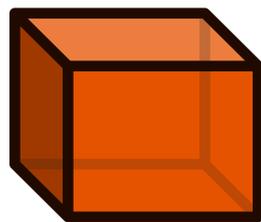


# Economy Studies for Finance

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



**Economy  
Studies**

Sam de Muijnck & Joris Tieleman

Rethinking  
Economics

one  
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 finance 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
- 6 Economy Studies for Economics 101
- 7 Economy Studies for Microeconomics
- 8 Economy Studies for Macroeconomics
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- 15 Economy Studies for Finance
- 16 Economy Studies for Monetary Economics
- 17 Economy Studies for International Economics
- 18 Economy Studies for Game Theory
- 19 Economy Studies for Behavioural Economics

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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 Finance Courses.

For a sketch of how the theory part of a pluralist finance course could look, see the Pragmatic Pluralism chapters.

For ideas and materials on teaching students about economic history, 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 Finance 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

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

Frequently used textbooks::

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

# Suggested additions and changes

## Practical skills and real-world knowledge

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

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

## A range of analytical tools and approaches

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

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

## Teaching Materials

- *Economics After The Crisis* by Irene van Staveren, from 2015, chapter 9. This useful and pluralist textbook discusses financial markets from the neoclassical, institutional, social and post-Keynesian perspectives.
- *Economics: The User's Guide* by Ha-Joon Chang, from 2014, chapter 8. This book provides a pluralist and accessible introduction, with one chapter specifically devoted to finance.
- *Introducing a New Economics* by Jack Reardon, Maria A. Madi, and Molly S. Cato, from 2017, chapters 13, 14 and 17. This textbook introduces the topic of finance in a pluralist and real-world manner.
- *The Economy* by The CORE Team, from 2017, chapters 10 and 17. This textbook introduces students to money, banks and financial crises by explaining recent mainstream insights and empirical findings.
- *Principles of Economics in Context* by Jonathan Harris, Julie A. Nelson and Neva Goodwin, most recent edition from 2020, chapter 26. This textbook, which pays particular attention to social and environmental challenges, devotes one chapter specifically to money and finance.
- *Macroeconomics* by William Mitchell, L. Randall Wray, Martin Watts, from 2019, chapter 10. This textbook written by three leaders of Modern Monetary Theory (MMT) has one chapter specifically devoted to money and banking.
- *The Handbook of Economic Sociology* by Neil J. Smelser and Richard Swedberg, from 2005, chapters 22, 23 and 24. This extensive and yet accessible book for non-sociologists, provides an impressive and useful overview of the field of economic sociology, including a chapter on finance.

- The anthropology of money by Bill Maurer, from 2006. An insightful review article discussing money and finance from a cultural, social and performative perspective.
- “No one saw this coming”: Understanding Financial Crisis Through Accounting Models by Dirk Bezemer, from 2009. A useful article discussing how equilibrium models were not able to anticipate the credit crisis, while accounting models were.
- An Engine, Not a Camera: How Financial Models Shape Markets by Donald MacKenzie, from 2006. A book on the performative perspective on finance, looking at how economists’ analytical tools can influence how financial markets work.
- Behavioral Finance: Psychology, Decision-Making, and Markets by Lucy Ackert and Richard Deaves, from 2010. A book on the behavioural perspective on finance, looking at how cognitive limitations and irrationalities shape how financial markets work.
- The Routledge International Handbook of Financialization by Philip Mader, Daniel Mertens, and Natascha van der Zwan, from 2020. A useful and extensive collection of essays on different aspects and perspectives on financialisation, a key development of the last decades.

## Institutions and different ways of organising the economy

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

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

### Teaching Materials

- Modern Financial Systems: Theory and Applications by Edwin H. Neave, from 2011. This textbook explores how financial systems can be structured, with market and non-market governance forms, different kinds of market activities and relations, intermediation by banks and regulation.
- Comparing Financial Systems by Franklin Allen, Douglas Gale, and Julius Silver, from 2001. This textbook compares the financial systems of different countries and discusses the different options in terms of corporate governance and banking structure.
- The Financial System, Financial Regulation and Central Bank Policy by Thomas F. Cargill, from 2017. A book on how the financial system is structured and has emerged, discussing historical and current ideas and real-world developments.
- Principles of Sustainable Finance by Dirk Schoenmaker and Willem Schramade, from 2018. An accessible and well-structured textbook explaining to students how finance can become sustainable, paying attention to integrated reporting, long-term value creation, internalizing externalities, and approaching equity, bonds, banking and insurance differently.
- Between Debt and the Devil: Money, Credit, and Fixing Global Finance by Adair Turner, from 2015. A book on the current financial problems and innovative ideas to solve them coming from an influential ‘insider’.
- The End of Alchemy: Money, Banking and the Future of the Global Economy by Mervyn King, from 2016. Another book by an ‘insider’ which connects personal insights with an accessible description of how our thinking has developed over time, and how the financial system does and should work.

