MISSION STATEMENT

The *Australasian Journal of Economics Education* is a peer-reviewed journal that publishes papers on all aspects of economics education. With a view to fostering scholarship in the teaching and learning of economics, it provides a forum for publishing high quality papers and seeks to bring the results to a widening audience. Given both the increasing diversity of the student clientele, and increasing calls for greater attention to the quality of tertiary teaching, this *Journal* seeks to foster debate on such issues as teaching techniques, innovations in the teaching of economics, student responses to such teaching, and the incentive systems which influence the academic teaching environment. The *AJEE* is interested in research involving both quantitative and qualitative analyses and also in interpretative analyses based on case studies. While the *Journal* is Australasian-focussed, it encourages contributions from other countries in order to promote an international perspective on the issues that confront the economics discipline. *AJEE* aspires to:

1. Report research on the teaching of economics, and cultivate heightened interest in the teaching of economics and the scholarship of teaching.  
   **Pedagogical issues** will be a central feature, and will encompass work on the teaching of economics in diverse contexts, including large and small classes, undergraduate and postgraduate classes, distance learning, issues confronting foreign students on-shore and off-shore, and issues related to the teaching of fee-paying MBA and other post-graduate groups from diverse disciplinary backgrounds. Though economics is the prime focus, consideration will also be given to work on other subjects that have a demonstrated relevance for the teaching of economics.

   Such issues will also involve evolutionary issues in the teaching of economics, in terms both of effective ways to teach evolving theory and of evolving **technology** with which to teach that theory (including on-line teaching).

   Recognition will be given to the fact that economics as a discipline has not fared well in **CEQ results** (course experience questionnaire results) since the reporting of those results began in Australia. Nor has economics teaching typically been well received in the USA or UK, according to survey evidence. In that context the relevance to teaching of changing administrative arrangements in universities will also be highlighted (eg in terms of contemporary quality assurance procedures and other government policy changes in Australia and New Zealand).

2. Report research on **the nexus between teaching and research** (including research on the diverse, changing and potentially conflicting incentives within the academic industry). Papers exploring the extent to which research and teaching activities are complementary or competitive will be welcomed.

3. Recognise the relevance of some more deep-seated **implicit assumptions and issues of economic philosophy** embedded in what is commonly taught, (as in Sen’s work on economics and ethics, for example). Inter alia, the question arises as to the
way in which students respond to economics taught as a path to scientific certainty, as against economics taught as reflecting unsettled debate and vigorous controversy.

4. **Recognise the place of history in the teaching of economics.** Both HET and economic history tend to play a diminishing role in professional economics training, as emphasis on technique dominates. This a-historical approach to the teaching of economics has been criticised by many influential economists (including Joan Robinson, Leontief, Myrdal, Colander, and Robert Clower in his acerbic remarks about the value of much that is published in such prestigious journals as the AER). This line of criticism has been continued in the recent growth of heterodox economics associations in a number of countries (including one for Australia and New Zealand) and on the web through the Post Autistic Economics (PAE) newsletter. Historical and institutional factors will thus provide one focal interest.

5. **Recognise interdisciplinary issues** important to the presentation of economics in various contexts. On the one hand, economics students are not systematically exposed to the insights of other social sciences and the conformity or otherwise of their conclusions with those of economics. On the other hand, other disciplines within the social sciences and humanities (e.g. the Social Work profession) do not always include even an introduction to economics for their students, notwithstanding that economic issues are often very important determinants of the environment within which they operate. More fundamentally, questions arise as to whether social science is more than the sum of its respective parts, and as to whether the roots of economics can be fully understood in isolation from the history not only of economics but also of politics and philosophy.

6. **Establish a link to the teaching of economics in the secondary schools,** given that tertiary enrolments in economics reflect fluctuating enrolments in economics in the secondary schools.

7. **Encourage on-going surveys of student response to the teaching of economics** across Australasian (and other) institutions, including response to experimental teaching and to differences between institutional approaches. (c.f. Colander and Klamer’s 1988 survey of economics students at USA ivy league institutions.)

8. **Monitor trends** in the teaching of economics both globally and in the Australian and New Zealand university systems (such as enrolments, staff-student ratios, international-domestic student ratios, offshore offerings etc), and the implications of those trends for various funding arrangements.

9. **Promote a series of papers on specialised themes within the overall province of the teaching of economics** e.g. on the teaching of Principles courses, the teaching of History of Economic Thought, the teaching of intermediate microeconomics and macroeconomics, the teaching of development economics, and likewise regarding teaching in such streams as Quantitative Methods, large first year classes, non-English speaking background students, the teaching of economics to non-economists, product differentiation in teaching economics, and professional education in economics in executive education programs outside conventional university contexts.

10. **Monitor the measuring and rewarding of quality (economics) teaching** within Australasian universities.
AUSTRALASIAN JOURNAL OF ECONOMICS EDUCATION

CONTENTS

ARTICLES
How I Taught Law and Economics  
Warren J. Samuels  1

Asking the Right Kinds of Questions  
Promotes Learning During Discussion  
Michael K. Salemi  55

Teaching Political Economy:  
Curriculum and Pedagogy  
Frank Stilwell  66

Teaching Principles of Economics from a  
Social Economics Perspective  
Edward J. O’Boyle  83

Teaching Health Economics  
Luke B. Connelly  104

Innovative for Quality in the Teaching of Economics  
James Laurenceson  122

Approaches to Learning in the Honours Year  
Supervisory Relationship:  
A Preliminary Investigation  
Nava Subramaniam,  
Michael E. Drew &  
Kim Clowes-Doolan  142

NOTES AND COMMENTARIES
Some Thoughts on Economics Education Research  
Tommy Tang  158

Nature Versus Nurture in the Economics of Education  
Editors  165

A Note on Opportunity Cost: A Contemporary Problem  
Editors  166

(contd.)
The Chinese Origins of the Invisible Hand
James Laurenceson 167

BOOK REVIEWS

The Student’s Guide to Writing Economics
Alan Duhs 170

The Handbook for Economics Lecturers
Mary R. Hedges 171

Political Economy
Alan Duhs 174

Principles of Microeconomics
Bruce Littleboy 177

Macroeconomics
Kartik C. Roy 178
HOW I TAUGHT LAW AND ECONOMICS

Warren J. Samuels
Professor Emeritus
Michigan State University, USA

EDITOR’S NOTE: *
Introduction

I taught graduate law and economics for some years at Michigan State University. Technically it was listed either under Public Finance, in which field I had taught graduate and undergraduate Public Expenditure Theory for some years, or as a free-standing course (not within a field). The actual title of the course, Economics 819, was Economic Role of Government. The catalog description of the course read: Analysis of fundamentals of economic role of government with focus on social control and social change; legal basis of economic institutions; applications to specialized problems and institutions. The specific objectives of the course were three:
1. Insight into the “fundamentals of the economic role of government” beyond spending and taxing per se.
2. Insight into the problems of studying the fundamentals of the economic role of government: sources and conceptual, ideological and substantive materials.
3. Identification and mastery of several alternative approaches to the economic role of government, or to “law and economics.”

I taught the course once a year for over ten years, sometimes during the regular academic year and sometimes during the summer. After technically retiring I taught the course each Fall for several years.

1. INTRODUCTORY LECTURES
The specific approaches comprising the course are (1) Neoclassical, which has two strands, Pigovian and Paretian; (2) Institutional; (3) Critical Legal Studies; and (4) Marxian; these were briefly elaborated upon. The principal focus, however, was said to be on the juxtaposition of the Neoclassical and Institutionalist approaches through readings and lectures. The Neoclassical approach is presented in detail in Werner Z. Hirsch’s textbook, Law and Economics: An Introductory Analysis. 2nd ed., 1988,

* Warren Samuels has been one of the world’s most foremost economists in recent decades. In this paper – which supplements his earlier paper in this Journal on the teaching of HET – he reflects on his experiences in the teaching of law and economics, and considers a range of issues others may draw on to broaden and deepen courses elsewhere.
and is richly summarized in Nicholas Mercuro and Steven G. Medema, Economics and the Law: From Posner to Post-Modernism, 1997. The neoclassical approach will be presented and critiqued in the lectures. The lectures, coupled with the other texts, will examine in depth the Institutional approach.

At this point I felt it incumbent to caution the students, for this course will be unlike any they have ever had and certainly like no other in our program. I also say that I will be making a wide range of introductory points in order to indicate something of the range and the content of what we will be covering in the course. These points will sometimes be reiterated, in order to suggest that they relate to other points in an extremely complex analysis, and to suggest something of how they relate.

Before I summarize the cautions, I should now take notice of two reviews of my Economics, Governance and Law (Northampton, MA: Edward Elgar, 2002) by reviewers who certainly understood what my approach was all about. Richard Sturn employs a distinction made by Abba Lerner in an article which I had read when it was published and had since forgotten. Lerner argued that “an economic transaction is a solved political problem”, the latter involving “essentially the transformation of the conflict from a political problem to an economic transaction” (Abba Lerner, “The Economics and Politics of Consumer Sovereignty,” American Economic Review, Papers and Proceedings, vol. 62, no. 2 (May 1972), 258-266, p. 259). Sturn perceptively holds that my position argues “that what Lerner calls ‘political problems’ are never ever ‘solved’ once and for all” (Ricard Sturn, Book Review, The European Journal of the History of Economic Thought, vol. 11, no. 2 (Summer 2004), pp. 328-30, p. 328). Sturn further argues that I “challenge the foundational choice of problems” by both “mainstream economic analysis” and “all currents of politico-economic thought which combine two commitments: (i) a commitment to some form of individualism; [and] (ii) a commitment to the view that it belongs to the professional task of economists to provide the theoretical basis for the translation of as many conflicts as possible from contested political problems into economic transactions whose desirability can be determined solely in terms of efficiency.” Sturn perceptively carries my argument further:

To conceptualize political conflict primarily as something we ideally should and perhaps could get rid of, ‘obfuscates’ … the fact that under modern conditions government, governance and policy are inevitably important, ubiquitous and activist. In modern reality, there is no uncontested realm of law, property.

---

1 When I say “my approach” I really have in mind the approach take by a number of people, notably A. Allan Schmid and Daniel W. Bromley.
and voluntary exchange and market whose anchors and boundaries are settled by rules once and for all: the battle-cries in favor of de-politicization and deregulation are as political as regulation itself. ‘Politicisation is inevitable’ … Theories suggesting the minimization of political regulation and governance are based on an untenable ontology and typically function as ideologies serving the interests of particular groups. All important rules and norms are essentially and permanently contested. Reasoning which promotes the minimization of the scope of politics as a social ideal rests on demonstrably false premises. But it may alter the direction of political decision making and its distributional impact. These ideologies are built on ontological illusions yet may have real effects within the political and legal process itself …” (p. 329)

In the second review of my book, Peter Boettke summarizes my view of “the complex reality of the interaction of polity, economy and society” thus:

1) Government is an instrument of social control and can be, and will be, used by whoever can get in the position to use it for their benefit;
2) What we perceive as the economy emerges out of the complex institutions and processes that are worked out in the legal economic nexus;
3) The policy debate is never about government intervention or not government intervention, government intervention is omnipresent and thus the question is always about the change of the interests whom government is used to support.


Sturn and Boettke get my position right; too bad the reviews (and my book, of course) had not been available to help with my cautions. What I identified as my “preliminary cautions” ran along the following lines (a composite of two sets of introductory notes) much of which involves how the Institutional approach differs from the Neoclassical approach.

The course will aggravate some students because it explores the fundamental importance of government for the economy and because it attempts to reach no conclusions as to the proper role of government or as to the correct specific policies of government. For example, in affirming that government will necessarily promote certain interests rather than others, it is intended to say nothing as to whose interest will count and be promoted by government-except to affirm that government will promote
certain interests rather than others even when it superficially appears that it is not.

I then said that two distinctions had to be made: one between explanation and justification, and the other between language which describes and language which attempts to motivate psychologically for the purposes of power. I said further that I will appear cynical in discounting various claims, that I admit to a great deal of cynicism; and that no implication for or against a policy should be drawn when rendering such distinctions and claims.

Two important dichotomies were emphasized. One juxtaposes liberal democratic society in the abstract to the specifics of freedom and control, and continuity and change, in actual institutionalized systems. The second distinguishes pure abstract a-institutional conceptual markets from actual markets that are a function of the institutions which form and operate through them. Actual markets, furthermore, are a function of the structure and policies of firms and of the legal and moral framework. I then posed the problem of equating the pure conceptual market with the actual institutionalized market: this is equivalent to privileging the actual market, and therefore the structure on which it is based. Correlative thereto are the further problems, (1) identifying optimality solely on voluntary exchange within the existing market, when the pure theory may or may not apply to it and may apply to others; and (2) using existing prices and costs, thereby giving effect to the existing market and the structure on which it is based.

The foregoing brought me to several key propositions. (1) Neoclassical economics explains resource allocation as a function of the market, which is a function in turn of demand and supply, whereas Institutional economics lengthens the explanatory chain by adding, “… which is a function of power structure, which is a function of relative legal rights, which is a function of government, which is a function of who controls and uses government to promote their interests; (2) Most questions of legal-economic policy are matters of legal change of the legal framework; (3) Law and government are objects of use to control and change actual markets; (4) Markets are not neutral; how they operate depends in part on who controls their legal foundations; (5) Neither market nor rights are independently constituted; they are, rather, instituted and changed through social construction; (6) Government is not external to the economic system: government is what it is because of the economic system, and the economic system is what it is because of government; both are a function of the legal-economic nexus; (7) Propositions about the economic role of government likely reflect and give effect to an attitude or sentiments and not legal-economic reality, but nonetheless can influence the social construction of reality; (8) The overriding principle is that of the use of government: government is an instrument, or tool, available for the
use of whoever can control it; (9) Government can be an instrument of the powerful, or a check on the power of the powerful, or both; (10) The economy is a process in which (a) utility maximization within a given legal structure and (b) efforts to change the legal structure are jointly and interactively worked out.

Several false or misleading dichotomies were pointed out: (1) Nonintervention or laissez-faire versus reform: Legal change of law is the central problem; law is not intruding into a situation in which it hitherto has been absent but, in changing or reforming the law, etc., government is changing the interest to which it is giving its support. The problem is not government versus no government, but which interests government is used to protect and which to inhibit. (2) Regulation versus deregulation: Regulation protects Alpha from Beta; deregulation protects Beta from Alpha. The status quo point denotes one rather than another structure of rights (interests protected by law), one rather than another derivative price and cost structure, one or another set of externalities, and one or another allocation of resources. When the issue is whose interest is to count, some notion of public purpose or social welfare, etc., is needed. (3) Polity versus economy: The two are not only mutually interdependent, they both emanate from a common legal-economic nexus.

Jockeying for positions of power from which to control government typically involves obfuscation: obfuscation that the jockeying for position is going on, that the legal-economic nexus exists and is continuing to generate legal change, that rights and the status quo are selectively being treated as natural or absolute, of the fundamental role of government as a mode of social control through, in part, social purpose.

The students are asked to consider in their own minds the usual propositions centering on self-interest and its maximization or optimization. These propositions can have several meanings: (1) A definition of reality, as to how people actually behave. But this tends to be tautological: whatever is pursued as self-interest is self-interest because it is pursued. (2) A methodological limiting assumption. (3) A normative “ought.” Furthermore, is self-interest the driving force or is it a check on the driving force—or both? Consider also the proposition that we should do away with any barriers to trade. I tell of my undergraduate students who think that there should be a market for everything and that government should not intervene. I point out, first, that markets require laws; the free market is not devoid of law. Second, when I respond by proposing that grades will be sold to the highest bidder, quiet reigned supreme in class. (4) A “free market” can exist, but with what institutions, with what structure of power?

I indicate that the foregoing both stands on its own and constitutes a critique of Neoclassical law and economics. Moreover, I emphasize (1) the
fact of the social construction of legal-economic reality, rather than positing an independent, given, and self-subsistent system; (2) the legal-economic nexus from which emanates what we conventionally, and selectively, designate the economic and the political, or the private and the public, spheres; (3) the psychic balm (emotional comfort, setting minds at rest) and social control (including legitimization) functions performed by presuming a given, eternal system, which also abets those with interests in status-quo legal-economic arrangements; (4) that law and policy are not as different as one might imagine, i.e., law is policy and policy is a mode of making law; and (5) that policy is a result of partisan mutual adjustment (bargaining, in various forms and within various structures, the structures themselves both a matter and an object of policy).

I suggest that hysteria about government is vain and an empty form of amusement, anxiety and/or manipulation. The real problems are those as to choice of the organization and control of the economy, i.e., of access to, use of, and the effects of, power. As for our being economists and not legal scholars, I stress that law is not a private mystery into which none but the lawyer can enter.

I endeavor to make clear to the students that I intend for them to master and acquire an ability to work with or within each of the approaches and to apply each approach to some common problem. This mastery requires them to conduct a continuing exercise in the analysis of texts and involves identifying the selective perception and choices involved in both making policy under them and in making sense of them. Again I caution the students that this approach will raise questions about their belief system. Normally it is in respect to these questions that the belief system functions as a protective belt. But here we tend strongly to challenge student belief systems in order to get to the fundamentals of what is going on in the working out of the economic role of government. I reiterate that, counting lectures and all the readings, the course is intended to cover multiple perspectives. My own personal perspective is not affirmed to be “correct” but it will inevitably govern what I have to say.

I suggest the matrix approach to meaning. You have a question, and you have five or six different views on that question-say, five different approaches. And within each approach, you have several different subsidiary views; branches, as it were. So you have A, B, C, D, and E and within each of them you have, say, C1, 2, and 3. So what is the object X? Is the object X to be understood by A or by B or by C, or A1 or A3 or D3? It seems to me, even if I were to believe that E3 is the correct one, that if I look at the world, what’s really going on out there, without putting myself and E3 at the top of a pyramid, is a matrix of positions, and that there likely must be something to be learned from the matrix formed by all these positions.
Typically I again discussed the several approaches. In the Marxian approach, for example, I identify the functions of government to be (1) an instrument of class domination, (2) a facilitator of capital accumulation, and (3) a rationalizer and protector of the system. Apropos of neoclassicism I reiterate some of the assumptions required in order to reach unique determinate optimal equilibrium solutions to problems of resource allocation. I indicate some problems of Neoclassical and Marxian economics, for example, whether or not the economy is independent and self-subsistent; whether the economy is more than the market, i.e., whether markets are to be understood in pure, a-institutional conceptual terms or in terms of the institutions/power structure which form and operate through them; and the need for some assumption as to the relationship of a theory to the status quo system and structure.

The Institutional approach is said to put emphasis on the factors and forces at work in the economic, or legal-economic, process with regard to (1) the organization and control (power structure) of the economic system and its evolution; and (2) resource allocation (etc.) with a wider scope of variables and longer chain of reasoning, and not on unique determinate optimal equilibrium solutions. As for the latter, I urge that there is no such solution, only optimal etc. solutions specific to the structure of rights-rights determined by and through government (including the legal system), i.e., through the uses to which government/legal system is put.

I note that all approaches (1) share an instrumental view of the state, (2) have different values and definitions of reality, for example, accepting or rejecting the logic and ontological status of the market, or capitalist, economy; and (3) that the affirmative theory of each constitutes an approach to the use of government.

The lectures continue with a wide ranging survey of relevant methodological concerns.

I distinguish methodological and normative individualism and collectivism. As to normative individualism and normative collectivism, I indicate that the following questions necessarily arise: (1) which individuals (2) within what structure and (3) that performance is, inter alia, a function of structure. I identify the problem of structure versus results in part thusly: That on any topic we tend to (1) make assumptions as to structure, or seek agreement on structure, further assuming that whatever results thereof arise will be deemed acceptable; or (2) identify desired results and thereby assume and legitimize whatever structure will yield the desired results.

As to methodological individualism and methodological collectivism, I point out (1) that use of the market (“the market works”) involves a social welfare function, either explicit or implicit; (2) that the market produces an efficient allocation of resources as a function of efficiency being defined in...
terms of free market adjustment; (3) that the content of the legal framework is often the point at issue; (4) that individuals may pursue the maximization of their self-interest, but that preferences and interests are learned (treated as given by the analyst but not given in actual economies); (5) that the use of the Pareto-criterion has the effect, if not the intent, of protecting either the existing or some assumed power structure; and (6) that one problem is that of the definition of output, and that in many cases what defines a product-output is stipulated in law.

The positive and normative distinction is reviewed (1) in terms of what is vis-à-vis what ought to be; and (2) that one cannot derive an ought from an is alone, that additional normative premises are required. A distinction is drawn between positivism as being concerned with what is and a conditional positivism as being with what is necessary to achieve a particular normative goal.

The role of economic theory as a rationalization of the market system is underscored using a quotation from Kenneth Arrow and Tibor Scitovsky, AEA Readings in Welfare Economics, 1969, p. 2: “Modern economics developed more or less as the rationalization of the laissez-faire economy, hence its preoccupation with the private sector and the operations of the market in the private sector.”

Instead of treating law as unimportant, as a given, as dysfunctional, and/or as exogenous to the economic system, the emphasis in this course is on the importance and ubiquity of law. All aspects of life must be seen to have a pertinent body of law. New developments, such as new technology, introduce new relationships between people, and law is called upon to identify and protect as rights the respective interests of the parties. An example is the technology that enables surrogate motherhood or parenthood (disposition of frozen embryos). This introduces novel situations and conflicting claims of interest, the need to establish who has what rights and duties, and to whom. Competing analogies with existing laws are drawn, driven in part by premises as to whose interest should count, and how.

Specifically with regard to the lectures, several characteristics are identified:

(1) The point of view is said to be radical in the sense of dealing with fundamentals. Government will be shown, whether we like it or not, to be deeply involved in the definition and creation of the economy. Also to be shown are the efforts that are continually being made to obfuscate the role of government in defining and creating the economy so as to selectively channel both the definition and the (re)creation of the economy, efforts that are willy nilly a part of the processes of definition and (re)creation itself. Among these efforts are the pretense that rights are absolute and an
emphasis on the quantity theory, the gold standard, inflation as an issue, all in order to “limit” the economic role of government. Whereas rights are not absolute; they are relative to each other and to the processes of government through which they are chosen and remade; and the gold standard etc. each involves government. The proximate critical matter is almost always the legal change of law, that is, the change by law of the interests to which government is to give its support. Government is inexorably involved in the status quo, and the question is that of the change of the details of that involvement. Although the economy and polity are typically comprehended as essentially self-subsistent and independent, albeit interactive spheres or processes, there is a “legal-economic nexus” in which both originate in an ongoing manner.

(2) As already indicated, the point of view encompasses twin interactive processes: the working out of optimal solutions through inter-agent trade, and the restructuring of rights.

(3) The materials of the course are exceedingly complex, requiring some redundancy.

(4) The course, at least the lectures, will dissatisfy some students, because no attempt will be made to reach solutions to problems of policy. The focus of attention is on examining what is going on in the world of policy. No assumption is made that a unique determinate optimal solution must be reached for any problem of policy; nor is it assumed that the instructor’s position on policy should be given a privileged solution. The further focus is, instead, on the process of working out solutions to policy problems.

(5) In the history of economic thought one finds varying combinations of (a) economic theory and (b) valuational paradigms that produce varying explanations of how the economy works and what policy (law) should be. This is neatly illustrated by Malthus and Ricardo both using their theory of rent plus each author’s own valuational paradigm in order to produce systems of economic thought affirming the status, for Malthus, of landed property and landed gentry, and, for Ricardo, of nonlanded property and business class in relation to the Corn Laws.

I next commence examining legal-economic complexity, pointing out that one can treat legal and economic systems as conceptually and/or substantively separate but in actuality the legal and economic systems are
neither separate nor merely interactive but are mutually determining. This I first explore through several dualisms, propositions each of which is true but which state conflicting points:

i. Law is a function of the economy; the economy is a function of law.

ii. Private is a function of public; public is a function of private.

iii. Property rights: their private exercise is in part the basis of their ratification by government, through governmental choice, such that private exercise is a function of government; government is in part a function of the private exercise.

iv. Government “protection of property”: property is protected because it is property; property is property because it is protected.

I continue my introduction with the identification of an initial problem: which differences in approach are due to the nature of the subject matter itself, and which are due to varying world-views, varying ideologies, varying analytical techniques and varying logics of modeling being superimposed on the subject matter? The subject matter has many, and many changing, facets and can be viewed differently from varying perspectives, and is in fact viewed differently from varying perspectives. Each different perspective tells, or is used to tell, a more or less different story. The sources or bases of variation include different conceptions of law, economy, the relation of the individual to law and to the economy, commodities; etc. Different paradigms generate different modes of discourse; and different modes of discourse generate different paradigmatic accounts of the relevant social world (what is relevant varying from approach to approach). Accordingly, there are different views as to what a theory of law and economics should do or try to do.

Three different sets of paradigms are identified: With regard to society as a whole: harmony versus conflict. With regards to distribution: productivity, exploitation, appropriation. With regard to man and reality: free will and determinism.

With regard to determinism I explain the relevance of philosophical and scientific realism. I make the point that the realist ends up in much the same position as the idealist, namely, having to choose, because even if everyone was a realist (philosophical or scientific) they would still disagree as to the content of reality. With regard to free will, I argue that it takes place within institutional and other constraints.
Apropos of all of the foregoing, I suggest that much of what one can read amounts to legitimization, either of particular arrangements or of the system as such.

One principal point is that we should differentiate the world of “real” fundamentals from the world of ideological perception and manipulation, or from perceptions superimposed on the real world, by which real world is made sense of and with which it is changed. In the domain of law, one can juxtapose practice laden with ideology to technique, with the latter also laden with ideology, in part through implicit ideological premises.

A second principal point is that the multiplicity of approaches, ideological positions, and definitions of reality yield the fact and importance of an inexorable bargaining process in which pragmatic solutions are worked out. The idea of things being worked out is a centerpiece of my approach to the economic role of government. And at the heart of the process of working things out are multiple selective perceptions and multiple definitions of reality, such that a necessity of choice characterizes and drives the working-out process.

This brings me to the problem of defining versus creating social “reality”. Law provides, and is predicated upon, a definition of social reality; law also is a system of social control functioning in the creation of social reality. Law is not only social control; it also functions as psychic balm in the face of existential and social ambiguity and uncertainty. We thus next encounter the problem of whether law-common-law rules, legislation, constitution-is found or made. The successful legitimization of the legal system and of law in general, plus not unrelated belief in a “higher law” accounts for the idea that law is found, being transcendent to anything man can make. This problem parallels that in theology as to how much is due to God and how much, if anything, is due to man.

Within the problem of defining reality is another, namely, decision making and/or legitimization by appeal to the intentions of the “founding fathers.” That term relates to those who framed the Constitution, though it can alternatively relate to those who ratified the proposed Constitution. Invocation of the founding fathers is a rhetorical stratagem, a means of establishing privileged status for the views selectively attributed to them. The entire exercise can be critiqued on several grounds, for example, why the present generation need be bound by the definition of reality and the legal rules purportedly held by an earlier generation, and the historiographic difficulties of identifying past belief systems without selectively projecting present beliefs.

It is important for analytical purposes to contemplate law as choice and apropos the definition of reality projected by law, to identify the use of pretence as social control and legitimization.
Law must be seen as language. Legal concepts are embodied in words that are selectively defined and selectively applied. These concepts and words are used in the process of defining and (re)making economy and society, as if words had independent meaning which we were trying to achieve. The legal system and the economy are artifacts, both influencing and influenced by concepts ensconced in words. On the one hand, we encounter reification, or the fallacy of misplaced concreteness or the naturalistic fallacy, namely treat what is materially an artifact as if it were part of the natural order of things. On the other hand, we encounter the multiple possible readings of the texts of constitutions, legislation and court decisions. We also encounter, in both, the importance of belief system and selective perception in working out the substantive content of law and the legitimization of law and legal system.

