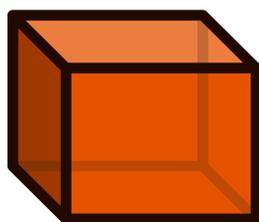


# Economy Studies for Macroeconomics

**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 macroeconomics 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 Macroeconomics Courses.

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

For ideas and materials on teaching students about the economy around them, its structures, institutions, statistics and sectors, 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 Macroeconomics 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

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

Frequently used textbooks::

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

# Suggested additions and changes

## Practical skills and real-world knowledge

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

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

## A range of analytical tools and approaches

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

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

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

## Teaching Materials

- *Macroeconomics in Context* by Neva Goodwin, Jonathan M. Harris, Julie A. Nelson, Pratistha Joshi Rajkarnikar, Brian Roach, and Mariano Torras, most recent edition from 2019. A useful textbook that treats much of the traditional content, but pays considerably more attention to questions related to financial crises, social inequality and environmental sustainability.
- *Economics After The Crisis* by Irene van Staveren, from 2015, chapters 6, 7, 10, and 12. This textbook discusses the topics of the state, public goods, macroeconomic flows, and economic growth from the neoclassical, institutional, social and post-Keynesian perspectives.
- *Economics: The User's Guide* by Ha-Joon Chang, from 2014, chapter 6, 10 and 11. This book provides a pluralist and accessible introduction into, among others, different economic approaches, the world of output, unemployment and the state.
- *Introducing a New Economics* by Jack Reardon, Maria A. Madi, and Molly S. Cato, from 2017, chapters 7, 12, 13 and 14. This textbook introduces the topics of unemployment, investment, financial crises, and fiscal and monetary policy, from the post-Keynesian, Austrian, Marxian, and neoclassical perspectives.
- *Real World Macro*, by Dollars & Sense, most recent edition from 2020. This collection of essays explores

the empirical reality of many macroeconomic topics, such as unemployment, inequality, inflation, monetary and fiscal policy.

- *Macroeconomics* by William Mitchell, L. Randall Wray, Martin Watts, from 2019, chapters 20, 21, 22 and 23. This ground-breaking and much-discussed textbook written by three leaders of Modern Monetary Theory (MMT), describes in detail the history of economic thinking about the state and macroeconomy as well as recent theoretical and policy debates.
- *Money and Government: The Past and Future of Economics* by Robert Skidelsky, from 2018. This well-written and insightful book introduces readers to historical and current debates about the macro economy, with particular attention to neoclassical and Keynesian ideas.
- *The Undercover Economist Strikes Back: How to Run or Ruin an Economy* by Tim Harford, from 2013. An accessible and well-written introduction into macroeconomics, discussing various topics from dealing with recessions, unemployment and inflation, striving for (GNP) growth, happiness, sustainability and more equality.

## Institutions and different ways of organising the economy

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

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

### Teaching Materials

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

## Societal relevance and normative aspects

When teaching students about the core economic indicators, such as GDP, it can also be helpful to discuss different ideas about how important the various indicators are. Many, if not all, of these indicators are developed because people thought they were important in themselves, or through their impact on other outcomes. Here it can be particularly useful to discuss the most prominent indicator today, GDP, and what its normative relevance is. Furthermore, alternatives to GDP, such as the OECD Better Life Index, Genuine Progress Indicators, and the World Happiness Report, are important. As with indicators, when discussing political-economic systems, it can be useful to also discuss normative views on them. Moral ideas about how

the economy should look are at the core of public and political debates. As Robert Heilbroner (1953, p. 14) put it: “A man who thinks that economics is only a matter for professors forgets that this is the science that has sent men to the barricades”. As future economists, students would do well to learn about these normative ideas on economic systems.

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

### Teaching Materials

- *Moral Views on Market Society* by Marion Fourcade and Kieran Healy, from 2007. An insightful overview paper on the key different normative perspectives on capitalism, enabling readers to better understand and place ideas and arguments prevalent in many debates about the economy.
- *Macroeconomics in Context* by Neva Goodwin, Jonathan M. Harris, Julie A. Nelson, Pratistha Joshi Rajkarnikar, Brian Roach, and Mariano Torras, most recent edition from 2019, chapters 0, 1, 5, and 6. A useful textbook that treats much of the traditional content, but pays particular attention to questions related to the goals of the economy and the measurement of them.
- *Introducing a New Economics* by Jack Reardon, Molly S. Cato, Maria A. C. Madi, from 2018, chapters 1, 3, 4, & 5. An accessible textbook which introduces students to what economics is, how it is embedded in society and the environment, and major societal challenges, such as climate change, poverty, financial instability, and inequality.
- *Economics: The User’s Guide* by Ha-Joon Chang, from 2014, chapters 1 & 2. Perhaps the most accessible and yet insightful introduction book into economics, with particular attention to why it is relevant to learn economics and what economics is in the first place.
- To help students get an idea of the main societal challenges of today, it can be useful to have them take a look at reports, such as the Sustainable Development Goals Reports, World Development Reports, and World Happiness Reports. It can also be useful to use more engaging types of materials, such as documentaries and coverage of political protests and debates. Furthermore, it can be interesting and useful for students to also be exposed to material on the key issues in the domestic, rather than global, economy.
- *The Value of Everything: Making and Taking in the Global Economy* by Mariana Mazzucato, from 2017. This well-written and influential book takes readers through the history of thinking about economic value up to the present day.

### History

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

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

### Teaching Materials

- *A Companion to the History of Economic Thought* by Warren J. Samuels, Jeff E. Biddle, and John B. Davis, from 2003, chapter 26. An extensive and detailed collection of contributions covering many periods and developments in the history of economic thought, as well as covering historiography and different ways of approaching that history.

- Macroeconomics by William Mitchell, L. Randall Wray, Martin Watts, from 2019, chapters 3, 27, 28, 29 and 30. This ground-breaking and much-discussed textbook written by three key leaders of Modern Monetary Theory (MMT), describes in detail the history of economic thinking about the state and macroeconomy as well as recent theoretical and policy debates.
- Money and Government: The Past and Future of Economics by Robert Skidelsky, from 2018. This well-written and insightful book introduces readers to historical and current debates about the state, with particular attention to neoclassical and Keynesian ideas.
- Capitalism by Geoffrey Ingham, from 2008, chapters 1 and 2. A highly insightful introduction into capitalism with chapters on key ideas from Smith, Marx, Weber, Schumpeter and Keynes, and core institutions, such as market exchange, the enterprise, money, capital, financial markets and the state.
- Capitalism: A Short History by Jürgen Kocka, from 2016. A concise and yet broad-ranging account of how capitalism developed from early merchants, colonialism and slavery to the recent wave of globalisation and financialisation, accompanied by discussions of capitalism's key thinkers, such as Smith, Marx, Weber, and Schumpeter.
- Economics: The User's Guide by Ha-Joon Chang, from 2014, chapters 2 & 3. Two short and well written chapters on how the economy has changed over the last centuries and how capitalism evolved.
- Global Economic History: A Very Short Introduction by Robert C. Allen, from 2011. A brief but insightful introduction into the economic history of the world with chapters on industrialisation, the rise of the West, great empires, the Americas and Africa.

