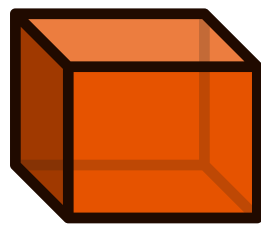


# Economy Studies for Behavioural Economics

**New Ideas & Materials for Educators & Students**



**Economy  
Studies**

Sam de Muijnck & Joris Tieleman

Rethinking  
Economics

  
OUR NEW ECONOMY



Amsterdam  
University  
Press

## The book Economy Studies

This booklet is part of a series based on Economy Studies, a project for re-envisioning and redesigning economics courses and programs. The project emerged from the worldwide movement to modernise economics education, spurred on by the global financial crisis of 2008, the climate crisis, and the COVID-19 pandemic. It envisions a wide variety of economics graduates and specialists, equipped with a broad toolkit, enabling them to collectively understand and help tackle the issues the world faces today.

This is a practical guide for (re-)designing economics courses and programs. Based on a clear conceptual framework and ten flexible building blocks, this handbook offers refreshing ideas and practical suggestions to stimulate student engagement and critical thinking across a wide range of courses.

### Key features

- 1 Adapting Existing Courses: Plug-and-play suggestions to improve existing economics courses with attention to institutions, history, values and practical skills.
- 2 Teaching materials: A guide through the rapidly growing range of innovative textbooks and other teaching materials.
- 3 Example Courses and Curricula: How to design pluralist, real-world economics education within the practical limits of time and resources.

## What others say about Economy Studies

*“A tremendous resource for both teachers and students of economics.”*

Prof. **Wendy Carlin** (UCL), director of the CORE Economics Education Project

*“Based on a thorough analysis, the authors argue for a radical rethink of how economics is taught. Whether you agree or disagree with some of the specific suggestions, this book is definitely worth reading.”*

**Claudio Borio**, Head of Monetary and Economic Department at the BIS.

*“This book is a tour de force. The mastery of the subject that the authors and their team display is astonishing. It was a source of inspiration for the development of the new program at the Vrije Universiteit of Amsterdam.”*

Prof. **Arjo Klamer** (EUR & VU)

## Why this booklet

In this booklet, we provide suggestions, content and teaching material for how to modernise and enrich behavioural economics courses. In doing so we hope to assist educators in improving and adapting the courses they teach, as well as helping students make suggestions for how this could be done. 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.

Other booklets in this series available via [www.economystudies.com](http://www.economystudies.com):

- 1 Economy Studies for Students
- 2 Economy Studies for Program Directors and Deans
- 3 Economy Studies for Secondary Education
- 4 Economy Studies for Business Schools
- 5 Economy Studies for Public Administration & Law Programs
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- 15 Economy Studies for Finance
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Cover and interior design: Matterhorn Amsterdam

Publisher: Amsterdam University Press

Authors: Sam de Muijnck and Joris Tieleman, Our New Economy, Amsterdam 2021

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## Reading Guide

To get an overview of the Economy Studies project as a whole, start with the Summary.

For concrete suggestions on topics and material to enrich your own course, go directly to Adapting Behavioural Economics Courses.

For a brief explanation of key economic approaches and subdisciplines, see the Background Material chapters.

For ideas and materials on teaching students about normative principles and visions, take a look at the Building Block chapters.

To see what you can do to help modernize economics education at your own university, see the Conclusion.

# Summary

*“I don’t care who writes a nation’s laws, if I can write its economics textbooks.”*

**Paul Samuelson**

## 1 Rethinking Economics Education

Humanity is wealthier, more connected and more technologically advanced than ever. Access to healthcare is rapidly expanding and poverty levels keep dropping in most parts of the world. At the same time, societies around the globe are facing a multitude of challenges. To name a few: climate change, biodiversity loss and resource depletion, growing inequalities and power concentrations, economic instability and soaring levels of private and public debt, ageing and migration, social polarisation and rising authoritarian nationalist populism. And, back on the table since 2020: pandemics.

Tackling such challenges requires a deep comprehension of the economy, which the current system of economics education does not sufficiently provide. Economists need a real-world understanding of how various industries work, how they are intertwined with each other, how economic power works, what roles states play and how these are embedded in our society at large. It also requires open minds which can look at issues from a variety of perspectives. A single theoretical framework cannot provide the answers to every question. A range of approaches which prioritise different methodologies, assumptions, units of analysis and outcomes, is necessary for gaining a good understanding of the economy and its issues. Economists need to be able to think critically, select the tools which are most relevant for the context and problem at hand, and understand the limitations and uncertainties of the conclusions that they draw from them. Finally, it requires an awareness and an explicit discussion of the moral dilemmas and normative trade-offs involved in economic decisions. In short, economists have a lot on their plate.

Economists also have a lot of influence, for good and for bad. Firstly, as key policy experts and advisors, economists largely run many of the most powerful public-sector organisations in the world: central banks, ministries of finance, social and economic affairs, the IMF and the World Bank. In the private sector, economists co-direct the behaviour of banks and other large companies. Secondly, the economic ideas that float around most prominently in our society exert an influence far beyond the formal advisory reports of professional economists, guiding decision-making of citizens everywhere. Economic thinking influences even those who do not become economists, as economists have a central role in the public debate and many citizens are taught basic economics in secondary or tertiary education.

The growing societal importance of economists and economic ideas has sparked a lively debate around the content and structure of economics education. A worldwide movement of students and academics calls for more pluralist, real-world focused and socially relevant programmes that would enable economics graduates to better understand and tackle the economic issues that the world faces today. This movement has accelerated over the last decade, spurred on by the global financial crisis of 2008, the climate crisis and the COVID-19 pandemic.

Under names such as Rethinking Economics, Netzwerk für Plurale Ökonomik, Institute for New Economic Thinking (INET), International Student Initiative for Pluralist Economics (ISIPE), International Confederation of Associations for Pluralism in Economics (ICAPE), Diversifying and Decolonising Economics, Economists for Future, Reteaching Economics, and Oikos International, these groups come together for dissent, discussion, self-education, action, campaigning, disseminating ideas and engaging with wider audiences.

Research by these groups indicates that many current programmes are not sufficient to prepare students for their future roles in society. They are often organised around the notion of ‘thinking like an economist’: training students to think exclusively from the neoclassical perspective and having skills in econometrics, while neglecting other valuable theoretical approaches and research methods. Furthermore, these analytical tools are taught in an overly abstract way and are presented as being value-free.

These groups and others have also produced a growing amount of innovative teaching material, beyond how economics programmes are traditionally structured. From online educational resources such as the open access CORE project and the bottom-up e-learning platform Exploring Economics, to multiple new pluralist and real-world focused textbooks. Many departments have introduced a wealth of new courses, or even started entirely new programmes.

## 2 This Book: Purpose and Overview

What has been missing so far in this field is an integral approach for constructing economics curricula and courses. This book aims to fill that gap. We bundle the ideas and materials of renewal and reform into a coherent multi-level vision for economics education: its overarching structure, its goals and its principles. We also provide the concrete building blocks for this in terms of academic content, including detailed overviews of teaching materials and practical suggestions. Finally, we translate these to the level of actual programmes and courses, providing a wide range of practical tools for implementation.

This entire book carries a CC-BY Creative Commons licence, which means that any part of the book may be freely copied, redistributed, remixed, transformed or built upon, without restrictions. As such, our proposal for a new integral approach to economics education can also be adopted and used partially, rather than being accepted as a whole. Each idea and suggestion can be judged and incorporated independently. You can totally disagree with principle 1 yet support principle 3. Or you might find little value in building block 5 and yet fall in love with building block 9. That’s the idea: it’s modular. Thus, the book as a whole can be used as a source of inspiration and overview of options for improving and renewing economics education.

### Part I: Foundations

The first part of the book, Foundations, sets out our philosophy and the three guiding principles that should underpin any economist’s education. In contrast to the currently common approach of teaching students to ‘think like an economist’, the Economy Studies approach is this: We envision an education where economics is not centred on a specific method of analysis or thought, but rather centred on a study matter, the economy. Economies can broadly be described as open systems of resource extraction, production, distribution, consumption and waste disposal through which societies provision themselves to sustain life and enhance its quality.

Based on this philosophy, we formulate three principles: Pluralism, Real-World and Values.

First, a discipline centred around a single subject matter requires a plurality of theoretical frameworks: one

single set of basic assumptions is not enough to understand such a multifaceted subject matter. Here it is important that students learn which ideas are compatible with each other and which are in conflict with each other. Some of these theories fall within the current economic mainstream, others exist on its fringes, and yet others are currently at home in other disciplines. It also implies a plurality of research methods, from basic statistics and regression analysis to interviews, network analysis and survey analysis. Such pluralism means that there is no single dominant framework, which might be more difficult for those receiving economic advice, but is ultimately beneficial for the quality of analysis and the resulting decisions.

Second, the notion of a programme centred on the subject matter of the economy implies a continuous and conscious orientation towards the economy as it exists in the real world. Students benefit from studying practical questions and gaining concrete knowledge, not just abstract analytical tools. For instance: How is the German car industry structured? What hurdles does the global energy transition face? What happens at a central bank? The Real-World principle ranges from studies of economic sectors and key institutions in the local or (inter-)national economy, to the histories of economies and case studies of specific economic challenges.

Third, we draw attention to the wide variety of normative principles and visions that can guide economic decisions and action, and which are often subtly embedded in economic theories. There is little sense in trying to 'solve economics problems' without considering what things exactly are worthwhile or problematic, and what values are at stake. Profits, sustainability, power, equal chances, equal outcomes, job creation, labour conditions, ownership, accountability, GDP growth, wellbeing – what should we focus on?

Economics has historically been, and is still, dominated by upper- and middle-class white men based in the Global North. This has consequences for each of the three principles. In terms of Real-World, it is important to pay attention to the lived economic realities of working-class citizens, women, minorities, and those living in the Global South. For Pluralism, we need to incorporate often ignored but valuable ideas and contributions of lower class, female, and non-western scholars. For Values, it is key to realise that people from different backgrounds have different priorities and values, and work to ensure that these are reflected in the questions we focus on and the theories and methods we use. In sum, we need to diversify and decolonise economics education.

The Foundations part ends with a chapter on didactics. Improving economics education is not simply a matter of changing what is taught, but also how it is taught. Various surveys among employers of economists show that more attention for communication and collaboration skills is needed. There are also worrying indications that economics classes often fail to facilitate open, critical, but also respectful, discussions. Finally, to make economics education more lively, interesting for students and connected to the real world, a greater variety of teaching and examination methods could be used. On all these fronts we provide practical suggestions.

The second part of the book is devoted to the Building Blocks. Where the Foundations part discusses the purpose and principles of economics education in general, the building blocks are more applied: ten thematic areas of knowledge and skills, which form the meat and bones of the Economy Studies course design method. Each of the ten building blocks covers an area of knowledge and set of skills that we see as essential for the education of future economists.

## Part II: Building Blocks

The second part of the book is devoted to the *Building Blocks*. Where the *Foundations* part discusses the purpose and principles of economics education in general, the building blocks are more applied: ten thematic areas of

knowledge and skills, which form the meat and bones of the Economy Studies course design method. Each of the ten building blocks covers an area of knowledge and set of skills that we see as essential for the education of future economists.

We start out with two building blocks that focus on acquiring basic economic knowledge, one conceptual and one focused on the real world. Introducing the Economy is about getting a feeling for economic matters, discussing what the economy is in the first place, why it is relevant, how it is related to other aspects of the social and natural world, and what societal roles economists have. Know Your Own Economy, on the other hand, has a more concrete focus as it is about knowledge of the actual (national and local) economy and its structures, institutions, and sectors.

The third and fourth building blocks deal with history: History of the Economy and History of Economic Thought & Methods. The fifth and sixth building blocks are more conceptually oriented, dealing with how economies can and have been organised, at micro and meso levels – Economic Organisations & Mechanisms – and at the macro level – Political-Economic Systems.

The seventh and eighth building blocks provide a broad and diverse analytic toolkit: Research Methods & Philosophy of Science and Economic Theories. These two, especially the latter, are relatively large. In most programmes, they will require more space than the other building blocks. Finally, building blocks nine and ten deal with practically contributing as an economist: Problems & Proposals is about analysing concrete economic challenges and formulating or evaluating proposed policies and actions, and Economics for a Better World asks how normative principles and visions can guide action to address the major challenges of our times, and helps students to be reflective of their own role as an economist

These building blocks can be used as templates to create stand-alone courses or modules, or they can be combined in courses. They can be re-ordered, combined or integrated in many ways to suit the specific needs of each programme. For instance, Building Block 3: Economic History could be taught as a stand-alone subject, or integrated with the fourth building block into a course History of Economic Thought and Reality, or integrated as a minor component in an existing Labour Economics course. In our ideal world, these building blocks would be combined to form a wide range of economics programmes. Different contexts and challenges require differently trained economists.