2. FUNDAMENTAL LEGAL-ECONOMIC PROCESSES: THE LEGAL-ECONOMIC NEXUS

This section examines the basic models used in my approach to the economic role of government. These models are then used in several paradigmatic case studies, after which I again identify the principal points I am trying to make. The sequence of models has varied over time.

2.1 First Model: The Problem of Order

The Problem of Order requires that the student temporarily, for analytical purposes, suspend belief in certain of his or her own deeply held notions or beliefs. The problem of order posits and deconstructs the fact of the continuing resolution in society of the conflicts between freedom (or autonomy) and control, between continuity and change, and between equality and hierarchy. The problem of order is not resolved for mankind; it must be worked out, in a continuing manner, by mankind. Comprehending the foregoing elements of the model of the problem of order is complicated by the fact that each term can be defined and applied differently: freedom, control, continuity, change, equality and hierarchy are all subject to selective perception, in part, perhaps in large part, influenced by how they are worked out in the society in which we live. Each conflict is complex and subtle, as each term is given selective meaning and application. Among the further points that I make are (1) the economy is a structure of freedom and control; (2) change can be most fundamentally change in the structure of power (freedom and control); (3) continuity can mean continuity of the established model of change, rather than continuity of specific arrangements; (4) law is both a mode of continuity (conservation) and a mode of change, that latter comprising the legal change of law (change of law by law, or adopting L^2 to replace L^1);
(5) the necessary comparison of libertarian with order conservatism, and of economic with social conservatism, illustrating the possibility for selective perception and selective application with regard to social control as for or against individual freedom of choice vis-à-vis some concept of right or just behavior or structure.

2.2 Second Model: Market Plus Framework

In the Market Plus Framework approach the market is seen as operation within a framework of legal and nonlegal social control. One problem—whose resolution is an object of the concept of the legal-economic nexus—is that of the separateness of market and framework. In any event, the market is comprehended as in part the product of legal and moral social control, i.e., as an institution that is a function of other institutions which both structure and operate through the market. A larger model, centering on the fuller explication of the social construction of the market, would incorporate Coase’s and Means’s theories of the firm, for example, yielding a more complex model of interaction.

The nonlegal social controls include morals, religion, custom and education; the terms “nonlegal” and “moral” are used to include all four. Legal social controls involve a variety of sources of law; the terms “law” and “rights” are used to represent legal social control in its entirety. The problems to be worked out include the substantive content of law and of morals; the relative weight of legal and nonlegal social controls; and whether and in what respects and how the framework is static or dynamic, (i.e. legal change of law and nonlegal change of morals, etc.). A problem that is both conceptually and practically difficult is that of distinguishing between “framework filling” and other, nonframework filling, or “particularistic interventions” actions by government. Unless agreement can be achieved over changes in property law and over the role of antitrust law, the distinction between framework and non framework filling actions is incoherent and useless except, potentially, for purposes of argument and of ideology, but always selectively.

2.3 Third Model: Value Diagram

Using a conventional production-possibility curve and social welfare function (and their tangency), I illustrate the simultaneous determination—the working out—of four sets of variables: the values on the axes (the potential agenda items on which choice is exercised), the shape of the production possibility curve (e.g., what is done to influence how much can be produced and, giving effect to whose interests are protected as rights by the law, their cost), the preferences and their weighting by power structure to form the actual social welfare function hypothetically being formed here.
The emphasis is on the actual social welfare function, distinguished from some theoretically assumed social welfare function. The main point is that lobbying, litigation, propaganda, and so on attempt to influence the values on the agenda, the shape of the production possibility curve, people’s preferences for the two values on the axes, and the power structure used in weighting preferences. Thus the working out of the simultaneous determination of four sets of variables is shown, illustrating general interdependence, or cumulative causation. Herein also resides the joint determination processes of individual utility maximization and of restructuring whose interests count through changes in law and therefore in rights.

2.4 Fourth Model: Opportunity Set Model of Inter-agent Relationships

Here we have two circles, each representing the opportunity set at a point in time of two actors (or one actor and the sum of all other actors). The scope or size of an individual’s opportunity set is a function of their power, here their legal rights; the choices made by an individual from within their extant opportunity set; and the impact of choices made by other individuals and/or by government. Arrows are drawn between the two opportunity sets indicating the making of choices by some Alpha and their impact on the opportunity set of some Beta, when they are in the same field of action. Included in their respective opportunity sets is the right to petition (through litigation and/or lobbying) government to change the law in their interests. By power is meant participation in decision making and/or the bases thereof in law and legal rights. The composition of individual opportunity sets and their respective places in the total structure of opportunity sets are two sides of the same phenomenon. Choice from within an individual’s opportunity set is but one of the factors governing opportunity set structure and therefore the distribution of welfare. The individual’s opportunity set is both a dependent and an independent variable. This model is another but different way of illustrating general interdependence, or cumulative causation and therefore the joint operation of utility maximization and working out the structure of power (legal rights).

I have found that this is a good point at which to identify and examine, first, certain principles of power, and second, certain dualisms of power. Among the principles of power are:

i. Power is necessary for desired ends.

ii. The quest for power is derived partly from the desire for particular ends, partly for “its own sake,” i.e., identity reasons.
iii. The reciprocal character of power: the power of Alpha is checked by the power of Beta, if both are in same field of power.
   a. The present concern is with zero-sum games. Both positive- and negative-sum games exist. Much of economic life is positive sum, often with cooperation in production a positive sum, and distribution of gains a zero-sum game. Mainstream neoclassical economics is principally concerned with positive-sum games. Politics too is a combination of positive, zero-sum and negative games.
iv. The tendency is for the powerful to seek further power.
v. The tendency is for power to provide its own rationalization.
vi. Pluralism as goal requires a division of power as a check on power in order to diffuse power. Different divisions of power yield different forms etc. of pluralism
   a. Policies ostensibly to diffuse power can under certain circumstances operate, and be intended to operate, to concentrate power.

Among the dualisms or paradoxes of power are:
   i. Decisions are a function of power structure and power structure is a function of decisions.
   ii. The working rules of law and morals govern the distribution and exercise of power and the distribution and exercise of power govern the development of the working rules.
   iii. Values depend upon the decision making process and the decision making process depends upon values.
   iv. Income and wealth distributions are a function of law and law is a function of income and wealth distributions.

2.5 Fifth Model: Policy as Function of Power, Knowledge and Psychology Variables

This model greatly reflects Vilfredo Pareto’s general social equilibrium analysis but is presented in the form of a modern restatement and is also to be found, with various differences in the works of others.
   a. Definitions of terms:
      i. Power: participation in decision making and the bases thereof, especially legal rights.
      ii. Knowledge: that which is taken to be a credible definition of reality and thereby a credible basis of policy; may or may not constitute “hard” knowledge; also our definition of values.
      iii. Psychology: psychic state and/or structure.
b. Three sets of variables
   i. Interaction within each
   ii. Interaction between the three
      a. General interdependence
      b. Cumulative causation
      c. Joint determination

   c. Each is subject to variable structuring and interpretation.

   d. Propositions made in terms of one of the three typically can
      be restated in terms of another(s).

   e. Any phenomenon can be interpreted in terms of one or
      another of the three.
      i. Profound interpretive problem: relative explanatory
         importance in particular cases.

   f. Pareto’s own broadest model, stated in modern terms: See

   g. Ubiquitous aspects and elements of normative choice.

   h. Selective perception of power, freedom, coercion, government.
         our society, we have an unfortunate habit of labeling
         our political institutions in two different ways. On the
         days when we are happy with them, we call them
         democracy; on the days when we are unhappy with
         them we call them politics. We don’t choose to
         recognize that ‘politics,’ used in that pejorative way, is
         simply a label for some of the characteristics of our
         democratic political institutions that we happen not to
         fancy. Neither ‘politics’ nor ‘democracy’ wholly
         describes those institutions, and we solve no problems
         by labeling their wanted and unwanted aspects in this
         particular way” (p. 99). He is wrong at the end:
         labeling does channel problem solutions, selectively.
         He is correct, however, in his subsequent identification
         of those participating in the political process as
         ‘politicians’ even though “For them, ‘politician’ was
         simply a cussword, a term they couldn’t imagine
         applying to themselves. . . . we must recognize that
         certain kinds of political phenomena--the attempt to
         influence legislation or the administration of laws, the
         advocacy of special interest--are essential to the
         operation of political institutions in a society where
         there is, in fact, great diversity of interest, and where
most people are expected to pay some attention to their own private interests” (p. 100).

- Problem of the role of the expert: political.
- Problem of technical versus subjective solutions.

ii. Oliver Wendell Holmes to Harold J. Laski, April 5, 1917: “... what we call the interest of the public is little more than a phrase. We invoke it against labor in a situation like that in the threatened railroad strike but when the roads ask for a 15% increase in rates we are singularly quiet about it.” (*Holmes-Laski Letters*, Mark DeWolfe Howe, ed., Cambridge, MA: Harvard University Press, 1953, p. 76)

- Normative judgment always required.
- The problem is to recognize that it is involved—versus absolutist legitimization.

i. Knowledge: has to do with our definition of reality and of values
   i. Definition of the problem: what one expects, defines as possible, desirable.
   ii. The scope and ordering of variables
   iii. That which is accepted as given
   iv. The tautological character of reasoning
   v. The choice of alternative models and paradigms
   vi. Reliance on myths, symbols, metaphors, ideology:
       a. Generalized, a priori, efficient ready-made solutions
          i. generally still subject to selective perception
   vii. Heterogeneous character of knowledge at any point in time
       a. Problem of choice of knowledge per se, as basis of policy choice
       b. Policy or problem solutions tend to be tautological with definition of problem
       c. What people believe is often more important than what they should believe; it is the former which they act upon
   viii. Reality of manipulation of information flows—what politics is in part about: manipulation of political psychology by manipulation of information

j. Psychology:
i. Horney: complex postures consisting of withdrawal, aggression, compliance; alternatively, grandiose or constrained view of self

ii. Freud:
   a. Posture as to frustration and authority, and therefore as to continuity and change, freedom and control, hierarchy and equality: through resolution of Oedipal and adolescent conflicts
   b. Each individual a blend of complex psychic states and motivations: capable of being selectively reinforced and weakened; exposed to multiplicity of competing pressures

iii. Personal identities and attachments with psychic meaning, thus specific content regarding freedom and control, etc.: subject to manipulation through contrived or selective identification as freedom or control

k. Power: (in addition to supra)
   a. Power and public finance
      i. Structure of power and distributions of income and wealth as focus
         a. Conflicts over these are at the heart of public finance: “shifting taxing from me to thee, and spending from thee to me”
      ii. Examples of recognition in public finance literature: (sources from *Land Economics*, vol. 48 (August 1972), pp. 256, 262)
         a. John Maurice Clark: government becoming “more frankly a vehicle through which groups may directly promote their particular economic interests”
         b. Gustav Schmoller: “The higher economic classes have always understood more or less how to develop customs and laws in their favor, how thereby to increase their incomes and their property, how to give themselves an advantage in commercial intercourse. The middle classes have to a certain extent attempted the same thing, as opposed to the upper classes. Their success has been variable. The lower classes have always been most unfavorably situated for that sort of influence …”
c. Arthur Cecil Pigou: “Adam Smith’s invisible hand is not an external fate taking precedence over political institutions, but does its job, well or ill, only because these institutions have been framed, maybe in the interests of a ruling class or clique, maybe for the general good, to control and direct its movements.”

d. Rudolf Goldscheid: “The rising bourgeois classes wanted a poor State, a State depending for its revenue on their good graces, because these classes knew their own power to depend upon what the State did or did not have money for … [This] leads to something like a State within the State and this becomes the real State in the place of that which is declared as such by the formal legal order and its sham moral trimmings. … The State became the instrument of the ruling classes by the fiscal organization which they imposed upon it. Capitalists have used the public household on the largest scale to enhance their profits and extend their power since capitalism has emerged triumphant in the form of finance capital.”

e. Joseph A. Schumpeter: “The kind and level of taxes are determined by the social structure, but once taxes exist they become a handle, as it were, which social powers can grip in order to change this structure.” “… it is, however, decisive for a realistic understanding of the phenomen [sic] of the state to recognize the importance of that group of persons in whom it assumes social form, and of those factors which gain domination over it. This explains the state’s real power and the way in which it is used and developed.”


a. Politics is economics carried on by other means

b. Economics is also politics carried on by other means
iv. Economic role of government as aspect of problem of order

The following preliminary paradigmatic case studies have these functions: to apply the foregoing models and to extend and strengthen our insights and knowledge regarding the economic role of government.

2.6 First Preliminary Paradigmatic Case Study

1. Upstream steel plant, downstream shrimp plant, further downstream flower grower.
2. Dual nature of rights and reciprocal character of externalities: realized externality as a function of rights.
   a. Rights determination does not generate costs, only their distribution.
3. Shrimp plant as recipient of externalities (waste from steel plant: negative externality) and as generator of externalities (waste from shrimp plant a positive externality (enriched water) for flower grower).
   a. If add public beach further downstream, can envision all three upstream producers generating negative externalities).
4. Regulation determining rights and externalities contrasted with government clean-up.
   a. Government does not generate costs, only their distribution: one party or another, or taxpayer-supplied general funds
   b. “Inflation” argument fallacious: costs newly borne by polluters lowers costs of hitherto polluters.
5. Fundamental conceptions:
   a. Dual nature of rights
   b. Reciprocal nature of externalities
   c. Status quo point
      i. Ambiguous and heterogeneous character of status quo
      ii. Selective perception
      iii. Status quo point and realized externality
   d. Complex valorization-registration in market
      i. Critique of idea that externalities are costs (benefits) not internalized in market
   e. Non-unique Pareto optimal results
2.7 Second Paradigmatic Case Study: Pregnancy Leaves

This case illustrates the several different modes of generating rights: (1) private contract, company policy, collective bargaining; (2) legislation mandating coverage; (3) equal protection clause (for mother, or for father, or both).

2.8 Third Paradigmatic Case Study: Red Cedar Case, 1928

a. Summary of case
b. Aspects:
   i. Inexorable necessity of choice faced by legislature
   ii. Technological solution—and possible further externality and rights problems
   iii. Large versus small numbers and organizational costs: regarding right to redress grievances to legislature and/or courts
   iv. Structure of mutual coercion
      a. Non-unique Pareto optimality
         i. Different power structures lead to different resources and efficient results
         ii. Noncomparable
   v. Meanings of “intervention”
      a. Intrusion of government into situation in which it hitherto had been absent
      b. Legal change of legal rights, thus of the interests to which government lends its support
   vi. Conflicts of philosophies of “property”

2.9 The Legal-Economic Nexus

This concept, proposed as fundamental but difficult to articulate using conventional terminology, portrays political-governmental-legal and economic-market processes as not fully separate, self-subsistent orders, but rather as constituting twin aspects of a fundamental legal-economic nexus in which polity and economy are mutually defining and which arise out of a common process.

2.10 Some Fundamental Points

These points are intended to reiterate, perhaps restate from a different angle, and to extend the foregoing discussions, as well as to provide a summary of the foregoing discussion.
1. Law as part of social (re)construction of economy
2. Economics as part of social (re)construction of economy and of law
3. a. Platonic element: derivation of ideal as basis and target of policy
   b. Aristotelian element: what is fundamental independent of
   selective perception, subjectivity, and normativism
4. Paradoxical intertemporal characteristics of law and legal process:
   a. Ex post nature of common and constitutional law
   b. Precedential mode of discourse
   c. Futurist nature of law: governs rights and relationships in future
   d. Public good nature of law, e.g., court decisions: non-
   excludability and zero marginal cost of additional members of
   group
5. Critical importance of status quo point: dual nature of rights,
   reciprocal character of externalities: governs whose interests are to
   count and distribution of benefits and sacrifice, e.g., realized
   externalities
6. Critical role of selective perception, e.g., selective identification of
   actual or hypothetical status quo
7. Dual meaning of intervention: intrusion into situation in which
   government has hitherto been absent, versus legal change of interests
   to which government effectively gives its support
8. “Government” as legal change
9. Fundamental importance of government in status quo: George Will
   column, 2 March 1981:
   Reagan:
   “The taxing power of government must . . . not be used to
   regulate the economy or bring about social change.”
   Will:
   “Oh? The choice of any tax program is a choice from a
   large universe of alternatives. Any tax program has special
   social consequences; it raises some revenues rather than
   others, encourages and discourages particular behavior. And
   rarely has there been a clearer, bolder, more self-conscious
   attempt than Reagan’s to use the tax system as a lever for
   moving society in the direction of desired change. But
   American conservatives are addicted to the pose of hostility
   to government power, so they systematically misdescribe
   their own attempts to use government energetically.
   When, Oh Lord, shall we be delivered from the
   conservatives’ pretense that they, unlike liberals, do not
   believe in using government to promote their values through
   social change? If that were true, there would be no point in
electing conservatives.”
10. Economy is an object of legal control and law is an instrument of economic gain-advantage (law as an economic alternative and as object of control and use).
   a. Law as social control and as power player
   b. Law as control and as object of control
11. Principle of the use of government: an instrument available to whomever can control it
12. Government:
   a. Diverse Approaches:
      i. Government as an exogenous black box (perfect; nondecisional): ‘slot machine theory of justice’
      ii. Government as a neutral extension or aggregation of private choice
      iii. Government as nonneutral decision-making or preference-aggregating process
      iv. Government as an instrument of the powerful, e.g., ruling class
      v. Government as an instrument with which to check the power of the powerful
         a. Whether government is to be used to reinforce power of the already powerful, or on behalf of the powerless to check the power of the powerful, the powerful and the powerless owe their respective existing positions in part to other, past actions of government
      vi. Government as the source of problems, if not of evil, in society
      vii. Government as the source of progress
      viii. Government as part of the necessary framework of the market
      ix. Preference aggregation process
      x. Government functions to serve the ‘public interest’
      xi. Government as a matter of the self-interest of politicians (as distinct from self-interest, or something else, of all citizens)
      xii. Government a complex decision-making process; not a single entity (no more “the government” than “the market”)
      xiii. Governance as the sum of private and public governments
      xiv. Government as both dependent and independent, interactive variable
   b. Complex Personal Approach
      i. An arena of power and power play
      ii. Value clarification process
      iii. Government as social control or power player, or both simultaneously
iv. Institution of collective action: mechanism of social welfare function formation and change: mechanism and process
v. “Collective bargaining state”
vi. Politics as mode of self-government
vii. Government as dependent and independent variable
viii. Law taking versus law making
ix. Determination of economic role of government versus determination of substantive content thereof
x. Principle of use of government
xi. Central focus on legal change of law
xii. Governance: private and public government

13. Government is important in definition, creation and structuring of economy, as such requires normative direction
   a. Most discussion of economic role of government is part of, contribution to, participant in, process of working out necessary normative direction
   b. Critical role of social belief system
   c. Centrality of power: power in government, power in economy, the determination of power in each, the mutual interaction, and especially the simultaneous and/or mutual definition of economic and political power
   d. Critical role of selective perception
   e. Key empirical problem: legal change of law
   f. Efforts are continually being made to obfuscate the role of government so as to selectively channel the re-definition and re-creation of the economy

14. Conceptualizations: some “primitive” terms necessarily given substance in practice:
   a. Law, economy, private, public, property, free enterprise, regulate, deregulate, commodity, product definitions, economic units (“individual”), costs (whose interests count as cost to others, through rights)
      i. More detailed examination later
      ii. Using any of these terms as found in existential practice (1) begs questions, (2) is often ambiguous, permitting selective perception and application, (3) gives effect to much other relevant law
      iii. These are not natural, real, or independent of social practice; most are insubstantial symbols created and given episodic, selective meaning in practice
   b. Diversity of constitutional “readings”.
3. ECONOMIC ROLE OF GOVERNMENT / LAW AND ECONOMICS IN THE HISTORY OF ECONOMIC THOUGHT

3.1 Historical Overview

1. Old and fundamental topic
   a. Can argue that treatment of law, or of law and economics, in history of economics has been channeled by (i) fundamental conception of economy, (ii) preconception with contemporary agenda for government, (iii) efforts, deliberative or otherwise, to protect or change distributions of income, wealth and opportunity, as well as control of government
   b. Critical to society
      i. Basis and/or target of ideologies
      ii. Considerable literature prior to last thirty years: legal writers, economists
   c. Overview is highly abbreviated; intended to give flavor, not provide comprehensive treatment

2. Locke, Physiocrats, English Classical Economists
   a. Conflicting interpretations, e.g., English Classical Economists
   b. Each had greater economic role for government than commonly recognized: Due to (1) ignorance, (2) taking certain things for granted and not considering them governmental in character, (3) promulgation and effect of dominant ideology

3. Considerable literature on relationships between legal and market-economic processes during century prior to 1960 (date of publication of Coase’s classic article)
   b. Multiplicity of articles by economists and by lawyers (legal realism, e.g. Walton Hamilton); very rich analyses
      i. Approaches:
         a. Economy as a function of law
         b. Law as a function of economy
         c. Nexus with interrelations
         d. Market plus framework

4. Within the neoclassical mainstream:
   a. Pigovian: reformist; requires assumption re whose interests are to count, in determining which/whose externality is to be realized, and thus distribution of sacrifice
b. Paretian: antireformist; requires assumption pro status quo rights and consequences thereof

5. Marxian
   a. State as instrument of domination and exploitation in class society
      i. Role of private property
      ii. Instrument of rule, making law in interest of the powerful
      iii. A class instrument, with direct and indirect control of government
      iv. Level and structure of government budgets determined by “who rules” and by conflicts within and between classes and groups
   b. Functions:
      i. Legitimization and reproduction of system and of power structure
      ii. Abet private capital accumulation
   c. Conflict between
      i. Legitimization needs of system, through welfare state, even if token, and
      ii. Facilitation of accumulation
   d. Internal, inherent conflicts within capitalism generate spending for military, education and welfare, with regard to:
      i. Legitimation of system and reproduction of social relations (class structure)
      ii. Imperialism
      iii. Buying off poor and avoiding revolution
      iv. Countering economic instability
      v. Conflicts within capitalist class over distribution of surplus value
      vi. Conflicts between capital and labor re generation of surplus value
      vii. Increasing socialization of private costs of business, e.g., pollution clean-up
   e. Growth of public spending due to (1) growing concentration of capitalist power and its use of the state, and (2) growth of crises and conflicts within capitalism (economic instability and labor-capital conflicts), with spending growth a reflection of conflict and functioning to dampen class conflict, e.g., welfare state
   f. More recent Marxian work de-emphasizes class control and sees state as power center, more or less autonomous, functioning to reinforce dominant interests by virtue of its role to promote viability and stability of system, a field of power balance of and conflict resolution within the system
6. New developments, last thirty years or so
   a. Neoclassical-Chicago
      i. Search for “optimal” law, rights, problem solutions
      ii. Interpretation of legal history and operation of legal system per market analogs, e.g., transaction costs
         a. Ronald Coase
      iii. Law as maximization of value of output (wealth)
         a. Richard Posner
   b. Institutionalist
      i. Description and interpretation of how legal system works out fundamental problems
      ii. Problem solving strategies
      iii. Given diagnosis of dominant corporate system: planning or return to market?
   c. Marxism
      i. State as autonomous rather than deliberative
      ii. Success of dominant ideology and of repression accounts for increasing conservatism of population
   d. Critical legal studies movement
      i. Combination of legal realism and Marxism in law, but also more than that
         a. Viet Nam and civil rights era radicalism extended

7. Some key, albeit controversial, points:
   a. Basic economic institutions function law
   b. Principle of use of government (political capitalism)
   c. Dual nature of rights + reciprocal nature of externalities, imply (a) ubiquitous and inevitable externalities, (b) necessity of choice, (c) ambivalent attitudes toward government

8. Law school:
   a. Trade school, for many: learning a profession
   b. Intellectual journey re critical role of law and of government in regard to the economy
   c. “Training in `socialism’”—by some definitions of socialism

4. OF LAW AND RIGHTS

A. Law as Language
   1. Concepts embodied in words, selectively defined and selectively applied: e.g., “property”
   2. Used in the process of defining and (re)making economy and society, as if words had independent meaning which we were trying to achieve
3. Legal system and economy are artifacts, influencing and yet influenced by concepts ensconced in words
4. Fallacy of misplaced concreteness: reification
   a. Determinism and foreclosure of process
5. Multiple possible readings of texts

B. Constitutional and Legal Juxtapositions and Conflicts
1. Diversity of constitutional readings
   a. Conflicts of constitutional clauses, e.g., commerce clause vs 5th and 14th Amendments
2. Diversity of readings of common law precedential sequences
   a. A matter of where one is going to draw the line, or the selective application of one legal principle of clause rather than another
3. Texts combined with varying valuational paradigms regarding how economy and society should be organized and operated
4. Sometimes a matter of defining rights as if they existed independent of government and limiting law (in which case law “takes” rather than “makes” law), or as inclusive of such law
   a. Will discuss taking issue and compensation problem later
   b. Eminent domain versus police power (“petty larceny” of the police power; compare Epstein)
5. Some “primitive” terms necessarily given substance in practice by law:
   a. Law, economy, private, public, property, free enterprise, regulate, deregulate, commodity/product definitions, economic units, costs (whose interests count as cost to others)

C. Complex Intertemporal Characteristics of Law
1. Futurist nature of law: governs rights and relations in future
2. Ex post nature of common and constitutional law
   a. Belief in/pretense of “discovering” “pre-existing” law
3. Public good nature of law, e.g., court decisions re compass of adjudicated rights
4. Constitutional and legal juxtapositions and conflicts:
   a. District Court judge imprisoning a lawyer for contempt of court; absolute authority or check via habeas corpus to another court
   b. British Official Secrets Act re national security, versus perceived necessities of a free society and protection from government malfeasance and corruption
   c. U.S. Constitution: constitutional juxtapositions: delegated powers versus limitations in amendments (and in original document)
i. Diversity of constitutional readings

ii. Same regarding common law precedential sequences: necessity and fact of choice
   a. A matter of where one is going to draw the line, or the selective application of one legal principle or clause rather than another
   b. E.g., a matter of defining rights independent of governing and limiting law (in which case law "takes"), or as inclusive of such law
      i. E.g., eminent domain versus police power ("petty larceny" of the police power; compare Epstein)
         a. Define police power, eminent domain
         b. Mugler vs Kansas, state can regulate without paying compensation (Holmes-Laski, p. 473)

   d. Proposed ordinance requiring two people on duty in all-night groceries, to deter robberies: effectiveness issue (30% reduction in one case); another issue: said to conflict with "free enterprise"

   e. Aforementioned problem of pregnancy leaves: modes of generating rights: private contract, legislation, equal protection clause [for mother, or for father, or both]

   f. Running a university, or a business: what is governed by employment contract, by practice of managerial hierarchy, by law (statute, court decisions); what can be changed unilaterally, what by majority vote: re faculty, students
      i. English case, Poplar, House of Lords sustained determination of a District Auditor that wages of municipal employees should be reduced as the cost of living declined; c. 1925 (Holmes-Laski, p. 808)
         a. what does employment contract explicitly call for?
         b. In what legal context is it interpreted?
   ii. Standardized contracts 'of adhesion'

   g. Concept of "sovereignty"
      i. Applicable to polity and economy; can take a sociological view as well as legal: property as sovereignty
      ii. Problem of governmental liability: Kawanakaoa v. Polyblank, 1907: "A sovereign is exempt from suit, not because of any formal conception or obsolete theory, but on the logical and practical ground that
there can be no legal right as against the authority that makes the law on which the right depends.”

iii. Issues:
   a. Liability per se
   b. Given legislature can establish liability, can court impose it?: legislature vs judiciary in law making
   c. Desirability versus a matter of logical necessity (e.g., that the source of law should be subject to the law that it makes, unless it chooses to say that it will be: Holmes)
   d. Any difference whether sovereign is king or people?
      i. Argument that the English king in the 13th century both sued and was sued as a private person, and that non-suability was mainly a Tudor-Stuart doctrine very largely due to influence of Renaissance theories of sovereignty (and, arguably, desire to avoid liability)
   e. Whether sovereignty is anything more than a balance of forces, a matter of policy and power and how far the strongest will stand the others
      i. “every ultimate repository of ultimate political power de facto has limits beyond which it cannot go because the people would fight . . . the ultimate source of law when you find it, is subject to such laws or resolutions only as it chooses to impose upon itself, from a legal point of view, and that therefore the State is not subject to legal claims except so far as it sees fit to submit itself to them” - Holmes (Holmes-Laski, p. 183)

ii. Comments:
    a. Much metaphysics here
    b. Practical matter in face of rebellion or threat thereof
       i. Did English Parliament have the right to legislate for the American colonies? the power? (Holmes-Laski, p. 616)
    c. Government a process of working this out
d. Residue of medieval monarchical government  
e. Universal “tort” liability of government  
f. Government as mode of determining its scope, function, and liability—though in larger context  
f. Are courts part of government in respect to the legislature as ‘sovereign’?: Holmes:  

“... as to sovereignty, because as I understand the question it seems to me one that does not admit of argument. The thing to which I refer has nothing to do with the difficulty of finding out who the sovereign is, or the tacitly recognized de facto limits on the power of the most absolute sovereign that ever was. The issue is on the decision that you criticize, and even narrower than that. If you should say that the Courts ought in these days to assume a consent of the U.S. to be sued, or to be liable in tort on the same principle as those governing private persons, I should have my reason for thinking you wrong, but should not care, as that would be an intelligible point of difference. But what I can’t understand is the suggestion that the United States is bound by law even though it does not assent. What I mean by law in this connection is that which is or should be enforced by the Courts and I can’t understand how anyone should think that an instrumentality established by the United States to carry out its will, and that it can depose upon a failure to do so, should undertake to enforce something that ex hypothesi is against its will. It seems to me like shaking one’s fist at the sky, when the sky furnishes the energy that enables one to raise the fist. There is a tendency to think of judges as if they were independent mouthpieces of the infinite, and not simply directors of a force that comes from the source that gives them their authority.” (Holmes-Laski, p. 822)  
i. This is of course the very point at issue: who declares law as an exercise of sovereignty? Yet, Holmes is best known for his statement that the law is not a brooding omnipresence in the sky (Holmes-Laski, pp. 776, 6n4, 190, 380, 68, 74, 183, 822, 896, 940).  
g. ‘Sovereignty’ as metaphor—but for what?  
h. Student newspaper case (reporting on consequences of pregnancy and divorce): facets, or decisional or interpretative handles:
i. Privacy
ii. Educational policy
iii. Property right of school authorities
iv. Election control of school authorities
v. Behavioral consequences for student journalists
vi. Free speech

i. Class location: instructor unilateral change of location regarding (1) differential situs and proximity, (2) air conditioning

j. Green v. Frazier 1920, sustained as constitutional North Carolina taxing statutes designed to make possible the financing of public control of the manufacturing and marketing of farm products (Holmes-Laski, p. 263n3)

D. Law. The foregoing discussion has used the concept of “law” as a primitive term. I now examine the various meanings of law with a view toward what law is, what law does, and what is readily obfuscated by unexamined or non-deconstructed uses of the term. I commence with restating the ubiquity of law and examining the nature, differences between, and commonalities of common and civil law systems. The array of common (court) law, constitutional (court), statutory and administrative law is then rehearsed. Given these different sources or forms of law, I then discuss the topics necessarily examined in order to further and more deeply deconstruct the meaning of “law.”

