: Economic Theories*.

### Teaching Materials

- *Macroeconomics in Context* by Neva Goodwin, Jonathan M. Harris, Julie A. Nelson, Pratistha Joshi Rajkarnikar, Brian Roach, and Mariano Torras, most recent edition from 2019. A useful textbook that treats much of the traditional content, but pays considerably more attention to questions related to financial crises, social inequality and environmental sustainability.
- *Economics After The Crisis* by Irene van Staveren, from 2015, chapters 6, 7, 10, and 12. This textbook discusses the topics of the state, public goods, macroeconomic flows, and economic growth from the neoclassical, institutional, social and post-Keynesian perspectives.
- *Economics: The User's Guide* by Ha-Joon Chang, from 2014, chapter 6, 10 and 11. This book provides a pluralist and accessible introduction into, among others, different economic approaches, the world of output, unemployment and the state.
- *Introducing a New Economics* by Jack Reardon, Maria A. Madi, and Molly S. Cato, from 2017, chapters 7, 12, 13 and 14. This textbook introduces the topics of unemployment, investment, financial crises, and fiscal and monetary policy, from the post-Keynesian, Austrian, Marxian, and neoclassical perspectives.
- *Real World Macro*, by Dollars & Sense, most recent edition from 2020. This collection of essays explores the empirical reality of many macroeconomic topics, such as unemployment, inequality, inflation, monetary and fiscal policy.
- *Macroeconomics* by William Mitchell, L. Randall Wray, Martin Watts, from 2019, chapters 20, 21, 22 and 23. This ground-breaking and much-discussed textbook written by three leaders of Modern Monetary Theory (MMT), describes in detail the history of economic thinking about the state and macroeconomy as well as recent theoretical and policy debates.
- *Money and Government: The Past and Future of Economics* by Robert Skidelsky, from 2018. This well-written and insightful book introduces readers to historical and current debates about the macro economy,

with particular attention to neoclassical and Keynesian ideas.

- *The Undercover Economist Strikes Back: How to Run or Ruin an Economy* by Tim Harford, from 2013. An accessible and well-written introduction into macroeconomics, discussing various topics from dealing with recessions, unemployment and inflation, striving for (GNP) growth, happiness, sustainability and more equality.

### **Institutions and different ways of organising the economy**

When teaching students macroeconomics, it can be very enriching and informative to discuss the basics of macroeconomic systems with them. So before going into the various theories about how capitalist economies and their markets function, one could discuss what capitalism is, what varieties it has and what other political-economic systems are. Basic knowledge about these matters enables students to put the taught theories better in perspective and context, allowing students to understand the more fundamental implications of the theories. It also helps students to engage in a more knowledgeable way in political discussions about the economy and reforming it.

For more detail, see *Building Block 6: Political-Economic Systems*.

### **Teaching Materials:**

- *Capitalism* by Geoffrey Ingham, from 2008. A highly insightful introduction into capitalism with chapters on key ideas from Smith, Marx, Weber, Schumpeter and Keynes, and core institutions, such as market exchange, the enterprise, money, capital, financial markets and the state.
- *Capitalism: A Very Short Introduction* by James Fulcher, most recent edition from 2015. A brief and yet useful book on capitalism's definition, historical evolution, varieties, global networks, and recurring crises.
- *Comparative economics in a transforming world economy* by J. Barkley Rosser, Jr. and Marina V. Rosser, most recent edition from 2018. A highly useful and broad book describing many varieties of advanced market capitalism, varieties of transition among socialist economies, and alternative paths among developing economies, with chapters on many countries, such as the United States, Russia, Sweden, China, India, Iran, South Africa, Mexico, and Brazil. It is particularly useful for students to learn about their own country. If their country is not included in the book, as is the case for us as Dutch citizens, it can be useful to supplement the book with teaching material on the national political-economic system.

## Societal relevance and normative aspects

When teaching students about the core economic indicators, such as GDP, it can also be helpful to discuss different ideas about how important the various indicators are. Many, if not all, of these indicators are developed because people thought they were important in themselves, or through their impact on other outcomes. Here it can be particularly useful to discuss the most prominent indicator today, GDP, and what its normative relevance is. Furthermore, alternatives to GDP, such as the OECD Better Life Index, Genuine Progress Indicators, and the World Happiness Report, are important. As with indicators, when discussing political-economic systems, it can be useful to also discuss normative views on them. Moral ideas about how the economy should look are at the core of public and political debates. As Robert Heilbroner (1953, p. 14) put it : “A man who thinks that economics is only a matter for professors forgets that this is the science that has sent men to the barricades”. As future economists, students would do well to learn about these normative ideas on economic systems.