### **Part III: Tools**

The third part of the book, titled Tools, provides material that is directly actionable. It starts with Pragmatic Pluralism, a suggested format (including references) for teaching theory in a pluralist manner without drowning students in the enormous diversity of ideas out there. We list thirteen core economic topics and set out for each topic the two main opposing perspectives, a key complementary perspective and additional insights coming from other approaches.

Often there is no space in programmes for completely new courses but there is room for adjustment in some existing courses. In *Adapting Existing Courses*, we offer ready-to-use sets of suggestions and material to do so, for courses like Micro, Macro, Public Economics and Finance. The Curriculum Review Tool offers a clear starting point for applying our building blocks to an existing programme. This tool helps identify possible blind spots of a programme and suggests ways to strengthen it. The Example Courses that follow illustrate how the building blocks can be used to create completely new courses. The next chapter maps out several complete Example Curricula, demonstrating how the building blocks might be combined to form a complete bachelor or master programme in Economics.



While this book is primarily oriented towards full economics programmes in academic education, in the chapter Courses for Non-Economists we suggest limited packages of core economic ideas that may be useful for business schools, secondary school economics programmes, in an academic minor or for self-study. Finally, Learning Objectives offers tools for designing the learning objectives behind economics courses, starting not from the question ‘what does the teacher know best?’ but from ‘what do the students need to know, to be prepared for their future societal roles?’.

## Part IV: Online Materials

Economy Studies is more than a book. On the website, we offer an extended version of the Pragmatic Pluralism chapter, a broader range of Adapting Existing Courses topics, additional Example Courses and Example Curricula. We also provide background material on each of the Economic Approaches described in this book, as well as neighbouring sub-disciplines such as economic sociology and economic geography. In addition, we provide a more complete overview and discussion of research methods, coordination and allocation mechanisms, and the history of economic thought and methods. Finally, we offer much more extensive lists of teaching materials for each of the building blocks.

Online, we also work together with the INET Education Program, at the Institute for New Economic Thinking. This platform will host free educational resources online, accessible to students, teachers and the general public. This includes video lecture series, syllabi, teaching modules, lecture notes, readings, sample quizzes and exams. The platform will also serve as a center to build up an online community of teachers and learners, working together to improve the way economics is taught and learned. Each of the chapters in this book has a discussion page on that platform.

What kind of graduates would a program based on these ideas and materials produce? It is important to acknowledge that they would not have all the skills that current-day graduates have. Less mathematical sophistication, less expertise in econometric analysis, less knowledge of neoclassical theory. In exchange for these losses, students gain: A deeper understanding and more concrete knowledge of the economy in which they live and will work. An awareness and understanding of the various ways in which economic processes can be organised at the micro, meso and macro levels. Practical skills for investigating and tackling questions of economic policy: understanding the context, choosing the right tools, from a variety of theoretical and methodological approaches. And the ability to argue morally as well as analytically, and to clearly distinguish the two.

With this *creative commons* work, we hope to inspire economists and all students of the economy to rethink how we learn economics. The economic challenges we face as societies are enormous, so we desperately need well-prepared economic experts and a citizenry able to participate in economic discussions. Economics education has the vital task of preparing these people as best as possible.

This booklet provides a preview of the *Economy Studies* project. The full book also includes the complete set of building blocks, additional teaching materials, a curriculum review tool, example courses and curricula and suggestions for learning objectives. If you are interested to learn more, visit our website and buy or download the whole book, open access, or contact us.

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

# Adapting Behavioural Economics Courses

## General Approach to Adapting Existing Courses

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.

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

## Typical contents of current courses

Behavioral economics is increasingly incorporated into mainstream economic research and teaching. In this way, more and more economics programs include courses on behavioral economics. These courses often focus on how experiments have shown how human behavior deviates from neoclassical theories with its hyper rational agents. This approach to behavioral economics, sometimes referred to as new behavioral economics, conceptualizes behavior as being boundedly rational, because people make use of heuristics and have biases. Often methodological knowledge and skills related to experiments are also taught in behavioral economics courses. As mentioned above, there is often considerable overlap between behavioral economics and game theory courses, but for the sake of clarity here we only provide suggestions for the behavioral material, while we covered game theory material above.

Frequently used textbooks::

- The Foundations of Behavioral Economic Analysis by Sanjit Dhami
- An Introduction to Behavioral Economics by Nick Wilkinson and Matthias Klaes
- Behavioral Economics by Edward Cartwright
- Behavioral Game Theory: Experiments in Strategic Interaction by Colin Camerer

## Suggested additions and changes

### Practical skills and real-world knowledge

Behavioral economics courses often already include discussions of its practical applications. We encourage teachers to continue doing this and enrich the courses further by bringing the students even closer to the real world. This can, for example, be done by letting a policy economist from a government behavioral insights team, or a marketing employee of a company, give a guest lecture about how behavioral insights can be applied in practice. Another possibility is to give students assignments in which they analyse a real world case,

perhaps even for an external (public, private or civic) organization. These could be extensive projects in which students develop detailed analyses and proposals for behavioral interventions. But it could also be a very brief exercise to let them analyse the local supermarket and how it tries to nudge customers into buying more (of certain products).

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

### Teaching Materials

- The Behavioral Economics Guide 2020 – New Challenges for Behavioral Economics by Alain Samson, from 2020. This informative collection of essays, accompanied with useful resources, provides an overview and introduction into new challenges and applications of behavioral economics, from the COVID-19 pandemic and the climate crisis to online behavioral experiments and the sharing economy.

## A range of analytical tools and approaches

Behavioral economics focuses on human economic decision making and builds on psychological insights about limited human cognitive capabilities, heuristics, and biases. Like game theory courses, behavioral economics courses can be enriched by devoting (more) teaching time to social aspects of human behavior and decision making. This can be done by including material from approaches that focus on this, such as institutional, social network, field and cultural economics. But this can also be done by bringing in guest lectures from (economic) sociology or anthropology, as these disciplines are specifically focused on the social aspects of human and economic life. As is currently already often done, we encourage teachers to run (online) experiments and surveys in class to let students more directly experience the discussed issues.

For more details, see the background materials Interdisciplinary Economics and Economic Approaches.

### Teaching Materials

- Advanced Introduction to Behavioral Economics by John F. Tiner, from 2017. An impressive introduction into behavioral economics, with attention to its different strands and relation to psychology as well as its applications to finance, public policy, law, and macroeconomics.
- Behavioral Economics and Its Applications by Peter Diamond and Hannu Vartiainen, from 2007. An insightful collection of essays on the applications of behavioral economics, with chapters on public policy, development, wage rigidity, and healthcare.
- The Behavioral Economics Guide 2017 – Expanding Boundaries by Alain Samson, from 2017. This informative collection of essays, accompanied with useful resources, explains to students how behavioral economics is developing and provides examples through chapters on, among other things, nudging in developing countries, brand loyalty, and choice architecture in retail finance.
- The handbook of economic sociology by Neil J. Smelser & Richard Swedberg, most recent edition from 2010.
- Principles of Economic Sociology by Richard Swedberg, from 2003.
- Economic Anthropology: History, Ethnography, Critique by Chris Hann and Keith Hart, from 2011.
- A handbook of economic anthropology by James G. Carrier, from 2012.
- The architecture of markets: An economic sociology of twenty-first-century capitalist societies by Neil Fligstein, from 2001.
- The Social Structures of the Economy by Pierre Bourdieu, from 2000.
- The Impact of Social Structure on Economic Outcomes by Mark Granovetter, from 2005.
- Economic Lives: How Culture Shapes the Economy by Viviana Zelizer, from 2010.
- The Anthropology of Economy: Community, Market, and Culture by Stephen Gudeman, from 2001.

- Institutions in Economics: The Old and the New Institutionalism by Malcolm Rutherford, from 1999.
- The Evolution of Institutional Economics: Agency, Structure and Darwinism in American Institutionalism by Geoffrey Hodgson, from 2004.

## Institutions and different ways of organising the economy

Institutions and economic structures are an important element of the social aspects that influence human behavior. Therefore, it is important that students learn about how social situations and institutional configurations can shape behavior and decisions. Is the level of shirking among employees, for example, lower and their motivation higher, when they have more say over their work and how the firm is run through worker representation in the board? Can introducing performance-related pay in certain economic sectors, or organizations, be counterproductive because it does not fit prevailing social norms and practices?

For more detail see Building Block 5: Economic Organisations & Mechanisms and the section Firms and Households in the background material Pragmatic Pluralism.

### Teaching Materials

- Conflict and cooperation: institutional and behavioral economics by Allan Schmid, from 2008. This informative book on how economic institutions can shape behavior, introduces students both to institutional as well as behavioral economics and contains chapters on labour, political, technological, financial, and market institutions.
- The cognitive basis of institutions: A synthesis of behavioral and institutional economics by Shinji Teraji, from 2018. This book aims to bring institutional and behavioral economics together in one framework, with chapters on prosocial behavior, cognition, and institutional evolution.
- Institutional economics and behavioral finance by Ben Branch, from 2014. A useful article connecting insights from behavioral finance and institutional economics, helping students better understand what behavior different financial institutions can generate.

## Societal relevance and normative aspects

Behavioral economics, and in particular its application to policy making, has been the subject of normative debate. The underlying normative ideas of behavioral economics, often referred to as ‘libertarian paternalism’, have been developed in relation to other ethical approaches to policy making. Therefore it is important that students learn what these various normative approaches are to questions surrounding welfare, freedom and solidarity, and what the arguments for and against them are.

It is also interesting to note that more left-wing economists sometimes focus more on showing how markets can fail because of irrational behavior, associated with ‘behavioral economics’. While more right-wing economists have a tendency to focus on showing how markets can lead to ‘competitive, or optimal, equilibria’ through real human behavior, occasionally linked to ‘experimental economics’.

Finally, sometimes neoclassical economics is described as providing a normative framework that is complemented with a descriptive framework provided by behavioral economics. ‘Nudging’ in this regard often means influencing people to behave more like the neoclassical ‘rational man’, or at least come closer to it in its outcomes. It is important that students learn to question normative assumptions and become familiar with different perspectives on the ethics surrounding behavioral questions. Some discussion on the propriety of economists or other social scientists helping to engineer or otherwise influence (nudge) people’s behaviour would also be good.

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

### Teaching Materials

- The Oxford Handbook of Professional Economic Ethics by George F. DeMartino and Deirdre McCloskey, from 2016, chapters 11, 16-17 & 20-22. This insightful collection of essays explores the different aspects of ethics in economics, with two chapters devoted to ethical issues related to behavioral economics, the positive-normative distinction, experiments, field research and running randomized evaluations.
- The Routledge Handbook of Ethics and Public Policy by Annabelle Lever and Andrei Poama, from 2019, chapters 40-41. This useful collection of essays treats many different aspects of the ethics of public policy, including two chapters on the ethics of neuroscience and behavioral public policy.
- The Behavioral Economics Guide 2019 – Ethics and Integrative Thinking by Alain Samson, from 2019. This informative collection of essays, accompanied with useful resources, opens with a chapter on ethics and follows with chapters on applications to issues such as pro-environmental behavior, gender equality and marketing.
- Behavioral Economics: Toward a New Economics by Integration with Traditional Economics by Masao Ogaki and Saori C. Tanaka, from 2018, chapters 10-11. This advanced textbook aims to introduce behavioral economics as part of traditional economics and contains two chapters on wellbeing, happiness, the normative aspects of behavioral economics, libertarian paternalism and virtue ethics.

### History

Students can benefit from learning about the history of behavioral economics. Firstly, to help them understand the different ideas and theories, and how they relate to each other. And secondly, to learn about the applications in practice and how the historical contexts have influenced economists' thinking. Realizing the (potential) influence of various factors on economists' thinking can help make students more conscious and critical in their future careers about how they themselves interact with their environment.

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

### Teaching Materials

- Behavioral economics: A history by Floris Heukelom, from 2014. An insightful history of how behavioral economics emerged and evolved over time.
- Routledge Handbook of Behavioral Economics by Roger Frantz, Shu-Heng Chen, Kurt Dopfer, Floris Heukelom, and Shabnam Mousavi, from 2016. An impressive collection of essays on the many different behavioral economists and applications, from thinkers such as George Katona and Herbert Simon to topics such as emotions and agent-based modelling.