### What to take out

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

# 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 1: Governments

The state is often at the heart of public and intellectual debates about the economy, as the amount of contrasting perspectives below shows. This should be no surprise: governments are the biggest single actors in the economy, whether measured in employment or in total budget. How should these economic giants behave? Should they sit back and allow the economy to unfold on its own, merely providing an efficient level playing field for private actors through rule-based policy? Or should the state play a more active role to stabilise the economy, take an entrepreneurial role to spur innovation, and/or pursue social policies to ensure the wellbeing of its citizens?

## Main opposing perspectives

- Post-Keynesian economics: Discretionary policy works best
- Neoclassical economics: Rule-bound policy works even better

## Main complementary perspective

- Evolutionary economics: The entrepreneurial state

## Additional perspectives and insights

- + Behavioural economics: Nudging
- + Complexity economics: Modern economies require diverse and flexible policy tools
- + Historical school: Social policy takes the sharp edge off capitalism
- + Marxian political economy: Class struggles play out through the state
- + Classical political economy: Night-watchman state
- + Austrian school: Dispersed knowledge precludes effective government intervention
- + Other: The economic dimension of governments in political science

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

A key debate concerning the state is between (post-)Keynesian economists, who argue for discretion in economic policy, and neoclassical economists, who argue for rule-bound policy. Keynesian economists argued the state has a role to fulfil in the economy because it is the only actor that can successfully solve economic problems such as mass unemployment. The state can provide stability and freedom by creating and adjusting policies in a discretionary manner, mainly with regard to fiscal policy to influence effective demand.

Neoclassical economists, on the other hand, often argue that the state should focus on providing a framework in which private actors can operate. Policy should be rule-bound, also known as commitment policy. Instead of relying on expert and political judgement of the specific situation, a prescribed mathematical model should be followed (i.e. the Taylor rule). As such, only the factors included in the model have an influence on decisions. This is important because neoclassical economists, and more specifically public choice theorists, warn us about government failures, which are assumed to derive from self-interested behaviour of voters, politicians and bureaucrats and/or imperfect information.

A core idea in the neoclassical framework is what is often called 'sound finance'. Simply put, it means governments should run balanced budgets, with revenues equalling expenditures. This stands in opposition to the Keynesian idea of 'functional finance', which argues public finance should not be a goal in itself but merely a means through which to achieve economic and social goals. The latter idea is also associated with Modern

Monetary Theory, which combines functional finance with the chartalist state theory of money, to argue that (monetary sovereign) governments face no inherent financial restrictions on their finances, although they do face important limits in the real economy. While neoclassical economists favour central bank independence and a disconnect between fiscal and monetary policy, modern monetary theorists argue for using fiscal and monetary policy in harmony to create desired economic outcomes.

### Main complementary perspective: Evolutionary economics

Another insight that has gained greater attention recently is that the state is crucial for innovation. Contrary to the myth that prosperity is the result of new technologies developed and funded purely by private companies operating in a free market, Mariana Mazzucato and others have used an evolutionary approach to show how economic success is largely the result of state-funded investments in innovation. Mazzucato argues that the dominant neoclassical view of the state as an actor that is only there to address market failures and provide public goods is fatally limited. She points out that governments create, shape and guide markets, and also should embrace this ability to give direction to the economy. For this reason, she has advocated mission-oriented policy in which a clear goal is formulated, experimentation and risk-taking are encouraged, dynamic capabilities are cherished, budgets are based on (achieving) outcomes, collective value creation is recognised, risks and rewards are shared, the public, private and civic organisations partner in a symbiotic rather than parasitic way, and democratic participation in decision-making is central. In this way, a mix between top-down guidance and facilitation, and bottom-up initiatives and participation, is created to solve the big problems of the day.

### Additional perspectives and insights

**Classical political economy:** The discipline of economics is often said to have started with the arguments of classical political economists against mercantilist ideas and policies, which aimed at increasing national economic power through running a trade surplus. Classical political economy argued, instead, that the state should have the limited role of a night-watchman, which secures external defence and the rule of law, in particular the protection of property rights and enforcement of contracts. Today, many people and economists still advocate this. Many classical political economists, however, also recognise that the state should provide services which the market is not well-suited to deliver, such as infrastructure, postal services, standard weights and measures, and a stable currency. A key logic behind the night-watchman state is to eliminate the rents that various powerful special interest groups were able to acquire through the mercantilist state.

**Marxian political economists** built on classical political economic ideas but came to a starkly different conclusion and argued against the idea that the state can be a neutral passive organisation that ensures that private individuals can flourish in a fair economy. Marxian scholars see the state as an indispensable tool for class domination, which protects the wealth of the rich and punishes the poor if they do not accept the inequalities. The similarities with classical political economists in this regard are surprising. Adam Smith (1776, p. 299), for example, wrote “Civil government, so far as it is instituted for the security of property, is in reality instituted for the defense of the rich against the poor, or of those who have some property against those who have none at all.” Instead of advocating for free trade and laissez-faire as classical political economists do, Marxian political economists argue that in order to end the exploitation and suppression of the working class, the working class has to seize control over the state and undue class domination.

**Historical school:** Largely in reaction to the problems associated with the industrial revolution, such as child labour, poor working conditions and low standards of living, historical economists argued that the state should ensure through social policy that the national community was flourishing, instead of falling apart. As such, they oppose both laissez-faire liberals, who viewed society as the total sum of individuals and favoured

a night-watchman state, and socialists, who emphasised class conflict and aimed to overthrow the capitalist economic system. Although social policy was initially conceived in this way, largely thanks to the innovative work of the Verein für Socialpolitik in Germany during the late 19th and early 20th century, it has since been argued for and thought of in many different ways. Within Germany after the second world war, for example, ordoliberal thinking and the concept of the social market economy were influential. In this line of thinking, both planning and free markets are rejected, in favour of the combination of a capitalist economy with a strong state that ensures fair market competition as well as a social welfare system. More recent research indicates that government spending on social policies not only enhances the wellbeing of citizens, but also stimulates the economy and productivity.

