

## Economics Open House: an Eye-Opening Introductory Economics Course

(JEL code: A220, Economic Education and Teaching of Economics: Undergraduate.)

### **Introduction: Show Students what Economics Can Do**

In a first-day-of-class questionnaire, most students in an introductory economics class would say they want to become lawyers, doctors, professional athletes, or self-employed; few, if any, want to become economists. Most take the course only to fulfill some general education requirements. What format of an introductory economics course would most benefit these students?

The traditional course format aims at building a technical foundation for more advanced courses, but heterogeneous audiences do not wish to take advanced courses. Therefore, economics programs need a new, innovative curriculum to suit the vast majority of their first year students. Ideally, such a curriculum should teach students long-lasting skills such as critical thinking and economic literacy. In practice, such a goal may not be feasible in the short time of one or two introductory courses.

A solution to this dilemma is to limit content to a few “principles,” applied in a rich diversity of economic issues. Hence the “open-house” character of the course: show students how a few ideas can help solving a wide range of real-life problems; build their interest in economics and hope that they learn something to remember and will want to know more. Make your introductory economics course a life-changing experience.

### **More of the Same: Why Change the way we Teach Introductory Economics?**

Because most students get lost in translation: e.g., how markets translate into demand and supply diagrams and back into life; most students spend countless hours struggling with a

language that is not theirs and the need of which they do not understand. The cost of this struggle is that students spend less time in the company of reality economics. Marla, a certified accountant, tells me that she remembers nothing from an economics course she took a few years ago. P.J. O'Rourke hated economics in college (1998, p. 8). Later he tried it again just to find that textbooks expressed not a single idea "without rendering it into a madras sport coat of a graph" and without encrypting it into "a rebus puzzle full of peculiar notations." (Later in his life, he wrote a successful "popular economics" book, which I strongly recommend.)

We all have heard people complaining that Econ classes are boring and useless. Peter Kennedy (Macroeconomic Essentials, 2010), writes that "many instructors are unhappy with the encyclopedic approach of the traditional texts, with their emphasis on technical matters and lack of attention to real world application" (p. xiiv).

Does a non-economist need to know economics? Cala, a student of mine writes in a home assignment that learning economics is similar to sex education: "as children mature, they are going to partake in it whether they are informed or not." P.J. O'Rourke thinks, "Maybe economics is so ever present, so pervasive in every aspect of our lives that we don't really perceive it." (1998, p. 3) Therefore, we all need to do economics, whether we learned it or not. Recent research shows that economic literates live with less debt and do better on their jobs than economic illiterates (Allgood, Bosshardt, Klaauw, & Watts, 2011).

### **Theories of Curriculum**

Posner (1992, p. 43) points out that the objectives of education have been changing over time, always reflecting the beliefs of a historical period about what problem society was facing. Perceived problems such as America's falling behind Soviet Union's technological advance, cultural illiteracy, multi-ethnic cohabitation, or educational equality required different solutions

over the history. To determine what “solution” is currently appropriate for economics undergraduate education, an educator needs to decide what “problem” the curriculum is to solve.

What should be the goal of economic education? Various participants in the education process may have different goals. University boards wish to increase enrolment; instructors wish to please students when student evaluations are important; they also want to make their job easier; employers want well trained workers; society wants politically and economically responsible citizens; students want good grades; parents want low tuition fees; textbook publishers want to sell their books. Who decides what the learning outcomes of a course should be? Most likely, the actual outcome is the result of a political process involving all the interested actors, rather than a purposefully and systematically conceived curriculum. Perhaps this makes changes in this complicated network so difficult.

Besides historical circumstances, various theories also influence decisions about what and how to teach. Posner (1992, p. 45) identifies five “perspectives” on curriculum. The *traditional* perspective views teaching as a more or less passive transmission of information from ancestors to current generations. The *experiential* perspective emphasizes experiences conducive to learning, rather than passive transmission of information. The *structure of the discipline* perspective considers that up-to-date research results should play a central role beginning at the earliest stages of learning. The *behavioral* perspective aims at an ideal profile of the graduate in terms of skills and knowledge. Finally, the *constructivist* perspective bases learning on previous knowledge and develops creativity and critical thinking. While most curricula may contain all these ingredients in various proportions, critics diverge in which ingredient should play a central role.

How can we use curriculum theories when thinking of an economics Principles course? Looking at the existing arsenal of textbooks, test banks, study guides, and online learning systems such as Aplia or MyEconLab, I would characterize the current Principles curricula as mostly *traditional*; I would use words like “over-structured” or “pre-digested” to describe our current methods and content. As I pointed out, plenty of evidence shows that whatever we currently do, it does not work. Which of the other of Posner’s “perspectives” may work better?

