

Addressing the problem of service teaching introductory economics subjects

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Enrolments in undergraduate economics programs have been falling constantly since the early 1990s. This trend coincides with the increasing popularity of business and management degrees. Consequently, the major activity of many, if not most economics departments and schools in Australia is service teaching of introductory economics to first year business and management students. Such service teaching activities usually involve offering a conventional principles of macroeconomics subject and a conventional principles of microeconomics subject to business and management students. It is argued here that the conventional first year offerings do not meet the needs of the majority of the students taking these subjects. A review of the economics education literature has identified a number of strategies that have been proposed to increase the level of engagement of first year economics students. However, this article argues that these strategies are not considered to be appropriate for the challenge facing most Australian economics departments that are primarily teaching non-economics majors. The aim of this article is to propose an alternative framework that would allow economics departments to perform more effective and relevant service teaching activities. It is argued that current principles of economics subjects largely ignore two important institutions, in addition to markets, that societies use to answer the economic question, the government sector and the household sector. It is further argued that a principles of economics subject that places appropriate emphasis on a broader set of institutions should not just teach first year students about key economic theories, but it should also provide them with an understanding of how real economies work. This is a goal that is relevant for students undertaking either an economics degree or a business degree. The final section of the article provides a brief overview of how a principles of economics offering based on a broader institutional approach might differ from a traditional principles course.

Service teaching, undergraduate, introductory economics subjects

INTRODUCTION

The curtain rises on a scene: an introductory economics classroom, where students are sitting in neat rows. The professor begins the class by reminding students that economics is the study of how scarce resources are allocated among unlimited wants and proceeds to draw on the board a graph examining how the price and quantity of good X are affected by an increase in demand. In order to explain how the market achieves its new equilibrium, the professor then goes through, in a linear, logical fashion, exactly how inventory shortages lead the sellers of good X to raise its price, which causes buyers to purchase fewer units while simultaneously causing the sellers to increase the number of units they offer on the market. Sellers continue to raise prices until they eliminate their shortages, at which point supply equals demand, and the market achieves equilibrium. Enthusiastically, the professor concludes that due to

the workings of the market, our scarce resources can be shown to be allocated efficiently and all is right with the world – a point missed by most students who are at best disengaged or at worst asleep – because the professor’s explanation neither reflects the complex world in which those students live nor does his or her analysis seem terribly relevant to the contemporary economic issues facing these students. (Lewis 1995, p.555)

Undergraduate economics education is at something of a crossroads at present in Australia. Enrolments in undergraduate economics courses have been falling constantly since the early 1990s. This trend coincides with the rise of business and management degrees. Consequently, the major activity of many, if not most, economics departments and schools in Australia is service teaching to commerce, business and management students, hereafter simply referred to as business students. Service teaching usually involves offering a standard principles of macroeconomics subject and a principles of microeconomics subject to business students. This combination of subjects provides business students with the opportunity to undertake an economics major if they wish, an opportunity that most do not take up. Moreover, some economics schools offer a conflated one semester combined principles of macroeconomics and microeconomics subject as this is all that is required for the accreditation of accounting degrees in Australia.

These two models of service teaching lead to the emergence of a certain degree of tension between the two main groups of students who are taking these subjects. Conventional introductory economics subjects are designed to appeal to a select group of students who intend to complete an honours degree in economics and proceed onto postgraduate studies. Lucas, Kreuger and Blank (2000) argued that these students tended to be “mathematically oriented”, more interested in derivations and discussing underlying relationships and grasp the fundamental concepts more quickly. Furthermore, these students contrasted starkly with those students who comprised the majority of first year economics enrolments. Moreover, these authors argued that graphs were difficult for these students, as they tended to think verbally, rather than mathematically and visually. For these students, introductory economics was a series of “mind games” posed by their lecturer, games that they needed to play in order to pass the subject. Consequently, the majority of students who undertook introductory economics subject experienced difficulty relating economic theory to real world problems. But they studied economics in the hope of being able to solve real world problems. In short, principles of economics (PE) subjects do not meet the needs of most students.