**Austrian school** builds on the classical idea of the minimalist night-watchman state and argues that if governments go beyond this limited role, they will cause, rather than solve, problems. A key reason for this is that knowledge is necessarily dispersed, leaving central authorities with a lack of information needed for effective action. Instead, 'free' markets are seen as the best way to communicate the local knowledge of individuals to create efficient economic outcomes. Austrian economists thus embrace the classical liberal idea of protecting "negative liberty" and ensuring freedom from government intervention, while they reject the social liberal idea that the government should guarantee people's "positive liberty" and enable them to be able to act upon their free will.

More recent contributions to thinking about government policy come from behavioural and complexity economics.

**Behavioural economics** sees people as susceptible to manipulation in their decision-making. People's bounded rationality causes suboptimal choices that do not maximize their welfare, thus creating 'internalities'. To tackle this issue, governments can nudge people towards more 'rational', or desirable, behaviour by making use of behavioural insights into social proof heuristics, default bias, salience, positive reinforcement, and indirect suggestions. The underlying political philosophy of this policy approach is often called libertarian paternalism, as it pushes people in a direction that is deemed as desirable by the authorities, without hurting the freedom of choice of individuals.

**Complexity economics**, on the other hand, focuses on the fact that policy tries to influence complex and dynamic systems, and therefore argues that governments should pay more attention to the unexpected consequences of policies. Complexity economists believe that policy tools need to be diverse and flexible enough for the systems that they try to control, so that adaptation and the learning process can work more effectively.

**Other:** Quite naturally, political economists and political scientists have extensively studied governments and their economic roles. In doing so, many important approaches within political science, such as realism and constructivism, have also played a major role in analysing the economic dimension of governments. An important topic here is to what extent companies are in practice regulated by the state, and the influence that companies have on the rules and regulation that they are subject to. Furthermore, political economists study economic policy more broadly, from how the dynamics of political competition influence policy decisions, to the influence of experts and the internal structures of government institutions.

## Teaching Materials

- Chapters & Papers:
  - Economics: The User's Guide by Ha-Joon Chang, from 2014, chapter 11. This brief and accessible

- pluralist book contains a useful introductory chapter on the role of the state.
- *Economics After The Crisis* by Irene van Staveren, from 2015, chapter 6. This well-written textbook sets out the neoclassical, post-Keynesian, social economic and institutional perspectives on the state.
  - *The Economy* by The CORE Team, from 2017, chapters 14, 15 and 22. This successful textbook provides an introduction into mainstream ideas and empirical findings on fiscal, monetary and public policy.
  - *Principles of Economics in Context* by Jonathan Harris, Julie A. Nelson and Neva Goodwin, most recent edition from 2020, chapters 12 and 25. This useful textbook, which pays particular attention to social and environmental challenges, devotes two chapters to tax and fiscal policy in specific.
  - *The Microeconomics of Complex Economies: Evolutionary, Institutional, Neoclassical and Complexity Perspectives* by Wolfram Elsner, Torsten Heinrich, and Henning Schwardt, from 2014, chapter 17. This innovative textbook makes readers familiar with new insights coming from frontier mainstream economic research, with one chapter devoted to the policy implications of the findings discussed in the book.
  - *Macroeconomics* by William Mitchell, L. Randall Wray, Martin Watts, from 2019, chapters 20, 21, 22 and 23. This ground-breaking and much-discussed textbook written by three leaders of Modern Monetary Theory (MMT), describes in detail the history of economic thinking about the state and macroeconomy as well as recent theoretical and policy debates.
  - *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 three chapters on the role of the state in the economy.
- **Books:**
    - *The Entrepreneurial State: Debunking Public vs. Private Sector Myths* by Mariana Mazzucato, from 2013. An influential and well-written book, inspired chiefly by evolutionary economics, on the role of the state in innovation.
    - *Alternative Theories of the State* by S. Pressman, from 2006. A useful and informative collection of essays which introduces readers to the institutional, Marxist, post-Keynesian, feminist and behavioural perspectives on the state.
    - *Money and Government: The Past and Future of Economics* by Robert Skidelsky, from 2018. This well-written and insightful book introduces readers to historical and current debates about the state, with particular attention to neoclassical and Keynesian ideas.
    - *Political Economy: The Contest of Economic Ideas* by Frank Stilwell, most recent edition from 2011. A well-written textbook, with parts devoted to classical, Marxist, neoclassical, institutional, and Keynesian economics and particular attention to ideas surrounding the state, reform, policy and economic systems.
    - *Routledge Handbook of International Political Economy* by Mark Blyth, from 2009. A useful and extensive book which provides an overview of the wide field of international political economy with particular attention to its North American, British, and Asian branches.
    - *Frontiers of Heterodox Macroeconomics* by Philip Arestis and Malcolm Sawyer, from 2019. A useful collection of essays on recent insights coming from unconventional thinkers, and in particular post-Keynesian economists.
    - *Handbook of Public Economics, Volume 5* by Alan J. Auerbach, Raj Chetty, Martin Feldstein, and Emmanuel Saez, from 2013. Another useful collection of recent insights coming from mainstream economists on topics, such social insurance, charitable giving, urban public finance, and taxing labour, wealth, and internationally.

# Pragmatic Pluralism 2: Business Cycles

*“The central problem of depression-prevention [has] been solved for all practical purposes.”*

**Robert Lucas (incoming address to the American Economic Association, 2003)**

Booms and busts, academically known as ‘business cycles’, have been part of the economic system for a long time. Contrary to Lucas’ optimistic statement, they also remain one of the most central problems both to economic theory and policy. Old questions are still hotly debated. How do business cycles work? What causes the economy to sometimes crash or slump into recession, while at other times it cranks into the highest gear? What can be done to prevent crises and what should be done once the economy is in a depression or recession? An important debate in this field is whether the government is the solution or the problem, and whether the emphasis should be placed on the demand or supply side of the economy. Besides this, economists have analysed the impact of external shocks on the economy.