For more detail, see *Building Block 1: Introducing the Economy* and *Building Block 10: Economics for a Better World*.

## Teaching Materials

- *Moral Views on Market Society* by Marion Fourcade and Kieran Healy, from 2007. An insightful overview paper on the key different normative perspectives on capitalism, enabling readers to better understand and place ideas and arguments prevalent in many debates about the economy.
- *Macroeconomics in Context* by Neva Goodwin, Jonathan M. Harris, Julie A. Nelson, Pratistha Joshi Rajkarnikar, Brian Roach, and Mariano Torras, most recent edition from 2019, chapters 0, 1, 5, and 6. A useful textbook that treats much of the traditional content, but pays particular attention to questions related to the goals of the economy and the measurement of them.
- *Introducing a New Economics* by Jack Reardon, Molly S. Cato, Maria A. C. Madi, from 2018, chapters 1, 3, 4, & 5. An accessible textbook which introduces students to what economics is, how it is embedded in society and the environment, and major societal challenges, such as climate change, poverty, financial instability, and inequality.
- *Economics: The User’s Guide* by Ha-Joon Chang, from 2014, chapters 1 & 2. Perhaps the most accessible and yet insightful introduction book into economics, with particular attention to why it is relevant to learn economics and what economics is in the first place.
- To help students get an idea of the main societal challenges of today, it can be useful to have them take a look at reports, such as the *Sustainable Development Goals Reports*, *World Development Reports*, and *World*

*Happiness Reports*. It can also be useful to use more engaging types of materials, such as documentaries and coverage of political protests and debates. Furthermore, it can be interesting and useful for students to also be exposed to material on the key issues in the domestic, rather than global, economy.

- *The Value of Everything: Making and Taking in the Global Economy* by Mariana Mazzucato, from 2017. This well-written and influential book takes readers through the history of thinking about economic value up to the present day.

## History

Economic history is a particularly useful tool when teaching macroeconomics. It helps make the content lively and concrete, giving students more feeling for the matters that are discussed. Here the history of capitalism and business cycles seems specifically relevant as these are at the core of macroeconomic courses. Besides economic history, the history of macroeconomic thought can also be interesting and useful to teach to students, as it can help them better understand ideas, how they were developed and relate to other ideas.

For more detail, see *Building Block 3: Economic History* and *Building Block 4: History of Economic Thought & Methods*.

## Teaching Materials

- *A Companion to the History of Economic Thought* by Warren J. Samuels, Jeff E. Biddle, and John B. Davis, from 2003, chapter 26. An extensive and detailed collection of contributions covering many periods and developments in the history of economic thought, as well as covering historiography and different ways of approaching that history.
- *Macroeconomics* by William Mitchell, L. Randall Wray, Martin Watts, from 2019, chapters 3, 27, 28, 29 and 30. This ground-breaking and much-discussed textbook written by three key leaders of Modern Monetary Theory (MMT), describes in detail the history of economic thinking about the state and macroeconomy as well as recent theoretical and policy debates.
- *Money and Government: The Past and Future of Economics* by Robert Skidelsky, from 2018. This well-written and insightful book introduces readers to historical and current debates about the state, with particular attention to neoclassical and Keynesian ideas.
- *Capitalism* by Geoffrey Ingham, from 2008, chapters 1 and 2. A highly insightful introduction into capitalism with chapters on key ideas from Smith, Marx, Weber, Schumpeter and Keynes, and core institutions, such as market exchange, the enterprise, money, capital, financial markets and the state.

- *Capitalism: A Short History* by Jürgen Kocka, from 2016. A concise and yet broad-ranging account of how capitalism developed from early merchants, colonialism and slavery to the recent wave of globalisation and financialisation, accompanied by discussions of capitalism's key thinkers, such as Smith, Marx, Weber, and Schumpeter.
- *Economics: The User's Guide* by Ha-Joon Chang, from 2014, chapters 2 & 3. Two short and well written chapters on how the economy has changed over the last centuries and how capitalism evolved.
- *Global Economic History: A Very Short Introduction* by Robert C. Allen, from 2011. A brief but insightful introduction into the economic history of the world with chapters on industrialisation, the rise of the West, great empires, the Americas and Africa.