The aim of this article is to propose an alternative framework that allows economics departments to perform more effective and relevant service teaching activities. Recent Annual Papers and Proceedings of the American Economics Association contain a collection of papers that address the problem of declining student enrolments in economics. A number of these papers are reviewed in the second section of this article. However, it is argued that these solutions are unlikely to be successful in the present Australian context, as they do not really acknowledge, let alone address, the real cause of the declining popularity of economics in general, and the needs of the majority of first year students in particular. There are two strands to this argument. First, Section Three argues that the content of service teaching is largely inappropriate. This needs to be addressed by helping external stakeholders to articulate more clearly their needs. The second strand to this argument is that the approach to teaching first year economics needs to be reconceptualised. Hence, Section Four provides a brief critique of the traditional framework and argues that the teaching of PE to business students can be improved by drawing on alternatives to neo-classical inspired economic theory. Of the range of competing perspectives on economics, some suggestions from institutional economics that may provide an opportunity to address better the needs of business students are reviewed.

THE CONVENTIONAL WISDOM

The Annual Papers and Proceeding of the American Economics Association contain a collection of papers that address issues relating to the declining enrolments in PE courses and the need to develop more appropriate curricula and teaching methods. This concern amongst economists about the teaching of first year economics is not new and dates back to at least 1950 (Taylor, 1950). Taylor was the Chair of the American Economics Association Sub-Committee on Elementary Courses. His study of PE courses in the United States found that:

1. many seek to serve too many objectives;
2. most courses lay principle stress on theory; and
3. many, if not most of them present a large volume of theory, and a greater variety of viewpoints and methods than are appropriate for young students inexperienced in abstract and sustained thinking. (Taylor, 1950, p.5)

Consequently, decisions needed to be made that involve two different, but related kinds of action:

1. take a fresh look at the introductory course with a view to determining anew what its objective ideally should be, with due regard to the possibility that it may now be confused with too many ideas; and
2. examine the curriculum and the rules of precedence and sequence of course, both in the department and in the college as a whole, in order to determine whether there is a consistent progression worthy of being called higher education, and not an uncoordinated hodge-podge of uneven courses. (Taylor, 1950, p.5)

A review of recent editions of *American Economic Review* shows that many of these concerns are still valid.

I have chosen to review article from 2000 and 2002 edition of the Proceedings of the American Economics Association, published in the *American Economic Review* in order to provide an indication of the state of the current debate about the efficacy of PE courses and the ways to improve them. These two editions are chosen as the eight papers that they contain are fairly representative of all of the papers that have been presented in this section at recent conferences. The solutions provided in these papers fall roughly into three categories: teaching tricks or hints, developing economic literacy and revising the content of PE courses. As these papers are generally presented by leading figures in economics education, they represent the so-called 'conventional wisdom' of the economics profession with regards to education in the PE. Hence, they serve as models of best practice for university teachers who are looking to improve their PE offerings, not just in the United States, but also in Australia.

The 2000 and 2002 editions of the *American Economic Review* included papers that addressed issues in undergraduate economics teaching. Both editions included four original papers plus discussants' comments or a panel discussion. The 2000 edition featured papers by Colander (2000), Parkin (2000), Kennedy (2000), and Taylor (2000). Parkin and Taylor are both authors of PE textbooks. Parkin's textbook has been adapted for the Australian market by McTaggart and Findlay and its first and second editions held market leadership until 1999 (Maxwell, 1999). Taylor is the Raymond Professor of Economics at Stanford University and Director of the Introductory Economics Studies Centre at Stanford. His PE textbook has been adapted for the Australian market by Moosa from La Trobe University (Taylor and Moosa, 2000). However, this book has not been adopted widely in Australia. Colander is the Christian A. Johnson Distinguished Professor of Economics at Middlebury College, Middlebury, Vermont. He has authored or co-authored economics textbooks including *Principles of Economics*, *History of Economic Thought* (with Landreth), *Macroeconomics* (with Gamber). Kennedy has been associate

editor of the *Journal of Economics Education* with responsibility for editing its research section since 1989 and has authored two economics textbooks. According to these papers, the key issues confronting teachers of first year economics are student boredom (Colander), failure to introduce the key concepts in a framework that is useful to students (Kennedy), content is not presented in an understandable or memorable way (Taylor). Parkin describes the contents of the introductory and intermediate macroeconomics textbooks.