## **Main opposing perspectives**

- Post-Keynesian economics: Effective demand is the crucial driver
- Austrian School: Malinvestment is the crucial driver

## **Main complementary perspective**

- Neoclassical Economics: Crises happen because of external shocks

## **Additional perspectives and insights**

- + Marxian Political Economy: Crises are inevitable and inherent to capitalism

## **Main opposing perspectives: Post-Keynesian economics and the Austrian school**

A core insight of the Keynesian approach is that the private capitalist economy can be radically unstable and unable to recover by itself, staying stuck in long periods of high unemployment. This can be theorized as an underemployment equilibrium or disequilibrium, meaning that markets are not cleared and supply and demand do not meet. Contrary to then dominant laissez-faire ideas, Keynes argued markets would not automatically achieve full employment, even if markets had no imperfections and workers were fully flexible in their wage demands. Keynes, in particular, attacked the idea that “supply determined its own demand”, often referred to as ‘Say’s Law’, and built on earlier underconsumption theories. The key idea in Keynesian thought is that business cycles happen, instead, because of fluctuations in effective demand, which refers to demand backed by money and mainly depends on fundamentally uncertain investment decisions and animal spirits. Keynesians further argue that effective demand can be stabilized, and persistent high unemployment can be eradicated by counter-cyclical fiscal and monetary policy. With the Keynesian family of approaches, there are multiple specific models of how business cycles develop and should be tackled. There were, for example, two (complementary) post-Keynesian approaches, Minsky’s financial instability hypothesis and Godley’s stock-flow-consistent approach, which were used to explain and predict the financial crisis of 2008 (Keen, 2015). The Minsky approach focuses on the mechanisms of debt accumulation, speculation and financial crises, and the Godley approach is about following economic flows and stocks throughout the whole economic system and modelling them consistently.

The Austrian school, in contrast, contends that the problem is not the private capitalist economy, but the state. More specifically, they argue that a key cause of crises is that central banks set interest rates too low. By setting rates too low, central banks create excessive bank credit, which leads to bad investments, referred to as malinvestments, and therefore must end in a bust. Monetary policy by central banks thus prevents markets from reaching their equilibria as relative prices and capital allocation are assumed to no longer correspond to the preferences of individuals. Austrian economists argue that if there would be no government interference in the private capitalist economy, there would be no instability and markets would efficiently and smoothly self-regulate.

### Main complementary perspective: Neoclassical economics

While the above two approaches investigate the origins and mechanisms of economic crises, neoclassical economics treats crises as being caused by external, or exogenous, shocks. These shocks come from outside of the economic system as modelled by neoclassical economists: factors such as natural disasters, wars, technological inventions, international or political developments. Most research and debates within neoclassical economics, therefore, focuses on how the impact of such shocks on the economy should be modelled.

A key point of argument is, for example, whether one should include various market imperfections. In new classical macroeconomics and real business cycle theory there are no market imperfections, while in new Keynesian macroeconomics and the new neoclassical synthesis, which combines the other three approaches, market imperfections are assumed. All these approaches share, however, assumptions such as hyper-rational and far-sighted expectations, and work from a neoclassical microfoundations and general equilibrium framework.

While all neoclassical macroeconomic approaches have a clear shared foundation of theoretical assumptions, there also are important differences. Some subschools are more interventionist, like new Keynesian macroeconomics and neo-Keynesian macroeconomics with its famous IS-LM model. Other subschools are more laissez-faire, such as new classical macroeconomics, real business cycle theory and monetarism.

### Additional perspectives and insights

**Marxian political economists** argue that booms and busts are an inevitable and inherent element of capitalism, which can only be solved by getting rid of the capitalist organisation of production. Within Marxian political economy, as well as in classical political economy, there are economists who adhere to the underconsumption theory and those who argue against it. The core idea of underconsumption theory is that capitalism has an inherent tendency to expand production capacity faster than it generates effective demand, thereby resulting in underconsumption and causing the system to periodically experience crises. For this reason, various underconsumption theorists argued capitalism relies upon external sources of demand to grow and otherwise stagnates, thereby giving rise to international tensions through trade and imperialism. Marx opposed this idea, arguing that capitalism is an inherently growing system driven by profitability. The reason for recurring crises, according to Marx, is that profitability has a tendency to fall in the long-run. This in turn puts extra pressure on capitalists to cut labour costs through mechanisation, reducing wages, and/or offshoring, thereby intensifying class struggle.

Within Marxian thought, the idea of underconsumption has had politically diverse groups of proponents and opponents, with Malthus, Sismondi, Luxemburg and Sweezy arguing for it and Ricardo, Say, Marx and Lenin arguing against it.

Other: Empirical work. Finally, it must be mentioned that besides these various theories about business cycles, there is a long tradition of empirical research, performed by a broad range of economists such as the institutional economist Wesley Clair Mitchell, that has resulted in a number of robust findings. Various economists, such as Schumpeter, have tried to develop a typology of business cycles according to their periodicity and characteristics: the Kitchin inventory cycle of 3 to 5 years; the Juglar fixed-investment cycle of 7 to 11 years; the Kuznets infrastructural investment cycle of 15 to 25 years; and the Kondratiev wave, or long technological cycle, of 45 to 60 years.

## Teaching Materials

- Economics After The Crisis by Irene van Staveren, from 2015, chapter 10. This well-written textbook sets out the neoclassical, post-Keynesian, social economic and institutional perspectives on macroeconomic flows in a single chapter, side-by-side.
- The Economy by The CORE Team, from 2017, chapters 13 & 17. This successful textbook introduces students to economic fluctuations and their history.
- Introducing a New Economics by Jack Reardon, Maria A. Madi, and Molly S. Gato, from 2017, chapter 14. This ground-breaking textbook introduces recessions and financial crises and weaves together pluralist theory and real-world knowledge.
- Principles of Economics in Context by Jonathan Harris, Julie A. Nelson and Neva Goodwin, most recent edition from 2020, chapter 24. This useful textbook, which pays particular attention to social and environmental challenges, contains a chapter on economic fluctuations.
- Macroeconomics by William Mitchell, L. Randall Wray, Martin Watts, from 2019, chapter 26. This ground-breaking and much-discussed textbook written by three leaders of Modern Monetary Theory (MMT), contains a useful chapter setting out different economic theories of crises.
- Capitalism: Competition, Conflict, Crises by Anwar Shaikh, from 2016, chapters 12, 13, 14, & 16. This impressive and extensive book compares multiple perspectives on many traditional economic topics including business cycles.
- The Routledge Handbook of Heterodox Economics: Theorizing, Analyzing, and Transforming Capitalism by Tae-Hee Jo, Lynne Chester, and Carlo D'Ippoliti, from 2017, chapter 26. This broad and diverse book sets out a variety of theories on business cycles.
- 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.
- Post Keynesian theories of crisis by Steve Keen, from 2015. A useful article describing the two (complementary) theories, Minsky's financial instability hypothesis and Godley's stock-flow-consistent approach, that were used to predict and explain the financial crisis of 2007-8.
- A Reformulation of Austrian Business Cycle Theory in Light of the Financial Crisis by Joseph T. Salerno, from 2011. Written in the aftermath of the financial crisis of 2007-8, this paper aims to revitalize the Austrian theory of business cycles by building on ideas of Mises, Hayke and Rothbard to explain the events of the last decades.
- Business Cycle Economics: Understanding Recessions and Depressions from Boom to Bust by Todd A. Knoop, from 2015. This book introduces students to what business cycles are and why they are relevant, the different theories that aim to explain them, the relationship with the financial sector, and the older and more recent history of crises.
- Modern Macroeconomics: Its Origins, Development and Current State by Brian Snowdon and Howard R. Vane, from 2005. This book sets out key macroeconomic ideas with chapters on Keynes and the classics, as well as the monetarist, new classical, new Keynesian, Post Keynesian, Austrian and public choice perspectives, and includes interviews with their key thinkers.