### What to take out

To create space for the above suggested additions, we advise to focus more on the key ideas and intuitions behind the taught models and devote less teaching time to their technicalities and mathematics. As teaching students to reproduce and work through mathematical models often takes up a large part of the teaching time, this would give the teachers the opportunity to devote more time to practical knowledge, the relevance, institutions, and history. Furthermore, a more even balance between neoclassical economics and other economic approaches could be achieved by decreasing the number of neoclassical ideas and models that are taught.

For the most up to date version of these course adaptation suggestions, including a wider selection and more up-to-date range of teaching materials, see our website. We welcome comments and contributions. We also offer a platform for discussion and exchange of teaching materials with colleagues worldwide.

[economy.st/adapt/macro](http://economy.st/adapt/macro)



# 3 Public Economics

First, we set out the typical contents of current public economics courses. Second, we provide our suggested additions and changes.

## Typical contents of current courses

Courses on public economics today generally focus on neoclassical (partial or general) equilibrium models with the aim of establishing what would be the ‘optimal’ course of government (in)action. Government intervention is justified on the basis of market imperfections, such as externalities, public goods, imperfect competition and asymmetrical information. But students are also taught to be wary of market distortions and government failures arising from self-interested rational behaviour of politicians, voters, and civil servants. In this way, students often learn to think in terms of trade-offs between equity and efficiency. Recently, behavioural insights on policy design are increasingly incorporated in public economics courses. These theoretical ideas and models are used to treat a broad range of topics from taxation and redistribution to pensions, social policy and public finance.

Frequently used textbooks:

- *Economics of the Public Sector* by Joseph Stiglitz
- *Fundamentals of Public Economics* by Jean-Jacques Laffont
- *Public Economics* by Gareth D. Myles
- *Public Economics: The Macroeconomic Perspective* by Burkhard Heer
- *Public Finance and Public Policy* by Jonathan Gruber
- *Public Finance* by Harvey S. Rosen and Ted Gayer
- *The Economics of Taxation* by Bernard Salanié
- *The Economics of the Welfare State* by Nicholas Barr
- *Intermediate Public Economics* by Gareth D. Myles and Jean Hindriks

## Suggested additions and changes

### Practical skills and real-world knowledge

When teaching students about the economics of the state, it can be informative and motivating to discuss not only economic theories, but also the real world. Rather than just talking about government organisations and policies in the abstract, one could make use of (recent and local) cases and spell out questions and dilemmas that arise from these. Besides learning about the real world through case studies, students can benefit from learning about the specific institutions and government structures that shape the (national) economy.

Students can also benefit from learning about practical policy tools. A key part of the work of professional economists is analysing specific cases and possible policy interventions. To prepare students for this, it is useful to devote time to teach them about practical policy tools. The most famous of these is the traditional cost-benefit analysis, based on neoclassical economics. Recently new policy tools, such as risk-opportunity analysis based on complexity economics and participatory evaluation inspired by the cultural approach, have been developed and these are increasingly applied in practice. To ensure students acquire up to date knowledge and skills we suggest also teaching these younger approaches and exposing students to recent developments in the field.

For more detail, see *Building Block 2: Know Your Own Economy* and *Building Block 9: Problems & Proposals*.

### Teaching Materials

- To introduce the policy tools, reading materials can be of use, but they will probably have the most lasting impact when combined with practical exercises in which students have to apply the tools themselves. For cost-benefit analysis, a useful book is: *Cost-Benefit Analysis: Concepts and Practice* by Anthony E. Boardman, David H. Greenberg, Aidan R. Vining, David L. Weimer, most recent edition from 2018. For participatory evaluation, the following book can be of help: *Participatory Evaluation Up Close: An Integration of Research Based Knowledge* by J. Bradley Cousins and Jill A. Chouinard, from 2012. Risk-opportunity analysis is newer and has yet to be explained in a textbook, but an useful working paper explaining the tool and providing examples of applications is: *Risk-opportunity analysis for transformative policy design and appraisal* by Jean-Francois Mercure, Simon Sharpe, Jorge Vinuales, Matthew Ives, Michael Grubb, Hector Pollitt, Florian Knobloch and Femke Nijse, from 2020.
- *The Oxford Handbook of Public Policy* by Robert E. Goodin, Michael Moran, and Martin Rein, from 2008. An extensive book, which provides a useful overview of different aspects of public policy, such as the role of economic policy tools, engagement of stakeholders, and producing and evaluating policy.
- *Handbook of Policy Formulation* by Michael Howlett and Ishani Mukherjee, from 2017. Another extensive book, which focuses on how policy is made with its different aspects, such as choosing policy goals and instruments, policy appraisal techniques, and the politics of defining and resolving policy problems.