Three of the perspectives seem good candidates: experiential, structure of the discipline, and constructivist, since they stress meaning and student responsibility for learning. I would think that a well-designed curriculum would involve elements of all three perspectives in about equal degrees. However, based on own experience, I perfectly agree with Posner (1992, p. 206) that a change in this direction is challenging for both instructors and students. When institutions, instructors, or students are not ready to assume the responsibilities of change, the whole experiment can be frustrating and the outcome disappointing. Therefore, a behavioral perspective may prove more feasible when dealing with first-year students, who have little previous knowledge and are unprepared for taking responsibility for their learning.

### **A Behavioral Approach: Teaching Economic Literacy**

What an introductory course should aim at? According to Statistics Canada, about half of our adult population has completed a form of higher education (Statistics Canada, 2011). Most of the undergraduate students take at least an economics course. This data suggest that fundamental notions in economics have a chance, through introductory courses, to reach half of the population. Now, we can reformulate the question about the aim of an introductory course as follows: “What the most educated half of our society should know about economics?” The more

they know the better, of course. Nevertheless, we can achieve only so much with the limited resource that is one or two course classroom time.

A typical introductory textbook is a collection of abstract models, which a few students need in the higher-level courses of an economics major. Most students, however, do not intend to take higher-level economics courses; therefore, they do not need to struggle with an encyclopedia of techniques. These students' first and only contact with economics is at the introductory level, where they receive –or not– the precious gift of economic logic.

Stigler (1970) argues that the subject of economics meets two necessary conditions for being useful to all, unlike other areas of knowledge. First, “economics has a logic which is sufficiently pervasive to merit inclusion in the category of universal knowledge” (Stigler, 1970). Second, one cannot hire economics experts for every-day decisions. People make decisions based on their intimate beliefs and towards their personal goals, which “experts” may not agree with or may not understand. Hence, people need to grasp the subtle logic of economics and apply it in their daily lives. Instructors have only one shot at making that happen: the introductory courses.

Stigler goes further and defines the evasive “logic of economics” as one that should answer the question: “What arrangement of one's limited means will lead to the most complete fulfillment of one's goals.” The answer is also part of the economic logic: “A resource should be diverted from less important to more important uses,” keeping in mind that adding more and more of a resource contributes less and less to that particular use (Stigler, 1970, pp. 78-79).

Stigler puts the issue of what economic logic is about in rather lofty terms. Hazlitt (1979) says that “the art of economics” is to see the long run, not only the short run, and the effects of a policy on all groups, not only on one group. Bastiat (2005) says essentially the same thing: A

good economist is the one who takes into account both “that which is seen and that which is not seen.” Salemi (2005) proposes a depth approach: instructors should teach “economic literacy,” which is a person’s ability to apply a short list of economic principles in real life after years since the person learned them in school. Salemi’s short list would comprise twenty “standards” that the National Council on Economic Education (2010) of the U.S. has identified, such as scarcity, decision making, allocation, incentives, trade, and specialization.

I would go farther than Salemi, adding some breadth to his short list: an introductory course should open the house of economics to show the great diversity of situations when economic logic helps. Such concepts as asymmetric information, uncertainty, or fundamental notions of game theory are perfectly teachable without a sophisticated technical apparatus. Besides, such material adds to the glamour of the subject.

Landsburg (1993) gives us examples of how we can teach sophisticated material in plain language. In an example of mechanism design, Landsburg tells a story from Joseph Conrad’s novel *Typhoon*. The story tells about sailors who kept their golden coins in a safe on their ship. A storm mixed up the coins and the captain faced the task of returning each sailor his money without knowing how many the sailor had. The captain asked the sailors to write down how many coins each had. If the sum would exceed the available number of coins, the captain would throw all coins in the ocean. Thus, the captain designed a mechanism to make each sailor tell the truth. It is easy to see why the mechanism works.

Constraints on students’ time to study impose limitations in the content of a course. If a curriculum includes too many topics, thus preventing deep understanding of the fundamental concepts, what shall we remove? Hansen, Salemi, & Siegfried (2002, p. 467) propose dropping cost curves, some aspects of imperfect competition, formulas for multipliers, and even aggregate

demand and supply models; they propose limiting graphs, computations of elasticity, and coverage of national income accounting.

My experience shows that students spend a disproportionate amount of time trying to understand technicalities, having less time left for understanding principles that actually matter. Being able to reproduce some graphs without understanding their role is hardly an acceptable outcome. Therefore, limiting the more technical parts of a Principles course may be very efficient in freeing time for better uses: if a student spends two hours on math and one on using a principle, by removing the graph will give a student three hours of practicing the use of a principle.

