

Revise and resubmit

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The crisis is changing how macroeconomics is taught

IN MORE than 30 years of teaching introductory macroeconomics, says Alan Blinder of Princeton University, he has never seen interest as high as it was last year. At Harvard, says David Laibson, students in his undergraduate macroeconomics course are “chomping at the bit”. At elite American universities, where endowments have shrivelled and hiring is down, increased interest in economics is among the most benign of the recession’s effects.

Yet the crisis has also highlighted flaws in the existing macroeconomics curriculum. Greg Mankiw, a Harvard economist and the author of a bestselling textbook, points out that students can hardly be expected to make sense of the crisis if they know virtually nothing about things like the role of financial institutions. Yet if there is a “financial system” in most introductory texts, Mr Blinder observes, it usually focuses on the demand and supply functions for money. “The current curriculum fails to give students even imperfect answers” to their legitimate questions about recent economic events, he says.

Changes are coming. Mr Blinder is one of the authors of another popular undergraduate textbook, which he is now revising. In the process, he is having to think long and hard about how to balance the need for more detail about things like finance with the constraints under which introductory macroeconomic courses are taught. The new edition is likely to have a prominent place for the idea of leverage and how it contributed to the crisis. That is fairly simply explained. But some additional complexity will be unavoidable.

For instance, the convenient fiction of a model of the economy with a single interest rate was defensible as long as different rates moved in concert. This, Mr Blinder says, is no longer something that students can be told “with a straight face”. Some discussion of the role of securitisation and systemic risk is essential, even if it feels like a lot of detail for beginners to grasp. Mr Blinder, with a nod to Albert Einstein, says that economists need to remember that things should be made as simple as possible, but no simpler.

Revised textbooks will soon find their way into bookshops. Charles Jones of Stanford University has put out an update of his textbook with two new chapters designed to help students think through the crisis, and is now working on incorporating these ideas into the body of the book. A new edition of Mr Mankiw’s book should be out in about a year. And Mr Blinder’s publishers aim to have his revised text on sale by June.

Courses in many leading universities are already being amended. Mr Laibson says he has chosen to teach his course without leaning on any standard texts. Francesco Giavazzi of the Massachusetts Institute of Technology is now devoting about two-fifths of the semester’s classes to talking about how things are different during a crisis, and how the effects of policy differ when the economy hits boundaries like zero interest rates. Discussion of the “liquidity trap”, in which standard easing of monetary policy may cease to have any effect, had fallen out of vogue in undergraduate courses but seems to be back with a vengeance. Asset-price bubbles are also gaining more prominence.

Will these changes in the way macroeconomics is taught really stick? The rewriting of widely used texts should ensure that some of the ideas that have helped explain the crisis become part of the future curriculum. Mr Jones says it will be instructive to compare the bestselling textbook in ten years' time with the pre-crisis version of Mr Mankiw's book. He thinks they will differ substantially.