1. Divine, natural, and positive law
   a. Law as something given, antecedent, preeminent to man
   b. Law as a creation of human decision making processes, with varying forms and structures of participation
   c. The misleading conventional view that the legislature makes, the executive enforces, and the judiciary interprets “the law”
      i. Equally misleading, though conflicting, is the conventional view that law is found, not made
   d. Law as process, rather than a “fact:” a system and not a working-back to some a priori system of rights, or something to which state must seek to conform; rather, something to be worked out
   e. The inevitability of the normative nature of law; a political (having to do with power and choice) phenomenon
      i. Contrast with pretense of given law, as if in the same class with solar system: function of:
a. Legitimization: to coerce acceptance, in part through reification
b. Psychic balm: widespread longing for a natural, depoliticized existence

ii. Two conceptions of “politicize:”
   a. Putting something into politics which was not hitherto in politics
   b. Making explicit as politics what was political all along
   c. Parallels dual view of relation of property and other rights to police power:
      i. Police power as external to rights—implies intrusion
      ii. Police power as integral to rights per se—does not imply intrusion
f. Naturalistic fallacy: treating what “is” as if it were real, natural in some absolute ontological sense; telescoping “is” and “ought”

2. Rights
   a. As claims
   b. As adjudicated conflicts who can do what to whom
   c. As supportive/protective legal sanctions

3. Regarding common, court law: what is the “law”? 
   a. The decisions 
   b. The ratio decidendi of case: the ground of a decision, the basis of the holding
   c. The precedential sequence, somehow interpreted
   d. The overriding principle of rule of which the former are evidence of manifestations
   e. The overarching rule or principle of which the former are manifestations or evidence
   f. The natural law

4. Another approach: the law on paper/in action/prosecutorial, judicial and enforcement discretion

5. The sources of law: (in part a function of definition of law)
   a. Custom
      i. Problem of co-existing bodies of custom; necessity of choice
      ii. Problem of custom as a function of the law vis-à-vis law as a function of custom
   b. Morality and equity
   c. Public policy
   d. Statutes
e. Force (will of the sovereign, with sovereignty ultimately a matter of force)

f. Past judicial precedents (judicial authority)

g. Opinions of experts (academic etc. authority)

h. Legal theory (analytical jurisprudence): logic
   i. Nature of models and of logic
      a. Nature of models, in relation to conclusions
      b. Logic and truth: Euclidian axiom
   ii. Can one expect answers from logic alone?:
      a. Which/whose premises
      b. Holmes: law is logic and life, especially latter
   iii. Can one base economic role of government on narrow theoretical limits pertaining to a static existence?
      a. Why not, is done all the time; point is to recognize it

   a. Basic argument: arises within and on basis of experience
   b. Experience requires norm- and theory-laden basis on which to be perceived
   c. Problem of which/whose experience, premises, goals, future: a matter of power and policy
   d. Problem of whether the law is an expression of a certain set of economic conditions
      i. Yes: industrial capitalism
      ii. No: which/whose interests are sacrificed to who else’s: have choice even within system or conditions
   e. Tendency to make historical accounts produce categories and then use the categories as an explanation of the history; reification per absolutist legitimization, predisposition to determinism
   f. Reality or premise of study: exercise of choice per se (legal realism, critical legal studies, institutionalist approach to law and economics)
      i. Mainstream foci on:
         a. Determinate policy solutions
         b. Policy solutions deemed aprior optimal (efficient)
         c. In both respects, obfuscating, and giving effect, to necessary premises re whose interests are to count, as rights

7. Theories of law, and of law and economics, become/are part of process of working out substantive problems of law-legal policy
a. Treating constitutional text, or concept of property, as given or absolute, gives effect not to constitution but to interpretation given privileged status
b. Law is social control, and arena for conflict over privileged status to be given to interests; to identification, definition and application of rights; and to interpretation of language (common law and constitutional doctrines)

8. Law: as check on power, or as instrument of power: both
   a. Law as persuasion re social control effects
   b. Law as symbol manipulation
      i. McCloskey: economics, too: market etc. as metaphor

9. Law/policy distinction evaporates
   a. Pretense of law as given; policy as matter of choice; pretense of law as found, not made
   b. Contexts:
      i. Philosophical: law as policy matter: versus philosophical realism, scientific realism (applicable to law?)
         a. Telescoping ‘is’ and ‘ought’
         b. Idealism versus realism, and inexorable necessity of choice
      ii. Practical: division of power between legislature-executive and courts; social control role: absolutist legitimization; psychic balm of powerful: deny power
      iii. Controversy whether judges make or declare (find) law may be literally a waste of time, though controversy itself is facet of continuity versus change and power-structure controversies in society (Holmes-Laski, p. 590)

10. Law as choice/reasoning
    a. Behind every body of law is an implicit body of metaphysical (normative) conceptualization re philosophy of law, society, interests -- usually economic system - or ideology-specific, e.g., transformation of common law from agrarian to urban business society
    b. “General propositions do not decide concrete cases. The decision will depend on a judgment or intuition more subtle than any articulate major premise.” “But although practical men generally prefer to have their premises inarticulate, yet even for practical purposes theory generally turns out the most important thing in the end.” Holmes (Holmes-Laski, p. 238n.7)
i. St. Thomas Aquinas: when reason comes to particular cases, reason needs not only general but particular principles

E. Rights

1. Rights in General

a. Claim, affirmation of claim, means of protection and enforcement

b. ‘Rights’ as mode of discourse: argument in terms of rights claims, typically when claim is point at issue
   i. Multiple models

c. Rights in Hohfeldian system

d. Rights in Hale-Samuel opportunity-set mutual-coercion model: rights as basis of power

e. Rights as check on power, or as instrument of power

f. Statement that “X has right to”:
   i. By court, it is an ‘is’ statement but represents an ‘ought’ re structure of decision making participation
      a. Pretense of given law to be discovered
      b. Telescopes is and ought
         i. “That is not the law of England.” “I am perfectly aware of it, but I am considering whether it should be the law of Massachusetts.” (Holmes-Laski, p. 692)
         ii. “It is the law.” “I agree, and I am arguing that it ought not to be the law.” “I assume that the House of Lords must be right.” (Holmes-Laski, p. 775)
   ii. By participant, an ‘is’ statement
   iii. Judging law by its intent (whose), its effects (multiple), or by its consonance with something absolute (whose interpretation/specification)
   iv. Consistency problem: impossible in problem-of-order context and re multiple principles

g. Significance of rights in context of other rights: relative, limited

h. De jure versus de facto rights

i. Paradox:
   i. Rights as given, anterior to policy, and govern economic outcomes (minimized by Chicago orthodoxy)
      a. Given by nature, by constitution?
   ii. Use economic analysis to determine rights (Posner version of Chicago)
j. Aspects of property rights in economic analysis

2. Property rights
   a. Objectives of discussion
      i. Discuss the nature of property rights with a view to their use in economic analysis and the dispositiveness of issues by economic analysis
      ii. Discuss specific role of property rights in economic analysis
      iii. Deal with controversial fundamentals, hopefully in constructive manner, hopefully useful to audience likely to be more sophisticated about these matters than most economists

b. Nature of (Private) Property Rights
   i. Property as power, meaning established participation in decision making, and bases of such participation
      a. Rights as claims/protected interests/mode of protection
   ii. Relative versus absolute nature of property
      a. Bundle of rights
         i. Relative to other rights, to governmental determination and limitations
      b. Private versus public character of property rights and indeed all rights
      c. Contingent, problematic economic significance of property rights
   d. Transformation of nature and distribution of property rights
      i. Smith: transformation from feudal to commercial property systems: economic stages, with property, government and law specific to each stage
      ii. Horwitz, Nelson and others: transformation of American law in 19th century
   iii. Conflict and dynamics of property
      a. Conflicts among property rights
      b. Conflict between property rights and competition
      c. Dynamics: Schumpeterian creative destruction
         i. Endogenous process
         ii. Inevitability of noncompensated losses: impossibility of Lockean
approach (government exists to protect private property rights)
   a. Reciprocal externalities
d. Conflicts between property rights and other rights (property right equivalents)
iv. Institution of property vis-à-vis particular details of property rights as to whose interests are so protected within general institution
v. Co-evolution of property and government
e. Property as whatever interests are protected as property: property is what is protected, not protected because it is property
i. Government always employed in aid of some interest; problem as to which/whose interest, not 'no interest'
ii. ‘Nightwatchman’ theory of government highlights question of determination of what he is to watch over, i.e., determination of property rights—which the theory obscures and thereby functions to reinforce status quo set of entitlements (wealth distribution), ignoring unequal use of government to determine and assign property rights
f. Property as part of larger “problem of order” in society: ongoing conflict and resolution of freedom versus control, continuity versus change, hierarchy versus equality
i. Positive versus normative theories of property: selectively functional in ongoing conflicts
c. Property rights and the conduct and conclusions of economic analysis
i. Circularity/tautology re: private property rights and optimality (“private property is necessary to yield optimal outcomes”): optimality defined as individual adjustment via self-choice (or self-interest pursuit) enabled by private property
ii. No unique optimal solution:
   a. Entitlement-specific Pareto-optimal outcomes
   b. Resource allocation a function of power structure (property-rights definition and distribution)
i. Resource allocation a function of market (demand and supply), which is in turn a function of power (rights) structure, government (re)determination of rights, control of government, contest over control of government

iii. Ineluctable problem of which/whose interests are to count: inevitable distributional, or structural, problem
   a. If individual preferences are to count, which individuals and through what institutional-power structure: inevitable problems
      i. Status quo rights structure or some hypothesized one must be used

iv. Government and property as interdependent variables and as both dependent and independent variables

v. Role of selective perception of recognized losses and modes of loss, of what is “property”

F. Some Principal Points or Conclusions
1. Fundamental economic role of government in economic affairs
   a. Especially regarding legal rights or their equivalent, governing whose interests count
2. Obfuscation thereof via ideology, yet functional in working things out
3. Fundamental governmental role even independent of taxing and spending: e.g., relative rights; which dollars of spending do not measure
4. Laissez faire as government in status quo taken largely for granted
5. Most economic models abstract from government, thus cannot conclusively yield implications re government policy
   a. Alternatively, models make implicit antecedent assumptions as to whose interests count, which govern policy implications thereof
6. Government as both dependent and independent variable
7. Dual nature of rights
8. Selective perception of law, government, politics, costs, freedom and coercion
9. Critical issue tends to be legal change, not intervention into situation in which hitherto absent
   a. General and overriding rule is existence of body of law governing all aspects of life
   b. Conspicuous exception: surrogate parenting
i. Lesson: immediate commencement of development of body of law governing legality and relative rights

10. Optimality conclusions give selective effect to premises re whose interests are to count

G. Some Legal-Economic Fundamentals-A Review

1. Problem of order
2. Dual nature of rights
3. Reciprocal character of externalities
4. Status quo point: governs realized externality
   a. Ambiguous and heterogeneous character of status quo
      i. Selective perception
      ii. Selective identification of actual or of assumed status quo
   b. Meaning of ‘intervention’
   c. ‘Government’ as legal change: key is control of legal change
   d. Change within status quo: choice of status quo is choice of a particular mode or mechanism of change
   e. Selectivity re Alpha-Beta rights conflicts and re reciprocal externalities in definition of status quo: “what one does in assuming a given or hypothetical status quo”

5. Government
   a. Fundamental importance of government in status quo and, implicitly, in economic models: governs rights and thus whose interests count
   b. Historical elite control and use of government, coupled with historical effort to defuse others’ use of government through negative attitudes toward government
   c. Resource allocation as function of market demand and supply forces, as function of power structure, as function of rights, as function of government, as function of use of government
   d. Economy as object of legal control and law as instrument of economic gain-advantage (law as an economic alternative)
      i. Principle of use of government: an instrument available to whomever can control it
   e. Government:
      i. An arena of power and power play
      ii. Value clarification process
      iii. Institution of collective action: mechanism of SWF formation and change: mechanism and process
      iv. “Collective bargaining state”
      v. Politics as mode of self-government
vi. A process rather than a completed thing: something 'becoming', rather than 'is' in a final sense
vii. Most economic models abstract from government, thus cannot conclusively yield implications re government policy
   a. Selective perception of government, law, and politics; also of freedom and coercion
   b. Optimality conclusions give selective effect to premises re whose interests are to count
      i. Implication of dual nature of rights and reciprocal externalities: inevitable noncompensated losses
viii. As dependent and independent variable
ix. Taxation and expenditure as handle by which social powers manipulate social structure
x. Economic role of government / determination of substantive content thereof
xi. Diversity of legal roles: public production, legal rules, legal rights, legal change of legal rules and rights
xii. Critical issue tends to be legal change, not intervention into situation in which government has hitherto been absent
f. Governance: public, or official government not the only institution making decisions having important impacts on individuals and their opportunity sets
   i. Corporations, trade associations, unions, churches, international agencies, etc.

6. The market: 'the market works'
a. Yes
b. Within, and giving effect to, power structure
c. No unique working out
d. Government operates within market 'as much as' market operates within law and other institutions
e. Normative status of market and of status quo
   i. Normative-positive treatment
   ii. Selective perception re:
      a. Market working
      b. Change, especially legal change of law
f. Joint efficiency- and rights-determination processes:
   Rights structure R1 leads to optimal solution1
   Rights structure R2 leads to optimal solution2
   i. Making and remaking the status quo
      a. Critical role of legal change as economic alternative
7. Rationality
   a. Self-interest / self-choice
      i. Learning of preferences
         a. Joint determination of (1) objective function (ends) and (2) ends-means relations
         ii. Assumption of self-interest maximization
   b. Constrained maximization: maximizing choice within opportunity sets
   c. Social conditioning and factors governing opportunity set formation
   d. Law makers / law takers
   e. Uncertainty
   f. Deliberative versus nondeliberative character of world
      i. As positive analysis and as conservative principle of policy
      ii. Bounded rationality and radical indeterminacy
      iii. Unanticipated consequences doctrine
         a. Problem re methodological individualism
         b. Aggregation aspect due to interdependence: Solo’s composite choice
   g. Creation versus discovery

8. Technical versus subjective solutions:
   a. Musgrave and Musgrave, Public Finance in Theory and Practice, 1973, p. 5: “... the proper size of the public sector is, to a significant degree, a technical rather than an ideological issue.”
   Burkhead and Minor, Public Expenditures, pp. 98-9: “no conclusive principle”
   b. Problem of role of expert in policy making: problem of distinguishing between means and ends when ends are also means
      i. Expertise as road to social power
         a. Expert-power to define problems and solutions
   c. Examples:
      i. Technological versus pecuniary externalities
      ii. Pareto-relevant and Pareto-irrelevant externalities
      iii. Posner: market for rape, babies
      iv. Fine versus jail: problem of wealth distribution
      v. Give rights to transaction-cost minimizing party
   d. Political decision-making: determinants or modes of legislative voting:
      i. Ideology
      ii. Immersion and conclusion-reaching
iii. Party leadership and rules
iv. Vote trading
v. Within median voter model
vi. Situation similar to Adam Smith on formation of moral rules: seek approval by others and of oneself: tail chasing
vii. Absolutist basis itself reveals rival approaches
e. Joint rights-determination and efficiency-determination processes; also re meaning of ‘public interest’

9. Theories of government as normative attempts to structure, limit, open, channel use of government
a. Interpret and protect or change status quo rights/power structure
b. Part of determination of solution to problem of order
c. Selective identification of government, freedom, coercion, etc.
i. Freedom as nonlegal change?
d. Presumptive-optimality reasoning bases
e. Inevitable normative task
i. Latent or explicit?
f. Opportunity set approach
i. Non-normative
ii. Normative premises, qualitative distinctions necessary to reach decisions
g. Government as instrument available for use
i. Arena of power play and largesse
ii. Including: which internalities, public goods, grants
h. Government as both independent and dependent variable
i. Government as important part of opportunity set analysis
i. Role of government in opportunity set dynamics
ii. Heuristic value of opportunity set-mutual coercion analysis re overcoming selective perception of coercion and government

10. Law-state-government as social control and as power player
a. Fact thereof
b. Government as power player
c. Integrates, channels, controls, promotes, inhibits
d. Independent and dependent variable
e. Queries:
i. By whom, for whom aim, on which/whose terms
ii. Whose use of government
iii. When is problem that of controlling state, and when that of controlling those who control the state; controller of controllers
   a. Political apparatus as own motivating system
      i. ‘Independent’ life of politics
f. Several important conclusions/hypotheses:
   i. Government is critical both directly and indirectly to economic performance (resource allocation, and income and wealth distribution)
      a. Government releases, marshals, channels, and perhaps creates (via facilitating status of mutual coercion) of energy
   ii. Control of government to influence economic performance is important social process
   iii. One function of ideology is to legitimize status quo or desired power structure; another is to persuade believers that economic performance is (or should be) independent of government, and thereby protect
      a. Fostering belief in minimization of government while using government, and while perpetuating economic structure a function of past government action
   iv. Replete with tautologies and hermeneutic circle
   v. Statism/antistatism is incomplete, false, misleading
   vi. Key is control of legal change

5. RONALD COASE AND RICHARD POSNER: THE COASE THEOREM AND WEALTH MAXIMIZATION

A. Introduction
   1. Review of some relevant major themes
      a. Dual nature of rights
      b. Reciprocal nature of externalities
      c. Selective perception, e.g., of rights and of externalities
         i. Selective perception of realized externalities
      d. Necessity of normative premises, e.g., re: choosing between rights claimants and who can generate impacts (externalities) on others: whose interests are to count
      e. Different rights structures produce different externalities, different price structures, different resource allocations, different income distributions
      f. Intervention as “natural”
      g. Pigovian versus Paretian welfare economics
2. Some new relevant themes
   a. Array of externality solutions:
      i. Education
      ii. Tax versus subsidy
      iii. User charges
      iv. Regulation (standards; prohibition)
      v. R&D re technology
      vi. Government production
      vii. Merger
      viii. Market for externalities via property rights
   b. Some general propositions regarding externality generation and solutions
      i. Externalities are inevitable (given reciprocal character) and ubiquitous
      ii. Externalities are reciprocal in character
      iii. Externalities are a function of scarcity plus interdependence
      iv. Realized externality is function of assignment of rights (status quo point)
      v. Externality solutions are function of power structure
      vi. Externality-solutions impose externalities of their own, including restructuring power, costs and benefits, prices, and opportunity sets
      vii. Fundamental problem of externality policy: which externality, or whose capacity to visit injury on others, i.e., distribution of sacrifice

B. Coase and the Coase Theorem
   1. Curious situation: Coase affirms that institutions matter, because of non-zero transaction costs; whereas Stigler adopts zero transaction costs to affirm that institutions (initial rights assignments) do not matter
      a. “Section II. The Reciprocal Nature of the Problem:” “The real question that has to be decided is: should A be allowed to harm B or should B be allowed to harm A?” p. 2
      b. “If factors of production are thought of as rights, it becomes easier to understand that the right to do something which has a harmful effect . . . is also a factor of production.” p. 44
      c. “The aim of . . . regulation should not be to eliminate smoke pollution but rather to secure the optimum amount of smoke pollution, this being the amount which will maximise the value of production.” p. 42
3. Meanings for Stigler:
   a. (1) Market for externalities: with fully defined rights, permit nonowner to purchase right from owner; optimality as Pareto optimality: exhaustion of gains from trade
   b. (2) Allocative neutrality: final resource allocation is invariant with initial assignment of rights: most valued use will receive resources, either through owner not selling or former nonowner buying

4. Assumptions:
   a. Requires zero transaction costs
      i. Cooter: *New Palgrave*, vol. 1, 469: “I have argued that the forms of market failure are too diverse to be subsumed under a reasonably circumspect concept of transaction costs, and, consequently, the transaction cost interpretation of the Coase Theorem should be regarded as false or as a tautology whose truth is achieved by inflating the definition of transaction costs.”
   b. Requires other assumptions, elaborated and critiqued
      i. Indifference to existing distributions of income and wealth (taken as given)
         a. Also, e.g., that an individual’s buying and selling prices are the same
         b. “If assignment of rights is irrelevant, why not give me your wallet?”
      ii. Indifference to the resulting distributions of income and wealth, and to resulting price-cost structure
      iii. Existing system of legal and moral rules, including rules governing access to and use of private property, taken as given
      iv. Existing social power structure, e.g., control of government
      v. Existing technology, resources and tastes, as well as existing distribution of capacity to derive utility from consumption and other economic activity
      vi. Optimality as meaning individual adjustment through trade; only individual preferences to count (problem of which individuals)
      vii. Existence of a market for externalities, or acceptance of nonmarket as indicative of no gains from trade
         a. Equivalent to saying “what is, is and ought to be”
         b. Problem of larger numbers and organization costs
      viii. A bounded consumption set: survival
a. Planetary survival (Greenhouse effect?)
ix. Perfect competition, or large number case, or indifference to market structure
x. Sufficient knowledge (ambiguous in practice: costly acquisition; unequal possession of information)
xi. That a local rather than the largest maximum is acceptable as the optimum

5. Historical significance of Stiglerian “Coase” Theorem
a. Counterrevolution against Pigovian welfare economics: no externality problem
i. Buchanan and Stubblebine: Pareto-relevant and Pareto-irrelevant externalities
ii. Stigler: no externality problem
b. Casuistry issue: finessing contrary conditions through adopting qualifying assumptions in order to logically reach desired result (as with Say’s Law): re both market for externalities and allocative neutrality
c. Central issues:
   i. Desirability of market solutions
   ii. Sufficiency of market solutions
   iii. Legitimization of market per se
   iv. Allocative neutrality
      a. A more straightforward, nonideological treatment would stipulate and consider that positive and unequal transaction costs yield different allocative results
      iv. Casuistry versus study of actual factors at work in the economy and which produce the actually realized externalities, allocations, and distributions
         a. “Maximization of value of production” not a simple matter
            i. E.g., productivity etc. a matter of legal definition of output

6. Coase: mainstream neoclassical microeconomics fails to give effect to transaction costs and thereby fails to indicate how institutions determine allocation; allocative solutions are not unique

C. Posner and the Maximization of Wealth
1. Law should/does maximize wealth
2. Circularity argument
3. Function of courts is determining rights and wealth maximization: “I am not a potted plant.”
a. Recognition, if not affirmation, of inevitable judicial activism
4. Role of fundamental assumption as to whose interests are to count

6. REGULATION AND DEREGLULATION

A. Dual nature of rights: dual nature of regulation: control and protect
   1. regulation is relative, not absolute
B. Regulation fundamental, not epiphenomenal
C. Regulation both governs and is governed by power
   1. Functional with regard to whose interests count
   2. Aspect of contest to control government
D. Society as number of regulatory systems
   1. Law, morality, market, interpersonal interaction
   2. Society as system(s) of governance: nominally private, public
   3. Market as both regulatory system and governed by regulation
E. Regulation as functional equivalent of rights in protection of interests
F. Regulation as mode of change of rights
   1. Deregulation and regulatory reform as functional equivalent of regulation as source of rights and as change of rights
      a. Regulation protects Alpha against Beta; deregulation protects Beta against Alpha
   2. Role of selective perception critical
   3. Selective nature of deregulation and regulation
   4. Regulation, deregulation, and regulatory reform are functionally equivalent re protecting interests
G. Rights, regulation, deregulation, and regulatory reform all govern efficient outcomes
   1. Efficiency as function of rights, not rights as function of efficiency
   2. Property valuation function of rights function of regulation, deregulation
   3. Value of output maximization function of rights of function regulation, deregulation
H. Economic theory makes assumptions re rights and interest protection which are often juxtaposed to regulation so as to imply propriety of deregulation
   1. Role of implicit normative premises in re whose interests are to count
I. Regulatory system (administrative regulation, e.g., of public utilities): as function of rights per statutes and court decisions, and rights as function of administrative regulation, e.g., via pricing systems
7. THE COMPENSATION PROBLEM