### 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, simply teaching a smaller amount of behavioural anomalies and biases and instead teaching more of the other aspects could enhance students' understanding and mastery of behavioural economics.

# Economic Approaches

## Companion to Building Block 8: Economic Theories

### Introduction

Most teaching time is currently devoted to economic theory. Little time is, however, devoted to letting students understand what economic theory is and what its basic foundations are. Therefore, we propose to always introduce perspectives before teaching the topic specific theory (which are the focus of Pragmatic Pluralism). This will help students become familiar with the core assumptions on which theories are based and prevent them from misunderstanding theories as direct representations of reality. Furthermore, this basic knowledge about the different perspectives helps students make sense of and situate the specific theories that are taught later in the program. Rather than seeing theory courses as an endless stream of seemingly random insights, it allows students to see the bigger picture and connect the dots.

Introducing all the approaches listed below is probably too ambitious for an introductory level course. We therefore advise to select the most important perspectives for the program as a whole. This can be determined by looking at the main topics that are being taught and what the most important perspectives for these are (in Pragmatic Pluralism we give suggestions for this). In a program focusing mainly on financial economics, for example, post-Keynesian, neoclassical, complexity, Austrian, cultural and behavioural economics seem to be the most relevant perspectives and could be selected for the introductory theory course.

The different economic approaches can be introduced by explaining to students, preferably with the help of examples, what their core assumptions are as well as a brief discussion of how the approach emerged and developed. Who were their key thinkers, what were their main concerns, in what intellectual and societal context did they operate, on which ideas did they build and which did they oppose, and what was their impact on economic thinking and society? In this chapter, we provide a brief description of the core foundations and history of the different individual approaches, accompanied by an overview of materials which delve deeper into them.

For every approach, we have listed the following key assumptions and practices: (1) its main motivation and goal; (2) what it considers to be the basic elements of economies; (3) what it considers to be the fundamental characteristics of human beings; (4) how it considers economies to change; (5) the research methods it generally uses; and (6) the policy recommendations it typically prescribes.

For the interdisciplinary approaches, coming mainly from sociology, the more normative aspects (1 and 6 in particular) are less clear. One could say that most economic sociological approaches try to emphasize and shed light on the social foundation of the economy and wealth creation, countering individualistic accounts of economic processes. But while normative discussions are more often made explicit in sociology, it is less policy focused and its approaches have less strongly associated values and policy recommendations as approaches within economics do. For this reason, key assumptions and practices 1 and 6 are not listed for social network analysis, the cultural approach and field theory.

While core assumptions of individual approaches are most important, similarities between various perspectives are also relevant. Some have, for example, argued that a number of approaches, such as

post-Keynesian, institutional, Austrian, Marxian and feminist economics, collectively also known as heterodox economics, have many core assumptions in common (Lawson, 2006; Lee, 2009). Each of these approaches, for example, thinks of the economy as a dynamic open system of social interactions situated in historical time characterized by fundamental uncertainty, in contrast to the neoclassical assumptions of hyper-rational atomistic individuals that with probabilistic risks are able to optimize their utility in formalistically defined market equilibria. Others, however, believe there is more diversity and fewer meaningful similarities between the different heterodox approaches, which makes such broad categories less helpful (Davis, 2008; Dequech, 2007). Irrespective of whom one agrees with, it is important to explore with students how the different approaches relate to each other. Therefore, we encourage to actively discuss the differences and similarities between approaches, especially in more advanced courses.

For each approach, materials are listed that are useful for introducing its core assumptions and history. There are, however, a couple of resources that are useful for introducing the majority of perspectives. Chapter four in *Economics: The User's Guide* of Ha-Joon Chang introduces most approaches in a highly accessible and brief manner, providing short descriptions of their core ideas in only one chapter. The textbook *Rethinking Economics: An Introduction to Pluralist Economics* as well as the online platform *Exploring Economics* provide more in depth introductions with chapters per approach.

### Approaches:

- Austrian School
- Behavioural Economics
- Classical Political Economy
- Complexity Economics
- Cultural Approach
- Ecological Economics
- Evolutionary Economics
- Feminist Economics
- Field Theory
- Historical School
- Institutional Economics
- Marxian Political Economy
- Neoclassical Economics
- Post-Keynesian Economics
- Social Network Analysis
- Structuralist Economics

## Austrian School

Key assumptions and aspects:

- Main concern: Negative liberty (freedom from government interference into individual's person and property)
- Economies are made up of: Individuals
- Human beings are: Individuals formed by customs and traditions
- Economies change through: Individual subjective choices
- Favoured methods: Deductive logic and praxeology
- Typical policy recommendations: Free markets and laissez-faire

The Austrian school came into existence during the marginalist revolution at the end of the 19th century in Austria. In opposition to the historical school of economics and Marxian political school, it tried to explain economic reality by deducing it from certain universal principles such as subjective value, spontaneous order and opportunity costs. It argues that individuals always know what is best for themselves. Because the world is complex and even unknowable to a large extent, unconstrained markets are viewed as the best institution as they convey crucial information through price mechanisms. The school became more distinctly organized as such after the Second World War when neoclassical economics went through its formalistic revolution and thus moved further away from the Austrian school; at first the two were very similar.

### Teaching Materials

- Austrian Economics on Exploring Economics, from 2016.
- Rethinking Economics: An Introduction to Pluralist Economics by Liliann Fischer, Joe Hasell, J. Christopher Proctor, David Uwakwe, Zach W. Perkins, & Catriona Watson, from 2018, chapter 3.
- Economics: The User's Guide by Ha-Joon Chang, 2014, chapter 4.
- A Companion to the History of Economic Thought by Warren J. Samuels, Jeff. E. Biddle & John B. Davis, from 2003, chapters 17 and 28A.
- The Oxford Handbook of Austrian Economics by Peter J. Boettke & Christopher J. Coyne, from 2015.
- An Introduction to Austrian Economics by Thomas C. Taylor, most recent edition from 2020.
- Advanced Introduction to the Austrian School of Economics by Randal G. Holcombe, 2014.

## Behavioural Economics

Key assumptions and aspects:

- Main concern: Fixing behavioural market failures to enhance allocative efficiency
- Economies are made up of: Individuals and institutions
- Human beings are: Boundedly rational (shaped by biases, emotions and heuristics) and reciprocal (not fully selfish or altruistic)
- Economies change through: Individual choices
- Favoured methods: Experiments
- Typical policy recommendations: Nudging people into more 'rational' behavior

Human beings are understood as boundedly rational, because of their limited cognitive capabilities. People use heuristics, such as rules of thumb and mental shortcuts, and are influenced by framing in their decision making. Behavioural economics can be said to consist of two groups. The first group, sometimes also referred to as old behavioural economists, with scholars such as Herbert Simon, George Katona, and Gerd Gigerenzer, propose an alternative framework in opposition to the dominant unrealistic neoclassical one as they argue human behavior follows fundamentally different logics. The other group, also known as new behavioural economists, with people such as Amos Tversky and Daniel Kahneman, tried instead to improve neoclassical economics by analysing departures from its assumptions about human behavior. Recently, new behavioural economics in particular has become influential both within academia and policy making with various 'Behavioural Insights Teams'.

### Teaching Materials

- Behavioral Economics on Exploring Economics, from 2016.
- Rethinking Economics: An Introduction to Pluralist Economics by Liliann Fischer, Joe Hasell, J. Christopher Proctor, David Uwakwe, Zach W. Perkins, & Catriona Watson, from 2018, chapter 6.
- Economics: The User's Guide by Ha-Joon Chang, 2014, chapter 4.



- Routledge Handbook of Behavioral Economics by Roger Frantz, Shu-Heng Chen, Kurt Dopfer, Floris Heukelom, & Shabnam Mousavi, from 2017.
- Behavioral Economics: Toward a New Economics by Integration with Traditional Economics By Masao Ogaki & Saori C. Tanaka, from 2018. .

## Classical Political Economy

Key assumptions and aspects:

- Main concern: The wealth of nations
- Economies are made up of: Classes
- Human beings are: Selfish (in class terms), but also have moral sentiments
- Economies change through: Capital accumulation and the division of labour
- Favoured methods: Abstraction and reason
- Typical policy recommendations: Free markets and free trade

With the rise of capitalism, classical political economy arose at the end of the 18th century to understand how it was possible that through private ownership and markets, goods and services were provided to people. Classical political economists systematically analysed the economy by looking at the tendency of markets to move towards equilibrium and the power struggles between landowners, capitalists and workers. They argued that labour is the source of all value in opposition to physiocracy, with its focus on agriculture, and mercantilism, with its focus on exports, money and extraction. Based on the labour theory of value, most classical political economists argued for free trade and free markets. After being highly influential during the 19th century, classical political economic thought moved to the background of economic thinking in the 20th century.

### Teaching Materials

- Economics: The User's Guide by Ha-Joon Chang, 2014, chapter 4.
- A Companion to the History of Economic Thought by Warren J. Samuels, Jeff. E. Biddle & John B. Davis, from 2003, chapters 7-9 & 11.
- Understanding 'Classical' Economics: Studies in Long Period Theory By Heinz D. Kurz & Neri Salvadori, from 1998.
- Classical Political Economy: A Survey of Recent Literature by William O. Thweatt, from 1988.

## Complexity Economics

Key assumptions and aspects:

- Main concern: Resilient and adaptive systems
- Economies are made up of: Complex systems of interaction between actors
- Human beings are: Shaped by heuristics, social comparisons and habits
- Economies change through: System dynamics, evolution and emergence
- Favoured methods: Agent-based and computational modelling
- Typical policy recommendations: Generate desirable (self-reinforcing or balancing) feedback loops and maintain sufficient buffers

Complexity economics is still a very young and developing approach. It has mainly arisen out of the application of methods from mathematics, physics and biology to economic problems. Econophysics, therefore, also overlaps with complexity economics. While only a relatively small number of people engage

with complexity economics, its status within the discipline is already quite high, as various prestige scholars and projects focus upon it. Humans are understood as rule followers, as they emulate others and are adaptive to changes in their environment. Not everyone follows the same 'rules', and 'rules' are not constant over time. Hence, the system is always subject to change.

### Teaching Materials

- Complexity Economics on Exploring Economics, from 2016.
- Rethinking Economics: An Introduction to Pluralist Economics by Liliann Fischer, Joe Hasell, J. Christopher Proctor, David Uwakwe, Zach W. Perkins, & Catriona Watson, from 2018, chapter 7.
- Complexity and the Economy by W. Brian Arthur, from 2015.
- Handbook of research on complexity by J. Barkley Rosser, from 2009.
- Econophysics: Background and Applications in Economics, Finance, and Sociophysics by Gheorghe Savoiu, from 2012.
- Complexity and the History of Economic Thought by David Colander, from 2000.

## Cultural Approach

Key assumptions and aspects:

- Economies are made up of: Socially and culturally embedded individuals
- Human beings are: Shaped by culture, norms and meaning-making processes around them
- Economies change through: Altering understandings and interpretations of economic activities
- Favoured methods: Qualitative research

The cultural approach is a broad category which is defined by its focus on the importance of culture in how economies work. As such, it pays attention to the meaning people give to things and how these meanings are constructed and influence economic life. The origins of this approach go back to the beginning of the social sciences, with scholars such as Max Weber, Bronislaw Malinowski and Marcel Mauss. It has many forms and names, such as the culturalist approach, cultural economics, anthropological economics, cultural sociology, and constructivist political economy, which each refer to something slightly different. It should however be noted that it does not refer to the economics of the culture industry, which is a topic, not a perspective. One could also argue that a recent development within this broad category is performativity theory, which revolves around the idea that economic ideas do not merely (aim to) describe the world, but actively shape (perform) it. A famous example, mentioned earlier, is the Black-Scholes model, which initially described derivatives markets poorly, but after it changed financial regulations and began to be used by many traders, it came to explain derivatives markets very well (MacKenzie, 2006).

### Teaching Materials

- Economic Lives: How Culture Shapes the Economy by Viviana Zelizer, from 2010.
- Constructing the International Economy by Rawi Abdelal, Mark Blyth, & Craig Parsons, from 2010.
- The Anthropology of Economy: Community, Market, and Culture by Stephen Gudeman, from 2001.
- Do Economists Make Markets? On the Performativity of Economics by Donald MacKenzie, Fabian Muniesa & Lucia Siu, from 2007. .