# 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.

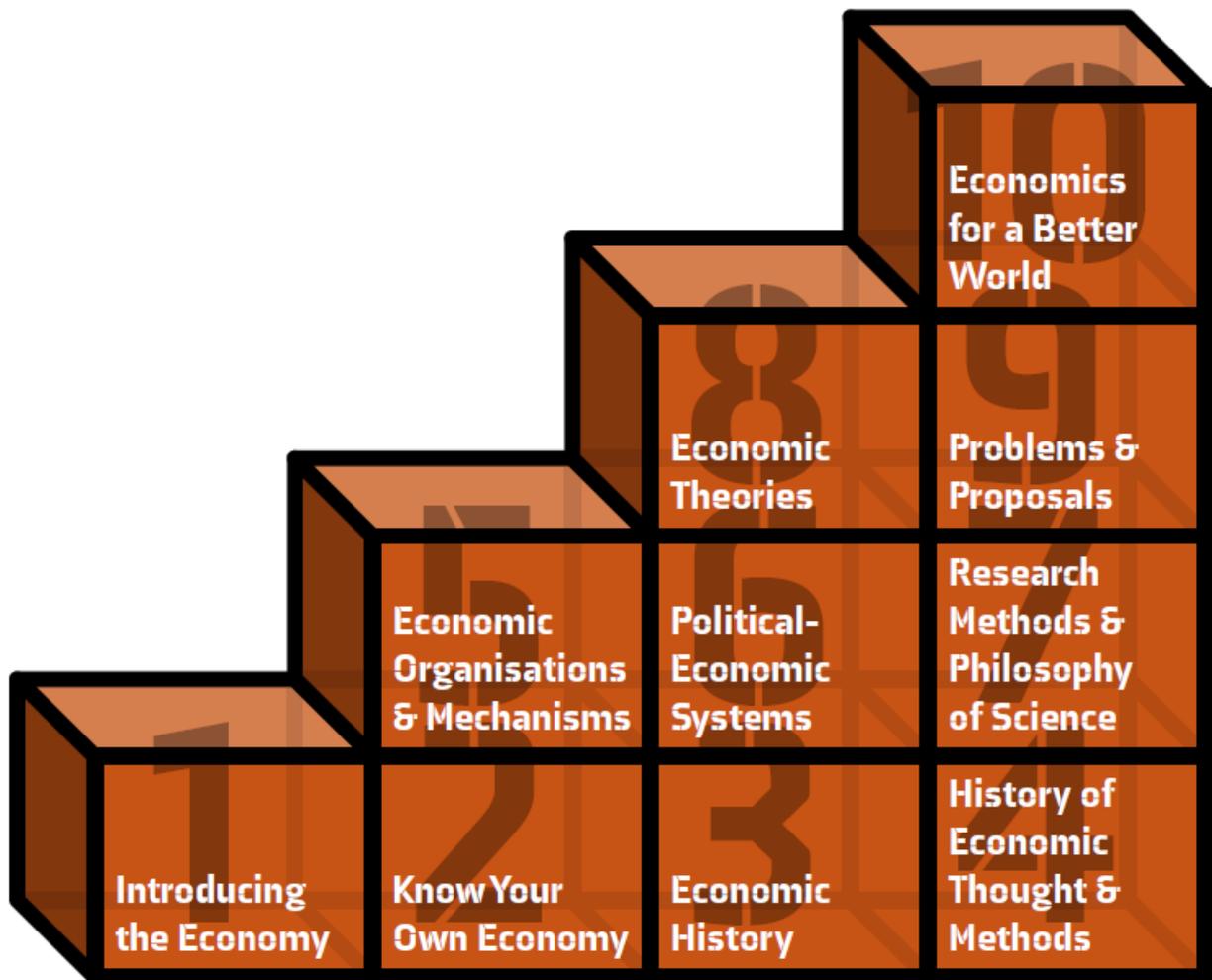


Figure 1: The ten building blocks that form the core of this book. The order of the numbers is not necessarily the order in which they should be taught. Their relative size varies, with building blocks 7 and 8 generally taking up much more space than the others.

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 2: Know Your Own Economy

**The basic structure of the national economy, its most important institutions, its basic statistics, its economic class composition, its dominant economic sectors, and students' own economic position in the world.**

*What:* This second building block, Know Your Own Economy, introduces the structure and state of the economy today. Students should become familiar, even if only at a basic level, with the economy in which they live. The building block focuses on three fields of concrete knowledge: key indicators, institutions and sectors. For each of these, it suggests a more detailed overview of how to structure this knowledge in a manageable form.

*Why:* An economist who does not have basic knowledge of her own economy is an armchair academic. Given that more than 97% of all economics students do not continue into a PhD trajectory but rather work as professional economists, this is impractical. Gaining real-world knowledge is also highly motivating for students. This concrete knowledge allows them to see how the more abstract economic ideas they are learning can be appropriately applied to help them understand and solve these real-world problems. Finally, comparing abstract theory to an existing economy will also help students to be more reflective of the theory they are taught and become conscious of their position within the economy.

*Contrast with current programmes:* Current programmes focus on theoretical models and quantitative research methods, which allows students to develop certain analytical skills. We argue that, whilst very useful, this is not enough. An economics education should also teach students concrete knowledge and give them a practical understanding of existing economic institutions and sectors.

## **Sections:**

- 1** Key Indicators
- 2** Institutions
- 3** Sectors
- 4** Practical Suggestions

*“If economists wished to study the horse, they wouldn’t go and look at horses. They’d sit in their studies and say to themselves, ‘What would I do if I were a horse?’”*

**Ronald Coase (1999, p. 1)**

Most economics programmes contain at least some information about the real economy. This generally appears in the form of an example, illustrating a certain theory. For example, ‘duopolies work so and so, here is an example about Boeing and Airbus’. This building block goes beyond that approach. We suggest making a factual overview of an actual economic system the core aim of at least one course. There are three main reasons why this is important.