## Societal relevance and normative aspects

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

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

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

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

### Teaching Materials

- Ethics and Finance by John Hendry, from 2013. A useful introduction into the many (a)moral aspects of finance, such as the ethics of lending and borrowing, trading, speculation, financial products, and regulation.
- The Oxford Handbook of Ethics and Economics by Mark D. White, from 2019, chapter 17. This highly useful and extensive collection of essays explores the many moral dimensions of economics, with one chapter devoted to the ethics of finance and money.
- The Oxford Handbook of Professional Economic Ethics by George F. DeMartino and Deirdre McCloskey, from 2016, chapters 14 & 15. This insightful collection of essays explores the different aspects of ethics in economics, with two chapters devoted to economists' (non)ethical behaviour in the build-up to the global financial crisis of 2007-2008 and the lessons we can learn from it.

## History

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

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

help students better understand the different theoretical ideas and models about how finance works.

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

### Teaching Materials

- *A Concise History of International Finance: From Babylon to Bernanke* by Larry Neal, from 2015. A detailed history of how finance has evolved over time, with particular attention to financial innovations, crises, government regulation, and international dynamics.
- *Money and Government: The Past and Future of Economics* by Robert Skidelsky, from 2018. This well-written and insightful book introduces readers to historical and current debates about money, with particular attention to neoclassical and Keynesian ideas.
- *The Oxford Handbook of Banking and Financial History* by Youssef Cassis, Catherine R. Schenk, and Richard S. Grossman, from 2016. An impressive collection of essays on the history of finance, with its many different aspects, from banking types and varieties of financial markets, to financial crises and the role of the state.
- *The Ascent of Money: A Financial History of the World* by Niall Ferguson, from 2008. A well-written and accessible book on the fascinating history of money and finance. There is also an accompanying documentary by the same name, as there are many other informative documentaries and movies on finance and the global financial crisis of 2007-2008 in specific, such as *Inside Job*, *The Warning*, *Boom Bust Boom*, *Margin Call*, *The Big Short*, and *Money, Power and Wall Street*.
- *Crashed: How a decade of financial crises changed the world* by Adam Tooze, from 2018. A detailed and well-written account of the global financial crisis of 2007-2008 and the decade that followed it, with accessible explanations of the technical workings of finance and theories about it as well as sharp descriptions of the role of politics and close up personal accounts of individuals making decisions.
- *Manias, Panics, and Crashes: A History of Financial Crises* by Charles P. Kindleberger, most recent edition from 2015. A classic in the genre, describing in a highly accessible and even entertaining way the complex history of financial crises.
- *Boom and Bust: A Global History of Financial Bubbles*, by William Quinn and John D. Turner. A more recent book devoted to the fascinating history of financial crises, with specific chapters devoted to questions related to predicting bubbles and more recent developments in China and Japan.

### What to take out

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

# Pragmatic Pluralism: Overview

Key insights and ideas for thirteen core topics in economics, organised by selecting the most relevant theoretical approaches per topic and contrasting them with each other.

This chapter provides a map through the complex jungle of economic theories. There are many different theoretical approaches, and each aspect of the economy has been analysed by a number of different ones. However, it is neither feasible nor productive for students to engage with every possible angle for every topic. Hence, this chapter, together with *Building Block 8: Economic Theories*, sets out an alternative approach: pragmatic pluralism. That is, make a selection of the most relevant theoretical approaches for the topic that is taught.

The building block chapter sets out the general approach of *pragmatic pluralism* (see [economy.st/bb8](http://economy.st/bb8)). This chapter instead focuses on the content, applying the pragmatic pluralism approach to several of the core topics in economics. The full chapter (see [economy.st/pragmatic](http://economy.st/pragmatic)) covers the following thirteen topics:

- 1 Governments
- 2 Business Cycles
- 3 Consumption
- 4 Economic Development
- 5 Finance
- 6 Firms
- 7 Households
- 8 Inequality
- 9 International Trade
- 10 Labour
- 11 Markets
- 12 Money
- 13 Nature

To reiterate, the core logic of this approach to teaching economic theory is that whilst pluralism is an essential aspect of academia, we also need to be pragmatic to successfully apply it in practice. Rather than pursuing the extreme of either only focusing on one approach, or including every possible strand of thought for every topic, we propose a pragmatic middle ground: teaching a select number of approaches for each topic. In this way, it is possible to introduce students to the variety and diversity of economic thinking, whilst still having enough time and space to properly discuss each of the insights in detail with them.

*“Reasonable people may have different theories of the way the economy works – different pictures in their heads of what connects one thing with another in the economic system.”*

**Solow** (1983, p. 67)

Theory is the beating heart of all social sciences, including economics. It allows one to understand the components, processes and causal mechanisms characterising various social phenomena in a more structured and systematic manner. However, every topic can be understood from various theoretical perspectives, which can both complement and contradict each other.

Most contemporary economics programmes focus almost exclusively on neoclassical theory. In opposition, some other programs choose to focus entirely on another perspective. We believe, in contrast to both, that there is no single ‘correct’ or ‘best’ way to understand the economy as a whole. It is too large and complex to be captured by a single point of view.

Hence, we propose a fundamentally pluralist approach to teaching theory. It is essential to teach students a variety of approaches to give them a rich and broad understanding of the topic, the debate around it and learn to think critically and not to take things as absolute truths. Approaches should be judged on their merits, topic by topic: thinking critically and reflectively to decide which theoretical points of departure help us best to understand this particular corner of the economic system.

