

Café Economics

Transforming Economics Teaching



Wendy Carlin explains how a new approach to economics education can help address pressing societal problems

In the early 2010s, a widespread feeling that economics teaching was failing students prompted a group of professors from around the world to revamp the undergraduate economics curriculum. The twin goals were to reflect advances in economics research and to make economics education more relevant to real-world problems. In 2013, Wendy Carlin, Samuel Bowles of the Santa Fe Institute, and others including Oscar Landerretche from the University of Chile founded Curriculum Open-access Resources in Economics—also known as CORE Econ—to provide high-quality, open-access courses to students and teachers worldwide. By including such issues as climate change, inequality, innovation, and the future of work, CORE Econ seeks to broaden the standard curriculum, increase access to economics education, and attract and retain a more diverse student body.

Carlin, professor of economics at University College London and the newly elected vice president of the International Economic Association, spoke with F&D about

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why it's vital to rethink the traditional teaching approach.

F&D: How does the general public perceive economics?

WC: When you ask an audience to represent economics with their hands or arms, the majority show supply and demand curves crossing. If you ask them what word comes to mind when they hear “economics,” it is often “money,” and the associated image is a white man in a suit pointing at a spreadsheet or at a screen with stock prices. The public perception of traditional economic models can be summed up as “economics is mainly about markets working well,” which aligns with the way Economics 101 is traditionally taught. It's a narrow representation of what economists do, and if that is your view, you would predict that economics has little to contribute to addressing a pandemic or the climate crisis.

Yet developments in economic theory, empirical tools, and data availability over the past several decades have drawn economists away from narrow debates about whether governments should intervene more or less to address poorly functioning markets. The new tools have opened up a new space for economics.

F&D: How can economics be made more relevant to real life?

WC: Think of the traditional approach as being represented by a line with the state at one end and the market at the other. Differences among economists could be represented by where they stand on the spectrum between “the state,” where actions are motivated by the need to obey government regulations and where goods and services are allocated by fiat or electoral competition, and “the market,” where material incentives drive behavior and allocation takes place through competition.

If we add a third pole and call it “civil society,” a richer view of human motivation can include altruism, reciprocity, dignity, and sustainability, as well as

“in- and out-group” thinking. Here social norms and private power are crucial to the way goods and services are distributed and in determining who gets what.

F&D: You have argued that the climate emergency and the pandemic have exposed shortcomings in traditional economic models.

WC: The pandemic produced new challenges to a view of economics restricted to transactions in markets. Fear of the disease spreading via face-to-face interactions produced spillovers to economic relationships between people. Problems arose within firms between managers and workers. Managers had the power to force workers to work under conditions they felt were dangerous. Although the economist Ronald Coase saw the problem of who exerts power within the firm as “economics,” conventional models taught in economics classes do not.

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On climate, for example, the traditional economic debate is about whether to focus more on state solutions—such as bans on sales of internal combustion engine vehicles or subsidies for green R&D—or instead aim for market solutions—such as a carbon tax (in which the government sets a price on carbon emissions) or cap and trade (in which the government sets limits on emissions and lets the market determine the price). Both are valuable, but neither one alone mobilizes all the mechanisms available, and both are likely inadequate to the task we face. The new economics explains how changing preferences toward greener initiatives can complement both state and market measures.

F&D: Behavioral economics and other approaches have gained traction. How do these alternative perspectives challenge traditional theories?

WC: Once economics includes behavior more complex than that of *Homo economicus* and covers the study of institutions, defined as the rules of the

game that specify who does what and who gets what, then the contributions of psychology, evolutionary biology, sociology, political science, and history cannot be ignored. Behavioral economists have taken their cue from social psychologists and evolutionary biologists and developed experimental methods in the lab and the field.

Within this broader conception of economics, economists can deploy their traditional strength in the rigorous testing of hypotheses using ever more sophisticated techniques and better data. And they can contribute models that test and sharpen our intuitions while investigating the general equilibrium effects (often unintended) of well-intentioned policy interventions.

F&D: How can ethical and moral values be integrated into economics teaching, and how might this enhance its impact?

WC: With extraordinary regularity over the last decade, “inequality” is the most common response to the question “What is the most pressing problem economists today should be addressing?” Climate and sustainability rank second. Both problems raise ethical concerns—for example, how fair is inequality? Should future global citizens have the same weight as people alive today in calculations about the costs and benefits of climate change mitigation?

It is not our job to say what is fair, but we can equip our students with analytical tools to connect their study of how the world works to normative criteria. Many students come to economics wanting this know-how. Yet they are often told that normative questions lie outside economics—this produces a focus on evaluating economic outcomes and policies only in terms of efficiency, and often on the very narrow criterion of a Pareto improvement. It tips the playing field toward the status quo if the only normative question that can be asked is, “Could there be mutual gains from moving to some other allocation?”

To help students ask a second normative question, “Is there some allocation that would be fairer, and are the rules of the game that produced the allocation

fair?” we use John Rawls’ veil of ignorance. Inviting students to evaluate outcomes when they don’t know whether they would be a winner or a loser, for example, helps them articulate the trade-offs.

F&D: What changes should be made to the economics curriculum to ensure that students can address the complex challenges of the modern world?

WC: The curriculum should be COherent and RElevant—the capitalization refers to the implementation of radical change in the introductory economics curriculum by the global CORE Econ project, which I direct (www.core-econ.org). A new curriculum must reflect the problems we now face and demonstrate that an economics education can provide the tools to engage with them. This is a far cry from the image of economics that I sketched at the beginning.

But real-world relevance is not enough. The curriculum needs to be anchored in a new benchmark model that reflects what we have learned over the past 30 or 40 years about what people are like, how they interact under conditions of incomplete information, and what that means for policy.

In CORE’s latest e-book, *The Economy 2.0*, we took on the challenge of producing a new way of teaching how labor markets actually work that reflects recent decades of research on monopoly power. The model helps students understand the effects of the minimum wage and model how the aggregate labor market functions as part of an integrated treatment of unemployment, real wages, and inflation.

There are also economic problems—housing and financial market crises, environmental tipping points, and adoption dynamics for new technologies such as electric vehicles—that require students to think in terms of models with instability and multiple equilibria. This variety teaches a broader lesson about how economic models can be deployed to shed light on different kinds of complex problems. **F&D**

This interview has been edited for length and clarity.