The 2002 edition of *American Economic Review* included papers by Brown and Liedholm, Case, Hamermesh and Hansen with Salemi and Siegfried. Brown and Liedholm are from the Department of Economics at Michigan State University. Case is a co-author, with Fair, of *Principles of Economics*, a basic text in its sixth edition that has been adopted by more than 450 colleges and universities. Hamermesh is a labour economist from the University of Texas at Austin and has published a labour economics textbook and *Economics Is Everywhere*, a series of 400 vignettes designed to illustrate the ubiquity of economics in everyday life and how the simple tools in a microeconomics PE class can be used. Hansen, Salemi and Siegfried are from University of Wisconsin, University of North Carolina and Vanderbilt University, respectively. Hansen has published widely in the field of economics education. Salemi has been Professor of Economics at the University of North Carolina at Chapel Hill since 1987 and was Assistant Director of the Center for Economics Education at the University of Minnesota between 1973 and 1976. Siegfried is Professor of Economics at Vanderbilt University and Adjunct Professor of Economics at the University of South Australia. Brown and Liedholm compared the results of students taking a PE course in the traditional mode with those taking a completely online course and those taking a hybrid of the two. Case (2002) suggests a “list of important goals and some new topics and some approaches to teaching them” (2002, p.454) in a micro PE course. The paper by Hamermesh (2002) is entirely about technique and presentation, “how to avoid having the course burden students and instructor” (2002, p.449). Hansen et al. (2002) argued that the PE course fails students who take it and frightens away others because it has competing goals: trying to expose students to a short list of the core ideas of the discipline, while at the same time achieving a viable foundation of economic understanding for subsequent economics coursework. Finally, Frank (2002) argued that the effort spent by students to learn the technical details of courses would be much better spent learning a short-list of the most important principles by repetition and practice, especially applying the principles to explain some pattern of events or behaviour that they personally have observed.

The set of four papers in the 2002 volume of *American Economic Review* is followed by a panel discussion in which three members present a perspective on the Hansen et al. paper. None of the discussants disagree with the diagnosis arrived at in this paper of the problem with PE teaching. Not all agree with their solution, but they do not offer any other. However, in her review of the Hansen et al. (2002) paper, Lucas, Kreuger and Blank (2002) succinctly redefines the main problem faced by people who teach PE courses. They argued that the fundamental problem of teaching first year economics is that it is targeted at the needs of those students who intend to take an economics major.

However, as discussed in the introduction to this paper, the majority of students who take PE courses have quite different needs and learning styles compared to the majority of students taking PE courses. Who then should PE courses be targeted at, the minority who intend to take an economics major, or the majority who are unlikely ever to study economics again? If the answer to this question is the latter group, then tinkering at the edge of the PE curriculum, which is essentially the remedy proposed by the papers in *American Economic Review*, is not going to solve the problem. If service teaching is to meet the needs of the majority of students then the PE curriculum needs to be totally re-conceptualised. The question is how?

This raises a number of questions about what is taught in the first year PE subject. First, is the content appropriate for non-economics majors, who have different objectives in taking the PE subjects than economics majors? Second, what opportunities exist to ensure that the objectives of the programs offered to business students are compatible with the objectives of their professional bodies? There are two broad approaches to answering these two questions. One of these I call 'conservative', and the other, 'radical'. The conservative approach is exemplified by the debate about which of the existing principles could be excluded to make the PE course more accessible, or by suggestions to change the emphasis or presentation of the existing PE format (for example the paper by Kennedy on the importance of the real interest rate). A more radical approach argues that the PE course as taught provides insights into economics, but not necessarily into how economies actually work. For example, Stiglitz (2002) argued that economics teaches students about economic theory, but they learn very little about how real economies actually operate. The feedback received from those involved in accreditation accounting programs in Australia have argued that it is the latter that is important for their graduates. The issue of content can be addressed in consultation with external stakeholders, as discussed in the following section. An alternative paradigm within which to teach first year economics is then discussed.

GIVE STAKEHOLDERS A VOICE

Now we turn to the question of what it is that our students want or need from an introductory economics course. As a result of the continued growth of business programs, most of the students who enrol in PE courses are not economics majors. Furthermore, many of them are studying economics because it is a compulsory subject in their degree of choice. For example, majors in accounting and marketing and management are all required to take economics subjects. In some cases, the requirement to do so is set down by the relevant professional association. Economists have a good understanding of what first year economics students need to learn in order to be prepared for further study in economics. Yet, how well do academic economists understand what business majors need to learn in an economics course in order to be competent in their chosen fields?