Including this pluralist discussion is crucial for the development of students’ vital critical thinking skills, through the investigation of links and contradictions between the insights learnt. For a pluralist economics education to be truly valuable, students must graduate not just with strong knowledge of a range of perspectives and methods, but also with a critical understanding of the limitations and blindspots of those tools. Without this, they will struggle to select the most relevant approaches to the task at hand, and to judge how much confidence to have in the conclusions that they reach. Active discussion also has the additional benefit of making sure that students are genuinely understanding the content taught to them, rather than just temporarily memorising it for an exam.

## In Practice

So how does this approach work when applied to a topic?

Each topic is subject to debate between alternative views, and to make students familiar with these competing theories, for every topic the two main opposing perspectives are selected. But not all differing ideas and theories are necessarily in conflict with each other. There are also approaches which can supplement one, or both, of the main opposing perspectives, contributing to a richer understanding of the topic. Therefore, each topic also contains one main complementary perspective. On top of these three main theoretical approaches, there are many other useful ideas that students could benefit from by learning about. For this reason, we provide a short summary of other useful insights and ideas that could be included for each topic.

For each topic, we suggest a few particularly useful teaching materials. In the resource chapter *Teaching Materials*, we provide longer lists of suggestions.

The topics presented below could be, and often already are, taught in individual courses. They can also be combined, especially when there is significant overlap such as with Finance and Money for example, although this does of course shorten the teaching time that can be devoted to each topic and its insights. As to determining the relative teaching time to the various perspectives, the following rule of thumb could be useful: the first half of the course is devoted to the two main opposing approaches, the third quarter to the complementary perspective and the last quarter to the other useful insights. As with every rule of thumb, the specific case and context should be taken into account and we advise teachers to determine the relative teaching time devoted to each insight taking the local situation into account.

## Cautionary Notes

Before we go into the specific ideas and insights, we want to provide a short recap of the cautionary notes, which are described in full in *Building Block 8: Economic Theories* (see [economy.st/bb8](http://economy.st/bb8)).

Firstly, the following overview should be viewed as only one possible example of a pragmatic pluralist approach to teaching economic theory. An overview such as this one should never be set in stone, as the discipline itself is also constantly evolving. While some approaches, such as complexity economics, currently have relatively few insights listed in the overview, this might change over the coming years as more scholars will further develop this approach and apply it to different topics.

Secondly, the overview could easily be expanded to allow for more detail and nuance or a wider range of perspectives or topics. The examples have been written to suit the time constraints of an individual module. The framework could be adapted for a relatively brief programme, such as an economics major in a liberal arts programme, by selecting fewer perspectives for each topic and including fewer topics and possibly combining them into individual modules. Equally, if the available teaching time is greater, for example with a theory-oriented four year undergraduate economics programme, more topics, insights and a greater range of perspectives could be included.

Thirdly, our economics education and own reading has shaped the topics and perspectives that are presented below. This is greatly influenced by living and studying in the Netherlands, and Europe more broadly, and the strong bias in the discipline as a whole towards economic thinking from the Global North. We strongly believe that economics curricula need to be decolonised and with this book we try to contribute to this. To help us do so, we have asked students and professors from all over the world, as well as organizations active on this issue, such as *Diversifying and Decolonising Economics*, for advice. Nevertheless, it is important to say that this is not an area that we personally have particularly strong knowledge in and feel that more could, and should, be done in this regard. We therefore welcome all suggestions on how the content in this chapter, and the rest of the book, could be enriched and improved by including other topics, perspectives and insights.

Finally, this technique of putting approaches as well as topics in separate boxes is only a heuristic for identifying the most important ideas and insights to teach. Many of these approaches and topics are strongly interlinked and can be difficult, or even impossible, to truly separate from each other. As a result, individual thinkers and their ideas can be difficult to put into a single box. For instance, Joseph Schumpeter built on classical, historical, Marxian, Austrian and neoclassical ideas, and is often seen as a key inspiration for evolutionary economics, which is therefore also sometimes called Schumpeterian economics. It is important

that students learn about these links and become familiar with how both the ideas and the topics are connected.

With these cautionary notes in mind, we hope this overview can be of some help in putting the pragmatic pluralist approach in practice and adapting economic theory courses.

## Core Theoretical Insights Organised by Topic

Below we have put the thirteen economic topics (along the top) and sixteen theoretical perspectives (down the side) in a table to give an overview of how our pragmatic pluralist approach works.

It would be possible to fill in every box (representing a combination between a topic and an approach) to create what could be described as ‘indiscriminate’ pluralism. We think that for research purposes, such an approach could be very useful as it could generate new insights by utilising approaches previously not applied to a topic. However, for education we would not advise such an approach, as it would be impossible to teach every possible perspective on a given topic in a meaningful way, given the limited teaching time available. Instead, we advise teachers to focus on the main insights into their chosen topic. In other words, when teaching an economics course, they should focus on the combinations of the topic and perspectives that are most important. For every topic, we have noted to the two main opposing perspectives with ■, the main complementary perspective with □, and the perspectives that can provide smaller but still valuable additional insights with +. In this way, many boxes stay empty. This does not mean that the perspective has nothing to say on the topic, as it often does. But economics education requires us to make choices as to what to teach and what not. In this overview, below we have presented an attempt at making such choices, asking which insights help us understand the world the most. Sometimes there are cases in which perspectives share a certain insight. This is discussed in the explanations of the insights, but for brevity each insight is attributed to a single perspective in the table.