# Ecological Economics

Key assumptions and aspects:

- Main concern: Ecological sustainability
- Economies are made up of: Ecological and socio-economic systems
- Human beings are: formed through social processes and value immaterial aspects of life
- Economies change through: Material and energy flows
- Favoured methods: System dynamics
- Typical policy recommendations: Degrowth to stay within planetary boundaries

During the 1970s, ecological economics arose out of the incorporation of material and energy flows in economic analyses. The fact that human economic activity had caused climate change, made it clear that nature had to have a more central place in economics than simply as a resource. Human societies and their economies are embedded in the environment and therefore fundamentally depend on it. Well-being is not reduced to material consumption, but redefined more broadly and socially. Similarly, economic development is not reduced to growth in material production and/or consumption (or monetary / market). Ecological economics often positions itself in opposition to neoclassical environmental economics, arguing that the economy and market should follow the rules of nature and the biosphere rather than the other way around.

## Teaching Materials

- Ecological Economics on Exploring Economics, from 2016.
- Rethinking Economics: An Introduction to Pluralist Economics by Liliann Fischer, Joe Hasell, J. Christopher Proctor, David Uwakwe, Zach W. Perkins, & Catriona Watson, from 2018, chapter 9.
- An Introduction To Ecological Economics by Robert Costanza, John Cumberland, Herman Daly, Robert Goodland, & Richard Norgaard, from 2015.
- Handbook of Ecological Economics by Joan Martínez-Alier & Roldan Muradian, from 2015.

# Evolutionary Economics

Key assumptions and aspects:

- Main concern: Economic progress
- Economies are made up of: Evolving and emerging populations and actors
- Human beings are: Socio-historical actors who act on the basis of heuristics, routines and rules
- Economies change through: Technological and social innovation
- Favoured methods: Wide variety, from evolutionary game theory and regression analysis to network analysis and interviews
- Typical policy recommendations: Facilitate and generate entrepreneurship and innovation

Since the 19th century, evolutionary thinking has had substantial impact on various economic thinkers such as Thorstein Veblen, Joseph Schumpeter, and Kenneth Boulding. More recently there have been attempts to create a more coherent intellectual school called evolutionary economics. Although the impact of evolutionary economics on the discipline has so far been quite limited, it is recognized as providing important contributions and is often considered to be one of the promising approaches for the future. It is argued that people adapt themselves to their natural but also social environment. Based on evolutionary principles such as variation, selection and replication, it tries to understand how markets, firms, and national economies develop.

## Teaching Materials

- Evolutionary Economics on Exploring Economics, from 2016.
- Economics: The User's Guide by Ha-Joon Chang, 2014, chapter 4.
- The New Evolutionary Economics by Kurt Dopfer and Jason Potts, from 2014.
- Elgar Companion to Neo-Schumpeterian Economics by Horst Hanusch & Andreas Pyka, from 2007.
- Evolutionary and Neo-Schumpeterian Approaches to Economics by Lars Magnusson, from 1994.
- A perspective on the evolution of evolutionary economics by Richard R. Nelson, from 2020.
- Economics and Evolution: Bringing Life Back into Economics by Geoffrey M. Hodgson, from 1993.

## Feminist Economics

Key assumptions and aspects:

- Main concern: Gender equality
- Economies are made up of: Individuals and social groups
- Human beings are: Shaped by their intersectional identities (combinations of class, gender, ethnicity, and other social identities)
- Economies change through: Cultural and social developments
- Favoured methods: Wide variety, from survey and regression analysis to interviews and participant observation
- Typical policy recommendations: Supporting and rewarding unpaid care work and fighting discrimination

Since the 1960s, feminist thinking have had a tremendous impact on the social sciences. However, in economics, this process only started in the 1990s and is still marginal as compared to other social sciences. Nevertheless, feminist economists have made important contributions to the study of unpaid work, well-being, care, households and of course gender. Human beings are seen as products of social interactions, engaging in conflict, competition as well as cooperation with each other at different moments in time. Instead of focusing on the 'economic man' who engages only in market transactions, feminist economists study the entire fabric of provisioning, investigating the ways people organize themselves to make a living as interdependent social processes.

## Teaching Materials

- Feminist Economics on Exploring Economics, from 2016.
- Rethinking Economics: An Introduction to Pluralist Economics by Liliann Fischer, Joe Hasell, J. Christopher Proctor, David Uwakwe, Zach W. Perkins, & Catriona Watson, from 2018, chapter 5.
- A Companion to the History of Economic Thought by Warren J. Samuels, Jeff. E. Biddle & John B. Davis, from 2003, chapters 28B.
- The Routledge Handbook of Feminist Economics by Günseli Berik & Ebru Kongar, from 2021.
- Out of the Margin: Feminist Perspectives on Economics by Edith Kuiper, Susan Feiner, Jolande Sap, Notburga Ott, & Zafiriz Tzannatos, from 1995.
- Feminist Economics Today: Beyond Economic Man by Marianne A. Ferber & Julie A. Nelson, from 2000.
- Greed, Lust and Gender: A History of Economic Ideas by Nancy Folbre, from 2009.

# Field Theory

Key assumptions and aspects:

- Economies are made up of: Meso-level social arenas with shared meanings and rules, also known as fields
- Human beings are: Competing for better positions in fields with their social, cultural, economic, and symbolic capital
- Economies change through: Strategic power struggles between actors and alternations in the rules of competition
- Favoured methods: Wide variety, from network analysis and multiple correspondence analysis to historical analysis and participant observation.

Field theory, sometimes also called the political-cultural approach, is a young approach, at least in its application to economic topics, as its first studies were conducted during the 1990s. One could distinguish two main branches of field theory, one located in the US of which Fligstein is a core proponent, and the other in France in which Bourdieu is central. Fligstein's version of field theory overlaps significantly with the sociological neo-institutionalist approach. Not to be confused with institutional economics, these two approaches have some links, as both field theory and sociological institutionalism emphasize the importance of institutions, legitimacy and the focus of organizations on survival. The core idea of field theory is that actors (people or organisations) orient their behavior to one another within meso-level social orders, called fields. Fields could be seen as social arenas in which constant games of jockeying for position are being played. In this game, it is necessary for actors to understand both the shared meanings and rules of a field and what others are doing, in order to act themselves. The structure of the field and an actor's position in it, shape the actor's interests and way of thinking, but do not fully determine it as the actors have the freedom to pursue their own strategies within fields.

## Teaching Materials

- Varieties of Field Theory by Daniel Kluttz & Neil Fligstein, from 2016.
- Markets as Politics: A Political-Cultural Approach to Market Institutions by Neil Fligstein, from 1996.
- What is field theory? by John L. Martin, from 2003.
- The architecture of markets: An economic sociology of twenty-first-century capitalist societies by Neil Fligstein, from 2001.
- The Social Structures of the Economy by Pierre Bourdieu, from 2000.

# Historical School

Key assumptions and aspects:

- Main concern: National economic development
- Economies are made up of: Nations
- Human beings are: Citizens of a nation
- Economies change through: Political decisions along national-cultural specific paths of development
- Favoured methods: Inductive statistical and archival analysis
- Typical policy recommendations: Infant industry protection, public infrastructure investment and social policy

The German historical school, together with the partially overlapping American school (or national system), arose as a reaction to classical political economy which argued free markets and free trade create prosperity. Furthermore, it was opposed to the deductive approach which had become dominant within classical political economy, and developed inductive historical and statistical approaches to studying the economy. Human beings were understood as part of cultural and historical specific nations. To understand how people behave

and economies work, one thus has to look at the history of a specific place instead of just making assumptions about individuals that are supposed to be universal. Germany was the centre of academic life during the 19th century, in doing so it inspired an English (and French) historical school of economics and institutional economics in the US. But because of the rise to power of the Nazi's and the Second World War, the influence of the historical school was abruptly ended.

### Teaching Materials

- A Companion to the History of Economic Thought by Warren J. Samuels, Jeff. E. Biddle & John B. Davis, from 2003, chapters 14.
- The German historical schools in the history of economic thought by Peter Senn, from 2005.
- The German Historical School: The Historical and Ethical Approach to Economics by Yuichi Shionoya, from 2000.

## Institutional Economics

Key assumptions and aspects:

- Main concern: Economic development
- Economies are made up of: Individuals and institutions
- Human beings are: Shaped by social rules, culture, instincts and habits
- Economies change through: Changes in institutions
- Favoured methods: Inductive statistical and qualitative analysis
- Typical policy recommendations: Regulate capitalism and prevent corrupt and extractive practices through legal institutions and societal countervailing forces

Institutional economics arose in the beginning of the 20th century out of the desire to make economics an empirical science. Instead of assuming that people behave according to universal and ahistorical principles, they argue that people derive habits and value-orientations from their institutional environment, which they in turn influence through their interactions with other people. The economy is, therefore, studied holistically, instead of looking at isolated individuals and markets. During the interwar period, institutional economics obtained great importance. After the Second World War, however, it was pushed to the margins of the discipline by the dominance of the neoclassical synthesis. Since the 1970s, there has been an attempt, under the name of new institutional economics, to include institutions in a neoclassical framework by thinking about institutions as transaction costs minimizers. This has caused institutional economists, who do not start from neoclassical assumptions, to call themselves original or old institutional economists.

### Teaching Materials

- Institutional Economics on Exploring Economics, from 2016.
- Rethinking Economics: An Introduction to Pluralist Economics by Liliann Fischer, Joe Hasell, J. Christopher Proctor, David Uwakwe, Zach W. Perkins, & Catriona Watson, from 2018, chapter 4.
- Economics: The User's Guide by Ha-Joon Chang, 2014, chapter 4.
- A Companion to the History of Economic Thought by Warren J. Samuels, Jeff. E. Biddle & John B. Davis, from 2003, chapters 23 and 28C.
- Institutions in Economics: The Old and the New Institutionalism by Malcolm Rutherford, from 1999.
- The Institutionalist Movement in American Economics, 1918-1947: Science And Social Control by Malcolm Rutherford, from 2011.
- The Evolution of Institutional Economics: Agency, Structure and Darwinism in American Institutionalism by Geoffrey Hodgson, from 2004.

# Marxian Political Economy

Key assumptions and aspects:

- Main concern: A classless society
- Economies are made up of: Classes
- Human beings are: Productive, creative and formed by their social context
- Economies change through: Class struggle, capital accumulation and technological progress
- Favoured methods: Dialectical method and historical materialism
- Typical policy recommendations: Collectivising the means of production

Marxian political economy arose out of the attempt of Karl Marx to bring together English classical political economy, German Hegelian philosophy and French socialist thought. Humans are understood as creative beings who realize their ideas through their work. Within the capitalist system, the class struggle between workers and capitalists is dominant. The drive for private profit leads to continuous technological advances and accompanying economic instability. Since the existence of Marxian political economy, it has been one of the emblematic heterodox approaches in most capitalist societies and a mainstream approach in socialist economies. Furthermore, it has not only been an influential school of thought in economics – Marxian scholars can be found in every social science discipline.

## Teaching Materials

- Marxian Political Economy on Exploring Economics, from 2016.
- Rethinking Economics: An Introduction to Pluralist Economics by Liliann Fischer, Joe Hasell, J. Christopher Proctor, David Uwakwe, Zach W. Perkins, & Catriona Watson, from 2018, chapter 2.
- Economics: The User's Guide by Ha-Joon Chang, 2014, chapter 4.
- A Companion to the History of Economic Thought by Warren J. Samuels, Jeff. E. Biddle & John B. Davis, from 2003, chapters 10 and 28E.
- Routledge Handbook of Marxian Economics by David M. Brennan, David Kristjanson-Gural, Catherine P. Mulder, & Erik K. Olsen, from 2017.
- Radical Political Economy: A Concise Introduction by Charles A. Barone, from 2004.

# Neoclassical Economics

Key assumptions and aspects:

- Main concern: Efficient allocation of scarce resources that maximizes consumer welfare
- Economies are made up of: Individuals
- Human beings are: (hyper)rational, self-interested and atomistic individuals with fixed and given preferences, also called the 'homo economicus' and 'economic man'
- Economies change through: Individual optimizing decisions
- Favoured methods: Equilibrium models and econometrics
- Typical policy recommendations: Free market or government intervention, depending on assessment of market and government failures

Neoclassical economics arose out of the marginalist revolution, during the long depression which started in the 1870s. Neoclassical economics was largely a reaction against Marxian political economy as it argued that markets create harmony, not conflict. Human beings were assumed to be rational and selfish, as their decisions are solely motivated by expected utility maximization based on their given and stable preferences. Mathematically deduced from these assumptions about individuals, an analysis of market equilibria arises. These markets work mainly through price mechanisms; their efficiency as well as their potential failures are

analysed. Neoclassical economics quickly became an important strand of thinking after its birth in the late 19th century, and after the Second World War it became the dominant theoretical approach in most countries. The increase in its practitioners gave rise to many different sub-branches of neoclassical economics, such as general equilibrium and neoclassical growth theory. Sometimes neoclassical economics is lump together with neoliberalism. While there is overlap between neoliberal thought and neoclassical sub-branches, such as monetarism and new classical macroeconomics, the two are not the same. Many economists, among which neo-Keynesians for example, use and build on neoclassical (microeconomic) models to oppose neoliberal ideas. To this day, neoclassical economics remains a highly influential approach, in research, policy making, and especially education. Many have been arguing for, or predicting, its demise for already a couple of decades. New approaches, such as behavioural, evolutionary and complexity economics, are often thought to replace neoclassical economics as core of the mainstream discipline. Whether this will indeed be the future remains to be seen.