## A range of analytical tools and approaches

There are many different economic perspectives on the state, but in a course one cannot practically treat all these in detail. Current courses focus mainly on neoclassical ideas, increasingly accompanied by some attention on behavioural ideas. We propose to present students with a broader and more balanced overview of economic debates about the state. Neoclassical and (post-) Keynesian ideas are generally most prominent and students should become familiar with their conflicting ideas about the roles of the state. Recently, new ideas on the state coming from evolutionary economics, such as the concepts of the entrepreneurial state and mission economy, are increasingly influential and therefore relevant for students to learn about. If there is more teaching time (made) available, students could also be made familiar, in more and less detail, with the other perspectives on the state, such as the Marxian, behavioural, Austrian, historical, complexity and classical perspectives.

For more detail, see *Building Block 7: Research Methods & Philosophy of Science*, *Building Block 8: Economic Theories*.

The topic *Governments* in the online resource *Pragmatic Pluralism* also provides more details.  
[economy.st/governments](http://economy.st/governments)



## Teaching Materials

- *Economics: The User's Guide* by Ha-Joon Chang, from 2014, chapter 11. This brief and accessible pluralist book contains a useful introductory chapter on the role of the state.
- *Economics After The Crisis* by Irene van Staveren, from 2015, chapter 6. This well-written textbook sets out the neoclassical, post-Keynesian, social economic and institutional perspectives on the state.
- *The Economy* by The CORE Team, from 2017, chapters 14, 15 and 22. This successful textbook provides an introduction into mainstream ideas and empirical findings on fiscal, monetary and public policy.
- *Principles of Economics in Context* by Jonathan Harris, Julie A. Nelson and Neva Goodwin, most recent edition from 2020, chapter 12 and 25. This useful textbook, which pays particular attention to social and environmental challenges, devotes two chapters to tax and fiscal policy in specific.
- *The Entrepreneurial State: Debunking Public vs. Private Sector Myths* by Mariana Mazzucato, from 2013. An influential and well-written book, inspired chiefly by evolutionary economics, on the role of the state in innovation.

- *Alternative Theories of the State* by S. Pressman, from 2006. A useful and informative collection of essays which introduces readers to the institutional, Marxist, post-Keynesian, feminist and behavioural perspectives on the state.
- *Money and Government: The Past and Future of Economics* by Robert Skidelsky, from 2018. This well-written and insightful book introduces readers to historical and current debates about the state, with particular attention to neoclassical and Keynesian ideas.
- *Political Economy: The Contest of Economic Ideas* by Frank Stilwell, most recent edition from 2011. A well-written textbook, with parts devoted to classical, Marxist, neoclassical, institutional, and Keynesian economics and particular attention to ideas surrounding the state, reform, policy and economic systems.

### **Institutions and different ways of organising the economy**

States come in many shapes and forms. Students should become at least somewhat familiar with the wide varieties in (welfare) state arrangements, and more generally political-economic systems. Knowledge of these varieties will help students in their careers to situate and contextualise the problems and cases they have to deal with, in the broader systems that they are part of.

For more detail, see *Building Block 6: Political-Economic Systems*.

### **Teaching Materials**

- *The Three Worlds of Welfare Capitalism* by Gøsta Esping-Andersen, from 1990. This classic describes three types of welfare states, the liberal, conservative and social democratic regimes, by exploring their social policies, pension systems, power relations, and labour markets.
- *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* by Peter A. Hall and David Soskice, from 2001. Another highly influential classic on differences in economic systems, here with a central distinction between liberal and coordinated market economies with respect to industrial relations, social and monetary policy, corporate governance, vocational training and education, and inter-firm relations.
- *Debating Varieties of Capitalism: A Reader* by Bob Hancké, from 2009. An insightful collection of essays provides a good overview of the debates surrounding theoretical and empirical controversies that followed the publication of Hall and Soskice's classic. Besides this reader there are many useful studies and papers on the varieties of capitalism, including of Latin American and Asian varieties. This can be of help as it can be particularly useful for students to read material on the variety of capitalism of their own country.