The first reason is that focusing on a real-world case study motivates students. An excessive focus on mathematical models and other abstractions can demotivate students who came to learn about how the economy works. It may also discourage them from pursuing further studies or a career in economics, despite their curiosity and initial motivation to do so, because their education failed to demonstrate its value.

The second reason is that students need a mental image of the general structure and components and dynamics of the real economy in order to properly understand the urgency and application of the theoretical and methodological tools learned throughout the programme. While the type of knowledge we describe below might be assumed to be common knowledge, or easily gained from reading newspapers, this is often not the case. Media provide, as it were, the derivative of the economy. They tell us what changes, not what the whole system looks like. Students need a basic systemic overview first. If a small investment is made early on in the programme, it will create a positive feedback loop, making it increasingly easy and enjoyable for students to learn more on their own.

Third and finally, this type of concrete knowledge helps to guide students’ critical thinking. A central skill for economists is to judge which theoretical ideas fit and can help us understand a specific case, ‘choosing the right model’. Whether it is theory on inflation, competition, or international trade, students should have a basic factual overview of the world these models help to explain, in order for them to be able to judge the usefulness of a certain theory. This building block provides students with basic knowledge of this kind, as well as the tools, familiarity, and confidence necessary to go out and acquire more of it.

It might seem that this eats into the time available for teaching theories and methods, and in the short run, this is true. However, the teaching of theories and methods is also greatly helped by connecting them to the actual economy and basic facts. An example is when we teach the IS-LM model in a macroeconomics 101 course. It is much more interesting for students to discuss how recent developments can be understood through this model, rather than just discussing it in abstract and applying it to imaginary textbook examples. This will activate the theories in their minds, helping them understand and retain the knowledge, rather than just pushing through the exam and forgetting it all again.

After this introduction, we discuss several categories of basic facts that any expert of an economy should be acquainted with. Secondly, we suggest various economic institutions that seem worthwhile spending some time on. Thirdly, we present sectors as a useful object of study, in order to get a better understanding of an

economy. Finally, we explore how these various elements could be taught within a limited timeframe and in a sensible combination, offering some practical teaching tools as well.

### **Scope: Time & Geographical Scale**

What are the temporal and geographic limits of ‘your own economy’? Any answer to this question will be somewhat arbitrary. Still, this building block requires at least a working delineation, which this box provides.

In terms of a geographic scope, we generally suggest taking the national level as a point of departure for most of this material. Many – perhaps even most – key economic institutions are organised at that level. However, where aspects of economic systems are primarily organised at a local or a global level, that should be the point of departure.

It is also valuable to help students understand how the various geographical scales interact with each other through complex networks. In order to understand how the food provisioning of a small town works, one will likely end up analysing several global value chains that stretch far beyond the national borders. Hence, our proposal is, in sum: start at the national level, and make excursions to smaller and larger scales where this seems fitting.

In terms of the temporal scope, this building block focuses explicitly on the current state of the economy. The next building block, Economic History, looks into the past, whereas the final two building blocks of this book, Problems & Proposals and Economics for a Better World, are more future-oriented. As noted in the introduction, each of these building blocks is not necessarily a separate course: they can be fruitfully woven together, as the needs and circumstances of the programme require.

## 1 Key Indicators

Any expert should be familiar with the basic facts of their field. This also applies to economists: basic facts should be part of their training. When discussing such facts, it is important to help students understand how they are measured and constructed, and what applications and limitations they thus have. As different measurements are insightful for different problems, providing students information on various forms of basic economic data can help them interpret the presented ‘facts’ in any given discussion. Besides learning about key indicators, students should also develop a basic understanding of what things statistics generally leave out (for example by using material from the book *The Uncounted* by Cobham). This will allow them to develop a better understanding of the meaning and relevance of the indicators discussed below. It will also show students something of the power structures that are implicit in the type of statistics that we collectively choose to gather and the importance we assign to each of them.

So, what basic facts should be taught? We suggest six categories: Production, Finance, Wellbeing, Inequality, Nature & Resources, and Demography.

### **Production**

This category covers the most typical economic statistics and national accounts, such as GDP, inflation, unemployment, exports and imports, and government income and expenditure. But there are many more statistics of interest, including levels of productivity, consumption, investment, profits and wages. To get

a better understanding of how the labour market is organised, one could also take a look at the amounts of full-time versus part-time workers, permanent versus temporary contracts, and self-employed workers. Another interesting aspect to look at is the size of the informal economy and the amount of unpaid labour in an economy. In many countries, data on this can be fairly easily found in concise reports and datasets of national or international bureaux of statistics.

## Finance

Since the global financial crisis of 2007-2008, it has become increasingly clear that financial metrics are not only interesting in themselves, but also crucial for the larger economy. Along with the aforementioned traditional statistics, it can thus be helpful to look at key financial data, such as household, corporate and public debt levels, gold, land and housing prices, sectoral financial balances, the money supply, and net and gross capital flows.

## Wellbeing

While the aforementioned economic and financial statistics are important, there are increasingly strong arguments that we should pay more attention to the broader wellbeing of people, rather than solely their position in relation to the market. Most notably, GDP is often criticised for not being a satisfactory measure or proxy for economic success. As a result, new measurements have been developed to better capture this. One approach is to ask people how happy they are in order to capture their subjective well-being, or life-satisfaction (see for example the United Nations' World Happiness Reports). Another increasingly prominent approach is to create a broad dashboard of indicators capturing different aspects of human wellbeing, from the prevalence of crime and life expectancy, to leisure time, educational attainment and the level of social support (see for example the OECD Better Life Index).

## Inequality

While all of the above statistics deal with aggregates, differences are just as important. Economic inequality, in income as well as in wealth, significantly shapes economic dynamics in a society. Inequality also materialises based on gender, ethnicity, education, age and in many countries, location. What different socio-economic classes could be distinguished, and what are the proportional sizes of the upper, middle and working classes? How many (children) live in poverty? In the UK, the Great British Class Survey provides a good starting point for such questions.

Information on financial inequality becomes increasingly relevant when coupled with information on its real world impacts. Discuss with students: in your society, what is for sale, besides the usual consumer goods? Quality education? Healthcare? Political influence? Physical safety? To what degree does economic purchasing power equal social or political power? In some countries, millionaires can buy all the goods they want, while quality of life and effective civil rights are still fairly equally distributed. In other countries, personal wealth can make the difference between life or death, between standing above the law or being crushed by the system.