	Governments	Business Cycles	Consumption	Economic Development	Finance	Firms	Households	Inequality	International Trade	Labour	Markets	Money	Nature
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				+					□				
Other	+		+			+		+	+				+

- Main opposing perspective
- Main complementary perspective
- +

# Pragmatic Pluralism 12: Finance

We are living in a financialized age. More and more aspects of our lives are governed by financial flows and assets, as the financial sector has grown enormously over the last decades. In addition, non-financial firms have become more financialized. But what is finance, and what is its function in the economy? Is it a place where risk and opportunities lead to rational pricing, or is it a place of herd behavior and speculation in a fundamentally uncertain world? And how can we see whether the financial system is robust or fragile?

## Main opposing perspectives

- Post-Keynesian economics: Animal spirits shape market movements
- Neoclassical economics: Banks are rational intermediators

## Main complementary perspective

- Complexity economics: Systemic risk

## Additional perspectives and insights

- + Behavioural economics: Systematic irrationality
- + Cultural economics: Analytical constructs shape the market

## Main opposing perspectives: Post-Keynesian and neoclassical economics

There are two long-standing strands of thinking about the role of finance within the economy. The first strand, deductive in nature, is often referred to as equilibrium models. It originates from the physiocrats in the 18th century and is a central part of modern day neoclassical economics. The second, more inductive approach, is known as accounting or stock-flow consistent models. This strand of thought was born in the ideas of Jean-Baptiste Say and can today be found in modern day post-Keynesian economists.

The former sees the non-financial economy and rational individual behavior as key, arguing that money is merely a unit of account and that finance can be excluded from macroeconomic models. The latter in contrast emphasizes the importance of the monetary flows in modern economies and dynamics at the system, rather than individual, level. The strands derive their names from the fact that accounting models strive for completeness in capturing all flows (transactions) and stocks (balance sheets) in an economy, while equilibrium models only include variables that are theoretically deemed to be important in an economy defined by optimal outcomes (equilibria).

These differences might seem abstract and irrelevant, but they have enormous consequences for the world we live in. It is, for example, often said that no one saw the financial crisis of 2008 coming. This is, however, only true for those who used neoclassical equilibrium models (perhaps with the exception of Rajan, 2005). Various post-Keynesian economists did see it coming with the use of their accounting models, as Dirk Bezemer describes in more detail in his paper “No one saw this coming” (2009).

Neoclassical economics assumes the financial sector acts as an intermediary between savers and investors in order to ensure efficient capital allocation. This role of finance can be understood as pure intermediation in which they simply connect savings to investment opportunities. Within this theoretical strand we can also find the theory of the money multiplier. This theory refers to the situation in which commercial banks should only hold a certain ratio of reserves, that in turn determines the maximum amount of money they can create. In both cases, the financial sector, however, has a passive role as it simply facilitates the real economy. Based

on this understanding of the financial sector, many models have been built in order to explain the level of interest rates and asset prices. One of the most famous theories is the efficient-market hypothesis which sees investors as making rational trade-offs between risk and return based on all available information and thus argues that only new information should cause change.

In contrast to the neoclassical idea that the financial sector plays a passive role in the real economy, post-Keynesian economists argue instead that finance has an active and innovative role which has enormous consequences for the rest of the economy. They argue that financial decisions depend on animal spirits, instead of rationality, as decisions are influenced by instincts, emotions and proclivities.

The reason why post-Keynesian economists argue that financial decisions cannot be merely rational decisions made upon calculations of the probabilities of future events, is due to the existence of fundamental, or Knightian, uncertainty. When something is characterized by fundamental uncertainty it is inherently unpredictable and impossible not only to assign any form of probability but sometimes impossible to even imagine, in other words 'unknown unknowns'. Investors facing this type of uncertainty have no choice but to base their decisions upon knowledge of the past or on instincts. Furthermore, they point out that banks do not just intermediate, they create new money by granting credit. This is also linked to the idea that the credit cycle, which describes the expansion and contraction of access to credit over time, drives the business cycle. In opposition to the efficient market hypothesis, some post-Keynesian economists have therefore proposed the financial instability hypothesis. Prosperous periods cause speculative borrowing and bubbles to arise, which in turn end in a Minsky moment and credit crunch, which hurts the rest of the economy.

### Main complementary perspective: Complexity economics

Complexity economics overlaps to a certain extent with post-Keynesian approaches to finance as it focuses on system dynamics. Financial booms and busts are understood as self-reinforcing asset-price changes, which are prevalent but unpredictable as the decisions and forecasts of many individual agents in complex networks go through phases because of their interactions and feedback effects. An important topic is therefore systemic risk, which is the risk associated with the financial system as a whole, as opposed to individual banks, companies or firms, and thus is concerned with interlinkages and interdependencies. Systemic risk also explains why the failure of one individual entity can trigger a crisis for the entire system. Countering earlier popular ideas that diversification and deregulation are generally desirable, this line of research focuses on the risks associated with interconnectedness and ever more sophisticated financial instruments.

### Additional perspectives and insights

Finally, behavioural and cultural economics provide additional insights into how finance works by focusing on psychological, cognitive and social processes.

**Behavioural economics:** While largely staying within the neoclassical framework, behavioural finance assumes that people are boundedly, instead of fully or hyper, rational. People make errors because of their limited cognitive capabilities, lack of self-control, biases, loss aversion, time-inconsistent preferences, and emotions. Because of this, behavioural finance argues that people make systematic errors which create market inefficiencies, but also allow other participants to take advantage of this.