### Teaching Materials

- Neoclassical Economics on Exploring Economics, from 2016.
- Economics: The User's Guide by Ha-Joon Chang, 2014, chapter 4.
- A Companion to the History of Economic Thought by Warren J. Samuels, Jeff. E. Biddle & John B. Davis, from 2003, chapters 16, 18-21, and 24-6.
- What is Neoclassical Economics? Debating the origins, meaning and significance by Jamie Morgan, from 2015.
- The Making of Neoclassical Economics by John F. Henry, from 1990.

## Post-Keynesian Economics

Key assumptions and aspects:

- Main concern: Full employment
- Economies are made up of: Individuals and classes
- Human beings are: Following rules of thumb and habits because of fundamental uncertainty
- Economies change through: Animal spirits and government intervention
- Favoured methods: Stock-flow consistent models and econometrics
- Typical policy recommendations: Stabilization of effective demand through active fiscal policy

Building on older underconsumption theories, Keynesian economics arose during the 1930s in order to explain and develop ideas to solve the economic depression. In doing so, it considerably overlaps with the Stockholm school. Keynesian economics argues that people compare themselves to others and build their decisions partly on rules of thumb and habits, because of psychological reasons and fundamental uncertainty. Effective demand, consumption and investment, therefore depends to a large extent on animal spirits and herd behavior. In the post-war period until the stagflation of the 1970s, it was highly influential, especially its neo-Keynesian (sometimes also called old Keynesian) branch which synthesized Keynes' ideas with neoclassical microeconomics, this period is therefore often called the neoclassical synthesis. After the 1970s, post-Keynesians (sometimes also called Cambridge Keynesians), who radically broke with neoclassical economics as they constructed a fundamentally new approach to economics with Keynes as main inspiration, became organized as a distinctive heterodox approach. At the same time, new Keynesians introduced imperfections in then influential neoclassical models of new classical macroeconomics, and in doing so came to Keynesian (pro government intervention) rather than new classical (free market) conclusions (but theoretically they are furthest removed from Keynes' own work and thinking).



## Teaching Materials

- Post-Keynesian Economics on Exploring Economics, from 2016.
- Rethinking Economics: An Introduction to Pluralist Economics by Liliann Fischer, Joe Hasell, J. Christopher Proctor, David Uwakwe, Zach W. Perkins, & Catriona Watson, from 2018, chapter 1.
- Economics: The User's Guide by Ha-Joon Chang, 2014, chapter 4.
- A Companion to the History of Economic Thought by Warren J. Samuels, Jeff. E. Biddle & John B. Davis, from 2003, chapters 22 and 28D.
- The Oxford Handbook of Post-Keynesian Economics, Volume 1: Theory and Origins by Geoffrey Harcourt & Peter Kriesler, from 2013.
- Post-Keynesian Economics: New Foundations By Marc Lavoie, from 2014.
- Keynes: A Very Short Introduction by Robert Skidelsky, from 2010.

## Social Network Analysis

Key assumptions and aspects:

- Economies are made up of: Social networks
- Human beings are: Embedded in social structures and relations
- Economies change through: Developments in interpersonal ties
- Favoured methods: Network analysis and graph theory

Social network analysis originated in the beginning of the 20th century in sociology, but has only been systematically applied to economic topics since the 1980s. In doing so, it helped initiate a revival of economic sociology. More recently, it has inspired economists to focus on networks, done often under the name “the economics of networks”. Social network analysis also has some overlap with complexity economics and interacts with the broader academic field of network science. Social network analysis applied to economic topics looks at how economic life is embedded in social life. Instead of analysing economies as if individuals operate rationally as atoms in markets, the focus lies on social relations and structures in which people interact with each other. As such, social network analysis neither focuses on individuals and their characteristics (such as preferences and rational or irrational behavior), nor on collectives (such as classes and nations). Instead it looks at how networks are structured by analysing the relations (also called ties, edges or links) between the nodes (which can be people, organizations or things).

## Teaching Materials

- Social Network Analysis by John Scott, from 1991.
- The Impact of Social Structure on Economic Outcomes by Mark Granovetter, from 2005.
- Economic Action and Social Structure: The Problem of Embeddedness by Mark Granovetter, from 1985.

## Structuralist Economics

Key assumptions and aspects:

- Main concern: Economic growth in developing countries
- Economies are made up of: Economic sectors, institutions and social classes
- Human beings are: Shaped by social and cultural structures around them
- Economies change through: Government policy and sectoral developments
- Favoured methods: Econometrics and historical analysis
- Typical policy recommendations: Import substitution industrialization

Structuralist economics emerged in Latin America during the 1950s out of a quest to better understand global inequality and how developing countries could grow. The Ricardian and neoclassical theories of comparative advantage did not seem to be able to explain why many developing countries experienced so many difficulties growing. While the use of military force had previously been crucial for colonial oppression and economic extraction, structuralist economists tried to understand how unequal development could continue through more invisible processes. A key insight economists, such as Raúl Prebisch, developed was that the economic structures of countries, such as sectoral specialization patterns, technological capacities, and the institutional arrangements concerning labour, financial and international commodity markets, were crucial in these matters. Unequal economic development is possible because of contrasting international economic structures, with a hegemonic industrial centre and a dependent agricultural periphery. A key source of inspiration for structuralist economics was Keynesian economics, but many other strands of economic thinking such as historical, institutional, neoclassical and Marxian economics, also influenced the approach. There is also overlap with other approaches, such as world system and dependency theory, which also emphasize unequal global economic relations, although they build more on Marxian ideas.

### Teaching Materials

- The structuralist tradition in economics: methodological and macroeconomics aspects by Fabrício Missio, Frederico G. JayMe Jr, & José L. Oreiro, from 2015.
- Growth and Policy in Developing Countries: A Structuralist Approach by Jose Antonio Ocampo, Codrina Rada, & Lance Taylor, from 2009.
- New Structural Economics: A Framework for Rethinking Development and Policy by Justin Yifu Lin, from 2010.
- Developmental Macroeconomics: New Developmentalism as a Growth Strategy by Luiz Carlos Bresser-Pereira, José Luís Oreiro, & Nelson Marconi, from 2014.

# Interdisciplinary Economics

## Companion to Building Block 8: Economic Theories

*“[I]f you know economics and nothing else, you will be a bane to mankind, good, perhaps, for writing articles for other economists to read, but for nothing else.”*

Friedrich A. Hayek (1991, p. 38)

## Introduction

At the end of the 19th century and beginning of the 20th century most social science disciplines, among them economics, became institutionalized within academia (Backhouse & Fontaine, 2010; Ross, 1992). In doing so, it became necessary to define and demarcate the various fields. A stereotypical but largely accurate description of these definitions is given by Wallerstein (2003): Anthropology studies the non-western world. History studies the past. Modern western societies are divided among three disciplines: political science studies politics, sociology studies civil society, economics studies the economy.

While these definitions perhaps never quite covered what scholars in these respective disciplines studied, they became increasingly unsatisfactory from the 1970s onward. Anthropologists today no longer confine themselves to studying the non-western world. Sociologists study all of social life, not only what is called civil society. Many economists no longer only study the economy, many began to apply ‘economic’ methods to virtually every topic within the social sciences (Keizer, 2015).

As a result, the fields of study of the different disciplines substantially overlap with each other. Economists are no longer the only ones systematically studying the economy: many other social scientists have begun to do so as well. Many subdisciplines exist outside the discipline of economics, but still focus on the economy. Five of these seem particularly relevant here: economic history, economic sociology, economic geography, economic anthropology and political economy.

Besides these subdisciplines, many other disciplines, such as psychology, law and biology, have also contributed to economic thinking. Furthermore, not only academics are relevant for economic thinking; policymakers, journalists and other non-academics have also developed new insights. However, we focus here on these five subdisciplines because they are clearly identifiable fields focused on systematically studying the economy and have good materials that can be used for teaching purposes. The other types of insights mentioned here would certainly add value to economics education as well, but their implementation lies beyond the scope of this book.

We believe that these five subdisciplines should be incorporated into economics education, because they contain valuable insights in how economies work. As explained in the Philosophy and Pluralism, we argue

that economics education should be organized around studying the subject-matter of the economy and in doing so use all valuable analytical tools. Therefore, when teaching economic theory, the focus should be on ideas about the economy, whether or not these currently have their home inside the economics discipline. Who developed an idea should not matter. What matters is whether an idea helps us understand the economic world.

What would this mean for economics education? It implies interdisciplinary economics should become a basic tenet of programs. This can be done in various ways. First and most straightforward, individual courses could be given on insights into economic processes developed by non-economists. As we also demonstrate in the Example Curricula, this could mean separate courses on economic sociology, economic anthropology, economic geography, economic history and political economy. Today, some faculties of sociology, anthropology, geography, history and political science already provide such courses to their own students. Occasionally, economics students are also allowed to choose such courses as free electives. Unfortunately, this often does not happen as economics students are not made aware of the existence of these courses. We, therefore, advise economics and other social scientific faculties to collaborate more and integrate courses at the intersections between the disciplines into their own programs. In other words, that economics and sociology departments, for example, collaborate by teaching courses together to students of both disciplines, or by letting sociologists teach courses on economic sociology to economics students and vice versa.

Another way to incorporate interdisciplinary economics in programs is to include insights from the subdisciplines in courses on economic theory. As we suggest in Pragmatic Pluralism, in a course on labour economics one could include insights, for example, developed by economic sociologists using social network analysis. Getting a job is not only a matter of having skills and education, but also who you know and especially the more 'weak' relationships with acquaintances. A course on labour economics would thus be strengthened by including insights from other disciplines.

Finally, another place to include these subdisciplines are courses on the history of economic thought. Rather than only covering what economists have been thinking over the last centuries, one could also include the histories of these subdisciplines that have focused on studying the economy (see also Building Block 4 and Rethinking the History of Economic Thought).

To facilitate the integration of interdisciplinary economic insights, we now provide a brief overview of each of these five subdisciplines. These overviews include some knowledge of their history, the main different approaches within them and some good teaching materials.

### **Economic subdisciplines:**

- Economic Sociology
- Economic Geography
- Economic History
- Economic Anthropology
- Political Economy

## Economic Sociology

Economic sociology has been an important part of sociology since its origins. Many of its founders, such as Auguste Comte, Karl Marx, Émile Durkheim, Max Weber, Georg Simmel, and Vilfredo Pareto, wrote extensively on the economy. In fact, most of them can be regarded as both a sociologist and economist (and

often philosopher, historian and political scientist as well). After the formation of the discipline of sociology, most sociologists, however, ceased studying the economy, causing the subdiscipline of economic sociology to move to the background.

This rigid division between the two fields came about as a sort of truce, where both economists and sociologists agreed not to study each other's fields. The origins of this truce are associated with Talcott Parsons and Lionel Robbins in the 1930s. Economists would solely focus on the means to achieve given ends, while sociologists studied those ends and the values people have. According to this logic, institutional economics was no longer considered to be proper economics, and economic topics should no longer be studied by sociologists. But with the partial disappearance of institutional economics and economic sociology, large parts of the economy fell outside the scope of any field of study.

This changed again in the 1980s. The truce to not study each other's fields was broken because of a revival of economic sociology and the rise of the imperialism of neoclassical economics (e.g. Granovetter, 1985). Since then, economic sociology has emerged as one of the main fields within sociology and as such it has produced multiple new approaches and insights. The main approaches within economic sociology are social network analysis, neo-institutional economics and field theory, the cultural approaches, and performativity theory. These different approaches analyse how markets are socially constructed with the help of state structures, social relations, and cultural norms, or in other words how they are embedded in society. There is, for example, a strand of research that investigates how the lifestyles and morals of people shape what they do, and do not, buy.