1. Paradigm case: airport expansion
   a. Conflict of what expectations are to be presumed either per se or as reasonably held

2. Eminent Domain versus Police Power
   a. Nature of the two principles
   b. Problem not as to process, substance, or valuation in eminent domain, but as to applicability of eminent domain principles to areas hitherto treated under police power principles

3. Conflicting conceptions of rights, including property rights:
   a. Social theory: rights are socially-legally established protection of interests; are subject to revision, destruction; otherwise amounts to reification and absolutist legitimation
   b. Absolute theory: rights are pre-eminent to government and are meaningless unless fully protected, which includes full compensation for loss or injury

4. Principle of selective perception: of injury, of evidence of injury, of when injury constitutes legal damage
   a. Widespread, perhaps inevitable: e.g., injury due to ordinary conduct of competition not seen as constituting legal damage, whereas other activities are perceived and treated differently; e.g., differential abilities of economic actors to introduce changes (e.g., technological) which arguably injure others
   b. In practice, used to generate or sustain arguments for one side or another in litigation; also manifests and reinforces particular conceptions of economic role of government
   c. Argument: serious differences between what is typically perceived and what is present in reality

5. Fifth Amendment Takings Clause
   a. “. . . not shall private property be taken for public use, without just compensation.”
   b. Necessity for principles governing application
      i. As to scope, e.g., police power actions, entrepreneurial actions
      ii. As to conditions under which it applies or purposes to which it is instrumental
      iii. “Must pay for” implies market as only valuation process: seashore property versus porno shops
   c. These principles are normative in that they represent attempts to determine what should govern application of taking clause
6. Representative principles intended to normatively guide the administration or application of taking clause
   a. Frank Michelman, 1967
      i. Utility: efficiency gains, demoralization costs, and settlement costs
         a. Compensation to be paid whenever settlement costs are lower than both demoralization costs and efficiency gains
      ii. Fairness:
         a. Principles:
            i. Social arrangements should assure to each participant the maximum liberty consistent with like liberty on the part of every other participant
            ii. An arrangement entailing differences in treatment is just so long as (a) everyone has a chance to attain the positions to which differential treatments attach, and (b) the arrangement can reasonably be supposed to work out to the advantage of every participant, and especially the one to whom accrues the least advantageous treatment provided for by the arrangement in question
   b. Result:
      i. Analogous to the equal liberty principle would be a rule forbidding all efficiency-motivated social undertakings, which have the prima facie effect of impairing ‘liberties’ unequally, unless corrective measures are employed to equalize impacts. The second principle, however, would permit a departure from this uncompromising rule of full compensation if it could be shown that some other rule should be expected to work out best for each person insofar as his interests are affected by the social undertakings giving rise to occasions of compensation
      ii. A decision not to compensate is not unfair so long as the disappointed claimant ought to be able to appreciate how such decisions might fit into a consistent practice
   b. Joseph Sax, 1971
      i. No compensation when government action involves resolution of conflicting demands between property owners
ii. Recognition of public rights on a par with private rights (flood control, erosion, economic structure, scenic area, historic areas)
   a. Put competing resource-users in a position of equality when each of them seeks to make a use that involves some imposition on his neighbors, and those demands are in conflict
   b. The only appropriate question in determining whether or not compensation is due is whether an owner is being prohibited from making a use of his land that has no conflict-creating spillover effects. If the answer is affirmative, compensation is due for the value of land for that use.
   c. With regard to conflicting interests in spillover cases: maximize the output of the entire resource base upon which competing claims of right are dependent, rather than the maintenance of the profitability of individual parcels of property

c. Lawrence Berger, 1974
   i. Both fairness and efficiency, but fairness is a matter of what accords with the community’s sense of fairness and is open to widely different interpretations of injustice
   ii. Efficiency: minimize sum of (i) nuisance costs (generated by harmful externalities), (ii) prevention costs (including non-administrative costs and opportunity costs incurred by the creator or the victim of a nuisance to reduce the level of nuisance costs), and (iii) administrative costs (the public and private costs of gathering information, negotiating, writing laws, enforcing laws, and arranging for the execution of nuisance-control measures
   iii. First-in-time approach: if a prior lawful activity is harmed by a subsequent lawful activity, both fairness and efficiency demand that the costs of eliminating the harm to the earlier lawful activity should be borne by the subsequent activity, so as to protect every owner in his reasonable expectations with regard to those variables under government control that affect its value

d. Richard Epstein, 1985
   i. Any removal by government of any right from an individual’s bundle of rights is a taking and requires compensation, the only exceptions are (supposedly) very limited police power ends of prohibiting takings by private
parties and the use of force or acts of defamation by private parties

ii. Yet permits assumptions modifying that rule, e.g., that some easement for the benefit of the public at large does exist, whether by long-standing custom or by some more overtly utilitarian view

e. Lawrence Blume and Daniel L. Rubinfeld, 1987
   i. Economic argument for compensation is strongest in situations in which the risk of loss is large relative to individual wealth, or (as a practical alternative) large relative to the magnitude of the loss

f. Critique:
   i. Of each principle, foregone here
   ii. Enormous capacity for selective perception and application of each principle and thus enormous differences in application of any one principle
   iii. Enormous differences between principles with regard to allocation, distribution, etc.
   iv. Inescapable property-right determination: some interests affirmed, others denied, as property

7. Some general conclusions as to what actually happens or is going on in administration of taking clause

a. Donald Black, 1987:
   i. Modern trend toward greater degree of compensatory liability of organizations for the misfortunes of individuals
      a. Strict and absolute standards of liability are more often applied to collectivities than to individuals
   ii. Liability varies directly with social distance, including relational, status, and cultural differences

b. Samuels and Mercuro, 1979, 1980
   i. General analysis
      a. Dual nature of rights: inevitable injury
      b. Reciprocal character of externalities: inevitable injury
      c. Economic significance of rights (e.g., present value through capitalization) is dependent on wide variety of economic and other conditions - and is not intrinsic to the rights themselves
         i. Legal determination that legal significance of rights -- that which law protects, is the income (and therefore capitalized value) which they produce—must assume certain conditions as permanent, those which yield the income and
capitalized value; that is, negates possibility of erosion by market forces

ii. Ubiquitous compensation problem, because of ubiquitous erosions of income and values

d. Compensation problem is to determine which interest to protect, in each Alpha-Beta conflict, or to which potential losses existing values may be exposed

e. Inevitability of noncompensated loss: someone must pay
   i. Selective perception of losses
   ii. Joint determination of rights and loss-compensation and loss-noncompensation: to grant or recognize a right is to impose a loss, to compensate is to grant or recognize a right and to impose a loss on whomever pays for the compensation
   a. Impossibility of Lockean desideratum of protecting (property) rights through compensation requirement
   b. Role of compensation in process of selectively redetermining rights, rather than merely protecting pre-existing rights

f. Participation of legal system in social (re)construction of economy-society and in confronting radical indeterminacy, generating and resolving Alpha-Beta conflicts
   i. Involves exercise of choice within and among matrix of legal principles: inevitable losses due to failure to choose a particular principle
   ii. Involves choice within and among matrix of legal rights: ambiguity of property status quo and of future, e.g., including right to introduce technological change

ii. Roles of the compensation principle:
   a. Service in the framework of legal policy-making, as one in a larger matrix of principles
   b. Service as a check on arbitrary and tyrannical power—function of selective perception
   c. Psychic balm: the very presence of the compensation principle serves as psychic balm in face of radical determinacy, by obscuring the necessity of choice, by affirming the pretense of protected rights, by permitting the absorption of the reality of loss through
reference to high principle, and by soothing the realism of instrumentalism and rationality

d. Legitimization of decisions which determine rights and losses: paradoxically legitimizing all legal change: by compensating in some or many cases, by having the principle available, it induc es the acceptance of legal change without compensation; ostensibly a check on legal social control, it is itself a mode of social control; it is one means through which the injured are prepared to bear losses or educated to be willing to accept them

iii. The resolution of the compensation problem
   a. The determination of inevitable noncompensated losses through the joint determination of rights, losses and compensation, that is, the determination of compensation is part of the determination of rights
   b. Demand for compensation as species of demand for rights
      i. Pursued through ordinary litigation and lobbying
   c. Supply side: constrained maximization decisions by legislators and judges, on basis of selectively provided information, selectively made normative-subjective judgments
      i. Introduction of a right, that is, of a legal change, is a matter of either a rough benefit-cost judgment or a rough ideological or moral judgment as to propriety or desired-likely instrumental results
      ii. Economies of scale in influencing legislation which favors the relatively wealthy, re access to courts and legislature, and re organizational costs
      iii. Selective perception of reality in general and, in particular, of types of externalities, e.g, pecuniary versus technological
      iv. Differential perceptions and treatments of prices and taxes as mode of diffusing losses
      v. Strategic behavior in limiting change, controlling agenda of public discussion.

8. INEQUALITY AND THE EQUAL PROTECTION CLAUSE
      a. Selective perception of state action in the production and/or reproduction of inequality
      b. Unequal financing of public schools
ASKING THE RIGHT KINDS OF QUESTIONS PROMOTES LEARNING DURING DISCUSSION

Michael K. Salemi

1. INTRODUCTION

Suppose, in your Economics Principles course, you wish students to read and discuss the first three chapters of An Inquiry into the Nature and Causes of the Wealth of Nations (hereafter Smith). Here are three discussion questions you could ask.

Does Adam Smith take adequate account of the alienation of labor when he says that “the greatest improvement in the productive powers of labour...seem(s) to have been the effects of the division of labor”?

What is the difference between the pin production process in a small and in a large factory?

What, according to Adam Smith, is the connection between trade and the division of labour?

Is one of these questions better than the others? In this essay, I explain why the third question is the superior alternative. To properly consider my arguments, readers should have recently read or be very familiar with the first three chapters of Smith.2

---

1 Michael Salemi is Bowman and Gordon Gray Professor of Economics at the University of North Carolina, Chapel Hill, NC, 27599-3305, USA. Salemi is a current member and past chair of the Committee on Economic Education of the American Economic Association and, together with William Walstad, Co-Principal Investigator of the Teaching Innovations Program funded by the National Science Foundation. Together with W. Lee Hansen, Salemi is author of Discussing Economics: A Classroom Guide to Preparing Discussion Questions and Leading Discussion. Salemi may be reached by email at Michael_Salemi@unc.edu. His web page resides at www.unc.edu/~salemi.

2 An Inquiry into the Nature and Causes of the Wealth of Nations is available on line at http://www.econlib.org/library/Smith/smWN.html. I use a Book-Chapter-Paragraph format to reference passages in Smith. For example, I.1.2 refers to the second paragraph of the reference passages in Smith.
2. WHAT IS DISCUSSION?

What exactly does it mean to use discussion as a teaching strategy? Educators agree that discussion involves, at its core, the active participation of students in the development of course ideas. For example, Nilson (1998, p. 87) defines discussion as "...a productive exchange of viewpoints, a collaborative explanation of issues." And Bergquist and Phillips (1989, p. 19) say that discussion is an "...opportunity for pooling of ideas, experience, and knowledge."

Educators are also clear on the importance of organizing discussion well and targeting it to learning objectives. Nilson (1998, p. 87) emphasizes that the instructor must steer discussion toward appropriate objectives to keep it from degenerating "...into a free-association, free-for-all bull session." McKeachie (2002, p. 32) lists "making progress ...toward course objectives" as an important problem that instructors must face when they teach by discussion. Frederick (1989, p. 10) says: "The primary goal in any discussion is to enhance the understanding of some common topic or 'text'..." Lowman (1984, p. 120) emphasizes that discussions "...must be well planned in order to be effective."

Educators also agree that successful discussions require certain instructor behaviors. Royse (2001, pp. 39-40) says that instructors must "...create a climate where the exchange of ideas is welcomed--where students get to speak, make comments, or ask questions frequently, not just in the last five minutes..." According to Royse (p. 40), instructors should explicitly state their expectation that students share ideas on the syllabus and follow through to encourage participation at each class session. Nilson (1998, p. 89-90) emphasizes the importance of learning student names, arranging chairs so that students can see one another, helping students to know one another, and using the right kind of body language during discussion. Lowman (1984, pp. 120-1) says that "Leading an excellent discussion demands just as much stage presence, leadership, and energy as presenting a lecture--and considerably more interpersonal understanding and communication skill." McKeachie (2002, p. 51) points out that "...discussion differs from lecturing because you never know what is going to happen." It follows that discussion leaders must be able to adapt quickly to ever changing classroom conditions.

Educators are less clear on the proper format for discussion. Royse (2001, p. 70) describes discussion as an environment where "...students are encouraged to pose questions and interact with one another and the instructor." Lowman says that "...a useful classroom discussion ...consists of student comments separated by frequent probes and clarifications by the teacher that facilitate involvement and development of thinking by the whole group" (1984, p.119) and later observes that the "...most common
type of discussion is the kind in which instructors ask in the midst of lectures for student comments on specific issues” (p.127). Cannon and Newble (2000, pp. 39-40) suggest that discussion is essentially a small-group strategy where all present participate. Bergquist and Phillips (1989) offer 13 different formats for discussion including buzz groups, panels, symposia, and debates.

I define discussion in a more formal way than is typical of educators. For me, discussion is inquiry into the meaning of a text that students and instructors have read and thought about earlier. In my model, the discussion leader has carefully prepared discussion questions and distributed them in advance. In my model, the discussion leader serves as a facilitator rather than as a participant during discussion. Chapters 1-5 of Salemi and Hansen (2005) provide a detailed explanation of the model of discussion I use in my teaching.3 The educator most closely associated with the discussion format that I use is Mortimer Adler. The next section presents my adaptation of Adler’s ideas to the economics classroom.

3. THE IMPORTANCE OF INTERPRETIVE QUESTIONS IN DISCUSSION

Mortimer Adler, one of the great philosophers and educators of the twentieth century, became interested in the “great thinkers” when he learned that John Stuart Mill read Plato as a child. After dropping out of school and reading the great thinkers on his own, Adler studied philosophy at Columbia University. He later co-founded “The Center for the Study of the Great Ideas” and helped publish “The Great Books of the Western World.”

In How to Read a Book: The Classic Guide to Intelligent Reading, Adler recounts an experience he had while teaching theology.

I asked a student what St. Thomas had to say about the order of the passions. He quite correctly told me that love, according to St. Thomas, is the first of all the passions and that the other emotions, which he named accurately, follow in a certain order. Then I asked him what it meant to say this. He looked startled. Had he not answered my question correctly? I told him he had, but repeated my request for an explanation. He had told me what St. Thomas said. Now I wanted to know what St. Thomas meant.

3 Whatever the definition of discussion, Becker and Watts (1998, p.5) make clear that few economics instructors use discussion in their classes. Instructors spend over 80 percent of the time lecturing in all sorts of economics classes at all sorts of academic institutions.
The student tried, but all he could do was to repeat, in slightly altered order, the same words he had used to answer my original question. (Adler and Van Doren, 1972, p. 36)

As the quote suggests, Adler’s approach to literature rests on asking discussants what the author meant. That, too, is the approach I use in classroom discussion. But what kind of questions prompt students to investigate an author’s meaning?

Salemi and Hansen (2005) argue that there are three types of discussion questions: factual, evaluative, and interpretive. Factual questions ask for facts. Evaluative questions ask for judgments. Interpretive questions ask what the author meant.

Here are examples of factual, evaluative, and interpretive questions based on the first three chapters of Smith. “What are the different jobs involved in the manufacture of a pin?” is a factual question. It can be answered by a recitation of Smith’s words in paragraph 3, chapter 1, book 1 (I.1.3).

Starting discussion with a factual question is a bad strategy, in part because discussion ends as soon as a student recites the proper words. Asking a battery of factual questions amounts to drilling students about their knowledge of the words in a text. Asking factual questions promotes neither an investigation of the meaning of the author’s words nor an exchange of ideas about those words.

“Is the propensity to ‘truck, barter, and exchange one thing for another’ (I.2.1) uniquely human?” is an evaluative question that asks whether discussants believe that only humans engage in trade. Discussants will answer the question not by offering evidence from Smith but by offering evidence from their own experience and background. A zoology major may cite scholarly articles about group behavior of lions. An avid hunter may offer stories about his dogs. The possibilities are endless.4

Starting discussion with an evaluative question encourages participation because most people have opinions about most issues. But starting a discussion with an evaluative question rarely leads to investigation of an author’s meaning because it invites participants to answer from their own background and experience rather than from the text. It drives participants apart rather than bringing them together in a collective investigation of the author’s meaning based on common information, the author’s words.

4 “Does Smith believe that the propensity to truck, barter and exchange is uniquely human?” has the appearance of an interpretive question but, in fact, is a factual question because Smith’s words in 1.2.2 make his view completely clear.
“Why, according to Smith, is the division of labor limited by the extent of the market?” is an interpretive question. It asks discussants what Smith means by his words, in this case the title to Chapter III. Asking an interpretive question is an excellent way to begin discussion because it invites discussants to explain how Smith connected these two ideas.

To appreciate the advantages of beginning discussion with an interpretive question, readers need only consider how students might answer. The instructor might first make sure that students agree on the meaning of “division of labor” and “extent of the market.” To interpret the former phrase, students might explain Smith’s pin factory example (I.1.3) or the many other examples Smith provides in chapter one. As students provide their interpretations, the instructor can ask what the cited examples have in common and what the precise meaning of “division of labor” should be. The instructor might also ask why Smith says that division of labor is more likely in manufacturing than in agriculture (I.1.4).

To interpret “extent of the market,” students can cite a variety of evidence. Some will refer to what Smith calls the human “...propensity to truck, barter, and exchange” (I.2.1). Others will point out that Smith thinks that humans are the only animals that cooperate in meeting their objectives (I.2.2). Others may refer to Smith’s explanation of why a porter can be fully employed only in a city and not in a village or town (I.3.2). Still others may link “extent of the market” to Smith’s explanation of the importance of water ways to economic development (I.3.3-7). Because Smith speaks broadly about the “extent of the market” students can learn a lot by explaining how his various examples and passages fit together.

Once students have clarified their understanding of “division of labor” and “extent of the market,” they are ready to connect the two ideas by explaining why division of labor is limited by the extent of the market. Again, Smith provides a lot of evidence. One student may contrast Smith’s description of economic life in the Scottish Highlands (I.3.2) where scattered farmers must each function as butchers, bakers, and brewers with the specialization that occurs in a large city (I.2.2). Another may contribute that rivers were important to economic development precisely because they allowed, through cheap transport of goods, division of labor and the resulting improvement in human productivity. Still others may point out that Smith explains that the rivers in Holland provide more practical transport than the rivers in Africa (except the Nile) and concludes that Holland developed more rapidly because better transport made division of labor more practicable.

Let’s take stock for a moment. Beginning discussion with a factual question leads to a dead end--the recitation of the wanted fact. Beginning discussion with an evaluative question leads to lots of participation but
invites participants to leave the text and cite their own experiences. Beginning discussion with an interpretive question leads to what most of us want--an investigation of what Adam Smith meant when he said that division of labor is limited by the extent of the market.

Salemi and Hansen (2005) explain that factual and evaluative questions can play important subordinate roles in a discussion. They recommend that discussion be organized around a “basic” interpretive question that gets at a set of ideas that the instructor wishes students to explore. They suggest that factual questions should be used to call attention to key facts that student interpretations should respect and that evaluative questions can be used to bring closure to a line of inquiry. Salemi and Hansen further suggest that instructors prepare clusters of questions and distribute them to students prior to discussion.

Suppose you, as instructor, want students to investigate the connection between the division of labor and the extent of the market. What sort of question cluster might you prepare and what would be the role of factual and evaluative questions in the question cluster? Table 1 provides some possibilities.

**TABLE 1**

**CLUSTER FOR QUESTIONS FOR CHAPTERS 1-3 OF SMITH**

<table>
<thead>
<tr>
<th>Learning Objective</th>
<th>Students should be able to explain Smith’s argument that the division of labor is limited by the extent of the market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Question</td>
<td>Why, according to Adam Smith, is the division of labor limited by the extent of the market?</td>
</tr>
<tr>
<td>Supporting Questions</td>
<td>What does Smith mean by the “division of labor”? By the “extent of the market”?</td>
</tr>
<tr>
<td></td>
<td>How, according to Smith, does a comparison of a farmer in the Scottish Highlands and a porter in London, illustrate that division of labor is limited by the extent of the market?</td>
</tr>
<tr>
<td></td>
<td>How, according to Smith, are the Rhine and the Ganges different from the rivers of southern Africa and Siberia?</td>
</tr>
<tr>
<td>Concluding Questions</td>
<td>What, according to Smith, is the connection between the development of water transportation and the extent of markets?</td>
</tr>
<tr>
<td></td>
<td>What examples of modern economic life best illustrate that the extent of the market limits the division of labor?</td>
</tr>
<tr>
<td></td>
<td>What is the practical importance of Smith’s principle that division of labor is limited by the extent of the market?</td>
</tr>
</tbody>
</table>

As Salemi and Hansen recommend, the basic question is an interpretive question. Supporting questions help discussants break the
basic question into more manageable chunks and make sure that they address all aspects of the question that the instructor thinks they should. In the example, the first, second and fourth supporting questions are interpretive. The third supporting question is factual since Smith provides a clear answer to the question in I.3.6 and I.3.8. The concluding question helps the instructor draw closure to discussion of the basic question without resorting to lecture. In Table 1, the first concluding question asks for student opinion about modern examples of Smith’s important principle while the second asks students whether they believe that Smith’s principle is important.

Factual and evaluative questions have their place in discussion but their role is subordinate to the role of interpretive questions. The discussion leader asks interpretive questions so that students better understand the economic arguments of the author. The leader asks factual questions to make sure that student comments respect the facts present in the reading. The leader may ask an evaluative question so that students transfer their understanding of the author’s arguments to a new context. Or the leader may simply wish to “reward” participants for skillful interpretation by asking their opinion.

4. NOT ALL INTERPRETIVE QUESTIONS ARE SUITABLE FOR DISCUSSION

Asking an interpretive question is necessary but not sufficient for valuable classroom discussion. Questions that lead to fruitful discussion satisfy four criteria. First, the question should truly ask for an interpretation of the author’s meaning and not simply a recitation of the author’s words. “How, according to Smith, does a pin factory illustrate the benefits of division of labor?” has the appearance of an interpretive question. But a careful reading will show that Smith’s words in I.1.3 settle the issue. “Why is the division of labor limited by the extent of the market?” is an interpretive question because there is an abundance of evidence in the first three chapters that can be brought to bear on the question and because Smith himself never provides a succinct and definitive answer. Thus, students will learn far more economics by answering the second question than they will by answering the first.

A good interpretive question should be answerable with evidence present in the assigned reading. A mistake that instructors frequently make is to ask questions that reach beyond the assigned reading. When they do, they create a situation where few if any students can answer the question and where the temptation to fill in the missing gaps via a lecture is strong. Discussion is more beneficial to students when it focuses on questions that all may answer from their common information--the assigned reading and
information that they have learned earlier in the course. A good discussion question creates a level playing field.

“Does Adam Smith take adequate account of the alienation of labor when he says that ‘the greatest improvement in the productive powers of labour … seem(s) to have been the effects of the division of labor’?” is an example of a discussion question that fails the second test. While we may want our students to think critically about the workplace that Smith envisions once division of labor has occurred, reading Smith alone does not permit students to undertake a critical appraisal. In fact, students are unlikely to know what it means for labor to be “alienated.” If students have read Marx on the alienation of labor earlier in the course, asking this question makes a lot more sense. “Why, according to Adam Smith, is the division of labor limited by the extent of the market?” is a question that students can answer based on Smith alone.

A third criterion satisfied by a good interpretive question is that the question is interesting. Discussion requires a lot of classroom time. For the benefits of discussion to outweigh the costs requires that students search energetically for answers. One of the best ways to promote participation is to stimulate student curiosity. If the instructor is curious and interested, it is likely that students will be curious, interested, and engaged.

The energy created by student curiosity is another important reason to begin discussion with a well-crafted interpretive question. It is not difficult to imagine how dull the classroom would be if an instructor asked students to recite the rivers named by Smith. It is likewise not difficult to imagine that students may be excited by an invitation to connect the two most important ideas in the first three chapters of Smith. Sometimes prompting is necessary. To raise interest the instructor might preface discussion by saying: “Those who favor free trade often cite Adam Smith to support their position. Today, we have an opportunity to investigate what Smith has to say about the benefits of trade. Doing so should help us better know our own minds the next time we read about an anti-trade demonstration.”

Finally, a good discussion question should be sufficiently rich that it, at first, appears ambiguous. Discussion provides students with the opportunity to form answers using their own language, to compare their answers to those offered by other students, and to revise their answers in light of information gathered in the course of discussion. For these potential benefits to be realized requires that students participate. The first cogent answer offered should be a beginning rather than an end to a line of investigation. Put another way, students should believe that there is room for their own interpretation even after others have offered theirs. For this
kind of dynamic to develop in a classroom, the instructor must ask questions that can be answered in different ways.

Is the basic question in Table 1 sufficiently rich? Consider how students might answer. One student may explain that the workers in a pin factory could never use all the pins they produce and conclude that the factory can only be viable in a situation where the factory supplies pins to many individuals and other firms. A second could contrast Smith’s example of a London porter and a Scottish Highlands farmer. In London, the porter can specialize because there are many individuals who can use his services. In the Scottish Highlands, households are so far apart that it is too costly for one to make beer or bread for another. A third student could point out Smith’s argument that economies developed more rapidly when they were located along rivers that made transportation of goods less costly. In short, the reading and the question invite a variety of interpretations.

5. DISCUSSION IS PRODUCTIVE PEDAGOGY IN MANY SETTINGS

Readers of this paper may believe that my approach to discussion is only suitable for more advanced undergraduates in small enrollment courses. This is not correct.

I have used my approach in first year seminars for students just beginning their university education. I have used the approach in intermediate theory courses targeted toward second-year students. I have used the approach with economics majors in advanced courses. Provided that readings, learning objectives, and discussion questions are appropriate for the students and well coordinated with one another, I have found the approach to work throughout the undergraduate curriculum and in graduate courses as well. First-year students can read and discuss Adam Smith provided they tackle questions suitable to their backgrounds.

It is true that discussion ideally occurs in small enrollment classes. In classes with 10 to thirty students, it is reasonable to expect each student to participate in each discussion. However, discussion is a valuable pedagogic strategy in larger enrollment classes too. In Chapter 4, Salemi and Hansen (2005) provide ideas for organizing discussion in larger-enrollment courses. One strategy is to assign students to groups and ask each group to answer a discussion question. Once groups are satisfied with their answers, the instructor asks for group reports so that students can decide for themselves whether other groups were onto something different.

My web page, www.unc.edu/~salemi reports discussion readings and questions that I assign students in my first year seminar at the University of North Carolina.
Where can one find readings suitable for discussion? Editorials from good news media such as the Economist, Wall Street Journal and New York Times are often suitable for discussion. Salemi and Hansen (2005) provide a guide to over 60 classic and modern readings that span the undergraduate economics curriculum. The acid test for a reading is whether or not one can write a basic interpretive question that is well coordinated with a course objective.

6. SUMMING UP

By way of a summary, I will answer the questions that I posed in the essay’s introduction. The first question, which asks whether Smith takes adequate account of the alienation of labor, is not appropriate for discussion of Chapters 1-3 of Smith because it cannot be answered by evidence available in those chapters. It does not ask for an interpretation of Smith but for a judgment, and in some contexts a judgment that students would be ill equipped to provide. Nor is the second question, which asks about the difference between pin production in a large and small factory, appropriate for discussion of Smith. The question is simply not rich enough. Once students have cited Smith’s words from paragraph I.1.3, discussion must end. The third question, which asks how Smith connects trade and the division of labor, is suitable for discussion. The question is truly interpretive, can be answered with evidence in Chapters 1-3, supports a variety of interpretations, and is interesting.