- *Comparative economics in a transforming world economy* by J. Barkley Rosser, Jr. and Marina V. Rosser, most recent edition from 2018. A highly useful and broad book describing many varieties of advanced market capitalism, varieties of transition among socialist economies, and alternative paths among developing economies, with chapters on many countries, such as the United States, Russia, Sweden, China, India, Iran, South Africa, Mexico, and Brazil. It is particularly useful for students to learn about their own country. If that country is not included, as is the case for us as Dutch citizens, it can be useful to supplement the book with teaching material on the national political-economic system.
- *Understanding and Managing Public Organizations* by Hal G. Rainey, most recent edition from 2014. A useful textbook discussing how to understand the dynamic context in which government organisations operate and strategies and dimensions relevant for managing them.

### **Societal relevance and normative aspects**

Government (in)action is the central matter of debate in politics. For any economists working on the matter, it thus is critical to be familiar with the various normative perspectives on public policy. These concern both normative principles for decision-making and normative visions for the economy as discussed in *Building Block 10: Economics for a Better World*. Courses often already discuss utilitarian principles and assumptions, but could be further enriched by also discussing other normative principles and approaches.

Besides learning about these more general principles and visions, it can be useful to discuss recent debates about key policy issues. This can be done by juxtaposing the different problem analyses and proposed solutions related to the issue at hand. This can help make normative differences more concrete as well as bringing together normative, analytical and practical aspects.

For more detail, see *Building Block 10: Economics for a Better World*.

### **Teaching Materials**

- *Economic Analysis, Moral Philosophy, and Public Policy* by Daniel Hausman, Michael McPherson, and Debra Satz, most recent edition from 2016. A great introduction into normative economics, covering its many areas and topics from welfare economics and utility theory to liberty, equality and justice.
- *A Guide to Ethics and Public Policy: Finding Our Way* by D. Don Welch, from 2014. A brief but insightful book providing a broad framework for evaluating policy proposals and outcomes, organised around five moral principles: benefit, effectiveness, fairness, fidelity, and legitimacy.

- *The Routledge Handbook of Ethics and Public Policy* by Annabelle Lever and Andrei Poama, from 2019. This useful collection of essays treats many different aspects of the ethics of public policy, from monetary, tax and trade policies to the minimum wage, anti-discrimination and social policies.
- *The Oxford Handbook of Professional Economic Ethics* by George F. DeMartino and Deirdre McCloskey, from 2016, chapters 25-33. This insightful collection of essays explores the different aspects of ethics in economics, with one part devoted to ethical issues related to economic policy advice and analysis.

## History

The history of the state, from an economic point of view, is a fascinating topic that could enrich public economics courses. The role of the state in the economy has drastically changed over time, so learning about these historical developments can help students imagine a broader range of possibilities as well as understand the current situation and its unique characteristics better. The state has also played a central role in economic thinking, particularly in macroeconomics. Besides teaching about the history of the state itself, it could thus also be useful to treat the history of ideas about the government.

For more detail, see *Building Block 3: Economic History* and *Building Block 4: History of Economic Thought & Methods*.

## Teaching Materials

- *A Companion to the History of Economic Thought* by Warren J. Samuels, Jeff E. Biddle, and John B. Davis, from 2003, chapter 27. An extensive and detailed collection of contributions covering many periods and developments in the history of economic thought, with a chapter specifically devoted to the history of economic thought about governments.
- *Money and Government: The Past and Future of Economics* by Robert Skidelsky, from 2018. This well-written and insightful book introduces readers to historical and current debates about the state and macroeconomy, with particular attention to neoclassical and Keynesian ideas.
- *Austerity: The History of a Dangerous Idea* by Mark Blyth, from 2013. This influential and well-written book traces the intellectual history of the ideas of austerity and expansionary fiscal contraction, connecting it to wider developments in economic thinking and reality.
- *States versus Markets: The emergence of a global economy* by Herman Schwartz, most recent edition from 2010. This book explores the history of the global economy, with particular attention to the role of markets and the state.

### **What to take out**

To create space for the above suggested additions, we advise focussing more on the key ideas and intuitions behind the taught models and devote less teaching time to their technicalities and mathematics. As teaching students to reproduce and work through mathematical models often takes up a large part of the teaching time, this would give the teachers the opportunity to devote more time to practical knowledge, the relevance, institutions, and history. Furthermore, a more even balance between neoclassical economics and other economic approaches could be achieved by decreasing the number of neoclassical ideas and models that are taught.

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[economy.st/adapt/public](http://economy.st/adapt/public)



## 4 Finance

First, we set out the typical contents of current finance courses. Second, we provide our suggested additions and changes.