**Cultural approach:** Over the last decades, an increasing number of scholars has been applying the cultural approach to understand the world of finance. Economic anthropologists, for example, have used ethnographic methods to better understand everyday workplace culture and norms shape how the financial system works. Economic sociologists, on the other hand, have been mainly focusing on cognitive processes and the role of

economic ideas in the workings of finance. An important insight is that economic ideas can be performative in the sense that they can shape the phenomena they describe and thereby bring reality closer to their theory. One example of this, is how the neoclassical Black-Scholes-Merton model of option pricing initially poorly described pricing patterns, but later on became empirically successful as market participants began to use the model to trade.

## Teaching Materials

- Chapters & Papers:
  - Economics: The User's Guide by Ha-Joon Chang, from 2014, chapter 8. This brief and accessible pluralist book contains a useful introductory chapter on finance.
  - Economics After The Crisis by Irene van Staveren, from 2015, chapter 9. This well-written textbook sets out the neoclassical, post-Keynesian, social economic and institutional perspectives on finance.
  - Introducing a New Economics by Jack Reardon, Maria A. Madi, and Molly S. Cato, from 2017, chapter 14. This ground-breaking textbook introduces recessions and financial crises and weaves together pluralist theory and real-world knowledge.
  - The Economy by The CORE Team, from 2017, chapter 17. This successful textbook devotes one chapter to helping students better understand the Great Depression, the Golden Age of Capitalism, and the Global Financial Crisis.
  - Principles of Economics in Context by Jonathan Harris, Julie A. Nelson and Neva Goodwin, most recent edition from 2020, chapter 30. This useful textbook, which pays particular attention to social and environmental challenges, contains one chapter on the financial crisis.
  - Macroeconomics by William Mitchell, L. Randall Wray, Martin Watts, from 2019, chapter 10. This ground-breaking and much-discussed textbook written by three leaders of Modern Monetary Theory (MMT), introduces students to how money and banking work.
  - The Handbook of Economic Sociology by Neil J. Smelser and Richard Swedberg, from 2005, chapter 13. This extensive and yet accessible book for non-sociologists, provides an impressive and useful overview of the field of economic sociology, including a chapter on banking and financial markets.
  - Capitalism: Competition, Conflict, Crises by Anwar Shaikh, from 2016, chapter 10. This impressive and extensive book compares multiple perspectives on many traditional economic topics including finance and interest rates.
  - The Routledge Handbook of Heterodox Economics: Theorizing, Analyzing, and Transforming Capitalism by Tae-Hee Jo, Lynne Chester, and Carlo D'Ippoliti, from 2017, chapters 17, 18, 19 & 28. This broad and diverse book sets out a variety of theories on money, monetary regimes, banks in developing countries, shadow banking, and financialization.
  - Alternative Ideas from 10 (Almost) Forgotten Economists by Irene van Staveren, from 2021, chapters 1-4. This book emphasizes often ignored and neglected ideas and contains chapters on the ideas of Minsky, Keynes, Marx and Knight on crises, debt, demand, capitalism, risk and uncertainty.
  - "No one saw this coming": Understanding Financial Crisis Through Accounting Models by Dirk Bezemer, from 2009. An insightful article introducing students to the post-Keynesian models used to predict and understand the financial crisis of 2007-8.
  - Complexity Economics as Heterodoxy: Theory and Policy by Wolfram Elsner, from 2017. A brief article that helps students understand the complexity approach to economic theory and policy.
  - The anthropology of money by Bill Maurer, from 2006. This review article introduces students to the anthropological and cultural literature on finance and money.
- Books:
  - The Routledge International Handbook of Financialization by Philip Mader, Daniel Mertens, and Natascha van der Zwan, from 2020. An impressive collection of essays that summarizes the vast

literature on the increasing role of finance in the economy.

- *Principles of Sustainable Finance* by Dirk Schoenmaker and Willem Schramade, from 2018. This useful book looks at finance in relation to environmental challenges and helps students understand how it can promote rather than counter sustainability.
- *An Engine, Not a Camera: How Financial Models Shape Markets* by Donald MacKenzie, from 2006. This book introduces students to performativity theory and its understanding of finance.
- *The End of Alchemy: Money, Banking and the Future of the Global Economy* by Mervyn King, from 2016. Written by the Governor of the Bank of England during the financial crisis, this book gives students an insider as well as critical view of the financial world.
- *Between Debt and the Devil: Money, Credit, and Fixing Global Finance* by Adair Turner, from 2015. Another highly influential policy economist reflecting on how finance is organized and how this could be improved.
- *The Deficit Myth: Modern Monetary Theory and the Birth of the People's Economy* by Stephanie Kelton, from 2020. This influential bestseller sets out the core ideas of Modern Monetary Theory in an accessible manner and argues for changing how we think about and do monetary and fiscal policy.
- *Behavioral Finance: Psychology, Decision-Making, and Markets* by Lucy Ackert & Richard Deaves, from 2009. This book introduces behavioral economics and its approach to finance.
- *Liquidated: An Ethnography of Wall Street* by Karen Ho, from 2009. A highly influential anthropological study of finance and its wider impact on the economy.