### Teaching Materials

- The handbook of economic sociology by Neil J. Smelser & Richard Swedberg, most recent edition from 2010. This extensive and yet accessible book for non-sociologists, provides an impressive and useful overview of the field of economic sociology.
- Principles of Economic Sociology by Richard Swedberg, from 2003. An insightful introduction into economic sociology, with chapters devoted to different theories and topics, such as firms, markets, consumption, law and gender.
- The Sociology of Economic Life by Mark Granovetter and Richard Swedberg, from 2011. This informative collection of classic and recent influential essays in economic sociology, focusing on theoretical foundations, markets, firms and the historical development and varieties of capitalism.
- Society and Economy: Framework and Principles by Mark Granovetter, from 2017. A useful introduction into economic sociology with chapters on mental constructs, trust, power and social institutions.

## Economic Geography

The main idea of economic geography is that economic theory cannot ignore space because it fundamentally shapes economic activities. Economic geography has its origins in 19th century Germany with location theory, which can be seen as an intellectual predecessor of neoclassical economics. Location theory tried to predict where economic activities would take place by using the assumptions that individuals were rationally maximizing their utility and firms maximize their profits. As such, they developed models to calculate what the optimal locations would be for certain economic activities. As a key figure of location theory, and because of its relation with neoclassical economics, the German economist Johann Heinrich von Thünen (1783-1850) is often included in histories of economic thought.

More recent insights developed within economic geography are, however, rarely included in discussions on economic thought. Especially since the 1970s, the subdiscipline has developed new ideas. It became more diverse with Marxist (also called political economy), feminist, cultural, regulationist, and evolutionary approaches. These insights can add great value to the understanding of issues such as relations between why innovation hubs exist and how they emerge, how processes of urbanisation and immigration work and what their economic implications are, and how capitalism expands geographically and creates spatial inequalities through uneven development.

There have also been new neoclassical approaches to economic geography, often called new economic geography, new trade theory, or geographical economics. These scholars, such as Paul Krugman, focus on how forces of agglomeration can be explained by allowing for market imperfections in neoclassical models. Key imperfections in this line of thinking are monopolistic competition and economies of scale, which result from forward and backward linkages that trigger further investment in specific places.

In sum, economic geography is a highly pluralist and interdisciplinary subdiscipline, as it often connects different theoretical approaches and insights from various disciplines such as geography, economics, political science, sociology, and history.

### Teaching Materials

- The New Oxford Handbook of Economic Geography by Dariusz Wójcik, from 2000. An impressive collection of essays on economic geography, with chapters focusing on different regions, theoretical approaches, and the topics of innovation, firms, work, finance, the environment and development.
- Economic Geography: A Critical Introduction by Brett Christophers & Trevor J. Barnes, from 2017. A useful introduction into economic geography, with attention to its conceptual foundations, history, different theories and methods, and application to topics such as globalization, finance, urbanization, nature and technological change.

## Economic History

The subdiscipline of economic history has strong roots in the English historical school of economics, with scholars such as William Whewell, Richard Jones, Walter Bagehot, Thorold Rogers, and William Ashley. The English historical school of economics argued for an inductive approach to studying economies, and were opposed to the deductive approach used by various classical political economists, such as David Ricardo. In doing so, they made important contributions to the development of empirical and statistical methods. They were, however, largely unable to actually make the discipline of economics more inductive, especially when the deductive neoclassical approach became increasingly dominant. But while they were considerably pushed out of the discipline of economics, they were able to help create the subdiscipline of economic history inside history departments. Today, economic history can be found both inside economics and history faculties, and it often functions as a bridge between the two disciplines.

The current field of economic history has various strands, such as Marxian economic history, cliometrics, the Annales school, and new institutional economic history, each with their own ideas and history.

From its inception, history has featured prominently in Marxian thinking. Economic historians were, however, for a long time discouraged from using and building on Marxian ideas for political reasons. Nevertheless, an important Marxian strand of economic history did develop which investigates how the

histories of economies can be understood with the help of historical materialist methodology.

In the 1960s, cliometrics arose out of the application of econometrics to economic history. The approach derives its name from the ancient Greek goddess of history called Clio. To this day, this strongly mathematical approach to studying history is an important branch of economic history. More recently, a partially overlapping group of scholars from different disciplines, such as political science, history and economics, has begun studying legal rules and social norms through a neoclassical lens of utility maximization. This approach is often called new institutional economics.

Another key intellectual contribution came from the Annales school which originated in France in the early 20th century. It consists of a highly diverse group of scholars that have tried to combine economics, sociology, geography, and history. In doing so, it changed historiography by focusing on long term structural developments, the lower social classes and collective mentalities. The Annales school inspired approaches such as world system theory and the regulation school, which are also important within economic history.

### Teaching Materials

- The Routledge Handbook of Modern Economic History by Robert Whaples & Randall Parker, from 2013. This useful collection of essays introduces students to economic history by discussing its methods, different economic sectors, and the topics of growth and the workforce.
- Routledge Handbook of Global Economic History by Francesco Boldizzoni & Pat Hudson, from 2016. This impressive collection of essays introduces students to the economic histories of the different world regions.

## Economic Anthropology

Economic anthropology arose as a subdiscipline after the second world war, to a large extent out of the work of Karl Polanyi, whose work aimed to understand non-Western and most past societies. Polanyi (1944) argued that the dominant neoclassical economic theory was not very helpful for these purposes, because these economies were not centred around market exchange.

Building on the ideas of two founding fathers of anthropology, Bronislaw Malinowski and Marcel Mauss, Polanyi further developed the idea of reciprocity and how crucial it is for economic life. Furthermore, Polanyi argued that the concept of 'free' markets is mistaken because all economic relations, including market ones, are embedded in social institutions. To understand an economy, one thus also has to look at the cultural values, and the social and political relationships in which it is embedded.

This position became known as substantivism, as it focused on the substance of economic activity without presupposing that it would take any specific form. In the first decades of economic anthropology, there was a competing branch, called formalism. These anthropologists argued that neoclassical theory universally applies to all human beings and societies in world history, putting the form of the market at centre stage.

Since the 1970s, the debates inside the subdiscipline changed as new topics and ideas rose to prominence. In particular, Marxist, feminist, and cultural (sometimes called anthropological) approaches have become prevalent in the subdiscipline. And rather than focusing solely on the non-Western world, anthropologists started to also study western economies at their cores, such as in their financial centres. In doing so, they connect discussions about financialization and financial crises to the long history of money and debt in human societies.

The role of culture in economic life is often given a lot of importance. As such, economic anthropologists have a particular interest in how the material and cultural dimensions of human life interact with each other. Rather than regarding the value of things as objective facts or subjectively determined by inborn tastes of isolated individuals, many economic anthropologists focus on how value is culturally constructed through local cultural practices and norms, as well as marketing and advertising by profit seeking companies. These cultural understandings of value are often interlinked with power relations in society, and for this reason economic anthropologists analyse how gender, class, racial and ethnic relations influence consumption, work and trade patterns.

### Teaching Materials

- *Economic Anthropology: History, Ethnography, Critique* by Chris Hann and Keith Hart, from 2011. This useful introduction into economic anthropology helps students understand how the field emerged and evolved, and what its different strands and key insights on different world regions are.
- *A handbook of economic anthropology* by James G. Carrier, from 2012. This impressive collection of essays covers the many strands of economic anthropology, from literature on different regions and economic mechanisms to different topics, such as agriculture, industry, consumption, culture, and the financial crisis of 2008.

## Political Economy

The name political economy has been used to describe many different things. It used to be the name for what we today consider as economics: the field that studies economic processes. Many Marxian scholars have kept on using the name, while the mainstream discipline switched from ‘political economy’ to ‘economics’. More recently, it has also been used to describe normative economics and public choice theory, which uses neoclassical assumptions to study politics and government bureaucracy. Here, however, we refer to the subfield within political science called political economy that studies the interaction and interrelatedness between politics and the economy.

Marxian approaches have always been an important inspiration for the subdiscipline of political economy. However, in the 1970s international political economy arose out of the understanding that the mainly militaristic focused realist approach within the subfield of international relations missed the importance of international economic connections and organisations. Another important branch is comparative political economy, which arose mainly out of the varieties of capitalism debate.

Currently, political economy forms a loose and diverse subdiscipline, with approaches ranging from institutional political economy to cultural (often called constructivist), feminist, neoclassical (often called rational choice), and Marxian political economy. It focuses on the shifting power relations between states and private sector companies, the institutions and ideas that shape policies and thereby also economies, and how ‘the rules of the game’ evolve and are contested both at the national and international level.

### Teaching Materials

- *Comparative Political Economy: States, Markets and Global Capitalism* by Ben Clift, from 2014. This useful introduction into comparing political-economic systems, helps students understand the different theoretical approaches, and topics such as corporate governance, finance, states and social welfare.
- *Introduction to International Political Economy* by David N. Balaam & Bradford Dillman, from 2018. This accessible and brief book introduces students to the international interplay between the economic and political on topics such as trade, finance, globalization, and security.



# Building Blocks: Overview

The meat and bones of the Economy Studies course design method are the ten building blocks. Each of these building blocks covers an area of knowledge or a skill that we see as essential for the education of future economists. They can be used as templates to create courses, of generally six to ten weeks each. One can also pick and choose elements of the different building blocks to combine them into a broader course, or split up a building block into several courses.

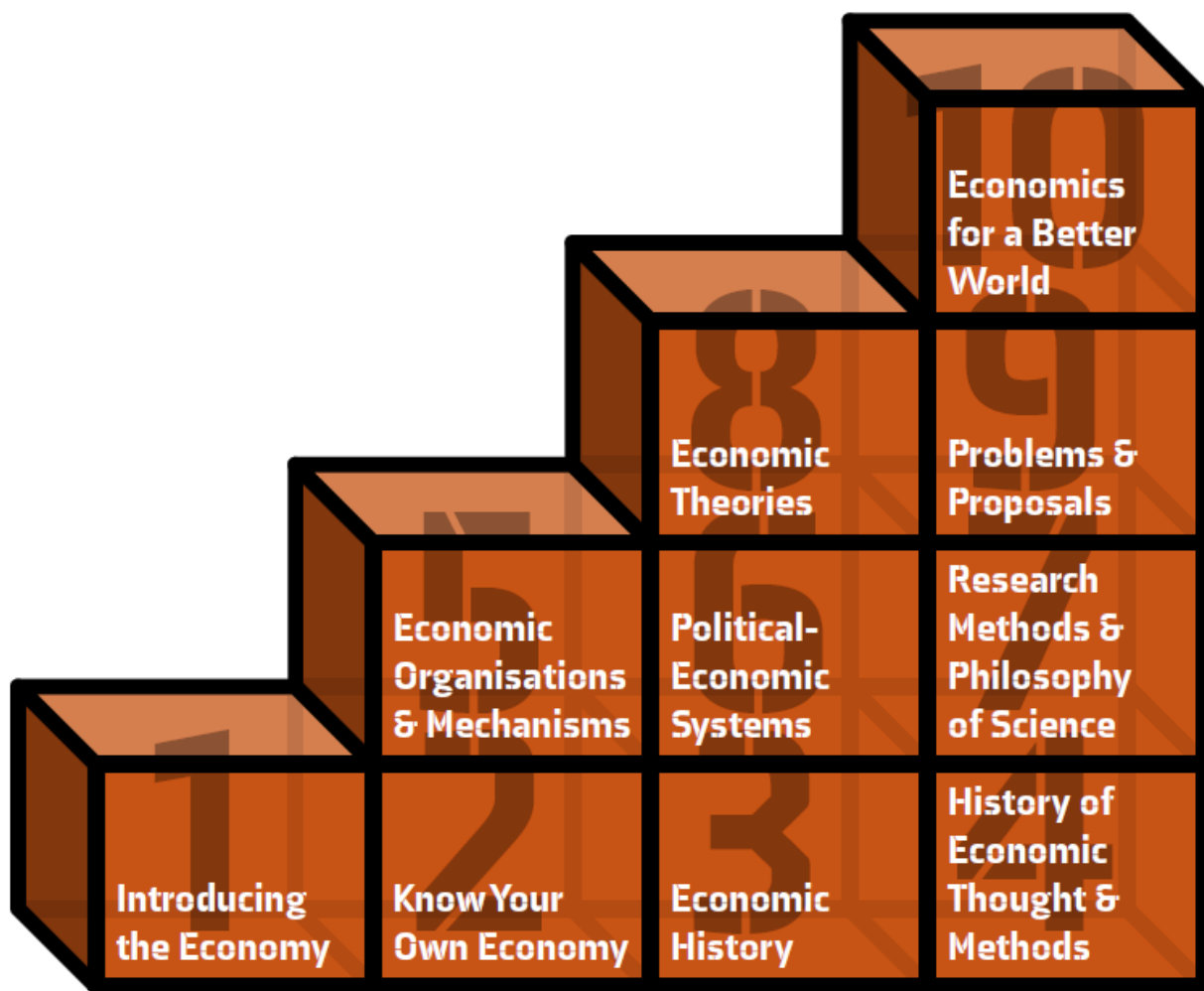


Figure 1: The ten building blocks that form the core of this book. The order of the numbers is not necessarily the order in which they should be taught. Their relative size varies, with building blocks 7 and 8 generally taking up much more space than the others.