### Typical contents of current courses

Over the last decades, financial markets have grown exponentially and their complexity has also increased drastically. Finance courses try to help students make sense of this imposing world by explaining different kinds of financial products and markets. Moreover, courses teach neoclassical theories of how the financial world can be understood as being in efficient equilibria brought about by rational optimising behaviour. Typically, courses start from a highly simplified world in which everything is certain, markets are 'perfect' and all available information is incorporated in prices. Then (calculable) risk and market imperfections are introduced to account for the complex reality of our world. Building on these ideas, a number of neoclassical models such as the capital asset pricing model (CAPM), arbitrage pricing theory, the Black-Scholes model, and intertemporal equilibrium models, are taught. And with the help of these models, financial products such as derivatives, fixed-income securities, and options, are discussed. Recently some courses are also integrating insights from behavioural and complexity economics, which focus on irrational and unpredictable behaviour.

Frequently used textbooks:

- *Asset Pricing* by John H. Cochrane
- *Financial Economics* by Frank Fabozzi, Ted Neave and Gaofu Zhou
- *Money and Banking* by Robert E. Wright and Vincenzo Quadrini
- *Money, Banking and Financial Markets* by Stephen Cecchetti and Kermit Schoenholtz
- *Money, Banking, and the Financial System* by Glenn Hubbard and Anthony Patrick O'Brien
- *Principles of Financial Economics* by Stephen F. LeRoy, Jan Werner and Stephen A. Ross
- *Quantitative Financial Economics: Stocks, Bonds and Foreign Exchange* by Keith Cuthbertson and Dirk Nitzsche
- *The Econometrics of Financial Markets* by John Y. Campbell
- *The Economics of Financial Markets* by Hendrik S. Houthakker and Peter J. Williamson
- *The Economics of Financial Markets* by Roy Bailey
- *The Economics of Money, Banking & Financial Markets* by Glenn Hubbard and Anthony P. O'Brien

## Suggested additions and changes

### Practical skills and real-world knowledge

It is important that students get to know the actual financial world, not only theoretical ones, for four reasons. First, it motivates students because it makes the often abstract material come alive. By visiting a financial institution, or market, it is no longer just numbers and equations, but also actual people of flesh and blood. Second, it can help students better understand the theory. This is often how the real world is currently incorporated in courses. With the help of examples, the theory is demonstrated to help students grasp what is meant by abstract statements. Third, exposing students to the real world helps them better understand it. This sounds almost tautological, but it is important to note as understanding the real world is too often underappreciated as a goal in itself. By giving students assignments, case studies and lectures that focus on explaining the complex and messy real world, rather than a theory about it, they will learn how theories can help them but also what their limitations are. Finally, making students familiar with the workings and details of actual financial institutions and markets is crucial as it helps them acquire practical skills and knowledge that they will need in their future work. Many of these skills and knowledge will be of little theoretical significance, but nevertheless vital for students' later functioning in an organisation.

For more detail, see *Building Block 2: Know Your Own Economy* and *Building Block 9: Problems & Proposals*.

### A range of analytical tools and approaches

Current finance courses could be enriched by incorporating post-Keynesian insights into fundamental, or Knightian, uncertainty, credit dynamics, and animal spirits. We applaud the recent incorporation of behavioural and complexity insights, often related to systematic irrationality and systemic risk, in some finance courses, and encourage teachers to do so even more. To broaden the scope further, cultural insights, among other things into how analytical constructs, such as economic models, can shape real world markets, can be incorporated.

For more detail, see *Building Block 7: Research Methods & Philosophy of Science*, *Building Block 8: Economic Theories*.

The topic *Finance* in the online resource *Pragmatic Pluralism* also provides more details.  
[economy.st/finance](http://economy.st/finance)