Churchman and Woodhouse (1999) argued that a number of stakeholders seek to influence professional education. According to Watson (1992), the key external stakeholders in professional education are sponsors, providers and clients. From this perspective, we are the providers, our students are the clients, while the key sponsors are the professions, as represented by professional associations. They determine entry requirements and codes of practice. Hence, Churchman and Woodhouse (1999) argued that there is a role for professional associations in curriculum design and the stipulation of content as part of the accreditation process for graduates and consequently:

professional educators work within a contractual relationship with their tertiary education institution as well as the professional regulatory body and are accountable to both; to the institution for the quality of education, and to the body for the curriculum and the competence and sometimes the character of graduates. (Churchman and Woodhouse, 1999, p.212)

The contractual relationship can give rise to tension between the legitimate requirements of professional regulatory bodies and the autonomy of universities.

Harrison (1984, p.155) observed that professional associations may seek to ensure that the competence of entrants by controlling admission standards, the content of accredited courses, the amount and type of practical experience and the methods and standards of assessment. Further, Harrison (1984, p.154) observed that these controls may be administered through a combination of the following methods:

- a decision to accept a particular class of qualification;

- a set of rules for courses that can be applied by lay administrators;
- a core syllabus that must be followed by any course that is accredited;
- negotiation of the syllabus between the validating body and the teaching institution;
- periodic or continuous inspection of the teaching process and resources;
- control of the assessment of the student by setting and marking or moderating the examinations or by nominating examiners; and
- supervision of new entrants to the profession during a probationary period.

I therefore decided to ascertain the extent to which the key professional associations in Australia exerted influence on economics departments to ensure that their service teaching offerings meet their needs.

PE courses are compulsory in most business degrees taught in the three South Australian Universities. The accreditation requirements for joint membership of the Institute of Chartered Accountants (ICAA) and The Australian Society of Certified Practising Accountants (CPA) stipulate studies in economics as a pre-requisite for membership. The Australian Institute of Management and the Australian Marketing Institute make no such stipulation. However, the publicly available accreditation documentation ICAA/CPA do not specify what they want students to achieve by studying economics. Hence, they do not prescribe the content to be taught or the approach to be used in teaching. I therefore decided to use my relationship with accounting academics to try and shed some light on these two questions.

The first step in this process was to discuss these questions with staff from the School of Accounting at the University of South Australia. When I contacted a University of South Australia School of Accounting staff member who has been involved in accreditation for the University of South Australia Accounting program, her response, in an email, was that “any business graduate should have some understanding of the way in which the economy operates in order to be a successful participant in it at any level and in any business profession” (Marks, personal communication). A view was also sought from an equivalent person at the University of Adelaide who sits on the CPA Australia National Professional Education Board that oversees the philosophy and policy of the CPA Program of Studies, which graduates do as part of their postgraduate professional entry studies for CPA Australia. He is also a board member of AIM in South Australia. His response was that:

one or two semesters of economics as essential education requirements for aspiring members in that this provides important understandings of the way the whole economy and business work and interrelate - ie they provide the wider background environment and context within which business, government and professional organisations operate. This ensures that CPAs have an appreciation of the context surrounding their primary foci which are accounting, finance and business advisory services. (Parker, personal communication)

Finally, the response from the CPA Australia accreditation consultant:

I have not been able to find any official documentation regarding CPA Australia's views on this matter. I agree with Professor Lee Parker's view on this matter. Accountants operate in the ‘real’ world and therefore require a good understanding of how that world operates. Macroeconomics provides a significant part of that understanding while Microeconomics provides a model of how organisations operate within the wider environment. (Woolley, personal communication)

So, there is a pretty unanimous view among this non-random sample, that study in economics should provide business graduates with the background and context that they require to

understand how the real world operates, including the economy and organisations within it. Is this what the economists who run first year economics subject believe they are teaching, and do all economists agree with them?

If we return to the collection of papers that were reviewed at the beginning of this paper, we find that a number of objectives for PE courses were identified. These included improving economic literacy (Hansen et al., 2002), instruction in personal financial literacy, providing students with sufficient information on what the field of economics entails so they could make an informed judgement as to whether they want to study economics further (Lucas, 2002) (not really a realistic goal for most service-taught PE students in this context), absorbing the economic way of thinking (Frank, 2002), providing the student with an introductory glimpse at macroeconomics as it exists today (Parkin, 2000) and teaching the modern view of macroeconomics (Taylor, 2000). Clearly, these solutions do not address the main problems being faced by Australian academic economists.