REFERENCES


TEACHING POLITICAL ECONOMY: CURRICULUM AND PEDAGOGY

Frank Stillwell

ABSTRACT

The teaching of political economy offers an alternative, and a challenge, to conventional economics education. Its emphasis on the competing currents of economic thought and their association with rival political philosophies adds complexity to the subject. However, this engagement with controversial issues creates more intellectual excitement than a narrow, ‘technical’ treatment of orthodox economic analysis. There is also more scope for students to link their own personal experiences with the broader concerns of political economy. The competing ‘schools of thought’ approach in political economy provides opportunities for students to debate controversial issues. Significant challenges remain: whether to adopt a ‘problem-oriented’ or ‘system-oriented’ approach, a historical or contemporary perspective, a heterodox economics approach or a broader interdisciplinary approach, and how to avoid the need for ‘suspension of disbelief’ in studying competing economics theories. Careful consideration of the relationship between curriculum and pedagogy is needed.

Keywords: orthodoxy, heterodoxy, post-autistic economics, pluralist curriculum.


1. INTRODUCTION

Political economy challenges economic orthodoxy. It is a challenge that is multi-dimensional but, in respect of teaching, two aspects are of primary importance – curriculum and pedagogy. These are interrelated. Issues of ‘what is to be taught?’ and ‘how the teaching and learning process is to be constructed’ cannot sensibly be resolved independently. Experience in teaching political economy, as an alternative to orthodox economics, indicates some interesting lessons.

This paper explores these themes by looking first at the principal problems with conventional economics education – the problems of ‘tunnel...
vision’, ‘perceived irrelevance’, ‘suspension of disbelief’ and ‘pseudo-science’. Next, it looks at how these four problems can be resolved, or at least ameliorated, in the context of teaching political economy – by emphasising a liberal educational philosophy, a more ‘grounded’ approach to study, linking into students’ own experiences and more explicitly acknowledging the role of personal and political values. It then reviews some challenges within the teaching of political economy, emphasising that the alternative curriculum and pedagogy does not tidily ‘solve’ the dilemmas of progressive education in the social sciences (as discussed, for example, by Apple 1996). Nor can it substantially redress the effects of neoliberal policies and corporate managerialism that are reshaping the broader tertiary education environment (as discussed in Marginson and Considine 2000 and Stilwell 2003, for example). But it can substantially contribute to the development of students’ capacities for constructively critical analysis.

The arguments in the paper reflect the author’s teaching experience at the University of Sydney where a comprehensive political economy program, established through the combined efforts of students and staff, has been running as an alternative to the orthodox economics program for more than a quarter of a century. Courses in Political Economy have also been introduced in recent years at other Universities, such as the University of NSW and the University of Western Sydney. These initiatives indicate that there are viable alternatives to the standard micro-macro-quantitative curriculum and to the conventional teaching of economics. A pedagogy emphasising controversies, linking competing economic analyses and different political perspectives, is possible. It is preferable? The argument in this paper is that there are strong reasons for thinking this to be the case. Hence the challenge to teachers of orthodox economics to adapt their teaching practices or, more fundamentally, to embrace the political economy alternative.

2. WHAT’S WRONG WITH ECONOMICS?

Economics is characterised by continued debates among its practitioners. Underpinning this surface appearance of vitality and diversity is a well-defined orthodoxy. It is a dominant paradigm, to use the terminology associated with Thomas Kuhn (1962), defined by the broad agreement on the issues to be studied and the tools to be used in studying them. It is essentially neoclassical economic theory, sometimes embellished with relatively minor variations on that theme (such as are to be found in ‘new institutional’ economics, game theory, ‘new growth theory’ and ‘new classical’ economics, for example). In the standard curriculum for Bachelor’s and Master’s degrees in economics this approach is
hegemonic, symbolised by the continuing attachment to ‘micro’, and ‘macro’ units of study plus quantitative applications, and by the continuing use of an array of standard textbooks distinguished from each other by only minor forms of product differentiation. This is ‘economics’, defined conservatively and circularly as ‘what economists do’ and ‘what economists teach’.

It is an orthodoxy that has been subject to persistent criticism on diverse grounds over many decades. Internal inconsistency (a charge against neoclassical theory particularly associated with the ‘Cambridge controversies’ that has been shrugged off as if the assault had never occurred), unrealistic assumptions, implicit value judgements and political bias are among the long-standing criticisms. So too, more generally, is the failure to illuminate the real world (as distinct from providing a textbook model which, in a vulgarised form, provides an underpinning for neoliberal policies that seek to change the world). The sheer tenacity of neoclassical economics over a century, in the face of dramatic changes in the world around us, is surely the most remarkable phenomenon, suggesting a ‘timeless quality’ that, from a more critical perspective, is indicative of its status as faith rather than an evolutionary science. These critical concerns, although finding expression among some of the most sophisticated thinkers and researchers in the profession, also have strong echoes in the classroom.

Looking at mainstream economics as it is typically taught, four principal concerns recur. The first is the dominant emphasis on one particular theoretical approach, to the exclusion of other alternatives. To be sure, there are various analytical puzzles and interpretations within neoclassical theory. Skilful teachers can present these to students, thereby developing the image of the discipline as non-monolithic and non-dogmatic. But these differences are largely intra-paradigmatic. They do not challenge or break out from the shared assumptions that pervade neoclassical theory – the separateness of the economic from the social and political; methodological individualism; the impersonal market and its capacity, given appropriate competitive conditions, to generate allocative efficiency; a pervasive trade-off between efficiency-equity, and so forth. This process of reproduction and reinforcement involves ‘tunnel vision’.

The problem of ‘perceived irrelevance’ is also pervasive. Students usually come to study economics to help them understand the world in which they live, particularly business behaviour and government policy options for dealing with issues such as unemployment, inflation, trade imbalances, debt and economic development. They commonly find micro and macro theory, as it is usually taught, only indirectly related to these ‘down to earth’ concerns. The better teachers of orthodox economics seek to show the connections and also to provide a rationale for making excursions into theory before engaging in direct confrontation with the
prevailing problems and policy alternatives. However, there remains a widespread perception of ‘theory for its own sake’, as if the profession is defined by its adherence to particular theoretical principles rather than by its common concern to engage with real world issues. Some economic theorists see no problem with this view: when visiting the University of Sydney some years ago, Nobel prize-winning economic theorist Gerard Debreu was adamant that his theoretical concerns should not be conflated with any application to the real world. Students typically do not find this sort of separation of theory from experience to be convincing.

Orthodox economic teaching also commonly required the ‘suspension of disbelief’. This is partly a consequence of the theoreticism associated with the discipline. Students are asked to accept the model of perfect competition, for example, not as a description of any actual market but as an interim step in model-building before assumptions are relaxed and modified in order to approximate to more ‘realistic’ market structures. In a process such as this the objection that ‘the real world doesn’t look like that’ is not regarded as legitimate. Students are effectively required to ‘suspend’ any such critical judgement. Of course, it may be claimed that this sort of pedagogy is made necessary by the model-building methodology that economists adopt in the pursuit of a ‘scientific’ basis for the discipline. Whatever the merits of that claim, it cannot be gainsaid that its effect is to divorce economics education from a constructive engagement with students’ own experiences and understandings. Constructivist theories of knowledge, emphasising how student’s prior understandings adapt and develop in the process of teaching and learning, are implicitly set aside by this pedagogy.

The claim to a ‘scientific’ status for the discipline is largely untenable anyway. The typical mathematical orientation of orthodox economics courses, particularly at the intermediate and senior levels, conveys the strong connotation of scientific precision. Much of that scientific veneer is bogus, as Keen (2003) has demonstrated. Moreover, the attempt to distinguish a ‘positive’ economics from a ‘normative’ economics, eschewing value-judgements, has clearly failed (beyond the most trivial of propositions where the ‘facts’ are not in dispute). Values enter at all stages in economic inquiry – into the very selection of issues to be studied, into the selection of methods of investigation and analytical tools and, of course, into the processes whereby that economic knowledge is applied (see Garnett, 1999). It is nearly half a century since Gunnar Myrdal (1969) demonstrated ‘the political element in the development of economic theory’. Teachers need not shy away from these ideological issues. Indeed, it makes teaching and learning more interesting when emphasis is placed on the association between economic doctrines and political positions. But to do so runs counter to the orthodox economists’ claim to
scientific status. It is that claim that stands as a further obstacle to an effective, progressive pedagogy.

The teaching of economics, or indeed of any subject, cannot be value-free. As Connell (1993:11) points out, ‘teaching and learning always involve questions about purposes and criteria for action (whether these purposes are shared or not), about the application of resources (including authority and knowledge), and about responsibility and the consequences of action’. Of course, both in teaching and research, economists should seek to be as ‘objective’ as possible, gathering and sifting all relevant information in pursuit of the truth. However, as McClosky (1985) and other scholars of economic methodology have emphasised, economic inquiry in practice takes many forms that do not conform to a simple ‘positivist’ approach. To imply otherwise in the teaching of the subject is ‘pseudo-science’.

3. THE POLITICAL ECONOMY ALTERNATIVE

Can an alternative economics education be fashioned that is not bedevilled by these four problems of ‘tunnel vision’, ‘dubious relevance’, ‘suspension of disbelief’ and ‘pseudo-science’? Indeed, it can. That alternative is an education in political economy. This is not to say that the teaching of a different curriculum necessarily resolves the problems of pedagogy. Far from it! As I will argue subsequently, the terrain shifts to one on which other major challenges and dilemmas arise. But shift the terrain we must if the basic problems are to be addressed.

What then constitutes the political economy alternative? Like the critique of orthodox economics, this has been set out in countless books and articles over the last four decades (eg. Kaldor 1972, Ward 1972, Robinson and Eatwell 1973, Ward 1977, Burkitt 1984, Clark 1998, Stilwell 2002 and Anderson 2004). It has been given renewed impetus in the last few years with the development of the ‘post-autistic economics’ movement (see Fullbrook 2002). Also, just as the critics of orthodox economics vary considerably in the weight given to their various arguments, so do they vary in their views about how the alternative would best be constituted. The fiftieth issue of the Journal of Australian Political Economy, in which various authors were invited to reflect on ‘the state of political economy’, illustrates some of the principal themes. From a specifically teaching perspective, the general characteristics of the political economy alternative can be contrasted with the four features of orthodox economics courses that have been discussed.

First, political economy embraces diverse schools of economic thought. These include, but are not limited to, Marxian and neo-Marxian economics, institutional economics (both ‘old’ and ‘new’), and post-
Keynesian economics (in its various guises, following Kalecki, Sraffa, Robinson, Eichner, Kregel and others). Feminist economics and ecological economics are also contributory currents. It follows that teaching in political economy must necessarily focus on the different ‘ways of seeing’ associated with these schools of thought. This is the antithesis of ‘tunnel vision’. Not all students welcome a curriculum constructed on a liberal-pluralism basis, requiring them to study competing schools of thought. It is challenging and, for many, harder than just learning a single story. But, effectively explained and enthusiastically taught, this sort of ‘invitation to controversy’ can be highly engaging.

Second, political economy engages more directly than does neoclassical theory with contemporary economic problems and policy issues. Fundamentally, this is because it does not adopt the conventional ‘theory/applied’ approach characteristic of orthodox economics. Instead of ‘theory first, applications later’ the analysis is developed by looking at contemporary political economic challenges in a changing world and then drawing on whatever analytical tools are useful for dealing with them. Of course, time must be spent in developing the analyses, and that necessarily requires consideration of theory (or, more typically, competing theories), but the emphasis on a more iterative approach means a more direct engagement with the actual problems and policy issues. The willingness to explicitly consider power relationships (typically restricted in orthodox economics only to consideration of ‘market power’) creates a particularly important bridge into real world issues where questions of power, its use and abuse, are characteristically evident.

Third, political economy requires less ‘suspension of disbelief’ by students than is the case in a more orthodox economics syllabus. One of the fundamental pedagogic principles in political economy is to connect, indeed usually to begin, with students’ perception of how their society works. In part, this might be said to be just ‘good teaching’, irrespective of the broader challenges posed by political economists to orthodox economics. For example, in introducing a class on the topic of the determinants of prices one might sensibly begin by asking students: ‘In the process of shopping, have you ever wondered what determines the relative prices of the different items of the shelves? Why the textbook for this course costs the equivalent of twenty five cups of coffee in the University cafeteria (or only ten coffees in an expensive hotel)?’ But such explorations are characteristically more open-ended in political economy. In the example given, the discussion can then lead into the relative advantages and disadvantages of classical/ Marxian explanations (based on labour values), neoclassical explanations (based on utility), and post-Keynesian explanations (based on cost of production and ‘mark-ups’ determined by market power). The bridge between students’ own various
perceptions and the competing explanations in economic analysis is established. In practice, students’ enthusiasm for learning is thereby enhanced: they understand how what they are studying relates to their own life-experiences.

Fourth, the teaching of political economy sits comfortably with consideration of the role of value-judgements, at the individual level, and broader political judgements made at the societal level. The notion of ‘positive economics’ is rejected. So consideration of how economists’ values influence their judgements, explicitly or implicitly, can be incorporated into the teaching process. For example, when considering GNP, discussion can focus on what is included and what is excluded, what that implies about what it is that economists value, and what other bases of valuation could be used instead. When looking more generally at competing schools of thought – neoclassical, Marxian, Keynesian and so on – their general political orientation – conservative, liberal or reformist – can be considered. Bringing values into the analysis not only makes economics more interesting, it makes its social role more transparent. Values in social science are usually better blatant than latent.

For all these reasons, the teaching of political economy has some inherent advantages as a means of interesting and engaging students. Of course, none of these matters of course content and teaching orientation transcend all the personal and institutional characteristics that impact on the effectiveness of the educational process. There is ‘good’ and ‘bad’ teaching irrespective of the subject matter and approach. There are also students who will do ‘well’ or ‘badly’ irrespective of the educational arrangements that confront them. But, the preceding structural characteristics predispose the political economy curriculum to be more engaging and conducive to ‘deep learning’. By the same token, the political economy approach raises its own major challenges.

4. CHALLENGES WITHIN POLITICAL ECONOMY TEACHING

The embrace of a curriculum that looks at competing schools of thought in economics makes it necessary to consider a number of issues about course design. First is the obvious question of how many competing schools of economic thought can be covered in a course in political economy. How broad should be the perspective that replaces ‘tunnel vision’? In an introductory unit of study it may be that three is appropriate, eg. neoclassical, Keynesian and Marxian. That gives students a basis for seeing the connection between different frameworks of analysis and the political inclination of different economic approaches. Cole, Cameron and Edwards (1991) use a trilogy in their introductory text, but redefine the
middle category in terms of a broader ‘cost of production’ tradition in economics, linking more directly with contemporary post-Keynesian economics. However, the exclusion, or relegation to later studies, of the institutional tradition in economics then becomes a problem, because that is a tradition with a very distinctively different research methodology and epistemology. It also throws up excellent topics for undergraduate teaching, if only because J. K. Galbraith’s work sits within that tradition and is such a useful point of contrast to neoclassical theory for teaching purposes (eg. leading into debates about the forces shaping consumer and business behaviour).

A related dilemma is whether to adopt a chronological approach to introducing the competing schools of thought, or to look at them primarily in terms of their current influence. The former converges with a ‘history of economic thought’ approach, not noted for its immediate appeal to undergraduate students. However, it can be made interesting if the emphasis is placed on the material and ideological conditions associated with the emergence of each of the schools of thought. It becomes even more interesting if the students are continually challenged to think about whether the bodies of economic thought that emerged in these conditions are relevant to modern economic conditions, or how they might need to be adapted for that purpose. The alternative is to look at the dominant orthodoxy today and then to go on to look at critical and alternative perspectives. Historical elements can be woven into this latter approach, but the order of material is characteristically different, eg. Neoclassical/Marxian/Keynesian, rather than Classical/ Marxian/neoclassical/institutional/Keynesian/post-Keynesian.

There is a further complexity – the question of whether, and how, to acknowledge the contributions of scholars whose works do not fit neatly into the competing schools of thought? Joseph Schumpeter is an obvious example – like Marx in his focus on the trajectory of capitalist development but having a quite different interpretation and political inclination. Excluding consideration of such distinctive views raises the danger that the ‘schools of thought’ approach can over-simplify the complexity and diversity of important political economic ideas. Yet in undergraduate teaching the principle of first approximation is appropriate. The main contours of the discipline need to be established initially, and further complexity can be woven into subsequent units of study. Of course, that means students who take only one year of study don’t get the full picture – but they do get a much fuller picture than would ever be drawn from a conventional micro-macro syllabus.

A further, and perhaps even more fundamental, concern is how narrowly to keep the focus on economic issues. Part of the political economists’ critique of orthodox economics is that it artificially separates
the economic from the social and political, the historical and geographical. So, some consideration of issues usually treated in courses in sociology, political science and government, history, geography, industrial relations, even anthropology, may be warranted. But a broad embrace of all these interdisciplinary considerations is a huge challenge in undergraduate teaching. The confidence of the teacher and the capacity of the students to deal with the resulting complexity is at issue. A relatively cautious approach is to keep the focus primarily on the economic while acknowledging the broader interdisciplinary social science aspects. That is an approach reflected, for example, in the selection of readings in the book by Argyrous and Stilwell (2003), developed especially as an adjunct to Political Economy units of study at the University of Sydney and the University of NSW. That introduces discussion of the elements shaping economic and social order – market, state, class, gender, race, social capital and ideology – as a means of seeing the relationship of the economy to the broader society. An alternative approach is to focus more narrowly on ‘heterodox economics’, looking at non-neoclassical economic theory and its applications but sharing with orthodox economics a relatively restricted definition of economic concerns.

Evidently there are various forms of syllabus construction that can combat the problem of ‘tunnel vision’ in orthodox economics teaching. Getting out of the tunnel necessarily creates the challenge of navigating a broad landscape. The choice of how this is to be done is not independent of responses to the other three problems of orthodox economics teaching considered earlier in this paper – the problems of perceived irrelevance, suspension of disbelief and pseudo-science. It is to these matters that we now turn.

The most direct way of dealing with the ‘perceived irrelevance’ problem is by adopting a problem-oriented approach to teaching. Indeed, a whole political economy course can be constructed in this way, looking at contemporary issues like globalisation, the changing nature of work, economic inequality, economic development and economy-environment interactions. Some early political economy textbooks adopted this structure (eg. Edwards, Reich and Weisskoff 1972); while the text by Clark (1998) has a similar ‘issues’ focus for two thirds of the book, following its introduction to classical liberal, modern liberal, radical and conservative views. Of course, the problem-oriented approach may even be introduced quite effectively within an orthodox economics curriculum. However, the limitation of the problem-oriented approach is that, while quite engaging for students, it is ultimately unsatisfying because it does not focus on the common roots of economic problems, ie. on how they arise from the normal functioning of the economic system. For that latter purpose, the switch to a system-oriented approach in teaching and learning is needed, ie.
looking at how capitalism as a system may be interpreted from different analytical perspectives – neoclassical, Marxian or whatever. So, while it is appropriate to begin a course in a problem-oriented manner, it is necessary at some stage – quite quickly in my experience – to switch into a system-oriented approach in order to look systematically at the competing schools of economic thought.

What about the problem of ‘suspension of disbelief’? It has already been argued that this is less of a problem in the teaching of political economy than in orthodox economics. But here too are complex practical problems to be confronted in developing an effective pedagogy. Indeed, the switch from the problem-oriented approach to a system-oriented approach typically raises this concern again because, necessarily, there are theoretical issues to be grappled with in any system-oriented approach that involve some abstraction from economic phenomena directly observable in ‘the real world’. Indeed, the very notion of an economic system involves some such abstraction. However, the gulf between students’ perceptions and analytical elements in political economy is not difficult to bridge. Any student interested in current affairs can readily see the connection between the economic ideas and their practical influence and application. For example, study of the assumptions of methodological individualism that underpin neoclassical theory can be linked in to a consideration of familiar political pronouncements made by neoliberals – as in Margaret Thatcher’s famous pronouncement that ‘there is no such thing as society, only individuals …’ (see Stilwell 2002:22 and fn.8). A case study approach, looking at particular firms, industries or regions in order to see how their operations may be analysed from the viewpoint of competing schools of thought, can also be helpful.

Finally, transcending the problem of ‘pseudo science’ in orthodox economics teaching raises some other challenges. No doubt there is appeal – to some students at least – in the notion of studying a science, with all that implies about objectivity, even certainty. In stressing the ideological character of competing schools of economic thought, political economy necessarily faces different concerns. Explicit consideration of the prevalence of value judgements in economic debate requires some degree of sophistication but makes for some particular interest in the subject. Considering the values implicit in the calculation of GDP, for example, is an excellent vehicle for getting students to consider what should count in economic evaluations, and then to consider the pros and cons of alternative measures of ‘economic welfare’ such as the UN’s Human Development Index and the Genuine Progress Index being advocated by the Australia Institute (Hamilton and Denniss 2002). The emphasis on the association between competing schools of economic thought and rival political
philosophies can also lead into illuminating debates about appropriate economic policies.

To provide an example of how these issues of course design may be addressed, the appendix to this paper shows the topics considered in an introductory one-semester unit of study at the University of Sydney. It is a unit of study that has been running for many years and has generated consistently positive student responses. It provides a foundation for subsequent studies in political economy where students can make choices about their own preferred areas of specialisation. Like any structural outline, this does not reveal the full details of teaching practices that are equally important in the effectiveness of the education process. However, it is indicative of what can be done, given the will to embrace political economy as an alternative to the conventional curriculum.

5. CONCLUSION

Committed and enthusiastic teachers of economics face a dilemma – whether to explore and implement innovative teaching techniques to make orthodox economics more palatable, even engrossing, or whether to take the more radical step into the pedagogy of political economy. Not all have the choice: many tutors and lecturers have to operate within a syllabus more or less prescribed for them. Some lecturers, themselves schooled in orthodox economics and only feeling competent and comfortable with a mathematically-oriented approach to teaching economic theory, are understandably reluctant to change. Inertia dominates. Even senior academics who are not enamoured by orthodox economics, and are in a position to re-shape the curriculum, commonly choose not to do so. However, for those who can have some influence over what is taught, and choose to do so, an exciting alternative beckons.

The challenge is not ‘all or nothing’ since elements of political economy can be inserted into a mainly orthodox micro-macro curriculum. In looking at the theory of the consumer, for example, students can be asked to contrast the standard neoclassical view with Galbraithian and Marxian interpretations of consumer behaviour. Likewise, when looking at the theory of the firm, the contrast can be drawn between seeing the firm as constrained by market conditions or actively re-shaping those conditions by the exercise of corporate power. And the theory of distribution provides an excellent avenue for considering critiques of marginal productivity (such as those that derive from the Cambridge controversies) and looking at the alternative explanations of economic inequality that focus on the relative power of the competing claimants. In macroeconomics too there are opportunities for looking at post-Keynesian and Marxist explanations of the tendency of capitalist economies towards periodic recession. Making such
adaptations to the orthodox syllabus opens interesting opportunities to engage the students in dialogue and debate (eg. dividing a tutorial class into three groups in order to debate neoclassical, institutional and Marxian interpretations of consumer or business behaviour). That opens a window to more lively and interesting teaching and learning practices.

The limitation of this ‘orthodoxy plus critiques’ approach is that the critiques tend to be seen as ‘side-issues’ in the process of learning the orthodox theory. On the other hand, if the critiques are perceived (by the teacher and/or the students) to be fundamentally damaging to the orthodoxy, then the educational process takes on a decidedly negative character. (illustrated by the Anti-Samuelson approach of Linder and Sensat 1977). ‘Orthodoxy plus critiques’ has a ‘set it up, knock it down’ style that is ultimately unsatisfying to those who come to the subject in order to try to understand the world.

It is for these reasons that this paper concludes by reasserting the case for a bolder embrace of the political economy alternative, both in respect of subject matter and teaching methods. The political economy alternative raises different sorts of dilemmas for committed teachers – concerning the tension between ‘heterodox economics’ and ‘interdisciplinary political economy’, between the historical and contemporary orientation, and the balance between problem-oriented and system-oriented teaching, for example. One would hardly expect otherwise: a dialectical process of change works with conflict and contradictions. In this instance the tensions associated with orthodox economics education are partially resolved by the shift to political economy, but new and different challenges then arise. In the teaching of economics – like the economic system itself – there is no equilibrium, only a process of dynamic change ….

APPENDIX

ECOP 1001: ECONOMICS AS A SOCIAL SCIENCE

LECTURES

Economics as a Social Science begins with four lectures dealing with contemporary economic problems. It is a 'broad-brush' introduction to the study of modern political economy.

Attention then focuses on the development of different currents of economic analysis. This is the subject matter of lectures from the third week through to the penultimate week of the semester. The focus is on the changing material conditions which have influenced the history of economic thought. The relevance of the economic analysis to current economic problems and policy issues is recurrently stressed.
The following themes are developed:

- Economics is a means of understanding what shapes the production of goods and services, the distribution of income and wealth, the process of exchange, and the patterns of growth and development.

- Economics is not a settled set of theories and facts. It is pervaded by different approaches which can be classified as competing 'schools of thought'. These include (i) classical political economy, (ii) Marxist economics, (iii) neoclassical economics (iv) institutional economics, (v) Keynesian economics and (vi) modern political economy.

- Each of these schools of thought is associated with distinctive political values, research methodologies and analytical tools. Each conveys a particular view of the relationship between the economy and society.

- It is useful to study the development of the competing schools of economic thought in a historical context. This reveals how economic analysis has been influenced by the changing material economic conditions in the real world, particular class interests and prevailing intellectual fashions.

- Political economists draw on these different currents of analysis in order to develop greater insight into current problems and policy issues.

- Understanding the world is necessary if we are going to change it for the better.

The final week of the semester is concerned with why economists disagree. This is an opportunity to draw together the competing currents of thought in this unit of study.

Individual lecture topics are as follows:

1. INTRODUCTION TO ECONOMICS AS A SOCIAL SCIENCE

2. LIVING IN AN ERA OF DRAMATIC ECONOMIC RESTRUCTURING

3. CURRENT CHALLENGES IN THE GLOBAL ECONOMY
4. UNDERSTANDING THE ECONOMIC SYSTEM

5. EVALUATING ECONOMIC PERFORMANCE

6. DEFINING CAPITALISM AND ANALYSING HOW IT WORKS

7. CLASSICAL POLITICAL ECONOMY I: “The invisible hand”

8. CLASSICAL POLITICAL ECONOMY II: ‘Economic liberalism’ and the foundations of economic analysis

9. MARX AND MARXISM: Introduction

10. MARXIST ANALYSIS II: The labour theory of value

11. MARXIST ANALYSIS III: Capitalism as mode or production

12. MARXIST ANALYSIS IV: Capital accumulation and economic crises

13. NEOCLASSICAL ECONOMICS I: Introduction

14. NEOCLASSICAL ECONOMICS II: Consumers and Firms

15. NEOCLASSICAL ECONOMICS III: Market structures

16. NEOCLASSICAL ECONOMICS IV: Economic welfare

17. INSTITUTIONAL ECONOMICS I: a dissident tradition

18. INSTITUTIONAL ECONOMICS II: the contemporary challenge to orthodox economics

19. INSTITUTIONAL ECONOMICS III: analysing the changing corporate world economy

20. KEYNESIAN ECONOMICS I: a political economic perspective

21. KEYNESIAN ECONOMICS II: Building a theory of the macro-economy

22. KEYNESIAN ECONOMICS III: Policy issues and responses
23. MODERN POLITICAL ECONOMY: Analysing alternative economic systems

24. MODERN POLITICAL ECONOMY: Analysing environmental problems

25. WHY ECONOMISTS DISAGREE: Methodology and/or ideology?

26. CONCLUSION

Tutorial Topics:

1. INTRODUCTORY SESSION

2. SPECIAL ESSAY PREPARATION SESSION

3. ECONOMY AND SOCIETY: how to measure progress?

4. PRODUCTION AND ECONOMIC GROWTH

5. DISTRIBUTION: class & inequality

6. GROWTH AND CRISES: the accumulation of capital

7. EXCHANGE: the market and neoclassical economics

8. ECONOMIC INSTITUTIONS: corporate power and the state

9. THE MACRO ECONOMY AND KEYNESIAN ECONOMICS

10. ECONOMIC POLICY: ‘economic rationalism’ and economic management

12. TAKING STOCK: competing perspectives in economics

REFERENCES


Mainstream economics thinks about economic affairs in a way that underscores things: prices, resources, goods, services, wealth, assets, liabilities, and the like. This approach allows the instructor to sidestep ethical issues because things cannot act ethically. Social economics, or what we prefer to call personalist economics, proceeds by centering attention on persons acting as economic agents and evaluating human action in economic affairs in terms of its ethical content.