## Teaching Materials

- *Economics After The Crisis* by Irene van Staveren, from 2015, chapter 9. This useful and pluralist textbook discusses financial markets from the neoclassical, institutional, social and post-Keynesian perspectives.
- *Economics: The User's Guide* by Ha-Joon Chang, from 2014, chapter 8. This book provides a pluralist and accessible introduction, with one chapter specifically devoted to finance.
- *Introducing a New Economics* by Jack Reardon, Maria A. Madi, and Molly S. Cato, from 2017, chapters 13, 14 and 17. This textbook introduces the topic of finance in a pluralist and real-world manner.
- *The Economy* by The CORE Team, from 2017, chapters 10 and 17. This textbook introduces students to money, banks and financial crises by explaining recent mainstream insights and empirical findings.
- *Principles of Economics in Context* by Jonathan Harris, Julie A. Nelson and Neva Goodwin, most recent edition from 2020, chapter 26. This textbook, which pays particular attention to social and environmental challenges, devotes one chapter specifically to money and finance.
- *Macroeconomics* by William Mitchell, L. Randall Wray, Martin Watts, from 2019, chapter 10. This textbook written by three leaders of Modern Monetary Theory (MMT) has one chapter specifically devoted to money and banking.
- *The Handbook of Economic Sociology* by Neil J. Smelser and Richard Swedberg, from 2005, chapters 22, 23 and 24. This extensive and yet accessible book for non-sociologists, provides an impressive and useful overview of the field of economic sociology, including a chapter on finance.
- *The anthropology of money* by Bill Maurer, from 2006. An insightful review article discussing money and finance from a cultural, social and performative perspective.
- *"No one saw this coming": Understanding Financial Crisis Through Accounting Models* by Dirk Bezemer, from 2009. A useful article discussing how equilibrium models were not able to anticipate the credit crisis, while accounting models were.
- *An Engine, Not a Camera: How Financial Models Shape Markets* by Donald MacKenzie, from 2006. A book on the performative perspective on finance, looking at how economists' analytical tools can influence how financial markets work.
- *Behavioral Finance: Psychology, Decision-Making, and Markets* by Lucy Ackert and Richard Deaves, from 2010. A book on the behavioural perspective on finance, looking at how cognitive limitations and irrationalities shape how financial markets work.
- *The Routledge International Handbook of Financialization* by Philip Mader, Daniel Mertens, and Natascha van der Zwan, from 2020. A useful and extensive collection of essays on different aspects and perspectives on financialisation, a key development of the last decades.

## Institutions and different ways of organising the economy

Financial systems are complex human constructions that know many varieties. To function well in this environment in their later careers, students need to become familiar with the various ways in which financial systems can be organised. This ranges from different micro-level practices and rules inside banks and specific markets, to macro-level structures that determine what characteristics and dynamics shape the system as a whole. Given the limited teaching time, it can be useful to focus on giving a brief overview of the wide variety of possibilities that have existed around the world throughout history, or have been proposed, and then going in more detail into the current domestic institutional framework.

For more detail, see *Building Block 5: Economic Organisations & Mechanisms* and *Building Block 6: Political-Economic Systems*.

The topics *Finance* and *Money* in the online resource *Pragmatic Pluralism* provide more details.

[economy.st/finance](http://economy.st/finance)

[economy.st/money](http://economy.st/money)



### Teaching Materials

- *Modern Financial Systems: Theory and Applications* by Edwin H. Neave, from 2011. This textbook explores how financial systems can be structured, with market and non-market governance forms, different kinds of market activities and relations, intermediation by banks and regulation.
- *Comparing Financial Systems* by Franklin Allen, Douglas Gale, and Julius Silver, from 2001. This textbook compares the financial systems of different countries and discusses the different options in terms of corporate governance and banking structure.
- *The Financial System, Financial Regulation and Central Bank Policy* by Thomas F. Cargill, from 2017. A book on how the financial system is structured and has emerged, discussing historical and current ideas and real-world developments.
- *Principles of Sustainable Finance* by Dirk Schoenmaker and Willem Schramade, from 2018. An accessible and well-structured textbook explaining to students how finance can become sustainable, paying attention to integrated reporting, long-term value creation, internalizing externalities, and approaching equity, bonds, banking and

insurance differently.

- *Between Debt and the Devil: Money, Credit, and Fixing Global Finance* by Adair Turner, from 2015. A book on the current financial problems and innovative ideas to solve them coming from an influential ‘insider’.
- *The End of Alchemy: Money, Banking and the Future of the Global Economy* by Mervyn King, from 2016. Another book by an ‘insider’ which connects personal insights with an accessible description of how our thinking has developed over time, and how the financial system does and should work.

### **Societal relevance and normative aspects**

A finance course without attention to ethics is incomplete. However, we should not stick to a narrow conception of ethics in finance, discussing illegal trading practices or other obvious forms of deceit. Ethical questions concern the core of finance itself and how financial systems are organised. What is the goal of finance, or what should it be? This is a key normative question for students to discuss. Why does finance exist, in the first place? And how is the financial system connected to the rest of the economy and our broader society?

Current courses are often (implicitly) based on the idea that the main goal in finance is to make the highest financial returns possible, and therefore focus mainly on teaching how to put an ‘optimal’ portfolio together. This normative premise should be discussed and this is a good opportunity to let students themselves debate, in written or oral form. What are the implications of this focus on maximising profits for other societal concerns?