However, the view from the accountants is pretty vague and leaves it up to the economists to decide what to teach. Hence, economists have decided to teach what they have always taught to first year economics students. However, the first year PE curriculum fits most closely with the objective of preparing students for further courses of study in economics and not with the poorly articulated views of the relevant external stakeholder professional accreditation bodies. Clearly then, there is a need to get these external stakeholders to articulate more clearly their needs for those of us who teach PE courses to business students to listen to these views. The economics profession could act proactively in this regard and provide these external stakeholders with assistance to help them articulate more clearly their needs. Furthermore, these discussions could then provide the basis of the re-design of our service teaching offerings.

A SPECULATIVE TURN

The lack of a clearly articulated rationale for the teaching of economics in undergraduate programs for business professionals creates both a problem and an opportunity for the economics teaching profession. First, it provides an opportunity for economists to teach business students the economics they think business students should know. However, the available evidence suggests that what economists teach to these students is pretty much the same economics that they were taught in first year economics, and the same economics that they would teach to first year economics majors. This is evidenced by the fact that most economics departments teach the same PE subjects to business majors as they do to economics majors. Second, it raises a problem for business students and external stakeholders. That is, is the content of a traditional economics major meeting their needs as outlined in the Introduction to this article? The previous section discussed how content could be made more appropriate, within the present paradigm. The aim of this section is to develop an argument for an alternative paradigm within which to provide service teaching offerings.

The mainstream critique of first year teaching has been outlined in Section Two of this article. A more radical critique of first year economics teaching is evident from a survey of articles of teaching from a major heterodox journal, *The Journal of Economic Issues*. For a number of reasons below outlined, I argue that an institutional paradigm is more likely to meet the needs of business students studying economics, than the traditional paradigm.

Traditional introductory microeconomics courses introduce students to core concepts in microeconomics that have been developed to explain how markets work. The introductory course in microeconomics concentrates on the theory of the firm, or the supply-side of the supply-demand diagram. The focus is on cost-curves, with some time given to market failure and the effects of government intervention in markets. Consumer theory is mostly covered in intermediate microeconomics courses. Introductory macroeconomics generally introduces the Aggregate

Supply/Aggregate Demand model that is used to analyse the effects of various external shocks to the economy, the effect of fiscal and monetary policy and the effects of changes in the labour market on the economy. Knoedler and Underwood (2003) provides a list of the “Ten Things Every Principles Student Should Learn”, according to the traditional model. These ten points, presented in Table 1, essentially summarise the traditional PE course.

Table 1. Ten things every principles student should learn

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1. Economics is the study of choice under conditions of scarcity.
 2. Economic actors are motivated by rational self-interest to maximize their satisfaction from consumption (based on a given set of preferences).
 3. Economic efficiency (technical and allocative) is the primary goal of an economy.
 4. The market values (prices) established in a "free market" economy are the critical guides to economic efficiency. Anything that "distorts" free market values reduces efficiency, thus imposing costs on society.
 5. Government "interference" in the free market distorts market values, thus reducing efficiency. A policy of laissez faire is optimal.
 6. The history of economic thought began and ended with Adam Smith. This historical context of development of economic theory is not important'.
 7. Inequality and poverty are completely unrelated to race, gender and class. Thus, evaluation of policy reforms does not require any knowledge of the history or structure of the programs involved or the characteristics of those who participate in these programs.
 8. In an advanced market economy money is used to make exchange, a store of value, and a unit of account. However, money is a neutral variable in analysis of the economy. Given this, the first objective of monetary and fiscal policy s combating inflation and stabilization of employment is a by-product.
 9. Economics, practiced correctly, is a "positive science" based in value-free, objective knowledge. The role of the economist is to engage in the science of "positive" analysis of the economic processes described above. While there may be some disagreement among economists, they do agree on many core "truths," such as: "All economists agree that as government redistributes more income to the poor, it has to raise taxes on those with a highly valued marginal product (i.e., rich and middle-income individuals) which weakens their incentives to work and decreases national income."
 10. The natural world, the source of all energy and materials and the repository of for all waste, is not a necessary (complementary) element in production.
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Source: Knoedler and Underwood (2003, p.708)

In addition, there is also conflict among economists as to what constitutes a good education in economics. For example, the key criteria for critical thinking are: realistic assumptions, predictive theories, logical consistency of theories, explanatory power of theories, and empirical evidence (Borg and Borg, 2001, cited in Knoedler and Underwood, 2003). Economics sacrifices two of these criteria, realistic assumptions and empirical evidence, in favour of predictive power and logical consistency through the use of models, which are crucial for training students to think critically. Thus, what they generally teach is analytical, rather than critical thinking (Knoedler and Underwood, 2003). In addition, the abstract reductionism of the neo-classical paradigm limits its usefulness in addressing contemporary social issues and there is a lack of connection between the simplistic economics of the classroom and the complex economic activity of the world in which students function (Lewis, 1995).

