How to Make Economics the Sexy Social Science

By WILLIAM E. BECKER

Every so often we see newspaper reports on the ebb and flow in the number of professional degrees awarded. Relatively unnoticed is the potential demise of the undergraduate economics major, which historically has been a feeder to graduate programs in law, business, and other social sciences, as well as to jobs in finance, insurance, and human resources.

In the past 50 years, the proportion of bachelor's degrees awarded in economics has fallen by nearly 60 percent, from some 3.4 percent of all those awarded in 1950 to 1.4 percent in 1997-98 (the most current data available from the National Center for Education Statistics). Some of that slack has been taken up by business programs, which handed out about 20 percent of all American bachelor's degrees in 1997-98, up from about 17 percent in 1950. The American Economic Association and other groups devoted to advancing the study of economics are trying to stem the enrollment decline. But unless economists abandon their dogmatic, inflexible, preachy teaching style, students will probably continue to vote with their feet.

In a series of articles in The Journal of Economic Education, John Siegfried, secretary and treasurer of the economic association, has examined whether the flight from the economics major is anything other than a random process and not a downward trend with some unidentified cause. His data from a sample of 130 colleges suggest that the number of economics majors, at least at private universities, had already started to go up by the late 1990s. But we don't know whether that's a cyclical upturn or a reversal of a 50-year downward trend. Along with the Australian economist David Round, Siegfried summarizes this work in the journal's summer 2001 issue.

Whether deterministic or random in origin, the broad enrollment trend apparently troubled the AEA membership enough to spur us, at the association's annual meetings, to devote more attention to teaching. From 1998 through 2001, the meetings offered 11 to 14 sessions devoted to teaching economics. They included a panel led by Joseph Stiglitz, who was chief economist of the World Bank, on teaching economics in the transition economies; a retrospective discussion of the Nobel laureate Paul Samuelson's textbook on economic principles; a session on how faculty advisers can deal with students' uneasiness about taking economics courses; and one, chaired by another Nobel laureate, Ronald Coase, on teaching business economics. That may not sound earth-shattering, but consider that as recently as 1994, the program included only four such sessions, and only six even in 1996.

Moreover, the association is putting some of its money, at least a little, where its panels are. The AEA's executive committee allocated $26,000 to the committee on economic education in 1999 as a seed grant for a program to generate proposals to advance teaching. That enabled the education committee to secure additional grants from other sources. Since the late 1950s, when the teaching panel was created, the AEA had never given it such a grant. The committee (which, unlike some others at the AEA, does not have its own budget) has regularly conducted workshops and sessions for postsecondary instructors of economics, but with outside support from nonprofit organizations, like the National Council on Economic Education. So, although the AEA's investment in the teaching committee doesn't inspire a ticker-tape parade, given the association's history the decision was a significant benchmark -- a beginning.

Academic economists dominate membership in the American Economic Association, but the AEA has no policy statement on the role of teaching and curriculum, and even its tepid ventures into education have not always been met with applause. For instance, although he didn't refer to the specific amount, Harvard's Robert Barro, in a Business Week column (January 18, 1999), complained about AEA executive committee members' voting for that $26,000 seed grant -- which, incidentally, has yielded a $375,000 grant from the Andrew W. Mellon Foundation, for work on the use of technology in teaching economics, and a $74,000 grant from the Kazanjian Foundation, for an analysis of the lasting effects on students of an economics education. Barro argued that it was better to return surplus funds to the AEA members than to take on new initiatives.

To justify such stances, economists point to the AEA's Certificate of Incorporation, dated February 3, 1923, which makes no reference to economic education. The certificate lists only three objectives: to encourage economic research, to issue publications, and to encourage freedom in economic discussions.

The late George Stigler, of the University of Chicago, as a past AEA president, member of the executive committee, and founding member of the board of editors of The Journal of Economic Education, stridently promoted the view that teaching economics not only is akin to pontification, but also runs contrary to encouraging freedom of economic discussions. In "Writing as a Responsibility of Science: A Reply" (Economic Inquiry, 1992), Deirdre McCloskey, now of the University of Illinois at Chicago, tells of an exchange between the Nobel laureate Stigler and the Nobel laureate Milton Friedman, in which Stigler called Friedman a "preacher." Stigler argued that people find their own self-interest with or without teaching, and that no amount of preaching about economics would change that. Friedman argued that while individuals pursue what they believe to be their self-interest, they require education to see that something thought to be in their personal or national interest might not be.

Stigler's antipathy to the traditional teaching of economics wasn't without merit. Nor was Friedman's response. But what both perspectives miss is that time-honored economics preaching is simply bad teaching, out of step with the rest of higher education, in which students' active involvement is
viewed as critical.

In a 1996 report from the Higher Education Research Institute at the University of California at Los Angeles, Linda Sax and her colleagues showed that classroom discussion, not lecturing, is now the primary mode of teaching across postsecondary education. Everywhere, that is, except in economics, where my surveys, conducted with Michael Watts, of Purdue University, in 1995 and 2000 (American Economic Review, May 1996 and May 2001), show lectures to be the dominant form of teaching. Despite the fact that the AEA has made an explicit objective of encouraging freedom in economic discussions, economics professors somehow aren’t getting the message.