What would need to change if these other normative goals were given more priority? Environmental, Social, and (corporate) Governance (ESG) is increasingly important in actual financial markets, so to provide future-proof education it is important that students become familiar with these and how to deal with them. Rather than only asking how one can earn the highest returns, one can ask how financial professionals can best serve society and provide students with the tools to do so.

For more detail, see *Building Block 1: Introducing the Economy* and *Building Block 10: Economics for a Better World*.

### **Teaching Materials**

- *Ethics and Finance* by John Hendry, from 2013. A useful introduction into the many (a)moral aspects of finance, such as the ethics of lending and borrowing, trading, speculation, financial products, and regulation.
- *The Oxford Handbook of Ethics and Economics* by Mark D. White, from

2019, chapter 17. This highly useful and extensive collection of essays explores the many moral dimensions of economics, with one chapter devoted to the ethics of finance and money.

- *The Oxford Handbook of Professional Economic Ethics* by George F. DeMartino and Deirdre McCloskey, from 2016, chapters 14 & 15. This insightful collection of essays explores the different aspects of ethics in economics, with two chapters devoted to economists' (non)ethical behaviour in the build-up to the global financial crisis of 2007-2008 and the lessons we can learn from it.

## History

Good history lessons are a uniquely strong tool to present the complex reality through captivating stories. Historical knowledge of finance also allows students to place current events in context and better grasp their significance and origins. This does not have to be the deep past: the history of recent financial developments can be just as informative and useful.

Besides the history of financial markets themselves, the history of ideas about finance is also fascinating. The intellectual history of finance is largely characterised by two main long-standing strands of thinking. The first strand, deductive in nature, is often referred to as equilibrium models. It originates from the physiocrats in the 18th century and is a central part of modern-day neoclassical economics. The second, more inductive approach, is known as accounting or stock-flow consistent models. This strand of thought was born in the ideas of Jean-Baptiste Say and can today be found in modern-day post-Keynesian economists. This history can help students better understand the different theoretical ideas and models about how finance works.

For more detail, see *Building Block 3: Economic History* and *Building Block 4: History of Economic Thought & Methods*.

## Teaching Materials

- *A Concise History of International Finance: From Babylon to Bernanke* by Larry Neal, from 2015. A detailed history of how finance has evolved over time, with particular attention to financial innovations, crises, government regulation, and international dynamics.
- *Money and Government: The Past and Future of Economics* by Robert Skidelsky, from 2018. This well-written and insightful book introduces readers to historical and current debates about money, with particular attention to neoclassical and Keynesian ideas.
- *The Oxford Handbook of Banking and Financial History* by Youssef Cassis, Catherine R. Schenk, and Richard S. Grossman, from 2016. An impressive collection of essays on the history of finance, with its many

different aspects, from banking types and varieties of financial markets, to financial crises and the role of the state.

- *The Ascent of Money: A Financial History of the World* by Niall Ferguson, from 2008. A well-written and accessible book on the fascinating history of money and finance. There is also an accompanying documentary by the same name, as there are many other informative documentaries and movies on finance and the global financial crisis of 2007-2008 in specific, such as *Inside Job*, *The Warning*, *Boom Bust Boom*, *Margin Call*, *The Big Short*, and *Money, Power and Wall Street*.
- *Crashed: How a decade of financial crises changed the world* by Adam Tooze, from 2018. A detailed and well-written account of the global financial crisis of 2007-2008 and the decade that followed it, with accessible explanations of the technical workings of finance and theories about it as well as sharp descriptions of the role of politics and close up personal accounts of individuals making decisions.
- *Manias, Panics, and Crashes: A History of Financial Crises* by Charles P. Kindleberger, most recent edition from 2015. A classic in the genre, describing in a highly accessible and even entertaining way the complex history of financial crises.
- *Boom and Bust: A Global History of Financial Bubbles*, by William Quinn and John D. Turner. A more recent book devoted to the fascinating history of financial crises, with specific chapters devoted to questions related to predicting bubbles and more recent developments in China and Japan.

### What to take out

To create space for the above suggested additions, we advise focussing more on the key ideas and intuitions behind the taught models and devote less teaching time to their technicalities and mathematics. As teaching students to reproduce and work through mathematical models often takes up a large part of the teaching time, this would give the teachers the opportunity to devote more time to practical knowledge, the relevance, institutions, and history. Furthermore, a more even balance between neoclassical economics and other economic approaches could be achieved by decreasing the number of neoclassical ideas and models that are taught.

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