This article has made a number of arguments about PE teaching. First, most students who undertake PE are business students who will not major in economics. Second, those PE courses continue to be taught as if the students were economics majors. Third, that in addition to pedagogy, the approach and content of PE courses needs to be reviewed. Fourth, external stakeholders could be more closely involved in the development of PE courses. I would like now to take a more speculative turn.

The information that we do have from those with a stake in economics teaching to accounting students indicates that they believe that students should learn something about how the economy operates. This will give them a better understanding of the context in which they operate. Currently, suggestions to improve PE courses aim to improve economic literacy, help students to

understand the implications of policy decisions and to prepare them for future studies in economics.

The model of both markets and the macroeconomy that are presented in PE courses are simplified representations of rather more complex phenomena. Simplification, it may be argued, is a necessary part of the process of distilling out key features that we want to understand. However, we risk serving students poorly if they leave the PE course with an impression that what they have learned is a sufficient explanation of the economy and of economic behaviour. However, more seriously, we risk disengagement and disinterest if we insist that they suspend their own experiences and understanding of the world and ask them to replace it with the traditional economic models without accounting to them for the differences between our models and their experiences.

A survey of papers on economics teaching from the *Journal of Economic Issues*, a major heterodox journal produced by the Association for Institutional and Evolutionary Economics, highlighted three papers that are relevant to this topic. Between them, these papers highlight a range of issues for economic education. They range from a complete change in paradigm, to changes in pedagogy, content, the definition of economics, method, performance criteria, the role of values, and the role of government. I do not discuss pedagogy, since this topic is already widely discussed. The other seven issues are discussed below.

Paradigm

The first of the papers by Knoedler and Underwood (2003) calls for a paradigm shift in what is taught in PE courses. They claim that critical thinking begins when students learn that there are alternative thought structures, each consistent with the real material world. This is consistent with the approach to critical thinking in other disciplines. Students in other social science disciplines are taught to recognise that different thought structures, paradigms and theories can be applied to a particular problem, all with some validity. The critical exercise is to assess each theory and decide which is most useful for each situation. Economics principles teaching does this only to the extent that it might compare Monetarist or Classical theories with Keynes, in the macroeconomics section and possibly (but only in passing) with Marx. This broader definition of critical thinking also asks students to examine the theories that they are working with and to reflect on their validity, given their own experiences, and the other theories that they have been asked to examine. That is, they are asked whether they have any evidence that tends to falsify (in the Popperian sense) the theory or at least to think about what kinds of evidence might be needed to do so. In the teaching of PE, the models that are taught are taken as proven and students are asked to memorise and reproduce them, rather than critically examine them, asking ‘when, in my experience, would this not be so?’

Other disciplines in the social sciences are also interested in teaching their students to place the theories that they are learning into some context. They recognise that knowledge is not an entity that exists in isolation from a context, waiting to be discovered by the trial and error processes of pure science. Knowledge is made and constructed in a social context and reflects the concerns and cultural influences of those who make it.

In the same way, students filter the material from university studies according to their own experiences. This often causes conflict within the student when the material that they are presented with is at odds with their own experiences, or with material that they see in other subjects taught in the same degree program. Imagine the surprise a student who is taking a marketing major gets when they are told that consumer tastes and preferences can be taken as given! Part of an education that produces critical thinkers is helping students to come to terms with a world where more than one truth is possible.

I am not advocating that the traditional paradigm be completely replaced. Rather that it be studied as one of the theories of how the economy works and examined for its strengths and its weaknesses and compared to other theories that are available. Thus Knoedler and Underwood (2003) offer an alternative list of ten things every PE student should learn. This is outlined in Table 2.