### **Yet, What Skills Do our Students Need?**

Hansen, Salemi, & Siegfried (2002, p. 464) offer “a strategy for refocusing the Principles course on economic literacy.” They recommend that Principles courses should teach at least the National Council on Economic Education (2010) Standards, instead of the technical material.

What does economic literacy mean in practice? I look at three an individual’s stances: at home, at work, and in society. At home, economic literacy means to spend wisely, save enough, and invest knowingly; to foresee the consequences of choices; and to provide proper incentives. An economic literate can see through the smoke screen of the insidious and through the glitter of the snobbish. The economic literate can dodge marketing tricks aimed at luring clients to buy too much and too expensive.

Most people in the developed countries get too easily lured into spending beyond their means. Economics could teach people how to refrain from overusing credit cards and how to plan for financial sustainability. Personal finance is an ideal example of how to apply economic

logic in everyday life. Spending within one's means requires skill and self-restraint. We may advise our students to lock up their credit cards and take time to think before buying. Do our students know the costs of using credit cards? Do they understand credit card debt? Investing smartly requires understanding the magic of compound interest rates and the ways of the local financial market. Do our students know the costs of buying and selling stocks and bonds? Do they know the true costs of a mortgage? Do they understand how the Joneses ended up owing more than the price of their house? An economic literate knows that the incentives of the realtor, the loan officer, or the sales person diverge from those of the client.

At work, economic literacy means to understand the ways and means of the workplace, to envisage changes, and to persuade; to understand numbers and to write convincing reports.

In society, economic literacy means celebrating free commerce while appreciating the opposing interests of those involved, recognizing market failure, evaluating government action, and decrypting political discourse.

Another topic that may catch students attention is financial markets. The teacher can relate financial market literacy to students' personal experiences. Second, a financial market is perhaps the closest example of a competitive market that we can show our students. Third, financial markets show how an abstract result of economic theory influences how people behave. I am talking about the efficient market hypothesis: those who believe in it invest in index, low-cost portfolios; those who don't invest in managed funds. We can also use financial markets for an example of a scientific controversy and how economic theories can change our lives: when new research changes a theory, we change our ways.

## **Can We Achieve Economic Literacy and Long-Lasting Abilities such as Critical Thinking in One or Two Introductory Courses?**

Such goals are hard to accomplish, but they should be possible to some extent. One valuable achievement would be to show students the excitement that understanding economics could bring into their lives. Once students discover the beauty of economic logic, they may wish to take further economics courses or aim at an economist's career. The "open house" introductory course would serve the goal of sharing the instructor's enthusiasm about economics.

What does an "open-house" course look like? It cannot cover every single topic in the book, but it has to have breadth; it cannot go deep into all theories, but it has to provide the essential working tools that are easy to learn and use. The course can achieve depth by using the same essential tools repeatedly on different examples. It can achieve breadth by choosing examples from the major themes of economics. Table 1 shows an example of an "open-house" introductory microeconomics curriculum. The instructor needs to fill in the table with a desired class time distribution over various depth and breadth topics, as well as specific content. In this table, depth is made of an analyst's "tools," some borrowed from Hansen, Salemi, & Siegfried (2002). Breadth is made of various topics (objects of economic inquiry.)

### **Conclusion**

The objective of providing students with life-long skills in one or two introductory courses may be too ambitious. A more realistic approach might be to raise students' interest in the logic of economic thinking, which does more for lasting learning than does an encyclopedic course. The "open-house" approach to teaching introductory economics would make students feel excited and intrigued by the wide range of uses of the few tools of economics.

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**Table 1: A distribution of class time across breadth and depth**

Breadth ► Depth ▼	Personal decision making	Seller-buyer interaction, price formation	Various kinds of markets, marketing strategies	Production and market structures (no cost curves)	Capital markets, household finance	International trade, comparative advantage	Externalities, public goods	Economic fallacies
Resources are limited; people cannot have everything they want, they need to make choices								
Choices compare extra costs to extra benefits, as opposed to all or nothing								
Correct economic analysis identifies true, as opposed to apparent incentives								
Correct economic analysis identifies both long run and short run effects								
Correct economic analysis identifies the effects of an event on ALL groups of people								
Trade increases the well-being of all parties involved because allows specialization in production								
What is good for individual is not always good for society; therefore, governments can sometimes increase efficiency								
Economic freedom is efficient, but governments sometimes need to safeguard it.								
An economist must base theories on honestly chosen facts. The most common errors are sample and omitted variable biases								