It's paradoxical that some academic economists don't believe that the discipline's goals should include an emphasis on teaching, because colleges are their primary employers. (Talk about misunderstanding one's own interests!)

As shown by our surveys, the reality of the American undergraduate-economics teacher is a white male, with a Ph.D., who lectures to a class of students as he writes text, equations, and/or graphs on the chalkboard, and who assigns students readings from a standard textbook. It's what we dubbed the "chalk and talk" mode of economics instruction. Possibly as the result of falling enrollments in the early 1990s, our survey respondents increased the amount of time they invested in teaching, as indicated by a substantial change in time usage reported between the 1995 and 2000 studies. But that additional time, alas, was spent preparing for the same old chalk-and-talk presentations.

Successful colleges of business provide students with programs that engage them, through case studies and projects, in real-world situations. Professors of economics, however, are generally still delivering dry, make-believe examples that have little to do with students' lives. Textbook-style competitive markets that may work for agricultural commodities, at least in an idealized world, do not work when imperfect information leads to the use of price as a measure of quality -- as in the used-car, insurance, and labor markets.

Traditional discussions of supply curves are problematic when marginal costs are approximately zero, as is the case for many information-based goods today, as seen on the World Wide Web. These days, some junior-high-school students are managing their stock portfolios. And while students in the natural sciences used to monopolize the Intel Science Talent Search (formerly the Westinghouse Science Talent Search), some high-school students are now winning it for projects in economic analysis. In this environment, make-believe examples -- as found in many Econ 101 lectures -- have as much bearing on students' lives as Ouija boards.

As the economists Carl Shapiro and Hal Varian, of the University of California at Berkeley, observed in their book, Information Rules, students as decision makers do not need a brand-new economics. They need to see situations in which increasing or decreasing a price does not automatically imply higher or lower profits, but they don't need to spend hours calculating meaningless elasticities. They need to know about the principle of comparative advantage (specialization and trade lead to the benefit of all), but they also need to learn how risk is reduced through diversification, not specialization. Any professor of economics can articulate the field's traditional basic concepts. Bright students, however, recognize the shortcomings of simplistic analysis, rightly dismiss it as irrelevant, but then wrongly dismiss all of economics with it.

What's missing from attempts over the past 50 years to reformulate the core standards for introductory-economics courses (as reflected in the outdated multiple-choice Test of Understanding in College Economics, from the National Council on Economic Education, and the Educational Testing Service's AP exams) is what Shapiro and Varian call "the really cool stuff":

* Bundling and complementarity -- enhancing the desirability of products when packaged together, as with stereo or computer equipment.

* Experience goods -- things that must be used before they can be appreciated, like computer software.

* Signaling, screening, and selection -- for example, insurance companies' pitching their product to those who identify themselves as either low-risk or not needing it.

* Expectations and risk -- quantifying the uncertainty in one course of action as compared with another.

* Switching costs and lock-ins -- difficulties in learning to use a similar but different product, as encountered in moving from one word-processing program to another.

* Cost-based versus value-based pricing -- methods of pricing products based on a markup of cost rather than on consumers' willingness to pay (think Tickle Me Elmo, then and now).

* Innovation-based versus price-based competition -- the first entrepreneur to enter the market with a new product wins the customers.

* Competition within and between standards -- the product that defines the standard has a marketing edge.

* Network economies and externalities -- having many people use the same product reduces costs and may bring about other benefits not reflected in market prices.

* Irrational behavior -- observable events that are contrary to the dictum of classical economics (did I hear someone say NASDAQ, circa 1999?).

As outlined in The Wall Street Journal (April 27, 2001), leading young economists are now applying their skills to procrastination, obesity, falling crime rates, and similar timely social topics for which questions do not have cut-and-dried answers. The Chronicle (January 14, 2000) reported the
crime rates, and similar timely social topics for which questions do not have cut-and-dried answers. The Chronicle (January 14, 2000) featured the work of Princeton University's Alan B. Krueger and the Mellon Foundation researcher Stacy Berg Dale, showing that students who had been accepted by elite institutions of higher education, but had enrolled in less-selective institutions, went on to make more money than students who had chosen the more-selective Ivy League colleges. Could there be a better topic to show the power of economic analysis to undergrads in the hinterlands? These new directions in economics are controversial and challenging, but that's no reason to bar them from undergraduate classrooms or tests. Let the controversy be part of the lesson.

By its very nature, economic analysis is issue-oriented and thus divisive. The dumbing down of economics to the dogmatic preaching of a few basic axioms in freshman and sophomore-level classes misses the excitement of the discipline. To show the power of economics and to attract creative students, instructors at both introductory and intermediate levels need to consider abandoning their reliance on chalk-and-talk methods, updating their curriculums, and changing the focus of their examples to reflect the issues that students care about and know will be relevant to them.

William E. Becker is a professor of economics at Indiana University at Bloomington. He is executive editor of The Journal of Economic Education and co-editor of Teaching Economics to Undergraduates: Alternatives to Chalk and Talk (Edward Elgar Publishing, 2000).