## Nature & Resources

This category is relevant for understanding both the physical requirements and the ecological implications of economic growth. Core data include levels of biodiversity, nitrogen and phosphorus loading, and water quality. Carbon footprint statistics provide a useful proxy for economic impacts on the environment. Furthermore, there is an increasing set of indicators which used to be mainly of environmental interest, but which are now gaining increasing economic relevance. For instance, the rapid degradation of the fertile soil layer on farmland worldwide is acutely relevant for the production of basic goods such as paper, clothing and

nearly every type of food. Likewise, information on veins of mineable metals and other minerals, including their locations and remaining stocks, is becoming more and more important. Industrial Ecology programmes and journals provide useful data and analytical tools to engage with such questions. The Planetary Boundaries reports of the Stockholm Resilience Center form another good teaching tool, as do materials from the national ministry of the environment.

## Demography

Finally, demography is a well-developed field that deals with statistics on the core of any society and economy: populations of human beings. Knowledge about this is foundational for understanding how groups of people organise economic life. Giving students a basic understanding of the following aspects can be particularly informative: population size, degree of urbanisation, migration, household structures, and the age structure of the population.

A more general point: all the aforementioned statistics only become meaningful when they are placed in context and compared. They may be compared across geographies: for example, between countries or regions, between sectors, or over time so that developments, changes and trends can be identified. They can be placed in context by comparing them to targets, such as the international climate goals. In addition, it is particularly useful to expose students to the different metrics and measurements used for these topics. For example, comparing wellbeing indicators and GDP or the different ways to measure inequality. Finally, these topics are also very well-suited to introducing different theoretical perspectives and the debates amongst them. See for example the topic Money in the chapter Tool 1: Pragmatic Pluralism for different perspectives on the role of debt and money in the economy.

We are well aware that this is a long list of basic knowledge. Please keep in mind that it is provided as inspiration, not as something that needs to be taught in full, nor as a comprehensive list. We suggest selecting from this list only those statistics that seem most relevant to the particular focus of your programme. Another way to save time is the pars pro toto approach. That is: introduce a certain field of knowledge – say, nature – and then zoom in on only one or two datasets from that field. Students are then aware of the existence of the wider field, and know their way to factual overviews when they need them.

One may question, to conclude this section, is all this not common knowledge? While we might expect economics students (or professors) to know most of these things, we encourage you to hold a brief quiz in class or among colleagues to clear any doubt. The results may be quite surprising.

## 2 Institutions

Understanding how an actual economy functions, requires a basic overview of its most important institutions: public and private. In the below overview, we focus on the legal and official frameworks, main roles and activities of key organisations, how they work internally, how they interact with other organisations and how influential they are. In this section, it is worthwhile to also spend some time on the question of economic power structures: which groups within society are relatively powerful, and what mechanisms or structures form the basis of their power?

The public sector will have different forms in different countries, and materials from politics courses may be helpful to give a brief overview of how the various forms of government function in your own economy. Generally, important roles are played at the national level by ministries such as the Treasury/Finance, Economy/Commerce, Social Affairs, Infrastructure, Agriculture and Foreign Affairs. Subsequently there are

different ways in which the country is divided and governed, for example at the state, province or city level. At all these levels there will be various public institutions such as the central bank and executive institutions such as the tax authorities.

Another important set of organisations are national policy institutes that influence and shape public policies and the discussions surrounding them. Every country has different policy institutions, ranging from governmental policy bureaux, such as the Bureau for Economic Policy Analysis in the Netherlands and the Council of Economic Advisors in the US, to private think tanks, such as the New Economics Foundation in the UK and the Brookings Institute in the US.

Other key non-state institutions are the so-called ‘corporatist’ institutions, such as labour unions and employers associations. Around them we find various bodies which help these parties come to agreements, local, national and international such as the Social Economic Council in the Netherlands and the European Economic and Social Committee in the European Union. At the global level, the World Trade Organisation, International Monetary Fund, Bank for International Settlements, and World Bank, for example, play an important role.

Another important set of institutions close to, but separate from the state is the civil society, which includes consumer organisations and professional associations. In many countries of the global south, the (foreign) NGO sector similarly plays a key role.

The structure of the private sector is fundamentally influenced by the state through the legal frameworks it sets. Details of the tax system and corporate law are arguably too vast to be taught in economics courses; however, a basic overview of the various forms that private entities can take, such as the corporation, general partnerships and self-employment, and their legal rights and obligations, can help students to better understand the economic playing field. Besides these foundational legal aspects, it can be helpful to give a basic overview of how the state structures the economy through its social security system, regulatory system, research and innovation policy, the provisioning of healthcare and education, and the monetary policy by central banks.

We suggest keeping this overview rather basic and factual, leaving much of the deeper theoretical insights and implications to Building Block 5: Economic Organisations & Mechanisms, Building Block 6: Political-Economic Systems and Building Block 8: Economic Theories. Alternatively, those two building blocks can be integrated with this one in a longer or more advanced course. Nevertheless, the basics of such an overview are part of this early building block, as a minimal overview of at least (supra-) government agencies and legal and corporatist frameworks helps students to gain a fuller picture of what an actual economy looks like.

### 3 Sectors

Before embarking on a wide range of theoretical and methodological abstraction, as set out in the following building blocks, students might start with gaining a concrete image of at least one economic sector, as a tangible point of reference. This could be coupled with a broad grasp of the other sectors making up the economy as a whole. In this section, we take the energy sector as an example and provide several perspectives from which to analyse sectors: physical, institutional, technological, and (geo-)political and ethical.

The physical structure of a sector can provide a practical and tangible first analysis. For example, in the energy sector households and firms are connected to large networks of electricity and gas lines, which are fed by

major power plants and mining sites inside and outside the country.

Subsequently, the institutional arrangement may be considered: both locally and internationally. For example, in the Netherlands, the network is state-run, and the supply companies are a few large private firms, albeit heavily regulated. There is also a growing sector of smaller non-profit, self-sufficient producers, such as local energy cooperatives. At the same time, the sector is embedded in global value chains. For energy, we find this in mining, extraction and refinement, which is mostly done by globally operating firms. This takes physical shape in drilling sites, connected by giant gas and oil sea vessels and a global network of large pipelines to refineries.

In turn, we can analyse the sector from a technological perspective: what are the main technologies used, and how (un-)evenly is this technological know-how distributed across the globe?

This naturally yields a final discussion of (geo-)political and ethical issues at play in the sector. For example, if gas is found in, say, Ivory Coast, it is likely that French, American, Dutch and British companies compete to dig it up, since these are at the technological forefront in that sector. Is that fair? For energy, other critical points are climate change and geopolitical conflicts, such as the tug-of-war between Russia and the EU around the supply of Russian gas.