The first two building blocks focus on helping students to develop a feeling for economic matters and teaching them basic conceptual and real-world economic knowledge. *Building Block 1: Introducing the Economy* discusses the definition and relevance of ‘the economy’ and how it is related to other aspects of the social and physical world. *Building Block 2: Know Your Own Economy*, explores actual national and local economies and their structures, institutions and sectors.

With this basic knowledge in hand, we explore the history of economic thought and of the real-world economy. *Building Block 3: Economic History* explores the fascinating and diverse history of economic events and developments. *Building Block 4: History of Economic Thought & Methods*, in contrast, is about the remarkable

and complex history of ideas about the economy. Together, these chapters provide a crucial foundation for students' further education.

Besides knowing basic economic concepts, facts and history, it is key that economics students learn how economies can and have been organised, at micro-, meso- and macro-levels. *Building Block 5: Economic Organisations & Mechanisms* investigates the different forms of economic interaction and organisation that operate at each level and together make up an economy. *Building Block 6: Political-Economic Systems* reviews the complex structures, institutions and power relations that form the overarching structure of an economy.

Another core element of a good economics education is a broad and diverse analytic toolkit, filled with relevant methods and theories. *Building Block 7: Research Methods & Philosophy of Science* is about both quantitative and qualitative data collection and analysis methods. In *Building Block 8: Economic Theories* we propose a 'pragmatic pluralist' approach to teaching theories by focusing on only the most important insights for every topic. These two building blocks will likely take more space in most programmes than the others, as the centre of gravity of an academic education lies in methods and theories.

The last two building blocks are largely concerned with the productive application of economic ideas in the real world. Economics education should be preparing the economic experts of tomorrow for their future roles in society. *Building Block 9: Problems & Proposals* deals with the practical skills necessary for the work of almost all economists: analysing real-world problems and working on proposals to address them, whether in a company, government agency, think tank or academic department. *Building Block 10: Economics for a Better World* deals with the values involved in decision making, asking what normative principles and visions can guide actions to address the major challenges of our times.

# Building Block 10: Economics for a Better World

## What normative principles and visions can guide action to make the world a better place and address the major challenges of our times?

*What:* This building block is about normative ideas in economics. That is, the underlying ideals guiding economic thinking and decisions, such as equity, efficiency, liberty and solidarity. It also includes visions for how the economy could and should look, ranging from concrete policy proposals to visions of differently organised economic systems.

*Why:* It is crucial that students are taught about the normative aspects of economic thinking. It helps them deal with normative issues in a more conscious and sophisticated way. This is especially important because it prepares them for their later work in which they will have to inform non-economists on the normative dilemmas of economic decisions. If they are never taught to think about and explain these issues, it is very likely that as graduates they will be blind to them. Or that if they do address them, they will likely do so in an inconsistent and haphazard manner. Students thus have to gain experience with normativity during their education.

*Contrast with current programmes:* Current programmes generally have two approaches to normativity. Some try to ignore it, along the lines of: ‘There is normative economics, and there is positive economics; here we only deal with positive science’. We think this is an unrealistic and damaging approach, as it in no way prepares students for their future roles in advising others to make decisions. The other frequently found approach is to tuck away all normative aspects in a separate course on ethics. Though more helpful, this is not enough. Besides learning general ethical philosophy, students need to understand its role in economic questions. We suggest teaching normative aspects in a more integrated and applied way, making students aware of normative aspects of theories when they learn them and teaching them to spot the more normative elements of policy advice.

### Sections:

- 1 Normative Principles for Decisions
- 2 Visions for the Economy
- 3 Practical Suggestions

*“The choice between different social arrangements for the solution of economic problems should be carried out in broader terms than this [comparisons of market values] and that the total effect of these arrangements in all spheres of life should be taken into account. As Frank H. Knight has so often emphasized, problems of welfare economics must ultimately dissolve into a study of morals.”*

**Ronald Coase (1960, p. 43)**

The ultimate goal of economics, apart from sheer fascination, is to contribute to a better world. How such a better world looks however, is hotly debated. In fact, normative discussions about economic questions are often at the centre of political debates. Economic questions are thus not simply a matter of intellectual curiosity or academic interest, they are key societal issues. Economists have the vital role of supporting society in making decisions and taking actions concerning these economic questions.

As explained in Foundation 4: Values, it is not the job of the economists to make these decisions, but it is our job to inform and support others in making economic decisions, shedding light on their normative and analytical aspects, as well as their implications in the real world. This requires that economics students learn about the normative aspects of economic questions, the focus of this building block.

In other words, in contrast to many of the other building blocks which focus mainly on descriptive or analytical ideas and knowledge, this building block focuses on normative ideas. It is about teaching students to identify the underlying values and moral dilemmas involved in economic issues and to explain these clearly to non-economists. These skills enable economists to minimise their own normative biases in their work and identify weak points in normative arguments and reasoning.

This chapter starts with a section on teaching students to spot and critically assess the normative elements embedded in analytical tools, such as models and measurements. The next two sections are more applied and focus on ideas that can guide action. The second section has a more short-term focus and looks at normative principles on which decisions can be based. The third section has a more long-term perspective focusing on visions of how the economy should look.

## 1 Normative Principles for Decisions

To be able to make a decision, one has to apply normative principles, be it consciously or not. Since the ultimate goal of economics is to help the world make better economic decisions, it is important that students become familiar with the normative aspects of decisions. By being able to uncover relevant normative principles and clearly articulate how they relate to the issue at hand, economists can inform others to better understand the decisions they have to make.

These normative principles are often called ‘welfare criteria’ in economics. It is, however, important to note that maximising the welfare or utility of individuals is only one such normative principle. The different economic approaches described in the online resource *Economic Approaches* ([economy.st/approaches](http://economy.st/approaches)) provides an overview of the assumptions underlying different economic theories. Other principles than welfare include fairness, legitimacy, security, stability, and reciprocity. These principles differ in their translatability into mathematical form and their applicability in practice.

Of particular importance is how normative principles deal with the pros and cons of decisions. Within welfare economics, the principles of Pareto efficiency, ‘do no harm’, and Kaldor-Hicks efficiency, ‘hypothetical compensation’, are well known. These are only two among many principles on which normative assessments can be based. Solely within the utilitarian tradition already, there are, for example, also those who argue the average or minimum utility should be maximised.

Besides utilitarian principles there are also other ideas about how to deal with moral dilemmas, such as the precautionary principle and inalienable rights and liberties. Students need to become familiar with these different ways of approaching normative trade-offs, as they are relevant for many real-world problems.

The goal here is not to teach students how they should independently make value judgments, but to learn how to identify underlying normative assumptions and trade-offs and clearly communicate them to non-economists. Or in Huei-chun Su’s words (2012, pp. 378-379): “Normative economics in this sense is primarily concerned with exploring the way of making an evaluation, but it does not have to commit to endorsing the evaluation. In this way, normative economics only relates to value judgements but does not make value judgements.” It is not about teaching students ‘what is right’, it is about teaching them how to clearly see where and how value judgments are being made throughout the analysis.

Since it is not economists themselves who should make normative decisions, students should learn how the general population sees certain central normative trade-offs. This can be done by looking at interviews and surveys of citizens, or letting students conduct new ones. Of course, it is not a matter of learning survey data by heart, nor should students internalise majority opinions on a certain issue as ‘the right view’. Rather, learning the habit of looking at the normative choices of people can help students to realise the range of value-judgements that may exist beyond the ‘common sense’ they personally are used to or automatically adopting the values or interests of their employers – looking outside their own values bubble, as it were.

How can this be done? A course on labour economics, for example, generally covers the topic of unemployment and frequently also discusses the related policy options. When discussing these different social policies, one could explicitly identify the normative questions involved in the different aspects of those policies. Kuhn et al. (2020) and Nicoli et al.

(2020), two papers related to one research project, identified the following six questions as main normative issues concerning EU social policy:

1. How generous should the unemployment benefit levels be?
2. Should there be training and education opportunities for unemployed citizens?
3. How much between-country redistribution should there be?
4. How much tax are you willing to pay and should there be progressive, proportional or regressive taxation?
5. Should it be centrally administered by the EU or decentrally by national governments?
6. How much job search effort do unemployed citizens need to do to be able to get benefits?

Surprisingly they found that the majority of the EU population is in favour of such an EU unemployment scheme. But citizens' support depends heavily on the choices made concerning the normative issues mentioned above. Most EU citizens prefer decentralised implementation, more generous programmes, requiring education and training opportunities as well as job search effort conditions, and low as well as progressive taxation. The point here is not that these are the 'right' moral positions, but rather that these are simply the normative choices most EU citizens would make. By looking at the results of such surveys students become aware of the normative choices citizens prefer and develop a feeling for what is generally considered important.

## 2 Visions for the Economy

Next to the normative elements embedded in analytical tools and normative principles for decisions, normative visions and ideas on economies are relevant for economics education. Such economic visions are often at the core of political ideologies and the directions in which societies develop. These visions can range from short-term concrete policy proposals to idealistic visions of utopian economic systems. These ideas about how to structure and organise an economy are thus crucial for any economist to be familiar with. Again, this should not be aimed at turning economics students into believers of those visions. Instead, the goal should be to make students knowledgeable about the wide variety of visions, so they can develop a good understanding of them and are able to inform non-economists about them.

The central challenges of an age generally define its normative discussions. The main societal challenges of our time seem to be climate change, pandemics, rising levels of public and private debt, cultural clashes between nationalism and cosmopolitanism, growing inequality and a concentration of economic power. It is key to teach students something about the range of economic visions on these topics.

Taking climate change as an example, it would be useful to expose students to debates between the ideas of green growth, degrowth as well as growth agnosticism. Green growth is based on a future vision in which ecological sustainability is accompanied with a further rise in GDP, often linked to a strong belief in technological progress (Allan & Meckling, 2021; Meckling & Allan, 2020; OECD, 2021). Opposing this idea, the degrowth perspective envisions a sustainable future in which GDP has declined, because they argue it will not be possible to fully decouple GDP growth from resource use and carbon emissions (Haberl et al., 2020; Hickel, 2020; Hickel & Kallis, 2020). Then there are those who want to shift the focus of the debate because they argue GDP is not a particularly relevant topic or economic goal. Instead, they argue that human wellbeing should be the goal of economic activity, making them focus on the relationship of sustainability with wellbeing, rather than with GDP (Van den Bergh, 2011; Van den Bergh & Kallis, 2012). As such, they are growth agnostic, being indifferent to GDP's development and focusing instead on human wellbeing.

These economic visions are likely to shape the coming future as they are already influencing political movements and policy decisions. Students need to learn at least their outlines. Besides having strong links to societal challenges, these economic visions are also deeply connected to economic organisations and mechanisms (Building Block 5) and political-economic systems (Building Block 6). Therefore, it is important that students become familiar with the various moral views on ways of organising economies. Given that most economies are currently mainly organised along capitalist lines, it is perhaps no surprise that normative discussions about capitalism are particularly relevant. However, in a master's programme specialising in labour economics for example, it would be particularly important to expose students to the different normative visions on how labour should be organised and rewarded.

In sum, students should learn about the different visions that exist about how the economy could or should look. In addition, it seems particularly promising to connect these discussions about normative ideas to societal challenges as well as ways of organising economies.

### 3 Practical Suggestions

Firstly, meaningful normative discussions require shared reference points: a solid grounding in analytical and real-world knowledge. For instance, when discussing the different visions on the future concerning climate change, it pays to first discuss with students what climate change is and how it has evolved so far.

- What are the main causes of climate change?
- How far are we from reaching the various planetary boundaries (and by how much have we already exceeded some of them)?
- How much of our natural resources have already been depleted and how much is left?
- What are the future scenarios climate scientists think are likely?
- Which sectors and countries have been mainly responsible for the emissions?
- What is the state of the different sources of energy?
- etc.

Without such knowledge, students would not learn how to form informed, rather than purely ideology-driven, opinions.

Secondly, we think this building block provides the perfect opportunity to let students practise their communication skills, both in written and spoken form. The most direct method would be to ask students to write essays and debate about the normative positions they believe in. Additionally, it can be very useful to make students defend normative positions that are not their own. This forces them to consider the strengths of positions that they personally disagree with, and the weaknesses of the position they hold themselves. It is a particularly relevant skill for their careers, as being able to understand others' normative ideas is often a lot more important than convincing others of yours.