# 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.

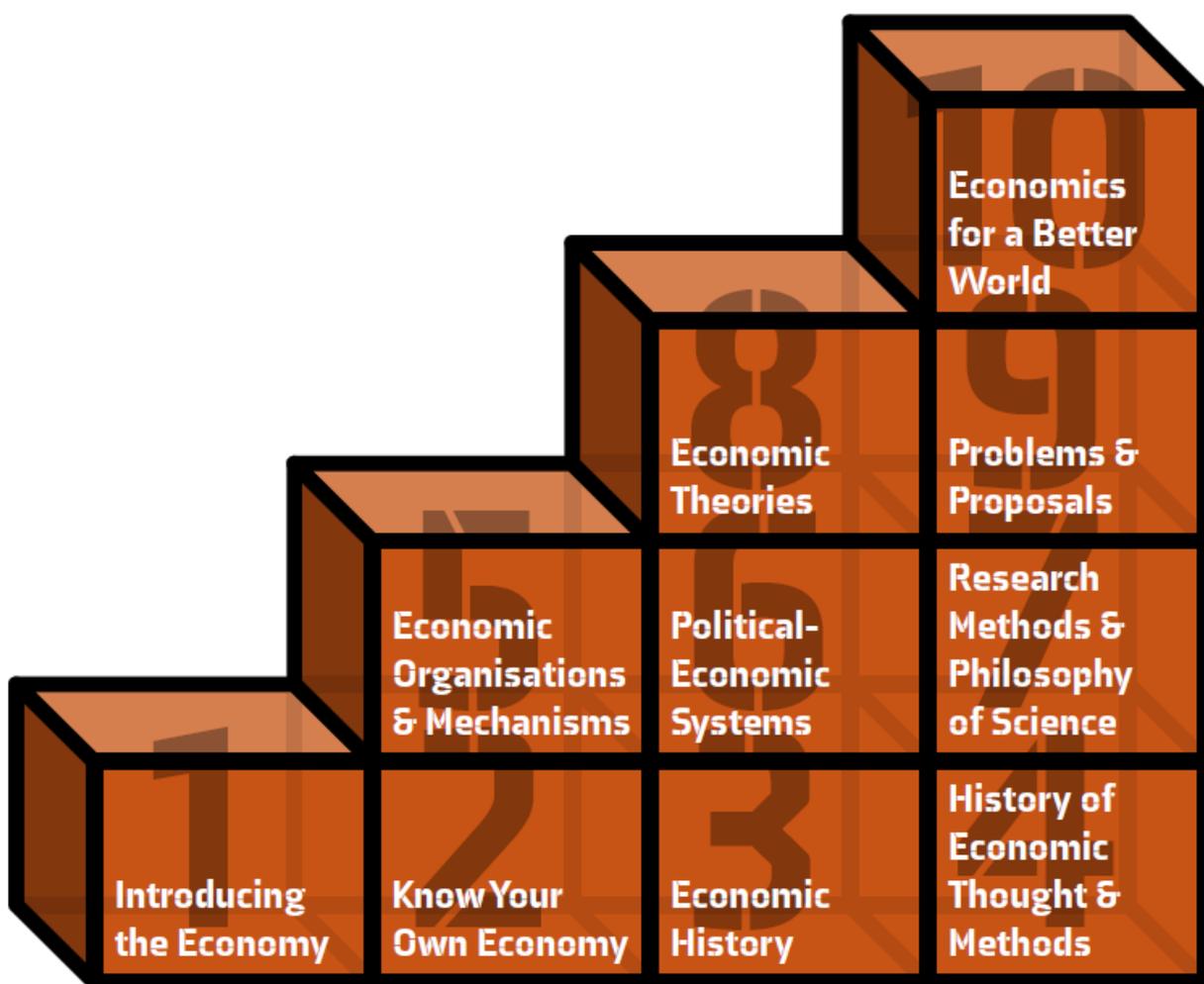


Figure 1: The ten building blocks that form the core of this book. The order of the numbers is not necessarily the order in which they should be taught. Their relative size varies, with building blocks 7 and 8 generally taking up much more space than the others.

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 3: Economic History

**The history of how the economy evolved over time, from the physical aspects of technology and nature to the social aspects of organisations, institutions and political-economic systems.**

*What:* Economic history is about the evolution of real-world economies, rather than the history of economic thought (see for this Building Block 4: History of Economic Thought & Methods). This building block focuses on what happened, how, and what effects it had. It helps students gain a basic understanding of the histories of different real-world economies and to learn from the past.

*Why:* The evolution of economies throughout history is a fascinating and motivating field, full of drama and action. It is also highly valuable for anyone trying to understand the current economy: history can provide great insight into how economic processes work and how today has come about. Finally, a good understanding of what has happened in the past can also help us understand what may happen in the future.

Economists have claimed, repeatedly, to have solved the economic problems of the past, such as booms and busts. Recent history, however, shows us that this is far from the truth. Many of the key issues of our time – financial instability, trade wars, economic inequality – are far from new. So, let us learn from the past to help us better understand how we can tackle the problems of today.

*Contrast with current programmes:* Currently, the history of the economy is often not taught in programmes. Some even argue that past events and structures are relevant only to historians, while economists should focus on the present. Consequently, economists lack historical knowledge. We propose teaching future generations of economists the basics of how economies have evolved and avoiding the (over)use of abstract models and econometric techniques.