Mainstream economics argues that economics relates to the means that achieve given ends most efficiently but is silent about those ends. Personalist economics states that the end of all economic systems is to provision human material need. In an effort to make mainstream economics value-free its advocates reject the value-laden concept of need whereas for personalist economics need is central to understanding economic affairs.

In contrast to mainstream economics that makes the individual the basic unit of economic analysis, personalist economics centers analysis on the person – a fusion of individuality and sociality. Individuality in economic affairs is addressed through microeconomics while sociality is undertaken in macroeconomics. Three other premises are important in personalist economics: institutions, uncertainty, and sacred dignity. The other premises of mainstream economics are the law of nature, certainty, and instrumental value.

Keywords: teaching economics, personalist economics, mainstream economics, person, individual


---

1 Mayo Research Institute, West Monroe, Louisiana USA.
1. INTRODUCTION

Over the past 25 years I have taught principles of economics to more than 7,000 students and recently distilled that experience into an e-text titled "A Critical Examination of Human Beings as Buyers and Sellers, Producers and Resourceholders, Employers and Employees, Entrepreneurs and Bankers" that is accessible via the internet. This text follows my own understanding of economic affairs as directed by personal instincts, convictions, values, insights and a philosophy that perceives human beings and, therefore, all economic agents as persons as opposed to individuals.

The text is offered to all students in my ten-week, one-term principles class without charge. Other benefits include the elimination of (1) the lag between the time the text in revised form is ready for publication and becomes available for use in the classroom, (2) the work in preparing an index since the e-text is available as a PDF file that has a built-in search function, and (3) the inevitable hassle with a publisher as to what material must be removed and what has to be revised.

My teaching has evolved significantly since I first took to the classroom and since I first began questioning the validity and the efficacy of the tools that are routinely employed by teachers of mainstream economics and by those who write principles textbooks. Does the invisible hand, for example, faithfully represent what happens in markets or is it just a manner of speaking, is it real or rhetoric? Why is the course called the principles course, the mainstream textbook referred to as the principles text, but the teacher expected to teach laws, as in the law of supply, the law of demand, the law of profit maximization? Is there a better way to teach the law of diminishing marginal utility that taps into the typical student’s own experience and that connects that law to the law of demand?

As my thinking about economic affairs developed by wrestling with those questions, I found myself questioning other aspects of the principles course and standard text. In teaching how prices are determined, is it more accurate to ask the question 'Who determines price?' than 'What determines price?' If it is 'Who determines price?' does it make sense to continue to explain the market as tending toward equilibrium? And if one takes account of the entrepreneur, is it more telling to characterize the market as tending toward equilibrium or disequilibrium?

Through this Socratic method turned inward on myself rather than outward on my students, I began to see that much of how one approaches the teaching of the principles course depends on the premises that one begins with, and that the single most important premise in mainstream

---

2 Go to www.pageout.net/user/www/e/o/eoboyle/Notes215.pdf.
textbooks is that the basic unit of economic analysis is the individual. Little by little I began to appreciate that my understanding of human nature was not fixed in the concrete of individualism, the dominant Western philosophy originating in the 17-18th century Enlightenment that gave birth to the classical economics of Adam Smith, and that there is more to human nature than individuality. A human is a social being no less than an individual being, a fusion of body and spirit, of intellect and free will, reason and emotion that is better characterized as person and is better represented by the 20th century philosophy of personalism. That discovery changed my way of approaching economic affairs from gut instinct that there is something inadequate about mainstream economics and that I referred to at first as social economics to reasoned argument that I now call personalist economics.

In the last several years, this new approach of mine has been strengthened by the insight that the development of electronic means of human communication beginning with the introduction of the telegraph has changed our awareness of ourselves no less than of others. Thus, as economic agents, we no longer are the one-dimensional individual of mainstream economics, a premise suitable perhaps for economic affairs conducted in the script stage of human communication and directly reflected in classical economics, but the two-dimensional person, a premise of much greater validity for economic affairs conducted in the electronic stage.

This difference between what the student learns through my e-text and the standard textbook is driven home in virtually every topic addressed in the course. Four examples follow. First, I ground the principal pedagogical tool in teaching microeconomics (Marshall’s scissors diagram) and the main tool in macroeconomics (circular flow diagram) not in things such as equilibrium/disequilibrium but in the more human language of agreement/disagreement, accord/discord. Second, in presenting economic affairs in terms of human beings acting as economic agents, I find it necessary to address the problem of the conditions under which economic agents act ethically or unethically. Third, defining and measuring poverty is two-dimensional reflecting both the individuality and the sociality of human nature as confirmed by personalism. Fourth, both the principle of diminishing marginal utility and the principle of diminishing returns are presented as originating in the materiality of human nature.

The concept of the limit plays an important role in the way I understand economic affairs and therefore how I teach principles. Limit, for example, is descriptive of a price ceiling and price floor in teaching price theory and of the much more abstract concept of carrying capacity in teaching the constraining role of environmental pollution in
macroeconomic affairs. Justice limits the gains that are reasonable in any interaction between economic agents. Poverty thresholds - whether they originate in a relative standard or absolute standard - are limits below which persons/families are identified and counted as poor. Because both the principle of diminishing returns and the principle of diminishing marginal utility are grounded in human materiality, work and consumption are effectively limited by the human body. The concept of the limit applies more widely than suggested in the foregoing, but limits on the length of this essay do not permit us to mention the others.

1.1 Price Determination and Resource Allocation

The question 'How do markets work?' raises two other questions: 'Who/what determines prices?' and 'How do markets allocate resources?' Stating the first of these latter questions in terms of “what” leads the student to think of markets in terms of things that are exchanged such as goods and services and natural resources, or more simply supply and demand. Formulating the question in terms of “who” directs the student’s attention to the human beings who are interacting in the marketplace and the workplace: buyers and sellers, employers and employees, producers and resource holders. Our approach presents the market system in terms of the human beings who are engaged in their everyday economic activities.

Mainstream economists like to refer to the intersection of the supply curve and the demand curve as the point of equilibrium, and the market price as the equilibrium price. Personalist economists prefer to call that intersection the point of agreement and the market price the agreed price because agreement underscores that markets are places for sorting out differences between humans whereas equilibrium suggests that markets are places for striking a balance between things.

As to the second question, 'How do markets allocate resources?', we argue that two forces are at work: the “pulling force” of prices and the “pushing force” of unmet need. An example helps flesh out our meaning. Producer A faces a shortage in the product market, while Producer B faces a surplus.
ALLOCATING RESOURCES:
THE PULLING FORCE OF PRICES, THE PUSHING FORCE OF
UNMET NEED

Producer A faces shortage of his/her product

Producer A raises price and increases output

Producer A hires more resources and is able to pay more because the price of the product is rising

Producer B faces surplus of his/her product

Producer B lowers price and decreases output

Producer B discharges resources and is not able to pay more because the price of the product is falling

The resources discharged by Producer B who is experiencing a surplus in the product market are attracted to Producer A who due to a shortage in the market is hiring and is paying more for the resources he/she requires. This is the way in which mainstream economics explains the allocation of resources in a market economy: the pulling force of prices draws resources away from producers where they are in excess supply and toward producers where they are in short supply, thereby simultaneously remedying Producer B’s surplus-market condition, and Producer A’s shortage-market condition.

Personalist economics adds the pushing force of unmet need. That is, redundant workers and other idle resources are pushed away from producers where they are in excess supply and toward producers where they are in short supply by the hardship and unmet need brought on by their idleness. For more, see Topic 7 in the e-text.

1.2 Macroeconomics Circular Flow

Several features of the circular flow diagram on the following page should be noted because they represent a departure from the diagram used in mainstream principles texts. First, reference is made only to the U.S. domestic economy. Second, the diagram has been revised to replace the workplace, household, and government sectors with human beings -- the producer/entrepreneur, the consumer/worker, the public official, and the creditor/banker -- thereby personalizing the way one thinks about macroeconomic affairs. Third, Flow 14 represents wasted natural resources, allowing the student to visualize environmental degradation in the context
of the circular flow. Similarly, Flow 15 represents wasted human resources, so that one can visualize job loss, unemployment, and reemployment from a macroeconomic perspective.

Flow 14 and Flow 15 are sufficient for our purposes because there are only two principal resources used in the production process. Discarded natural resources, Flow 14, can be either recycled or reprocessed and used again in the production of goods and services. A reprocessed item is one that undergoes some change before it is used again. A recycled item is one that is returned to the production process without being reprocessed. Both are shown as being returned to the process of production through Flow 3d.

Carrying capacity is a concept that has emerged as a result of heightened awareness of the importance of the environment to the well-being of all earthly creatures, especially human beings. Carrying capacity refers to the limit on the capability of our planetary home to absorb contamination of the air, soil, and water. There is in other words a limit to the amount of Flow 14 that can be tolerated without impairing the well-being of every earthly inhabitant. Where that limit lies is precisely the question at the heart of the public discourse on greenhouse gases, for example.

Though we know of persons who have been jobless for long periods of time, and we recall that during the Great Depression of the 1930s the United States was beset by massive and persistent unemployment, the average unemployed person remains jobless for one to two months. Indeed, during an economic boom when there are labor shortages, a spell of unemployment may run for just one or two weeks. Large proportions of the unemployed are on temporary layoff and subsequently are recalled by their employers. Others find new jobs. We represent both types through Flow 3c. From experience it appears that the lower limit on wasted labor resources is indicated by an unemployment rate of 2-3 percent and the upper limit by a rate equal to or greater than 10 percent.

In the circular flow diagram, new labor resources are differentiated from new natural resources. Flow 3a represents new labor resources as originating in the household sector. Flow 3b portrays new natural resources as the endowments of nature. We have included Flows 3a, 3b, 3c, and 3d in our macroeconomic representation of the resource market at the bottom of the diagram where we also take note of the flows specific to the product market and the financial market. For more, see Topic 12 in the e-text.
MACROECONOMIC CIRCULAR FLOW: PERSONALIST ECONOMICS CONTEXT

United States Domestic Economy

6. Payment for Goods and Services
5. Supply of Goods and Services

Combined Demand for Goods and Services


9. Capital Goods and Services: Demand/Supply/Payment

7. Demand for Financial Resources

12. Demand for Borrowed Funds

8b. Savings

8a. Private Creation of Credit

2. Demand for Resources

4. Payment for Resources: Labour/Natural/Financial

3a. Labour Resources

3b. Natural

3c. Reemployed

3d. Recycled/Reprocessed

Resources

Combined Supply of Resources

producer entrepreneur

creditor banker

consumer worker

public official

8. Supply of Financial Resources

11. Taxes

13. Supply of Borrowed Funds

296. Private Creation of Credit

14. Waste

15. unemployed

Product Market flows: 1-5-6-9-10  
Resource Market flows: 2-3a-3b-3c-3d-4  
Financial Market flows: 7-8a-8b-12-13
2. ECONOMIC GAIN AND JUSTICE

Are decisions regarding ethical issues in economic affairs entirely arbitrary, depending completely on the whims, fancies, feelings, opinions, attitudes, and values of the persons making those decisions? Or, are there objective standards that apply in economic affairs rendering ethical decision-making reasoned, defensible, and alike from one person to the next except in instances of specific extenuating circumstances? Overwhelmingly mainstream economics argues that ethical standards are essentially relative, that they differ from one person to the next, and therefore are entirely outside the limits of legitimate inquiry for economic science.3

Our view is that there are certain objective ethical standards that ultimately originate in the human experience. Thus, shoplifting is destructive of retail trade because clearly it is unreasonable to expect a shopkeeper to operate his/her store when customers are free to take whatever they want without paying. Indeed, not punishing shoplifting assures that no one would be so foolish as to become a merchant and expect to earn a living. To teach and reinforce the ban on shoplifting, it is necessary to have laws and enforcement officers to assure that shoplifting is punished.

There are three principles of economic justice because there are only three modes of human interaction in economic affairs: person to person, superior to subordinate, and member to group. The principle of equivalence sets forth the duty of buyer to seller in the marketplace and worker and employer in the workplace. The principle of distributive justice defines the duties of the superior to his/her subordinates whether that interaction takes place in the marketplace or the workplace. Finally, the principle of contributive justice sets down the duties of the member to the group in interactions occurring in the workplace or the marketplace.

2.1 Economic Gain: Profits, Consumer Surplus, and Economic Rent

Before moving on to the principle of equivalence, it is instructive to address first what happens in a market exchange. Every exchange involving economic agents who are well-informed and free to act entails gain for the parties involved: what is gotten in the exchange is more highly valued than what is given up.

In the workplace, for example, when the baker hires a sales clerk to tend to his/her customers, there is gain for both parties. The baker gets the

---

3 Samuelson’s first edition ECONOMICS (p. 14) employs the relativist argument that ultimately there is no disputing ethics.
clerk’s labor services that are more useful to him/her than the wages that must be paid, thereby adding to the baker’s profits. Without that gain, the baker could not afford to hire the sales clerk. At the same time, the clerk contributes his/her labor services because the wages paid are more than the clerk otherwise would have accepted, and the clerk can save that gain (economic rent) or apply it to buying other things that he/she needs or wants.

The gain to the worker or the owner of natural resources that are used in the production process may be enhanced further by the generous employer/producer who pays more than is absolutely required perhaps in the expectation that his/her generosity will be repaid by more diligent workers and more careful suppliers, thereby adding to the employer’s profits. The model employee or supplier is one who contributes more to profits than is normally expected.

In the marketplace, the baker produces more loaves of bread than can be used for his/her own personal consumption, and sells them provided the money gotten is greater than the cost to produce the loaves, thereby adding to the baker’s profits. Without that gain, there is no incentive for the baker to produce and sell bread. At the same time, the baker’s customer who does not bake bread, or does not make it as well or as inexpensively, buys from the baker because the bread that is gotten is more useful than the money given up. The gain achieved by the consumer (consumer surplus) can be saved or applied to buying other things that the customer wants or needs. A 'bargain' is an exchange in which the consumer’s gain is greater than initially expected.

Thus, profits flow from two sources because the producer engages in exchange in two markets each yielding its own gain. There is the gain that comes from the producer’s buying inputs in the resource market for use in the production process, and the gain that derives from selling the finished goods in the product market. Thus the producer’s profits are enhanced in two fundamental ways: by reducing the cost of production and by selling finished products at a higher price.

However, in the case of economic rent and consumer surplus alike, the gain originates in exchange that takes place in a single market. For the worker and the owner of natural resources, economic rent originates in exchange only in the resource market. For the consumer, it is exchange only in the product market that gives rise to consumer surplus. Though the language used in mainstream economics to designate these gains -- profits, economic rent, and consumer surplus -- suggests that they are incidental to the exchange process, the hard reality is that all three gains are essential to that process. In their absence, exchange tends to break down. See the schematic below for a summary.
There must be limits to profits, consumer surplus, and economic rent in order to prevent one party from taking advantage of another and to assure that market exchange serves all economic agents fairly and effectively and not just those with the power and will to turn gain into excess. Those limits are grounded in the duties that economic agents owe one another under the principle of equivalence, the principle of distributive justice, and the principle of contributive justice.

2.2 Equivalence

The principle of equivalence states that buyer and seller in the marketplace and worker and employer in the workplace have two duties that are binding on both parties: exchange things of equal value and impose equal burdens on one another. In many such transactions, personal experience informs us as to what equal value means.

ECONOMIC GAIN

WHAT IS GOTTEN THROUGH EXCHANGE IS MORE HIGHLY VALUED THAN WHAT IS GIVEN UP

<table>
<thead>
<tr>
<th>BUYER</th>
<th>SELLER</th>
<th>PRODUCER</th>
<th>WORKER &amp; RESOURCE SUPPLIER</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>finished product or service (d)</td>
<td>payment $ (c)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>payment $ (a)</td>
<td>labour, financial, and other resource inputs (b)</td>
</tr>
</tbody>
</table>

in the product market exchange depends on …

buyer’s gain (consumer surplus): (d) is more highly valued than (c) and

sellers gain (profit): (c) is more highly valued than (d)

in the resource market exchange depends on …

Producer’s gain (profit): (B) is more highly valued than (a) and

Worker/resource supplier’s gain (economic rent): (a) is more highly valued than (b)
By equal burden we mean that the burden of the seller is to give up possession of the good or service in question. For the buyer, the burden is to give up possession of the money necessary to take possession of that good or service. For the worker, the burden is performing the work required by the employer. For the employer, the burden is paying the worker the wage they agreed to.

At times, the things exchanged are not of equal value, such as when a house is sold and the buyer makes only partial payment in cash but takes possession of the entire house at the time of closing. To simplify this example, we assume that the seller offers to lend the buyer the unpaid balance by allowing the buyer to make regular payments over time until the balance is paid in full. Notice at closing, the buyer’s immediate burden is to make partial payment in cash to the seller. The seller’s burden is to surrender the whole house, and accept the buyer’s written promise to pay the balance in the future. Under those circumstances, the seller faces the risk that the buyer may not be faithful to his/her promise to make payments in the future until the balance is paid in full. And the seller must wait until payments are made and at closing forgoes the use of that money had he/she insisted instead on payment in full at closing. Consequently, the seller/lender is justified in requiring the buyer/borrower to repay more than the amount of money that was borrowed. Indeed, the seller/lender is justified in charging interest in order to equalize the burdens involved. The precise amount of interest that equalizes the burden is problematical and varies with market conditions. To illustrate, in 1981 banks across the United States were charging their most credit worthy customers an average of 21 percent on loans and as much as 35 percent for other higher-risk borrowers. Today, bank rates are much lower though credit card companies commonly charge 18 percent annual interest.

One common expression for the principle of equivalence in the marketplace is the money-back guarantee wherein the seller recognizes that at times an honest mistake is made in routine transactions, whether the fault lies with the buyer or the seller, and that the things exchanged are not of equal value. Merchants who depend on repeat business understand that the money-back guarantee is good for business even though they might not understand consciously that they are being faithful to the demands of the principle of equivalence. In the workplace, the common expression “full day’s work for a full day’s pay” is a reminder of the worker’s obligation under the principle of equivalence. Reversing the language to “full day’s pay for a full day’s work” underscores the employer’s duty.
There are several specific ways in which the principle of equivalence may be violated in the marketplace. We mention only one. Bait and switch is the practice of a merchant attracting customers into his/her store by offering an item at a very attractive price, telling customers as they enter the store that the item is sold out, and switching and high-pressuring them into buying a more expensive item. In the workplace there are several ways in which the principle of equivalence may be violated. Here as well we concentrate on just one. A sweatshop refers to an employer who cheats his/her workers in terms of wages, hours, or working conditions. Paying less than the minimum wage or the wage agreed to, forcing employees to work very long hours without rest or compensation, operating a workplace that is unsafe are ways in which an employer “sweats” his employees in order to reduce labor costs and add to profits.

2.3 Distributive Justice

The second principle of justice -- distributive justice -- requires the superior to distribute the benefits and burdens of the group under his/her supervision among its members in some equal fashion. This does not mean strictly equal because there likely are significant differences among subordinates and it is entirely appropriate to take those differences into account. For example, handicapped employees appropriately may require different restroom accommodations than able-bodied employees. Distributive justice demands that the superior differentiate among subordinates only when the differences among them are real and substantial and require different arrangements. A superior may allow a single parent to rush home to tend to a sick child when the same permission might not be given to a married worker with a spouse who routinely stays at home to look after the children.

Discrimination occurs when the superior differentiates among subordinates for reasons that are insubstantial, and false stereotyping may be the device used to rationalize the practice. For example, older workers may be treated differently because they simply have “less upside potential” than younger workers. Immigrant workers may be treated differently because they dress differently or speak with heavy accents. Favoritism is simply the other side of the coin of discrimination: treating some better than others for reasons that are superficial or based on the false stereotyping of others. False stereotyping is especially insidious because until it is exposed false stereotyping blames the victim rather than the perpetrator for the discrimination, rationalizing the discrimination on the basis of an alleged defect in the character of the victim.
Discrimination and the government intervention required to address it are evidence that the law of nature -- that each individual economic agent in the pursuit of his/her own self interest also serves the common good through the invisible hand -- is not always sufficient to resolve important conflicts in economic affairs.

“Equal pay for equal work” is a requirement under distributive justice. It means that persons doing the same work, with the same on-the-job-performance of their assigned duties, are to be paid the same wages. “Equal opportunity” too is a requirement under distributive justice. It means that persons of equal experience and qualifications are to be afforded the same chance to be hired and promoted. “Affirmative action” is controversial because some argue that it is necessary and others assert that it is reverse discrimination. The principle of the double effect, which we borrow from ethics, is instructive regarding affirmative action because affirmative action -- the hiring and promoting of persons in protected classes over others -- has two effects, one positive and one negative. The positive effect is the good that is done for the person(s) hired or promoted. The negative effect is the bad that is experienced by those who are passed over in the hiring or promotion process. The principle of the double effect says that: (1) the good effect must be greater than the bad effect, otherwise the superior/decision-maker is doing more harm than good; (2) the bad effect must not be intended. That is, the superior/decision-maker must not intend to bring harm to the person(s) being passed over, but recognizes that there is no way to hire or promote one or two from an applicant pool without passing over everyone else.

The principle of distributive justice has application in the marketplace too, but here the issues are not nearly as serious as in the workplace. In the marketplace, it is the merchant or shopkeeper who is the superior because he/she is the one who must treat his/her customers with fairness. Although there are several ways in which this is done, we refer to only one. A merchant who makes rain checks available to his/her customers is saying in effect that when an item is put on sale at a very favorable price, he/she will treat all customers alike even those who come to the store after the supply of that item has been exhausted. Under those circumstances, the merchant re-orders the item in such quantities to satisfy all customers who have been issued a rain check.
2.4 Contributive Justice

The third and last principle of economic justice is contributive justice that lays down the obligation of the member to the group to which that person belongs. Insofar as a person receives benefits from the group, that person has a duty to maintain and support the group. A common practice reinforcing this principle is the requirement that members of formal organizations have an obligation to pay dues. Failure in this regard typically reduces a person to inactive membership status enjoying fewer benefits of membership than those in good standing.

There are several powerful examples demonstrating how contributive justice is violated in the marketplace and the workplace. In the workplace, for example, industrial spying and sabotage violate contributive justice because the person who appears to be a loyal and productive member of one business establishment actually is faithful to a rival organization and seeks to undermine the effectiveness of that establishment by stealing secrets and disrupting the work of that establishment. Is it a violation to hire a person from a rival establishment and then pick his/her brain for whatever information he/she might be able to share with the new employer? It is, if that person surrenders proprietary information.

In the marketplace, insurance fraud violates contributive justice because if a fraudulent claim is not detected by the insurance company, payment is made to the insured party that drives up the costs of the insurer who then may pass those additional costs on to all policy holders in the form of higher premiums. The Coalition Against Insurance Fraud estimates that insurance fraud costs Americans about $80 billion every year or $950 per family (see www.insurancefraud.org).

Also in the marketplace, insider trading is the practice of persons within a corporate organization whose shares of stock are publicly traded on a stock exchange using information that is confidential and not available to the trading public to buy or sell shares in that corporation for personal gain. Insider trading is morally the same as playing cards with a marked deck. The gains achieved by the insiders come at the expense of other traders who do not have access to that confidential information and therefore are buying shares that soon afterward will fall in value or are selling shares that later will rise in value. The federal Securities and Exchange Commission is charged with the responsibility of monitoring trades made by senior corporate executives involving shares of stock in their own corporation in order to detect and punish insider trading. Unrestrained insider trading undermines the effectiveness of a stock exchange because in effect the big fish are eating the little fish. For more, see Topic 2 in the e-text.
3. **POVERTY**

Poverty has been defined and measured in the United States since the early 1960s. From the very beginning the choice of an absolute standard has been at the heart of a long-standing controversy. An absolute standard defines poverty by asking this question: 'How much income does an individual/family need to purchase the goods and services required to maintain a minimal standard of living?' The alternative relative standard asks this question: 'How much income does this individual/family have relative to the income of others?' The absolute standard, or what I prefer to call the minimal-living standard, defines poverty in terms of human individuality. The relative standard, or what I prefer to call the income-distribution standard, defines poverty in terms of human sociality.

In the United States, the absolute or minimal-living standard is operationalized in terms of the cost of the food needed to provide a nutritionally adequate diet. Years ago, the U.S. Department of Agriculture estimated those food requirements and called the diet the Economy Food Plan (EFP). Every year the cost of purchasing the food items enumerated in the EFP is estimated, and this estimate is multiplied by three. That overall figure becomes the poverty threshold. A person whose annual income is below that threshold is counted as poor. A person whose annual income is above that threshold is counted as not poor. Multiplying the annual cost of the EFP by three is rationalized on grounds that years ago, individuals/families spent one-third of their income on food. Thus, if one estimates the cost of the food minimally required to provide an adequate diet and multiplies that estimate by three, it follows that the result is an estimate of the income required to purchase all the goods and services needed to maintain a minimal-living standard. From the very beginning this is the procedure that has been used to estimate the poverty threshold that changes every year depending on year-to-year changes in food prices. And the thresholds are adjusted by size of family since larger families have greater needs. For a family of four, the official poverty threshold in 2003 was $18,979. Critics have argued that the threshold figure is crude at best and should be developed through separate estimates for each of the essentials of living such as shelter, clothing, and medical care.

The relative or income-distribution standard is defined and measured in several ways. The most commonly used definition is that anyone with

---

income below one-half of the median income of all persons is counted as poor. If median income for all persons in the United States is, say, $39,000, the poverty threshold is set at $19,500. Others define and measure poverty in terms of one-third of the median, or in terms of the poorest 10 percent of the population, or the poorest 20 percent. Where the threshold is drawn depends largely on the person who is making the estimates of poverty, that is it depends importantly on the values of the person making those estimates. Ultimately, though, what should emerge is a consensus among those who specialize in studying poverty based on the evidence that they collect on poverty and what that evidence reveals about the poor.

To borrow from Alfred Marshall, asking which standard -- the minimal-living standard or the income-distribution standard -- is the correct one is like asking which edge of the scissors does the cutting. Both have a place in a proper definition because the minimal-living standard incorporates human individuality into the definition, and the income-distribution builds human sociality into the definition. We recommend such a definition because it conforms more closely to human nature than either one does alone. Further, including both in a single definition allows us to address a problem that plagues both standards. Since both use a sharply defined income threshold, both differentiate between those persons/families just above the poverty threshold who are counted as not poor, and those just below the threshold who are counted as poor. And more to the point, neither one differentiates between those who are just below the threshold and those who are well below the threshold, all of whom are counted as poor. This failure to differentiate appropriately among the poor is called the depth of poverty problem.