Another way to do this could be to give students the assignment to prepare a written argumentation on a normative question and hand this in. Based on their answers, every student is linked to another student who views the issue from a different perspective and arrives at another conclusion. Thereafter, every couple gets a limited timeslot, for example one hour, to explain to each other their argumentation and reasoning. Directly after this, students have to write down the argumentation of the other as best as they can, thereby testing how well they understand their opponents' reasoning. Finally, the teacher compares the original assignments with the written recounts, assessing how many of the key arguments match. Each couple receives one grade so that both their explaining and listening skills are rewarded and teamwork between (intellectual) opponents is stimulated.

Some interesting questions to discuss could be the following:

- Is material consumption the goal of the economy?
- What level of inequality is justifiable if it contributes to economic growth?
- Is alienation a justifiable side effect if the work creates economic growth?
- Do owners or shareholders have the sole moral right to make decisions in firms or should other stakeholders, such as workers and consumers, have a say on decisions as well?
- What should be commodified, and what do we find too sacred or too dangerous to trade or manage commercially? Consider for example, organs, humans, human time, education, housing, citizenship,

mind-altering substances, weapons, land, medicine, ideas, techniques, prisons, the right to pollute, or political office.

- Should trade in these items be forbidden, regulated through limiting rules or market mechanisms, or left free? Sandel's *What Money Can Buy* provides great material for such discussions.

Furthermore, taking controversial positions should not be punished, but nor should students be pushed to choose an ideology to believe in. It should be perfectly fine if students take nuanced and complex positions that are not easily put in ideological boxes. So when giving such randomly assigned normative positions, we think it is important to not only assign ideologically stereotypical positions.

Finally, and connected to the point above, it can help to link such exercises to real historical or recent cases to ground them in reality and link them to specific contexts. This is also what they will be doing in their careers, so it only makes sense to give them experience in doing so.

## Teaching Materials

- *The Oxford Handbook of Ethics and Economics* by Mark D. White, from This extensive collection of essays explores the many moral dimensions of economics, from different ethical theories and the ethics in schools of thought, to the ethics of money, labour markets, risk, law, civil rights and ecological sustainability.
- *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 Oxford Handbook of Professional Economic Ethics* by George F. DeMartino and Deirdre McCloskey, from 2016. This insightful collection of essays explores the different aspects of ethics in economics, with special attention to ethical issues related to economic theory, research and policy advice.
- *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.
- *Is Capitalism Obsolete? A Journey Through Alternative Economic Systems* by Giacomo Corneo, from 2017. A systematic and sharp overview of different (mainly socialist) economic systems that helps students think analytically about their allocation and coordination mechanisms and informs them about the possible ways of organising economies and the arguments for and against the various options.
- *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: <https://www.ineteconomics.org/perspectives/videos/what-money-cant-buy>
- *Thrive: Fundamentals for a New Economy* by Kees Klomp & Shinta Oosterwaal, from 2021. This collection of essays introduces students to various visions for how the economy could be run, from regenerative, wellbeing and common good economics, to doughnut, buddhist and degrowth economics.



# Conclusion

In this concluding chapter, we briefly review what this book has offered and then look ahead, offering practical suggestions and ideas for economics teachers and professors, programme directors and students.

## 1 A New Vision for Economics Education

Our rapidly changing world is faced with many economic challenges, such as increasing debt levels, staggering inequalities and serious forms of ecological breakdown. These challenges are complex and cross multiple dimensions of our social and natural systems. To face these troubles, therefore, it is not nearly enough for economists to hold knowledge in formal, theoretical abstractions. Whilst these may be sophisticated, they only reflect a fraction of what is actually going on in the real world. We need broadly-trained economists with an understanding of the real-world economy. We need economists who know for example how the main industries work, who can grasp the interfaces between state and corporate systems and who see how economies are embedded in the society and ecology at large.

This requires open minds which can look at issues from a variety of perspectives. Given the multifaceted nature of economic systems, no single theoretical framework or methodology can answer all questions, or capture all of its dimensions and mechanisms. Instead, economists need the ability to think critically and evaluate the appropriateness of a range of fundamentally different approaches. In doing so, they also need to be able to clearly distinguish and explicitly discuss the moral dilemmas and normative trade-offs involved in economic decisions.

This book sets out a concrete path towards building such a pluralist and real-world based economics curriculum. While we envision a large diversity of possible economics programs, we suggest that all programs would be improved by following these three organising principles: a pluralist toolkit of theories and methods, sufficient real-world economic knowledge and practical skills, and active training in the consideration of moral and social questions. To flesh out these principles, we propose ten concrete Building Blocks: practical material for the creation of courses. These Building Blocks include introductory material, history of economic thought and reality, forms of economic organisation, research methods, theoretical approaches, normative ideas, practical skills and knowledge of the real economy.

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What kind of graduates would a program based on these ideas and materials produce? It is important to acknowledge that they would not have all the skills that current-day graduates have. They would have less mathematical sophistication, less expertise in econometric analysis, and less knowledge of neoclassical theory. In exchange for this, students would gain a deeper understanding and more concrete knowledge of the economy they will live and work in. This includes:

- An understanding of the linkages between the economy, the environment and society.
- The ability to analyse different types of economic topics and problems, by using a variety of theoretical and methodological approaches.
- An integral understanding of how various smaller mechanisms make up larger economic systems.

- Practical skills for investigating and resolving questions of economic policy: both understanding the context and choosing the right tool.
- The ability to argue morally as well as analytically, and to clearly distinguish the two.

In short, such programmes would produce academically-trained professional economists: broad thinkers and practical scholars, rather than students who are trained to write academic research papers.

## 2 Change Is Necessary and Possible

It will not be easy to build such programmes. We fully realise that these changes cannot be introduced overnight. Surprisingly rare is the academic economist who can teach even a basic introductory course on their national economic sectors and institutions. The structure of the discipline - highly internationalised, methods-centred and organised around a single pyramid structure of journals - does not facilitate the creation of such knowledge. The same applies to pluralism in economic theory: the decades-long marginalization of valuable schools of thought has left us with a dearth of suitably trained academics.

In addition, academic programmes tend to have a strong path-dependency. Most are only updated infrequently and changed piecemeal. Long-running courses have to be adjusted, the order of courses stacking on top of each other has to be reconsidered, new courses have to be developed and new expertise has to come into the economics departments. In many countries, national or international frameworks regulate academic programme content. In short, this is a long road, but one that we believe is both necessary and possible.

The changes we propose are necessary. The devastating impact of our economy on the life-sustaining ecological systems of this planet is increasingly visible, making the realistic study of that economy all the more urgent. The unprecedented centrality of the economy in our society and the big role of economic ideas in political decision-making make it all the more vital for economists to be firmly rooted in the real world, to have a pluralist perspective and to be trained in distinguishing the moral tangles inherent to economic questions. We need to prepare a new generation of economists, and we should start this work now.

And the changes we propose are possible. Indeed, they are happening, thanks to the energy of a growing worldwide network of students and academics. More and more pluralist and real-world textbooks, course formats, readers, best practices and other materials are becoming available (see the online *Teaching Materials* resource chapter for many examples). Increasingly, faculties are teaching economics primarily as a subject-based pluralist discipline, rather than a method-centred monist approach. Economic faculties are hiring academics from other theoretical schools and other disciplines, thus reversing the narrowing of the past decades and enriching both students and colleagues with fresh insights. Various universities are starting to experiment with teaching-based career tracks, enabling staff to focus on developing better teaching materials rather than spending every free minute on trying to get published in mainstream academic journals. Pluralist programs are springing up inside and outside of traditional economics departments, throughout the academic world. Perhaps most importantly, more and more faculties are opening up to the idea of widening their student's view beyond the traditional theories and methods.

### 3 Calls to Action

But while there are hopeful signs of change, this is only the start. We need more students, teachers, programme directors and deans to make a difference and help ensure that the economists of the future are prepared for their roles in society. So what can each of us do to bring economics education to a higher plane?

**Students**, be critical of what you are learning. Do not just ask: “*Is this part of the exam?*”. Instead, ask: “*Does this reflect the real world?*”, “*In what other way could one also look at this issue?*”, and “*What are the moral dilemmas surrounding this case?*”. Look up the course you are following in chapter *Tool 2: Adapting Existing Courses* and discuss the suggested additions and changes with your teacher. Design your own ideal course with the tool of chapter *Tool 4: Example Courses* and campaign to make your dream into a reality. Talk to your lecturers and find out who is interested in your ideas. Build public support by publishing an open letter or petition that advocates for the creation of this new course.

Get in contact with the programme committee and apply the *Tool 3: Curriculum Review* to your programme to see what could be improved. Build, or join, a local team of critical students. Organise a reading group or an event. If you want, you can get affiliated with the international Rethinking Economics network and benefit from the experience, contacts and resources of a large worldwide network of student groups. Doing it together will not only help you last longer and achieve more impact, it will also be more fun.

**Teachers**, think about what you are preparing your students for. Less than 3% of them will become academic economists, the rest will work inside government agencies, policy institutes and think-tanks, (central) banks and other financial corporations, private sector and not-for-profit companies, NGOs and campaign groups, and journalistic entities. As such, they will work on tackling practical and real-world problems, rather than publishing academic articles. So, confront your students with the messy and complex real world, let them practice tackling actual cases, start lectures with today’s newspaper, ask guest speakers from the relevant field, and let students go out of the classroom and see it with their own eyes.

Stimulate open discussions and active participation from students, bring in literature from other disciplines, actively expose the weaknesses of the theories you are teaching. Make normative assumptions explicit and let students struggle with the resulting moral dilemmas. Make sure that you are not just pushing through a textbook; be proud of your role as a teacher and use it. Make use of the suggestions provided throughout this book, and in particular in *Tool 2: Adapting Existing Courses*. Kick-start discussions, play devil’s advocate. Trigger students to start thinking, critically and independently.

Most academics reach many more people through their teaching than through their academic papers. Yet today, teaching is underappreciated and under-rewarded. Often, the time allocated for teaching is not nearly enough. Please speak out about this. Challenge that status quo, with the students as your allies.

**Deans and programme directors**, support and facilitate good teaching. Make sure that your faculty have enough resources and time available for teaching. Enable them to constantly improve their teaching and update the taught material. Give students a voice and role in designing and adapting the courses. And ask yourself: how is our program built? Was it created through a departmental power struggle about which professors’ specialisation is more important and deserves most space in the programme? Or is it carefully designed based on a clear idea of the societal roles students are being prepared for?

Do not be afraid to deviate from the standard programme at other universities. Variety in programs makes economics education stronger, not weaker. Take a look at the chapter *Tool 5: Example Curricula* and draw

inspiration from other innovative programmes. And try your hand at the Curriculum Review Tool, to see where in your programme there might be gaps in terms of relevant knowledge or skills. You could also ask teachers or students to run this analysis, and set up a series of meetings to discuss the outcomes. Or you could ask members of the international Rethinking Economics movement to organise a workshop or conference to further explore how the programme could be improved. Attention and open discussion about how to better economics education can only be positive, contributing to better prepared future economists.

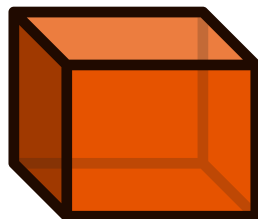
**Governments**, create the right conditions for good economics education. Look at how resources for teaching and research are distributed. Does this encourage relevant, open-minded and interdisciplinary research and teaching, or does it encourage scoring on the intellectual square millimetre through a competitive ‘publish or perish’ system? Are universities stimulated to offer their faculty career options focused on education and reward good teaching? Governments could also follow the French example (2014) and initiate an independent and in-depth investigation of the state of the economics education in the country.

Climate change, inequality, economic instability, ageing, power concentration, pandemics, biodiversity loss, social polarisation, resource depletion, migration, poverty; these are core challenges for the world of today and tomorrow. Economists have a central role in society and need to tackle these challenges head-on. Reforming and modernising economics education is therefore of great importance not only to the students and teachers directly involved in it, but also to society as a whole. Let’s build better courses and programmes, together.

# Ready to get started?

This book is free and open access. We hope it serves you. Here are three things you can do to help this movement for renewing economics education:

- 1. Send this or another booklet to three colleagues/students: [economy.st/short](http://economy.st/short)**
- 2. Contact us to organize a workshop at your faculty: [economy.st/workshops](http://economy.st/workshops)**
- 3. Subscribe to the newsletter: [economy.st/news](http://economy.st/news)**



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