## Sections:

- 1 Scope: Time & Geographical Scale
- 2 Physical Aspects of History: Technological Change & Nature
- 3 Social Aspects of History: Organisations, Institutions & Political-Economic Systems
- 4 Practical Suggestions

*“Nobody can hope to understand the economic phenomena of any, including the present, epoch who has not an adequate command of the historical facts and an adequate amount of historical sense.”*

**Joseph Schumpeter (1954, pp. 12-13)**

On August 13, 2007, as Goldman Sachs was making unprecedented losses, David Alan Viniar said “We were seeing things that were 25 standard deviation moves, several days in a row” (Conti-Brown, 2009). As the chief financial officer and executive vice president of Goldman Sachs at the time, Viniar used this statistical jargon to describe the ongoing events. His statement reflects, however, a severe lack of historical knowledge, leaving him unable to comprehend the economic phenomena he was part of.

His statement was based on an econometric model which Goldman Sachs used to analyse developments on financial markets. The model’s estimate that the events of that week were “25 standard deviation moves, several days in a row”, suggested they were supposed to happen only once every  $1.3 \times 10^{136}$  years (Conti-Brown, 2009). To put this into perspective, the universe is estimated to be some 13 billion years old,  $1.3 \times 10^{10}$ . Viniar’s workhorse model told him that what he was witnessing day after day was not supposed to happen in many lives of this universe.

A basic historical awareness of the fact that financial crises are periodically recurring would have helped this chief financial officer to comprehend the events he was witnessing. In general, a basic grasp of history is crucial to developing a sense of what is possible. Hence, we propose including economic history into economics programmes.

In this building block, we suggest a few dimensions to consider when designing courses on the history of economies. Different programmes will require different things in this regard, and the interests and personal expertise of the lecturer also make a big difference. Here, we hope to help lay out several options and to highlight the potential benefits and drawbacks of various choices. In Tool 4: Example Curricula, we provide illustrations of how one could use some of these options to create separate courses, or combine them with other building blocks to create new courses.

## 1 Scope: Time & Geographical Scale

When teaching history, it is important to first delineate a clear geographical and temporal scope. Geographically, the global, regional and national scales can provide useful delineations. Temporally, one might look either at the entirety of human history, at the last few centuries or at very recent developments. These various scopes can of course also be combined or taught in sequence. This is, after all, just a framework for course design.

Naturally, the larger the scale, the less room there is for detail. So, while students would benefit much from developing a basic understanding of world history, we would not advise spending equal time on each period of history. Instead, we suggest alternating between discussing very big topics in broad terms and treating smaller episodes in more detail. It is a balancing act, between having an historical overview of economies and understanding the complexity and nuance of changes in economies.

A brief note on teaching very recent developments. It is a misconception that history is only about long-gone days. History means concrete events and phenomena in the past, whether they occurred a long time ago or recently. Recent history, too, can be very useful for economists, as it helps them understand the situations they find themselves in today.

An important example of this for the current generation of economics students would be the history of the financial and economic crisis of the last decade. While most of us have kept track of major events in our lives, very few have a good understanding of precisely what happened in that crisis. Therefore, it could be useful to discuss in detail the events and developments of the last decade, using for example 'Crashed' by Adam Tooze.

Such recent histories are very important because they provide sophisticated and rich analyses of what happened, as opposed to the often simplistic and partial accounts that are prevalent in many debates around even the most recent events. As future economic experts, this can teach students how crucial it is to have a factual overview and contextualisation of phenomena in order to be able to grasp them. Furthermore, recent histories can show students how multidimensional economic events are and how useful a multidisciplinary approach is, as it also takes political, social and cultural factors into consideration.

We are aware that the advice above is quite general while this building block is, by nature, rather location- and time-specific. Exactly which aspects of history are most relevant also depends on the focus of each programme. We hope that the framework offered here can still prove useful in terms of selecting an appropriate scope and relevant historical episodes.

## 2 Physical Aspects of History: Technological Change & Nature

Having chosen a temporal and geographical scope, we suggest course designers split up the material into two aspects of history, and deal with them both explicitly: the physical and the social. The physical aspect refers to how human beings interact with their natural environment and the technologies they use. The social aspect, on the other hand, refers to how people together organise their economic lives through work, organisations, economic mechanisms, institutions and political-economic systems. The two are clearly related to each other and could very well be combined into a single storyline. Nevertheless, we think it is important to focus on both sides, as each captures different elements of history.

In terms of the physical aspect of the history of economies, there are three angles that seem particularly relevant: dominant forms of production, technological innovation, and relationship with nature.

Firstly, the dominant forms of production. Technologies have fundamentally changed economies, and with them, human life multiple times in history. The main story, in this regard, is that human societies moved from hunter-gathering, to horticulture, to agriculture and finally into industrial production. Many places, however, retained fishing, herding and maritime societies, which also played important roles in the world history of the economy. It is therefore important to teach students about how these different economies functioned. A useful book on this is *Human societies* by Nolan and Lenski.

Secondly, technological innovation. Given that technological change has often been a driving force of economic change, it is worthwhile to give students an idea of how technologies have developed over time. Which waves

of innovation have characterised the last centuries and how did they alter economic processes? How did these innovations come about and how did the knowledge of them spread? To discuss these matters, a helpful and accessible book is *A Short History of Technology* by Thomas Kingston Derry and Trevor Illtyd Williams.