Table 2. Ten Things Every Principles Student *Should* Learn

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1. Economics is the study of social provisioning, not merely choices and scarcity.
 2. Both scarcity and wants are socially defined and created.
 3. Economics systems are human creations: no particular economic system is “natural.”
 4. Ecological literacy (economy ecology interface, unity between biophysical first principles and economic sustainability) is essential to understanding the economic process.
 5. Valuation is a social process.
 6. The government defines the economy; laissez-faire capitalism is an oxymoron.
 7. The history of economic thought is critical to the study of “basic principles” of economics.
 8. Economic theory (“logical economics”) and real world economics are often very different things.
 9. Race, gender, and class shape economic processes, outcomes and policies in the real world economy.
 10. There are many different types of economists who do not agree on many things. This reflects the fact that economics is not “value free” and ideology shapes our analyses and conclusions as economists.
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Source: Knoedler and Underwood (2003, p.714)

Knoedler and Underwood (2003) argue that this list reflects the needs of people to apply successfully technical knowledge in an “historically conditioned social context ... to provision themselves and to reproduce culture”. These ten things not only emphasise that people are rational participants in the economy, but also their role in shaping the economy in order to address problems and address avenues of redress.

Content

In relation to content, Lewis (1995), who, at the time, was an Assistant Professor of Economics at the College of St Benedict, argued that that instead of beginning with abstracted models that primarily serve to:

teach students to manipulate graphs or equations that signify an idealised reduction of complex economic life ... we need to begin with current economic issues representing paradigmatically significant problems that give rise to economic investigation and explanation. (Lewis, 1995, p.555)

This approach appeals to the desire for ‘real world’ relevance that is required by sponsors as it reinforces the basic understanding by students of the economy and requires discussion of economic policies. Business students do not have the need to be able to manipulate graphs and equations, this is not one of the reasons they should study economics as stated by interested members of the accounting professions. Indeed, experience suggests that struggling with graphs and equations distracts many students from learning the economic principles that they require to make sense of the economy.

Definition of Economics

The traditional definition of economics is based on rational individual choice under conditions of scarcity so that constrained maximisation, fundamental trade-offs and opportunity cost become the focus of most introductions to the subject. The traditional PE course focuses on how resources are allocated through the maximising behaviour of individual decision makers in the context of a market economy. The institutional view recognises that both human wants and resources are largely socially defined and created. Consequently, from the Institutional view economics becomes a study of how societies organise themselves to secure the material goods and services necessary to maintain and reproduce themselves. Resource allocation and distribution are viewed

as interrelated parts of this ongoing process. Social norms, customs, and institutions play an important role in defining and guiding the economic process and determining how the three economic questions are answered (Peterson, 1995). For business students, understanding that resource allocation is not simply the result of self-interested decisions of individuals allows them to develop a fuller understanding of how decisions they make in their professional lives interact with a range of influences on their customers, not just the price.

Methodology

Lewis (1995) also argued that a better understanding of the economy also requires a different method for examining economic issues. Rather than using mathematically elegant, but substantively sterile arguments, a holistic method is needed that combines empirical evidence and appropriate analytical frameworks that emphasise the interaction of the institutions and values underlying the issues (Peterson, 1995). Some would say that this means we are no longer teaching 'economics', but 'political economy'. I would argue that this is not a problem if it meets the educational needs of the majority of our students to understand better the economy. In addition, it is an important part of critical thinking that students are able to test the validity of theories, or at least to view the data that convinced the economics profession that the theory was valid.

Performance Criteria

Traditional economics emphasises efficiency over all other criteria and is defined in ways that set it in opposition to other goals such as equity. Efficiency (defined in terms of non-wasteful resource use) and equity both contribute to the success of society in sustaining and reproducing itself. Allocative efficiency is only meaningful in terms of a particular distribution of income. How goods and services are produced is determined as much by social norms and institutional structure as it is by the market for factors and individual technology. The treatment of costs reflects the distribution of power in the economy. Hence, technical efficiency is also socially determined in many ways and reflects distributional concerns. In the context of a microeconomics course, there are many possible efficient market equilibria associated with many different income distributions. Consequently judgments about the acceptable distribution of income are not peripheral or in opposition to the analysis of market outcomes, but provide that basis for determining what is efficient (Peterson, 1995).

Role of Values

Traditional economics invokes the positive-normative dichotomy. It is argued that economic analysis must be said to be 'positive' because conclusions based on opinion or value judgements do not advance the understanding of events. This limits the acceptable topics for economic analysis, with issues for example, income distribution being viewed as 'values issues' and unacceptably normative. Institutional Economics rejects the belief that 'value-free' economic inquiry is even possible. Knowledge is socially constructed and reflects the values and bias of the individual researchers, social system and the culture that produced it. Ignoring this obscures the particular values and priorities embedded in the theory.