We argue that there is a common-sense way to differentiate appropriately and to include human sociality and human individuality in the poverty definition, using the information referenced in the foregoing. A person/family is poor when personal/family income is below both thresholds, and is not poor when income is above both thresholds. A person/family is marginally poor when income is above the lower of the two thresholds but below the higher of the two. For more, see Topic 13 in the e-text.
DEFINING AND MEASURING POVERTY TWO DIMENSIONALLY

<table>
<thead>
<tr>
<th>Minimal-Living Standard</th>
<th>Income-Distribution Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>family of four</td>
<td>family of four</td>
</tr>
<tr>
<td>threshold = $18,979</td>
<td>threshold = $19,500</td>
</tr>
</tbody>
</table>

Poor .............................................. income below $18,979
Marginally poor ......................... income between $18,979 and $19,500
Not poor ....................................... income above $19,500

4. DIMINISHING MARGINAL UTILITY AND DIMINISHING RETURNS

All consumer behavior involves two limits that originate in the human body. Limit I refers to the one unit consumed that produces the largest increase in utility or satisfaction. We reference Limit I as maximum marginal utility. Limit II refers to the last unit consumed that offers some increase in utility but beyond which disutility sets in. We refer to Limit II as the point of maximum total utility. Strictly speaking going beyond Limit II is irrational.

Why do consumers at times freely exceed Limit II? Peer pressure is one reason. The availability of the product free of charge is another. To illustrate, a friend says “drinks are on me” or “let’s have one more for the road.” Another reason is that the consumer is willing to challenge his/her own limit, thinking that perhaps that limit is higher than it actually turns out to be. The disutility of exceeding Limit II in the consumption of alcohol presents itself in terms of a fight with a close friend, an accident while driving under the influence, a hangover the next day. In like manner, “pigging out” can lead to unwanted weight gain or some physical problem such as a blemished complexion.

When a person begins consuming a good or service, he/she experiences a large increase in total utility with every additional unit consumed. After a certain point (Limit I), he/she notices that the increase in total utility begins to diminish with every additional unit consumed. Consumption continues until the additional utility from one more unit consumed approaches zero. At that point (Limit II), he/she experiences maximum utility.
Every human being as a consumer faces these two limits because every human being is embodied. Dispose of the body, and the limits disappear. Even so, the limits are not the same for every consumer because each one of us has his/her own body with its own metabolism and tolerances. And as we age, our limits tend to change as well. The hyperactive body of the teenager or athlete requires more calories than the sedentary body of the same person much later in life.

The reason consumers buy more when the price is lower is that as they consume more they eventually reach Limit I beyond which each additional unit consumed offers a smaller increase in utility than the preceding unit and they are willing to purchase those smaller increments beyond Limit I only when the price is lower. When it comes to consumer behavior, the principle of diminishing marginal utility probably best represents what conventional economics means by *homo economicus*.

Understanding producer behavior begins with the principle of supply. However, this principle as in the case of the principle of demand is strictly descriptive. It does not probe deeply into the behavior of the producer. It merely describes it in terms of price. And as with the principle of demand another principle is required to help explain producer behavior. That principle is the principle of diminishing returns. And as with the role of principle of diminishing marginal utility in explaining consumer behavior, the principle of diminishing returns explains producer behavior in terms of two limits: Limit III or maximum returns and Limit IV or capacity. The limits applying to producer behavior originate in the human body just as we observed regarding the limits applying to consumer behavior.

To explain how those limits help improve our understanding of producer behavior we begin with a very simple case – the man who makes handrolled cigars. If, for example, a cigarmaker works one hour, he is able to make six cigars. If he works six hours, he is capable of rolling 52 cigars. With nine hours of work, his production is 61 cigars, but beyond nine hours his total output drops to 58 cigars. His capacity, Limit IV, is reached in the ninth hour, and if he works beyond that limit, his output drops due to physical exhaustion. At that point he makes mistakes, perhaps spilling some coffee on the day’s production of cigars and ruining some of them. We see this kind of behavior very dramatically on the highway where from time to time exhausted truck drivers fall asleep, wreck their trucks, destroy some of the goods they are carrying, or worse yet injure or kill someone. Limit IV or capacity applies to everyone who works because every worker is embodied and the human body requires rest on a daily basis.

But there is a second limit operating on everyone who works, and that limit too originates in the human body. The cigarmaker’s hourly production varies in ways that are predictable. In the first three hours of work, his hourly production rises from six to eight to 12 cigars where it reaches a
peak. After the third hour of work his output per hour begins to fall until in the ninth hour he produces only one more cigar. Limit III refers to the single hour of work in which he produces more cigars than any other and is called maximum returns. Notice that after Limit III is reached, returns are falling or diminishing. Notice that before Limit III is reached, returns are rising or increasing. After Limit IV is reached, returns are negative. Limit III or the point of maximum returns pinpoints the single hour of work in which our worker is most productive. Diminishing returns reflects our own experience with work. Exhaustion does not suddenly overtake us. Rather, we tire little by little as the workday unfolds, with hourly output declining as the work itself saps our strength, until full exhaustion sets in. For more, see Topics 8 and 9 in the e-text.

5.0 CLOSING REMARKS

Mainstream economics introduces students to a way of thinking about economic affairs that underscores things: prices, resources, goods, services, wealth, assets, liabilities, among others. This approach allows the instructor to prescind from ethical issues because things cannot act ethically. Personalist economics, on the other hand, proceeds by centering attention on persons acting as economic agents and necessarily requires the student to evaluate that human action in terms of its ethical content.

Mainstream economics argues that the study of economics relates entirely to the means that achieve given ends in the most efficient manner possible but is silent about those ends. Personalist economics states emphatically that the end of all economic systems is to provision human material need. Thus in an effort to make mainstream economics value-free its advocates reject the value-laden concept of generic human need in economic affairs whereas for personalist economics need is central to an understanding of the economic order. Notice how excluding need as a concept, proves to be especially awkward when it comes to addressing the problem of poverty that obviously must be defined and measured in terms of human need.

As stated in the foregoing, the central unit of analysis in personalist economics is the person. Human individuality in economic affairs is addressed through microeconomics while human sociality is undertaken in macroeconomics. Due to the fusion of individuality and sociality in the human person, someday all economic theory will be unified. Three other

---

5 Need, or its equivalent necessities, is mentioned several times in the 1948 edition of Samuelson’s ECONOMICS in ways that indicate that the concept has a legitimate place in analyzing and understanding everyday economic affairs. See for example pages 16, 31, 67, 72, 83, 118, 256, and 581.
premises are of paramount importance to personalist economics: institutions, uncertainty, and sacred dignity.

Markets at times dysfunction, and institutions are needed to intervene in order to address that dysfunction. For example, some employers left to their own devices would contaminate the air, soil, or water with their waste discharge. Therefore it is necessary to limit the amount of waste that they are allowed to discharge legally and to fine them and shut them down whenever they exceed that limit. The limit is determined by science, that is by an investigation that addresses the question 'How much of a specific waste such as mercury can be discharged into the environment without inflicting harm especially on human beings?' Another limit is the legal minimum wage that forces employers to pay the legal minimum when otherwise they might take advantage of their workers and pay them less.

Personalist economics is somewhat skeptical about economists’ abilities to understand economic affairs with certainty. All questions, issues, and problems in personalist economics are answered with some uncertainty. Since economic affairs involve humans acting as economic agents, and humans are not fully understood and fully predictable, we cannot always know what is necessary to do economic analysis with certainty. The typical human being is at least in part still a mystery, not fully understood by others and even at times by himself/herself.

Personalist economics insists that most fundamentally a person’s worth is not determined by any contract, by instrumental value. Rather every person has the same worth because everyone has a sacred dignity that must be respected.

Beyond the question as to which premises to use in addressing economic affairs, there are other differences between personalist economics and mainstream economics. Personalist economics, for example, sees culture as playing an important role in economic affairs. Conventional economics asserts that there is no such role for culture in economic affairs.

Culture relates to the specific ways in which the needs and wants of the human body and human spirit are addressed. To illustrate, in the United States work itself is so highly valued that many Americans are workaholics, and related to that addiction many Americans experience a sleep deficit, and at times fall asleep on the job.

In teaching introductory students, I have found it instructive to compare the economy to a twin-engine aircraft that is fueled by the credit created by private commercial banks, and is piloted by the entrepreneur who controls the aircraft in flight. Culture relates to the economy the same way weather influences the aircraft. A culture of life and hope, that is affirmed most fundamentally when human beings are not totally self-absorbed and at least from time to time care about one another in economic affairs, enhances the performance of the economy just as the aircraft
performs better in good weather. In contrast, a culture of death and despair, that in the extreme is reinforced by a pervasive attitude that death is the answer to social problems, slows down the performance of the economy just as the aircraft performs less effectively in bad weather.

The origins of personalist economics, as well as other kinds of heterodox economics, lie most fundamentally in the four premises used to begin thinking about economic affairs. My students are taught that the most important of all is the premise that the basic unit of economic analysis is the human person.
TEACHING HEALTH ECONOMICS

Luke B. Connolly

ABSTRACT

The field of health economics has attracted considerable attention from health sector professionals over the past few decades. There is evidence (Hersch-Cochran 1986) that, by the mid-1980s if not before, university curricula in Australasia, the United Kingdom, the United States and much of Europe, had responded to the demands of this market segment. The number of economists working in this area has also increased, but the proportion of economists choosing to specialise in health economics is still small. The purpose of this paper is to describe some of the pedagogical challenges in health economics and the related problems of building capacity in this field. The paper reveals that the existing literature on teaching health economics is sparse and identifies some pedagogical issues that demand empirical attention. It also proposes that some of the reasons for an apparent capacity problem in health economics may be traced to some of these (largely unexplored) pedagogical issues, as well as to related problems of hidden information, quality uncertainty and adverse selection in the health economics labour market.

Keywords: Pedagogy, health economics, economics education, quality uncertainty.

JEL Classification: A2, I19.

1. INTRODUCTION

This essay explores some of the pedagogical issues of teaching health economics and the apparent relationship between these and some of the maladies of the (sub-) discipline itself. One finding is that there is little existing literature on pedagogy and health economics per se. Moreover, hardly any of the contentions in the literature that exists are empirically tested according to the normal standards of research in the peer-reviewed literature.

---

1 Luke Connolly is an Associate Professor in the Centre of National Research on Disability and Rehabilitation Medicine (CONROD) and Australian Centre for Economic Research on Health (ACERH), The University of Queensland. Email Address: l.connolly@uq.edu.au
Much of this paper, too, is conjectural in nature. That is largely because the kind of data required to test some of the contentions outlined herein are not currently available. Indeed, this paper is largely concerned with pedagogical and other issues that seem to commonly be discussed when health economists gather, but are rarely researched or committed to paper. One such contention is that, at least among academic economists, health economics appears to have an image problem.

Assertions of the latter kind are inherently contentious and perhaps this explains why such issues have not been explored in any formal way. In addition it would be difficult – but not impossible – to locate reliable indicators of the latent factors (e.g., the reputation of the field) that are central to issues raised in this paper. Alternatively, and perhaps more importantly, some of the issues discussed herein are perhaps more “anthropological” than economic in nature. Nevertheless, nebulous issues such as the professional mores of the sub-discipline and the quality, breadth and depth of the field have noteworthy pedagogical implications. In this sense, the conjectural parts of this paper may be viewed, de facto, as hypotheses to be tested. The paper thereby raises a number of questions that seem worthy of empirical investigation if we are to gain a greater appreciation of the pedagogical challenges in health economics.

The central theme of the paper is thus that little has been said, and far less is actually known, about teaching health economics. This situation is unsatisfactory, as is (probably to a lesser extent) the lack of data on the sub-discipline’s standing in economics more generally.

In the interests of conceptual clarity, it is worthwhile to start with brief definition of the field of interest here. A variety of definitions has been applied to delineate health economics from economics’ other subdisciplines. Textbook examples include broad-spectrum definitions such as “…health economics is the study of how resources are allocated to and within the health economy” (Folland, Goodman and Stano 2001, p.1) and others that, essentially, describe health economics as the economics of health and health care (see, e.g. Zweifel and Breyer 1997). Such definitions capture the topics that are commonly associated with health economics.² It

---

² In relation to the economics of health per se, a judicious approach is required to delineate health economics from other parts of the discipline. Many or perhaps most choices individuals make have potential health consequences and hence, Evans argued (1984), health economics can quickly become the “economics of everything”. Evans’ (1984) solution is to specify that health economics might be viewed as being concerned with those goods and services that are demanded primarily for their perceived health effects. Unless some license were taken, however, this definition would exclude much of the literature on addictive substances and education that has occupied the pages of journals such as Health Economics and Journal of Health Economics.
is important to emphasise that the discipline brought to bear on these topics is, of course, economics. To most readers, the latter statement must appear superfluous; nevertheless, it is important to emphasise this for reasons that will become clear later in this paper.

The paper is organised as follows: Section 2 defines the subdiscipline health economics and its intellectual heritage; Section 3 concerns the labour market in health economics and contends that, due to an excess demand for expertise in this field and information asymmetries between buyers and sellers, a quality problem has arisen in this labour market; Section 4 describes some of the pedagogical challenges of teaching health economics to various student clienteles, especially beyond the introductory level; and Section 5 provides an overview of what is currently known about teaching health economics per se. Section 6 presents the Discussion and Conclusions, suggesting some tractable questions for further research.

2. THE EVOLUTION OF HEALTH ECONOMICS

Health economics itself is a relatively young subdiscipline. Its intellectual heritage is usually traced to Arrow’s seminal (1963) paper “Uncertainty and the Welfare Economics of Medical Care” in the American Economic Review. Earlier activity on medical markets exists, including the publication by Kessel (1958) of a paper on price discrimination in medicine and a 1951 meeting of the American Economic Association on the “Economics of Medical Care” (Leidl 1988). Fuchs (1996) also traces the early development of health economics to two further threads of economic activity. One of these was Martin Feldstein’s “...pioneering in the application of quantitative methods such as 2-stage least squares, principal component analysis, and linear programming to the estimation of production functions and other important economic aspects of medical care” (Fuchs 1996, p.1). The other was the activity at the National Bureau of Economic Research (NBER) in the 1960s and early 1970s, including an NBER Conference on Investment in Human Beings (1962), Mushkin’s (1962) paper on “Health as an Investment”, Becker’s (1964) seminal work on human capital (also see Becker (1965)) and Grossman’s (1972) application and extension of Becker’s (1965) model to health. Phelps (1995, p.335), by contrast, has argued that Arrow’s path-breaking start in 1963 was followed by a lacklustre chapter in health economics:

---

3 Hereinafter, the sub-discipline of health economics will be referred to simply as the “discipline of health economics” (etc.) for brevity.
4 Fuchs (1996) indicates that this paper is Arrow’s most cited.
5 Fuchs (1996) also describes work on institutions, technology, policy and hospital finance dating back as early as 1932.
Despite Arrow’s rather bold beginning, most early practitioners of health economics began their studies by toiling in the traditional vineyards of economic analysis, using traditional tools and analytical approaches. Actually, very little research of permanence took place during the remainder of the 1960s, so we did not begin to see studies until the early 1970s that had much effect beyond their immediate day.

For Phelps (1996), the next milestone in the development of the discipline was Grossman’s 1972 paper.

More recently, Edwards (2001) has argued that health economics has evolved in a means that conforms to Blaug’s (1976) view of the evolution of the parent discipline. Blaug (1976) distinguishes between Kuhn’s (1970) theory of paradigm shifts in science and Lakatos’ (1978) less tumultuous view of scientific progress. For Kuhn (1970), science is characterised by long periods of stability (or “normal science”) in which crises periodically arise and result in periods of upheaval (“revolutionary science”) and paradigm shifts. By contrast, Lakatos’s view of the “methodology of scientific research programs” (MSRP) (see, e.g. Lakatos and Musgrave 1970, cited in Blaug 1976 or Lakatos 1978) is that “…theories come to us, not one at a time, but linked together in a more or less integrated network of ideas” (Blaug 1976, p.150). In the latter conception, an interconnected set of theories and common axioms provide the “hard core” for a research program or discipline. This hard core is comprised of well-accepted and largely unchallenged assumptions. This hard core, however, is accompanied by an auxiliary set of theories and axioms that are more malleable. The latter form a “protective belt” around the discipline, being altered from time-to-time to cope with empirical anomalies, but without threatening the core of the discipline per se. Blaug (1976) argues that the advance of scientific knowledge in economics is not characterised by Kuhnian paradigm shifts; although he admits that “…the Keynesian Revolution comes close [to fulfilling the necessary conditions for a paradigm shift]” (Blaug 1996, p.642). Health economics has certainly not produced changes that can be likened to the Keynesian revolution and hence, if one accepts Blaug’s (1976) argument, one must also accept Edwards’s (2001) view that the development of health economics has been Lakatosian in nature.

Notwithstanding this characterisation of the research program in health economics, proponents of the so-called “extra-welfarist” school(s) of thought (see, e.g., Culyer 1991, Richardson and McKie 2004 and Mooney 2004) in health economics are arguing for a paradigm shift. While there is insufficient space in this paper to do this discussion justice, extra-welfarists argue that the distribution of health sector resources should be based on
extra-preferential considerations, such as the distribution of health per se. While many mainstream economists and health economists (including the author) will find it difficult to believe, some extra-welfarists even commence with such normative premises as “...society’s relevant maximand is health” (Edwards 2001, p.636). Applying Blaug’s (1976) measure of paradigm shifts, and for the reasons so elegantly outlined in Birch and Donaldson’s (2003) devastating critique of extra-welfarism, it seems that there is little chance of a paradigm shift in this direction.6

3. HEALTH ECONOMICS: QUALITY UNCERTAINTY AND ADVERSE SELECTION

Formal definitions and intellectual genealogy aside, health economics is, amongst health professionals, usually equated either wholly or mostly with investment appraisal analysis.7 Conceptions of subsets of health economics such as “pharmacoeconomics” are, in turn, also narrowly conceived as, e.g. the economic evaluation of pharmaceuticals. Cost-effectiveness analysis (CEA) or a variant of it, cost-utility analysis (CUA), has, after all, been the most prominent economic technique employed in the health sector and its use has been institutionalised and mandated in Australia, Canada, the UK and elsewhere.8

By extension, the greatest demand for coursework in health economics unambiguously (i) comes from non-economists working in the health sector; and (ii) is specifically for instruction in the methods of economic evaluation. For most of this group, the contributions to the health sector of consumer theory, principal-agent theory, welfare economics, public economics, industrial economics, labour economics, econometrics and other churches of economics are largely invisible. Moreover, among this clientele, principles-level instruction in economics (e.g., in introductory microeconomics/health economics) seems usually to be viewed as a recondite inconvenience to the end-goal – which is often simply to

6 Although there are some parallels between Sen’s emphasis on capabilities and the extra-welfarist emphasis on health, there is also an important point of departure. In Sen’s approach, the preferences of the individuals are placed at the centre of the analysis whereas in a variety of extra-welfarist approaches, this appears not to be the case, because decision-makers’ preferences are permitted to override the individual’s (see, in particular, Birch and Donaldson 2003 for an elaboration of this point).

7 Maynard and Kanavos (2000) have also made this observation.

8 In Australia, for example, new technologies for which the manufacturer seeks a Commonwealth subsidy (via the Medicare Benefits Schedule or the Pharmaceutical Benefits Schedule), must be accompanied by an economic evaluation, which is considered (by the Medical Services Advisory Committee or the Pharmaceutical Benefits Advisory Committee, respectively) before a recommendation is made to the Commonwealth Minister for Health.
negotiate a spreadsheet program and generate cost-effectiveness ratios (CERs). Indeed, if the time afforded to principles-level instruction in economics per se in some health economics programs is any indicator, perhaps the assumed irrelevance of economic theory to economic evaluation is not confined entirely to the student clientele. There is, it follows, a considerable market for courses that teach non-economists to do evaluations quickly and cheaply (and, preferably, “flexibly”). Technically, and especially with the use of spreadsheet software, such courses are easy to deliver, particularly if one dispenses with economic theory.9

Mooney (1987a), among others, argued some time ago that there was an excess demand for expertise in health economics and anticipated quality problems in the health economics labour market. It may be argued that if equilibrium has been restored in this market, an excess demand appears to have arisen again. Initiatives such as the National Health and Medical Research Council’s (NHMRC 2003) recent actions to build capacity in health economics in Australia are suggestive of this view.

Perhaps what happened in this market over the past couple of decades is better explained with resort to a pooling equilibrium argument: both well-trained economists and non-economists barely trained in economics were attracted to the field and worked on problems in “health economics”. In a prescient statement, Mooney argued that...

...[i]t is important that economists have incentives to become health economists, [which is] best done by giving them a good career structure...In situations of chronic excess demand if the price can’t be raised there is always the danger of lowering the quality of the product... (Mooney 1987a, p.3, emphasis in original).

As governments sought to contain health care expenditure growth (see the opening pages of Zweifel and Breyer 1997, Getzen 2000, Folland, Goodman and Stano 2001, Phelps 2002, for example) Mooney’s (1987a) fears were realised in a variety of countries, including Australia.

Given the latent character of quality, indicators that might verify or falsify the foregoing argument are difficult to come by; but rents in this field almost certainly attracted people who were unqualified in economics,

---

9 A colleague in health economics once told me of an encounter with a medical practitioner (without economic qualifications) who asserted that economic evaluation is “easy” and requires little or no training. My medically-unqualified colleague responded: “yes, and you should see my appendectomies.”
and remained so, to the “health economics” labour market.\textsuperscript{10} In addition, as Fuchs (2000) observed (in a rather kindly way), among those economists who are attracted to health economics:

...some health economists stay closer to economics as a behavioural science while others give more emphasis to health policy and health services research (p.145).

However, he subsequently makes the following point, too:

[m]ost of the readers of this essay [in the journal Health Economics] were economists before they were health economists. Much of [their] intellectual strength and ability to do good work in the health field comes from [their] training in economics...[those who] simply live off [their] accumulated capital...will eventually run dry (pp.153-54).

The confluence of a heterogeneous labour mix, an excess demand for economic evaluations (in particular), and a knowledge asymmetry between buyers and sellers in health economics arguably created market dynamics reminiscent of Akerlof’s (1970) famous model of quality uncertainty. In recent times, though, perhaps precisely because health economics has now been a part of the curricula of many health-sector degree programs for more than 20 years in Australia (see, e.g. Hersch-Cochran 1986), quality uncertainty on the part of buyers seems to have been ameliorated. Specialist postgraduate coursework degree programs in health economics may also have played a useful signalling role, as well as an educative role, as they emerged.

While quality heterogeneity in health economics is now more apparent to some of its consumers (e.g., senior policy-makers) in Australia, there is still evidence of some pooling. Perhaps it is incumbent upon economists working in this field to do more to assist in the creation of a more efficient (separating) equilibrium.

Anecdotally, there is also a sense among health economists that other economists hold health economics in low regard. If this impression is correct, there are at least two possible explanations. One explanation is that the mean quality of health economics research is genuinely lower and/or that the quality dispersion is wider than that in economics more generally. The other explanation is that economists more generally are also subject to

\textsuperscript{10} Less audacious market entrants without economics degrees sometimes adopt the mantle of a “health services researcher” (who happens to do economic evaluations) rather than branding themselves health economists.
some quality uncertainty about health economists. These explanations are not mutually exclusive; however, taking the latter as a maintained hypothesis, a quality uncertainty problem could be related to gaps in topic-specific human capital such as the quality of journals in the field, the comparability of track records developed outside economics departments, and so on.\(^{11}\) (Perhaps ironically, for the period 1997-2001, two of the top-10 economics and business journals, ranked by impact, were *Journal of Health Economics* and *Health Economics* (ISI 2003).\(^ {12}\))

Some of the results produced by Feldman and Morrisey (1990) provide some indirect support for the contention that health economics is not well regarded by other economists. In a US sample of 518 health economists, Feldman and Morrisey found that 60% were employed in universities, but that most were employed outside economics departments (e.g. schools of public health and medicine).\(^ {13}\) A cursory inspection of the memberships of both the Australian Health Economics Society and the International Health Economics Association suggests that their findings are unlikely to be peculiar to the US.\(^ {14}\) While a variety of other demand-side factors could be at work, this distributional issue is an interesting one.

### 4. HEALTH ECONOMICS: PEDAGOGICAL AND PRAGMATIC ISSUES

The foregoing discussion suggests some issues that compound the natural pedagogical challenges that accompany teaching economics to various student clienteles.

---

\(^ {11}\) While the same issues may arise for other sub-disciplines of economics, perhaps the limited numbers of health economists in economics departments create a particular endogeneity problem: higher transactions costs for information will arise if economics faculty have no colleagues (of known quality) to consult.


\(^ {13}\) Eighty-five percent of the health economist respondents held a PhD in economics.

\(^ {14}\) Indeed, according to one account the contributions to health economics by US health economists have tended to be more traditional or mainstream in nature than those of health economists from other countries. Rutten, Bleichrodt, Brouwer, Koopmanschap and Shut (2001, p.855) observed that, in the contributions to the volumes of the *Handbook of Health Economics*, “...24 chapters [were] written by US authors and only 11 [were written] by European and Canadian authors. The more traditional areas are covered by the US authors, emphasising a neo-classical rather than an institutional paradigm, and boundary topics like ‘equity’ and the ‘measurement of health’ are covered by the non-US authors. This structure...reflects the contributions in the health economics literature...”
For the economist clientele, the challenge is to engage students of economics in the field of health economics. Especially as more academic health economists are employed outside economics departments than within, it is unlikely that most economics majors will be well acquainted with health economics. For those who are introduced to health economics during their undergraduate coursework, several further issues arise. First, the importance of institutional arrangements in the health sector means that a sizeable additional human capital investment is required by economics graduates who become interested in health/health care. Second, assuming that there is an excess demand for health economist labour, economists who wish to do postgraduate research in the field of health economics and, at the same time, stay “true to their roots [in economics]” (Fuchs 2000) may have difficulty locating an adviser with excess supervisory capacity. Third, scholars embarking on doctoral studies in health economics with a view to a career in academe must be prepared for the higher probability of working out with an economics department. In short, if health economics has an image problem, it is an endogeneity problem. Finally, and as Smith (1776) observed, specialisation is limited by the extent of the market: in a small country such as Australia (and notwithstanding the educational export opportunities) the demand, from economists, for specialist postgraduate coursework programs in health economics will always be relatively small. Thus, coursework aimed at this group will probably always be threatened by, to borrow an elegant term from econometrics, the “micronumerosity” problem (Pindyck and Rubinfeld 1997).

The pedagogical challenges of teaching health economics coursework to non-economists – usually health sector professionals – are quite different. A traditional source of friction between health economists and clinicians is summarised in the following statement:

[Physicians have been advised since at least the time of Hippocrates and his counterpart in India, Caraka, to consider the benefit of the patient without regard to the physician’s self-interest or other factors foreign to the patient’s well-being...If it is difficult for physicians to consider individual patients in the context of a population, it is even more difficult for them to adopt the ethos of economics...[and its]central theme...of opportunity cost (Eisenberg, Freund, Glick, Hall, Halstead, Labelle et al. 1989 p.690).]