With such concrete knowledge of various economic sectors, the more abstract theoretical models taught in the economics programme will both be much more interesting and useful to students. After all, it is the central mechanisms and structures of such economic sectors that these models are designed to capture and to summarise.

For inspiration on other sectors that could be covered, a useful overview is the International Standard Industrial Classification. One interesting exercise might be to divide students in groups among several of these sectors, let each group investigate its own sector, and then present their findings in class to each other.

## 4 Practical Suggestions

A well-known teaching technique that can be applied is to bring the material closer to the everyday experiences of students. This is especially useful for our discipline, as it is often deemed a very abstract field – unjustly so, in our eyes. For example, what does it mean to earn \$20 a month compared to say \$20.000? This is not merely a matter of learning some statistics, it is about developing an appropriate perception and sense of economic concepts (in this case a low versus high income) and how they impact people's lives.

An excellent tool for this is the Dollar Street: a highly graphical, beautifully designed comparison between levels of material welfare in countries worldwide, developed by the Gapminder Foundation. On this website, you can digitally visit the homes of families in sixty countries around the world with monthly incomes between \$20 and \$20.000 per month, to experience their standard of living and the astounding reality of contemporary globalisation. We would very much recommend having a look at this as it is one of the most tangible visualisations of economics out there.

A more straightforward statistical approach, but nevertheless also highly informative, would be to let students check where they, or their parents, fall within the national and global income and wealth distributions. As human beings, we all have the tendency to think of our own situation as normal and average. For most economics students, especially in the Western world, this will, however, not be the case. Doing such an

exercise can thus give students a better understanding of their own position in the world and of how their economic experiences relate to those of others.

The same can be done for a personal ecological footprint, using an online footprint calculator. For a more involved exercise, students could be asked to map and compare their opportunities for future life and career, access to education, personal network, cultural and social capital, and so forth.

Besides reading and number-crunching, students could get in contact with actual people in the economy. This can be done by sending students to firms and organisations to talk to the people who work there, or asking non-academic experts or practitioners to give a guest lecture. Such interactions give students a much richer picture of the economy, as it allows for a transfer of practical, tacit and insider knowledge, which statistics are unable to capture.

In general, we suggest varying between focusing on in-depth knowledge about a particular institution or sector, and focusing on developing a rough understanding and overview. The former allows for detailed knowledge on how actual processes work, while the latter gives one an understanding of how the bigger picture looks. Which sectors or institutions will be analysed is not of major importance. The main thing is that students learn how to analyse a metric, an institution or a sector, and acquire some points of entry.

To recap, this building block should be seen as a general invitation to pay considerable attention to how actual economic systems look in their concrete forms. We have suggested a couple of specific ways to go about it, just to make our suggestions more tangible and concrete. But we are under no illusions that these would be the only or even the best ways to teach such material. Our suggestions should rather function as inspiration to develop a program and a locally grounded approach to teaching economics students about the real world.

## Teaching Materials

It is hard to suggest specific teaching material for this building block, as its contents will vary so much between different regions and countries. To give some idea of what kind of materials could be used to teach students about their own economy, we provide some example materials on the Dutch economy.

The following three books seem to be most useful when teaching students about the Dutch economy:

- *De Economie in Nederland: Theorie en Werkelijkheid* [The Economy in the Netherlands: Theory and Reality] by Hans Buunk, most recent edition from 2011. A highly informative and accessible introduction into the Dutch economy as well as basic economic concepts, covering topics such as Dutch capitalist history, market competition, finance, industrial and social policy, and labour relations.
- *Sociale Kaart van Nederland: Over Instituties en Organisaties* [The Social Map of the Netherlands: About Institutions and Organizations] by Jan W. Duyvendak, Carolien Bouw, Klarita Gërkhani, and Olav Velthuis, most recent edition from 2013. An unique and accessible overview of Dutch society that introduces students to its many different domains and how they are structured, from education, healthcare, and housing, to business, labour and social security.
- *Varieties of Capitalism and Business History: The Dutch Case* by Keetie E. Sluyterman, from 2015. This collection of essays explores the Dutch variety of capitalism and institutions, with special attention to its labour relations, corporate governance, inter-firm relations, knowledge infrastructure, and its famous corporatist consultative ‘polder model’.

Besides books, it can be useful for students to look up statistics and read reports on economic sectors and issues. Naturally, national statistical authorities are a good place to look for these, but economic ministries, central banks, and policy research institutions, can also be helpful for finding useful material. For the Netherlands, one could have a look at the websites of Centraal Bureau voor de Statistiek [Central Agency for Statistics], De Nederlandsche Bank [Dutch Central Bank], Centraal Planbureau [Bureau for Economic Policy Analysis], Planbureau voor de Leefomgeving [Netherlands Environmental Assessment Agency], Sociaal en Cultureel Planbureau [Netherlands Institute for Social Research], and Wetenschappelijke Raad voor het Regeringsbeleid [Scientific Council for Government Policy].

Furthermore, domestic journals can often be useful as they frequently do not only publish general academic work but also research describing particularities of the national economy and its issues. For the Netherlands, the following three journals have plenty of interesting and helpful material: Economisch Statistische Berichten [Economic Statistical Messages], MeJudice, and Tijdschrift voor Politieke Economie [Journal for Political Economy].

Depending on the program, one could also look for more specialised material that does not cover the economy in general, but focuses on a specific element or aspect of it. In a master programme on public economics in the Netherlands, the following two books could, for example, be of use:

- Overheidsfinanciën [Public finance] by Flip de Kam, Wimar Bolhuis en Jasper Lukkezen, from 2021.
- De rekenmeesters van de politiek [The math masters of politics] by Wimar Bolhuis, from 2017.

Finally, one could also use more opinionated but still informative materials on the economy or an economic issue. For the Netherlands, the following recent books, and chapters from it, could, for example, serve this purpose:

- Over de dijken [Over the dikes] by Coen Teulings, from 2018.
- Een land van kleine buffers [A country of small reserves] by Dirk Bezemer, from 2020.
- Fantoomgroei [Phantom growth] by Sander Heijne en Hendrik Noten, from 2020.
- Met ons gaat het nog altijd goed [We are still doing well] by Peter Hein van Mulligen, 2020.
- Ontspoord Kapitalisme [Derailed Capitalism] by Bert de Vries, from 2020.

# 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.

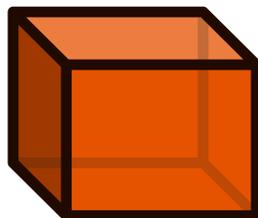
# Ready to get started?

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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