With Institutional Economics, the goal of value-free inquiry is replaced with the goal of applying warranted knowledge to the solution of economics problems. This calls for a comparative approach where explicit attention is given to the roles of values and ideology in shaping the way economists view the world, encourages students to examine their own belief systems and develop informed opinions about economic problems (Peterson, 1995). As currently taught, PE courses tend to deliver a dogma to students that remains unquestioned throughout the course. This not only risks accusations of being unscholarly, but ignores the place of values in economic theory.

When this is combined with a claim that economics is 'value-free', the accusation might be upgraded to dishonesty.

Role of Government

Traditionally, the economy and the government are defined as separate entities. The three main economic questions, **what, how** and **for whom**, are most legitimately answered in the private sector, while governments exist outside this process, intervening or interfering in the market in response to efficiency and equity goals. The primary role of government is to provide and enforce the economic rules of the game that facilitate the operation of the market economy. Governments may also enforce competition, correct market failure and promote an equitable distribution of income.

On the other hand, traditional economics is wary of other roles for government and they are often discussed in terms of efficiency goals and are associated with non-economic goals that economists claim to have no specific role in evaluating. However, Institutional Economics argues that the conceptual separation of the economy from government severely limits the scope and relevance of the economic analysis. The traditional emphasis on the private market provides an incomplete and distorted picture of both the operation of the market economy and the broader process of providing goods and services. It also obscures that nature of the economic role of the government in shaping the economy by giving support to the interests of some participants and not to others. By not interfering in the economy, the government tacitly supports the status quo distribution of income and power. In the view of Institutional Economics the policeman view of government is replaced with a more holistic and realistic view of the political economy. Government intervention becomes a meaningless concept. Government policies are not ranked according to the degree of their intrusiveness into a mythical free-market, but are evaluated in terms of their contribution of the social provisioning process. (Peterson, 1995) If business students need to have an understanding of the 'real-world' then sidelining government in the study of economics provides them with a distorted picture of how developed capitalist economies operate.

I do not necessarily suggest that everything the Institutional Economists have to say about the teaching of PE should immediately be adopted. However, if the goal of having business students studying economics is to give them an understanding of the 'real-world', then these ideas provide useful material for thinking about how a PE course might better serve their needs.

CONCLUSION

This article started from the observation that although enrolments in economics in Australia might be increasing this is largely due to increased service teaching and not an increase in the number of students undertaking an economics degree. Consequently, an increasing amount of the teaching that is being undertaken by schools and departments of economics in Australia is service teaching. However, it was demonstrated that the standard PE courses do not meet the needs of the majority of first year students. Consequently, the article addressed the issue of how best to meet the needs of business students, given that they were an increasingly important client group.

The article started with a review of eight papers in two recent editions of *American Economic Review* that were intended to serve as guides to improving the teaching of PE courses. However, it was argued that the solutions offered in these papers were inappropriate to the present context as they focused on the perceived needs of the minority of first year students, those undertaking economics degrees and not business programs.

The question of how to make service teaching more relevant to business students was answered at two distinct levels, a conservative approach and a more radical approach. The conservative approach argued that academic economists needed to consider the needs of key sponsors. In

particular, the professional associations that business graduates joined. These professional associations were important external stakeholders as many of them stipulate economics study as a pre-requisite for membership. However, it was demonstrated that at least one of the most important professional associations in Australia had poorly articulated its reasons why they required graduates to have studied economics. Hence, it was argued that academic economists should help these professional associations to articulate more clearly their needs. This in turn would make it easier for providers, that is, economics departments, to develop curricula to meet better the needs of business students.

The more radical approach argued that the traditional paradigm within which PE courses were currently taught was the main reason why service teaching did not meet the needs of business students. A number of concerns about the traditional paradigm were expressed in Section Four. In particular, the abstract reductionism of the neo-classical paradigm limited the usefulness in addressing contemporary social issues, and there was a lack of connection between the simplistic economics of the classroom and the complex activity of the real world in which our students functioned. In brief, the professional associations want students to learn about how real economies operated and not just to learn about economic theory. Hence, if we are to meet better the needs of our students we need to place our teaching into a broader theoretical framework. Institutional Economics was briefly explored as a framework in which this might be achieved.

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