Finally, nature. Throughout most of human history, human societies and, in particular, their economies were largely shaped by their natural surroundings. Today, this relationship has become a two-way street, as human beings are having an enormous impact on natural ecosystems and Earth's geology. It is crucial that students develop an understanding of how this happened. One could discuss questions such as: How have energy consumption and land use changed over time? Which countries and organisations have contributed most to these developments? How has the use of different energy sources changed throughout history, including recent development related to renewable energy? What policy measures have been taken over the last decades to tackle environmental and ecological problems? Who has historically paid the biggest economic and social price for humans' extractive use of nature? Useful books to discuss these issues are *Energy and Civilization: A History* by Vaclav Smil and *Climate Change: A Very Short Introduction* by Mark Maslin.

### 3 Social Aspects of History: Organisations, Institutions & Political-Economic Systems

Having considered the physical aspects of economic history, it is important to also teach the social aspects. Here we suggest looking at the differing ways in which humans have socially organised economic processes: through different organisational forms, institutions and political-economic systems. For an overview of these, see building blocks 5 and 6: respectively *Economic Organisations & Mechanisms* and *Political-Economic Systems*. Knowing how societies moved from one political-economic system to another is imperative. Yet, it is also valuable to develop an understanding of how political-economic systems themselves changed. So, for example, one could discuss how capitalism was deeply intertwined with colonialism, slavery, patriarchy, and imperialism – but later on became associated with the welfare state and representative democracy. These are all complicated issues that deserve attention in courses on the history of the economy. For this one can use different teaching materials, from academic readings to documentaries such as the DW documentary *Slavery routes – a short history of human trafficking*.

Recent history is again of particular importance here. How have political-economic systems changed over the last decades? How have the social structures and power relations of the economy changed with developments such as globalisation, neoliberalism, financialization, and digitisation? To give an example, one could look at the history of markets as Bas van Bavel (2016) did in *The Invisible Hand?: How Market Economies have Emerged and Declined Since AD 500*. Van Bavel documents how markets became more dominant in various societies at points in history, but also how markets over time lost their importance in determining how economies were run. In this book, he analysed how different economic mechanisms interacted with each other and how power relations in societies changed.

### 4 Practical Suggestions

More concretely, how can this subject best be fitted into a curriculum? One way is to devote entire courses to the subject, but it can also be incorporated into existing courses along with other subjects.

An economic history course could, for example, mainly focus on the physical and social history of the global economy, while connecting it to the history of the national economy of the country where the course is taught.

In a specialised graduate programme, it makes sense to focus specifically on the topic of the programme. For instance, in a graduate degree on financial economics the scope might be narrower, zooming in on financial history, rather than treating the history of the economy more broadly.

Besides teaching it as a stand-alone course, some historical background can add value to other courses. For example, a course on labour economics would be enriched by starting with an overview of labour history before delving into specific theories. Such an introduction into a course gives students a clear idea of the real-world phenomena they will be studying in that course. That is, history is not simply used to illustrate theory, but to provide students with a basic understanding of the actual phenomena that the theories try to wrestle with.

Introducing a topic through its historical background will also increase students' motivation, especially when recent history is discussed. Virtually every course, whether it focuses upon economic development, firms, public policy or markets, could benefit from devoting some space to the history of the topic.

## Teaching Materials

- *Capitalism: A Short History* by Jürgen Kocka, from 2016. A concise and yet broad-ranging account of how capitalism developed from early merchants, colonialism and slavery to the recent wave of globalisation and financialisation, accompanied by discussions of capitalism's key thinkers, such as Smith, Marx, Weber, and Schumpeter.
- *Economics: The User's Guide* by Ha-Joon Chang, from 2014, chapters 2 & 3. Two short and well written chapters on how the economy has changed over the last centuries and how capitalism evolved.
- *Global Economic History: A Very Short Introduction* by Robert C. Allen, from 2011. A brief but insightful introduction into the economic history of the world with chapters on industrialisation, the rise of the West, great empires, the Americas and Africa.
- *An Economist's Guide to Economic History* by Matthias Blum and Christopher L. Colvin, from 2018. A useful collection of short essays on the economic histories of many different regions, periods, methods and topics, from globalisation and labour markets to the environment and children.
- *A History of the Global Economy: 1500 to the Present* by Joerg Baten, from 2016. A broad collection of essays on the histories of the different regions in the world, with chapters on the economic consequences of independence in Latin America, US business history and the workings and impact of colonial empires in Africa and Asia.
- Besides these global histories, it can be particularly useful to look up materials on national economic history. For the Netherlands, for example, this book would be useful: *The Economic History of The Netherlands 1914-1995: A Small Open Economy in the 'Long' Twentieth Century* by Jan L. van Zanden, from 1997.

# 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.

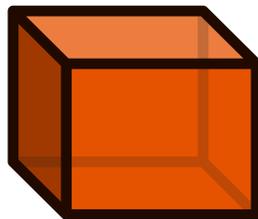
**Governments**, create the right conditions for good economics education. Look at how resources for teaching and research are distributed. Does this encourage relevant, open-minded and interdisciplinary research and teaching, or does it encourage scoring on the intellectual square millimetre through 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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