---

15 In an early edition of his textbook, *Health Economics*, Charles Phelps argued that the only two solutions for an economist interested in health were to (i) read medical journals or (ii) marry a doctor.
This tension has subsided somewhat and probably for a variety of reasons. One of these is that most medical schools have long included epidemiology in the curriculum. As was noted by Eisenberg, Freund, Glick, Hall, Halstead, Labelle et al. (1989) epidemiology shares, with economics, a population view. Thus, a goodly proportion of the modern medical workforce has been exposed, albeit via epidemiology, to the inevitability of choice and rationing in the face of scarcity. Furthermore, the fact that most modern medical curricula are far less paternalistic and far more liberal has partially closed another divide between the discipline of economics and the medical profession.16

Interestingly, and as an aside, note that the Hippocratic Oath itself does not provide the grounds for a medical “tragedy of the commons” (Hardin 1968). Indeed, elsewhere in the Corpus Hippocraticum (or Hippocratic Collection), the economic problems of scarcity and choice are acknowledged:

[l]ife is short; and the art long; and the right time an instant; and treatment precarious; and the crisis grievous. It is necessary for the physician not only to provide the needed treatment but to provide for the patient himself, and for those beside him, and to provide for his outside affairs ((translation by Dickinson Richards, cited in Lyons 1987, p.231, emphasis added).

Thus, it would seem that those who seek to find, in Hippocrates, the ethical basis for medical decisions that produce deadweight social losses may be looking to the wrong source for support. Indeed, the exhortation to provide not only for the patient but also “those beside him” might reasonably be interpreted as an allusion to the opportunity cost of the treatment rendered to the individual.17

Teaching economics to health professionals, more generally, brings with it the usual challenges of teaching a multidisciplinary group of students with varied experience. Most health professionals neither want nor require more than a rudimentary introduction to health economics. In this respect, the objective is little different to that which might motivate the delivery of a course in business economics to an MBA class. On the other hand, health professionals whose intention it is to become practicing

---

16 Pockets of abject ignorance still exist, as do outstanding misconceptions of economics per se. See, e.g., Little (2004, p.433), in which neoclassical economics is equated with “...wealth...and the monetary economy” and economics with the idea that “...commercial and economic ideas...have become more important than human relationships and the nature and processes of healthcare...”

17 I am grateful to an anonymous referee for raising this possible interpretation.
“health economists”, even if with a specific focus (e.g., on economic evaluation), require much more thorough grounding in economics and, in particular, microeconomic theory, welfare economics, public economics and econometrics. The same market pressures, nevertheless, apply to this group as apply to economists who wish to specialise in health economics – they comprise a small demand segment.

Economies of scope are impossible to achieve by aggregating the demands of non-economists and economists who wish to pursue a career in health economics, unless health professionals are required, first, to acquire a primary qualification in the discipline of economics. (This is almost invariably an unpopular suggestion.) Small numbers compromise the viability of offering high-level health economics coursework to either of these specialist groups, but the pedagogical diseconomies of scope that arise from bowing to the inevitable market pressures really are severe. A common solution seems to be to provide abridged qualifications in health “economics”, that are light on economics and heavy on institutional detail. Just as the Royal Australasian College of Surgeons is unlikely ever to delete the pre-requisite Bachelor of Medicine and Bachelor of Surgery (MBBS) degrees to “fast-track” the Surgical Fellowship, so should health economists resist similar educational absurdities.

A pragmatic solution to these pedagogical problems is to accept the small numbers problem and to cross-subsidise high-level coursework in health economics. Rents either from the large market segment for health economics (i.e., health professionals who want an introduction to the course) or other profitable courses in economics are just two examples of donor candidates. In this regard, health economics may be no different from other specialist field in economics (environmental economics, information economics, and so on), but for the fact that most academic health economists are not affiliated with economics departments (Feldman and Morrisey 1990).

5. WHAT DO WE KNOW ABOUT TEACHING HEALTH ECONOMICS?

Very little is known about teaching health economics, *per se*. The pedagogical literature on health economics is scant and this section provides a brief overview. It will be argued here that there really is no empirical evidence on teaching health economics that would be helpful for the construction and delivery of a curriculum in that field. The published works on teaching health economics are generally not empirical/analytical and can be described as being of one or both of the following types: (i) advocacy- or editorial-type pieces (e.g., about why health professionals and medical students should be taught economics) and/or (ii)
narrative/experiential-type pieces (e.g., about how a course was constructed and why).\(^{18}\) To date, the applied literatures on teaching economics, or pedagogy more generally, are virtually the only sources of empirical guidance for those seeking to construct and deliver curricula in health economics.

Searches of the economics, education, medical and health services research literatures, plus a web-based search, uncovered only 15 English-language manuscripts or reports that could reasonably be construed as being at least partially concerned with teaching health economics or components of it (e.g. “medical economics”).\(^ {19}\)

Six of the papers (Praiss 1980, Ingbar and Miner 1981, Evans 1989, Connill and Hillman 2000, Kohlwes and Chou 2002, and Cox, Pacala, Vercellotti and Shea 2004) were concerned exclusively with teaching health economics to medical students. Two of the papers had an empirical component: Ingbar and Miner (1981) and Cox, Pacala, Vercellotti, and Shea (2004) both undertook some empirical analysis of the economic content of medical school programs in the United States. The remaining papers were editorial and/or experiential in nature. A further paper, by MacLeod and McCullough (1994), was also an editorial-type article on the role of the social sciences in medical training. It afforded little attention to health economics, in particular.\(^ {20}\) None of these papers presented contrasting studies of alternative pedagogical approaches and their outcomes.

Seven of the papers (Ross, Norman, Zetzman, Goldman and Gregg 1980, Drummond, Mooney and Zöllner 1983, Spoor, Mooney and Maynard 1986, Mooney 1987b, Eisenberg, Freund, Glick, Hall, Halstead, Labelle et al. 1989, Lloyd 1996 and World Health Organization 1999) were concerned primarily with teaching health economics to non-economists with health sector qualifications. The papers by Spoor et al. and Lloyd are essentially editorial in nature, with Lloyd’s having a developing countries focus. Drummond et al. and Eisenberg et al., on the other hand, provide experiential descriptions of curricula that were developed for medical practitioners and epidemiologists. The report by World Health

\(^ {18}\) Remarkably, and \textit{a propos} the foregoing argument about quality heterogeneity in the field, in at least one paper it appears that none of the authors has a formal qualification in any part of economics.

\(^ {19}\) In addition, one non-English paper was located. The paper by Hernández, Cruz, Carlos, Ortiz, Durán and Avila (1994) was published in Spanish, but an English abstract is available. This study appears to be of an experiential or narrative kind: it describes the design and delivery of a curriculum in economics and strategies to support the teaching faculty. The composition of the student clientele for the course is not evident from the abstract.

\(^ {20}\) The catholically-entitled section “Health economics and political science (including closely related evaluative sciences)” is afforded one paragraph.
Organization (1999) is basically a summary of some discussion by a panel of experts in health economics about the appropriate contents of a course to be offered to the WHO. The papers by Ross *et al.* (1980) and Mooney (1987b), on the other hand, are probably best described as being concerned with an articulation of ideas about pedagogical principles that can be brought to bear when teaching health economics. Ross *et al.* (1980) provide a detailed description of a case-based method of teaching health economics to medical undergraduates and present some descriptive statistics from student surveys following its introduction. The latter 3 studies are perhaps the most insightful of this group.

As was mentioned above, Mooney’s (1987a) paper concerned both teaching health economics and building capacity in the discipline of health economics, partly by providing a good career path for economists. This paper is unusual inasmuch as it concerns a more general approach to developing the intellectual capital of the field.

Finally, a useful survey of offerings in health economics worldwide was coordinated by Hersch-Cochran (1986). Her survey of the economic content in “...universities, schools of medicine, specialized community service programmes, schools of public health, health departments and other governmental agencies as well as professional associations” took in 26 countries, including parts of Australasia (i.e., Australia and New Zealand, Hong Kong, Thailand and Japan) Canada, the United States, the United Kingdom, Israel, and 17 European countries (Belgium, Denmark, Finland, France, F.R. Germany, Greece, Hungary, Ireland, Italy, The Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and Yugoslavia). In her *Summary of Findings*, Hersch-Cochran notes that curricula vary in depth, duration and focus, both by institution (e.g., technical college, university) and program (e.g., business degree, medical degree(s)). She makes the following observation: “[o]ften, the basic economic principles are explained and the health-specific aspects are then introduced as deviations from the norm. Knowledge of micro and macro economics is usually required in a graduate economics or health administration programme” (Hersch-Cochran, 1986, p.2).

At the time of Hersch-Cochran’s (1986) survey, 34 course units ranging in duration from 8% to 100% of one full-time semester-equivalent were offered in Australia. Sixteen of these programs were offered at the undergraduate, and 18 were offered at the graduate level. Interestingly, for only four of these courses were the “student clientele” listed as “economics majors”, with the remainder offered mostly to undergraduate medical, dentistry or nursing students and to clinicians and other health
professionals. At that stage, no graduate certificate or degree program in health economics was offered in Australia. Since then, there has been some slow but steady growth in the breadth and depth of graduate degree offerings in health economics by Australian universities. At the time of writing, there were at least eight graduate degrees in health economics available from a total of three Australian universities. Five of these were certificate- or diploma-level programs, while three were offered at the masters-level.

6. DISCUSSION AND CONCLUSION

In his editorial on health economics Phelps (1995, p.335) remarked “...[a]s I look back on the first several decades of the study of health economics, I find it somewhat divorced from the exciting substance first illuminated by Arrow”. This rather downbeat assessment accords with a sentiment expressed in this paper: in some respects, health economics is a victim of its own success.

The greatest interest in health economics comes from outwith economics itself and is motivated mostly by a pragmatic interest in expenditure control. In Australia and elsewhere, the institutionalisation of cost-effectiveness “fourth hurdle” tests (Maynard and Kanavos 2000) of medical technologies suggests that the interest of the past few decades, in economic evaluation, will continue. In large part, this and the quick response of economists to the educational requirements of health

---

21 A comparison of these proportions with, for example, data from the UK is not feasible because the student clientele category employed by the universities surveyed in that part of the study is not course-specific, but is specified as “formal university student”. While the course titles are also indicated (e.g., “MSc., M.A.”), these generally do not provide sufficient information to identify the course majors of the student clientele.

22 The programs, by university, are as follows: 1) Curtin University of Technology: Graduate Certificate in Health Economics, Graduate Diploma in Health Economics and Master of Health Economics; 2) Monash University: Graduate Certificate in Health Economics, Postgraduate Diploma in Health Economics and Evaluation, Postgraduate Diploma in Pharmacoconomics; 3) The University of Queensland: Graduate Diploma in Health Economics, Master of Health Economics, Master of Health Economics (Advanced). With the exception of the Postgraduate Diploma of Health Economics (Monash) the offerings of Curtin University and Monash University are distance or web-based and, at the certificate level, are open to candidates without a primary degree in economics. The programs offered at The University of Queensland are delivered on-campus and the minimum entry requirements are a four-year bachelor degree in economics (excluding double degrees) or honours bachelor degree in economics, or a three-year bachelor degree in economics plus a graduate diploma in economics, business or commerce (with a minimum requirement of passes in intermediate microeconomics and introductory statistics or equivalents).
professionals (Hersch-Cochran 1986) is a success story. At the same time, the equation of health economics with economic evaluation is intellectually unhelpful to the broader discipline. Moreover, an excess demand for expertise in health economics may have driven the average quality down, or at least broadened the quality spread in the health economics labour market. Unfortunately, little is known about the latter issue as objective data on quality – however measured – are unavailable.

If it was ever true that health sector resource allocation problems required “...not more...health economists, but more epidemiologic thinking and concern with cost-effectiveness” by managers of health resources (Evans 1981 cited in Eisenberg et al. 1989, p.691) it is true no longer. The reverse is now the case: the challenge now is to build capacity by (i) engaging more economists in health economics and (ii) training non-economists well in economics, and then health economics. The main challenge for health economics is an endogeneity problem: if fewer economists are attracted to the field (and are appointed in economics departments), it is more difficult to attract promising students and to build new capacity. This, in turn, will be inhibitive to the development of the profession.

Little work has been done on the pedagogy of health economics. We really do not know, more than 40 years after Arrow’s 1963 seminal contribution, “what works” and what does not when it comes to teaching health economics. The existing literature provides descriptive accounts and insights that are based on personal experiences of teaching economics. Several of these – some based on several decades’ work – remain useful today. It is time, though, to move beyond classroom “war stories” to analytical and empirical pedagogical research in health economics. Research of this kind might assist academic health economists to answer some fundamental questions upon which the future evolution of the discipline depends.

ACKNOWLEDGEMENTS
I wish to thank Richard Supangan and Jodie Webber for their capable research assistance. I also wish to thank Prof Helen Lapsley and two anonymous referees for detailed comments on an earlier draft of this paper.

REFERENCES


Hersch-Cochran, M. (with the support of the WHO Collaborating Centre for Health Economics) (1986) (ed.) *Survey on Education and Training*
Programmes in Health Economics, SAGO Research Institute for Health Service Organization, Milan.


INNOVATING FOR QUALITY IN THE TEACHING OF ECONOMICS

James Laurenceson*

ABSTRACT
This paper reports on a teaching intervention that was designed, implemented and evaluated as part of the author’s Graduate Certificate in Education (GCEd). It begins with an observation from Australia and abroad that students of economics typically rate the quality of instruction received as being poor relative to other fields of study. There is evidence to suggest that student dissatisfaction is at least partly the result of pedagogical choices made by academic economists that produce surface approaches to learning. In a bid to address this deficiency, a search of the education literature led to two teaching innovations being introduced in the tutorial program of a postgraduate microeconomics course - a collaborative, problem-based learning curriculum and peer assessment. At the end of the tutorial program, a survey was administered and a majority of students completing the survey perceived themselves to have achieved desired learning outcomes. Open-ended comments made in relation to the teaching innovations were also generally positive. The paper concludes by reflecting on the author’s experience of undertaking a GCEd and on what can be done to increase the pace of innovation and improve the quality of teaching in economics.

Keywords: problem-based learning, peer assessment, teaching quality.

JEL Classification: A20.

* School of Economics, The University of Queensland, Brisbane Qld 4072, Australia; Phone: + 61 7 3365 6085; Fax: + 61 7 3365 7299; E-mail: j.laurenceson@uq.edu.au. While retaining responsibility, the author would like to acknowledge valuable feedback received from Alan Duhs, Gloria Dall’Alba, Jennifer Vadeboncoeur and the anonymous referees.
1. INTRODUCTION

Graduates from Australian universities each year are sent a survey that seeks to gain feedback regarding their course experiences. Responses to certain questions in this Course Experience Questionnaire (CEQ) combine to produce a Good Teaching Score (GTS). For most fields of study, the GTS reveals a perception that there has been a steady improvement in teaching quality over recent years. In contrast, the GTS for economics programs specifically has fluctuated and consistently ranked below the average of other fields of study (Table 1). Furthermore, at the same time as students express concerns over the quality of teaching in economics programs, a recent survey of 29 heads of economics departments in Australian universities reported the widespread perception that the quality of work submitted by students had also fallen in the past decade (ESA, 2004). Few disciplines, it appears, are more in need of scholarship in the area of teaching and learning than economics.

TABLE 1
GOOD TEACHING SCORE AT AUSTRALIAN UNIVERSITIES
Broad Agreement that teaching standards are good - in Economics and other fields of study, 1998 – 2002

<table>
<thead>
<tr>
<th></th>
<th>Economics</th>
<th>Other fields of study</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Broad Agreement</td>
<td>Broad Disagreement</td>
</tr>
<tr>
<td>1998</td>
<td>34.5</td>
<td>28.8</td>
</tr>
<tr>
<td>1999</td>
<td>37.2</td>
<td>26.9</td>
</tr>
<tr>
<td>2000</td>
<td>36.3</td>
<td>28.0</td>
</tr>
<tr>
<td>2001</td>
<td>35.8</td>
<td>28.6</td>
</tr>
<tr>
<td>2002</td>
<td>38.8</td>
<td>24.7</td>
</tr>
</tbody>
</table>

Note: Using a five point Likert scale, broad agreement is defined as either agreement or strong agreement with survey statements that comprised the GTS. Broad disagreement indicates responses of disagreement or strong disagreement.


Seeking to shed further light on the poor GTS scores associated with economics, Guest and Duhs (2002) conducted a more detailed survey of economics graduates from the University of Queensland (UQ) and Griffith University. The graduates surveyed were critical of economics programs because they contained “too many topics and in too little depth” and “too much theory and too little application”. An inverse relationship was also
observed between the retention and perceived usefulness of key economic concepts and the time elapsed since graduation. Taken together, these findings led Guest and Duhs (2002, p.152) to conclude that -

“The suggestion is that pedagogical approaches in these topic areas produce surface learning rather than deep learning.”

The distinction between a surface and deep approach to learning has been discussed at length in the education literature (Ramsden, 1992). With a deep approach, the intention of learning is to understand the course material; whereas with a surface approach, the intention is narrowly focused on doing what is necessary to complete the task requirements. A deep approach to learning is characterised by meaning-building and questioning, with an attempt to relate the ideas encountered in one context to another and apply conceptual notions to a real world context. A surface approach on the other hand is distinguished by the short-term memorisation of facts and concepts but without a thoughtful appreciation for how they are linked and might be applied. The education literature emphasises that the pedagogical choices of teachers play an important role in influencing the approach to learning that students will adopt (Ramsden, 1992). Curriculum and assessment choices that require little more than short-term memorisation and regurgitation are unlikely to promote a deep approach to learning. Evidence that economics students often engage in surface learning approaches and that these approaches are at least in part the result of the pedagogical practices of academic economists extend beyond the survey undertaken by Guest and Duhs (2002). A survey analysis by Johnston (2001) found that commerce and economics students at the University of Melbourne began a slide into surface learning during their first year of tertiary study. Becker (1997) and Becker and Watts (2001) found that academic economists in the U.S. were reluctant to innovate in their teaching methods, with “chalk and talk” approaches remaining dominant and this had the effect of reducing the likelihood that students would deeply engage with the course material. A lack of innovation also appears to extend to course content. Becker (2004) laments that the bulk of current economics textbooks ignore the exciting empirical discoveries for which most of the recently bestowed Nobel prizes in economics have been awarded. Colander (2004) describes the textbook publication review process that contributes to this outcome by limiting the extent to which new offerings can deviate from the market standard.

In 2003, the author, a Lecturer in the School of Economics at UQ, enrolled in a Graduate Certificate in Education (Higher Education) (GCEd) in the School of Education at the same university. The GCEd is a program that requires one year of part-time study. The financial cost of undertaking the program was borne in part by UQ from central funding allocations and in part by the author’s own School. The GCEd is designed specifically for
university staff currently involved in teaching activities. In semester one, participants cover six modules including a framework for conducting research into teaching, theories of teaching and learning and curriculum and assessment choices. Participants are also required to design a teaching intervention to be implemented and evaluated in their own teaching context. Semester two primarily involves implementing and evaluating the intervention and writing up the research experience in report form. Faced with the background described above, the GCEd provided an ideal opportunity for the author to explore innovative teaching practices that an academic economist might use in a bid to promote a deep approach to learning amongst students. The innovations that were introduced included a collaborative, problem-based learning (PBL) curriculum and peer assessment. The teaching intervention was implemented in the tutorial program of a postgraduate microeconomics course that had a management focus. Section 2 of this paper describes the benefits of the teaching innovations in terms of promoting a deep approach to learning and also raises some of the problems that can be associated with their use. Section 3 presents and discusses the responses to a survey that was administered to gain feedback in relation to the student’s perceptions of having achieved desired learning outcomes and their experiences with the innovations. Section 4 reflects on the author’s experience of completing a GCEd and on what can be done to increase the pace of innovation and improve the quality of teaching in economics.

2. TEACHING INNOVATIONS THAT PROMOTE DEEP LEARNING

Ramsden (1992) summarises the characteristics of learning contexts that are associated with the promotion of deep versus surface learning. Foremost amongst these is teaching and assessment methods that foster active engagement with learning tasks. A problem-based learning (PBL) curriculum is one such example. Boud and Feletti (1991, p.21) define a problem-based learning curriculum as -

“...an approach to structuring the curriculum which involves confronting students with problems from practice which provide a stimulus for learning”.

Ellis and Glenn (1977, p.108) summarise the advantages of a PBL curriculum over more traditional ways of structuring teaching and learning -

“(1) students who are presented with a problem to solve find the experience more relevant and stimulating than they would if they were simply asked to memorize information and explanations; (2) students who
learn through problem-solving experiences apply and therefore retain the information longer than other students; and (3) students involved in problem-solving use knowledge and skills that transcend the artificial boundaries of a single discipline”.

Studies reporting the benefits of using a PBL curriculum to teach economics date back to the 1970s (Ault and Rutman, 1975; Ellis and Glenn, 1977). One might even say that a PBL curriculum lends itself to the teaching and learning of economics since fundamentally the discipline is a “way of thinking” about the problems that students will encounter in their public and private lives (VanSickle, 1992). In a more recent study that described the introduction and evaluation of a PBL curriculum in second-year macroeconomics tutorials at the University of Melbourne, Johnston et al. (2000) reported mixed results. Survey responses revealed a statistically significant difference between a control group and a PBL group in terms of the perceived improvement in their ability to solve economics problems. This perception however did not translate into superior performance on assessment tasks that required these skills be demonstrated. The latter finding need not necessarily mean that the PBL approach was ineffective in promoting a deep approach to learning. For example, Becker (1982) provides a model of student choice which raises the possibility that a utility-maximising student may respond to a more efficient pedagogy in one course by allocating more time to studying other courses or enjoying more leisure time.

With a PBL curriculum, students can also be required to tackle problems collaboratively, with further benefits expected in terms of promoting a deep approach to learning. Qin et al. (1995, p.139) undertook a meta-analysis of the relationship between cooperative and competitive approaches to problem solving and found that cooperative approaches generally resulted in superior outcomes. The authors reasoned that -

“Possible reasons why cooperation may increase problem-solving success include the exchange of information and insights among cooperators, the generation of a variety of strategies to solve the problem, increased ability to translate the problem statement into equations, and the development of a shared cognitive representation of the problem.”

In designing a teaching intervention that seeks to promote deep learning, it is important to also recognise the fundamental role played by assessment. Boud et al. (1999) contend that assessment is the single most powerful influence on student learning in formal courses. The problem with traditional approaches to assessment is that they often - although not always or necessarily - push students to adopt a surface approach to learning by rewarding memorisation and regurgitation over application and understanding (Race, 1999). Gibbs (1999) provides several case studies of innovative assessment practices that have been used by academics to
strategically and positively influence the way in which their students approached learning. One assessment practice that has been rated highly is peer assessment - where the student (or group of students) being assessed is graded in whole or in part by their peers (Falchikov, 1986; Williams, 1992). In critically reflecting upon the work of their peers, students gain a better appreciation of how their own work might be enhanced. In a case study of the introduction of peer assessment, Brindley and Scoffield (1998) also reported that by participating in the assessment process, student boredom was alleviated and concentration and motivation were increased.

While the above discussion has highlighted the potential benefits of a collaborative PBL curriculum that is coupled with peer assessment, it is also important to recognise that such innovative teaching practices can give rise to potential problems. Some students may perceive a PBL curriculum to be an inefficient and frustrating way to acquire knowledge, particularly if they have not been required to function as an active learner in the past or are not required to do so in their other courses. Group work also brings the free-rider problem in which a student who contributes relatively little to the group’s effort may receive a disproportionate share of credit for any group success. The extent to which the teacher should seek to eliminate the free-rider possibility is not clear-cut as it could be argued that it is through dealing with such behaviour that a student gains valuable life skills. Nevertheless, given that levels of achievement in universities are awarded to individuals and not groups, and recognising that results in assessment can have serious implications for an individual student's future, the problem of free-riders cannot be ignored. While it is not possible to discuss the numerous methods that have been proposed to manage the free-rider problem here (see Freeman, 1995), anonymous intra-group peer assessment is one commonly used approach. The most commonly raised concern regarding peer assessment is that students may not be technically able, or socially willing, to accurately grade the work of their peers. Critical commentary does require that this concern be qualified. Brew (2000, p.161) makes the important point that the apparent obsession regarding whether peer and teacher marks equate is -

“…perhaps surprising given the ease with which it is frequently assumed that two teachers would come up with the same mark”.

Fleming (2000) lists a host of biases that can plague assessment marked by teachers. In a meta-analysis that compared teacher marks with those assigned by peers, Falchikov and Goldfinch (2000) found that in most circumstances the marks awarded were similar. The study by Goldfinch and Falchikov (2000) is a useful resource for teachers considering adopting peer assessment as the analysis leads to the specification of a list of variables which the authors found to influence the extent of agreement between teacher and peer marks. Case studies of the
Introduction of peer assessment also show that many teachers seek to mitigate concerns regarding its accuracy by using a combination of teacher and peer-assigned grades to make up the student’s final result (Brindley and Scoffield, 1998; Gatfield, 1999).

In order to evaluate any teaching intervention, it is necessary to reflect in context on the learning outcomes that are desired and those that would be consistent with a deep approach to learning being adopted. As was noted in the Introduction, the teaching intervention was implemented in the tutorial program of a postgraduate microeconomics course that had a management focus. In this context, the desired learning outcomes were that having participated in the tutorial program, the student should be able to

a. recognise that the problems managers experience are types of microeconomic problems, and
b. apply microeconomic principles to help manage such problems.

In terms of procedural matters, at the beginning of the semester students were given a tutorial book that contained one problem to be discussed in each tutorial class.¹

The decision to have only one assigned problem each week was for the purposes of focusing student attention around key concepts. Ramsden (1992) makes the important point that a teacher ‘covering the ground’ cannot be taken to imply that the student will also have done so. And as graduates in the survey conducted by Guest and Duhs (2002) objected, economics courses are often perceived to cover too many topics and in too little depth. In the first tutorial class, students were asked to form groups of three students and each group was then assigned the responsibility for researching one week’s tutorial problem and presenting their findings to the class. This tutorial assessment was worth 15% of the student’s final grade for the course. The size of the group was chosen based on research that such a number represented a useful balance between seeking to attain the benefits of diversity and team-work while not aggravating the potential for a free-rider problem to occur. Students were permitted to choose their own groups. Other methods of allocating students to groups are to do so randomly or to engineer groups according to personal characteristics such as personality, past achievements (e.g. grade point average), gender and the like. According to Huxham and Land (2000), no single method has emerged as being dominant amongst group work practitioners and there are strengths and weaknesses associated with each. Following the group’s presentation, their peers and the teacher graded the presentation. Both did so according to specified marking criteria that related to the quality of the

¹ A copy of the problems assigned to the students participating in this intervention is available from the author upon request.
content of the group’s presentation and the quality of the delivery. Marks for each criterion were awarded on a 1 (poor quality) to 5 (high quality) basis and were summated to attain an aggregate result. The teacher’s mark counted for fifty percent of the group’s final mark and the average mark from their peers made up the other fifty percent. Members of the presenting group were also asked to complete an intra-group peer assessment sheet that was to be viewed exclusively by the teacher and used to redistribute marks only when there was clear evidence of free-riding. No such instances were reported.

In the last tutorial of the semester, students were asked to complete a survey seeking their perceptions on the extent to which the tutorial program contributed to achieving the desired learning outcomes and to provide feedback on their experience with group work and peer assessment. Survey responses were received from 18 students, or 38% of the total enrolled cohort. Of the 18 responses received, 17 stated that they had attended “more than half” of the tutorials. It is believed that the low attendance in the last tutorial was in part because students faced assessment pressures in other courses at this time and also because after having presented, the incentive to continue attending tutorials was reduced. The possibility of a self-selection bias in the survey responses needs to be recognised, i.e. students who felt they were benefiting from tutorials were those who regularly attended and completed the survey. Since the surveys were returned anonymously it was also not possible to determine definitively whether the characteristics (gender, etc) of the respondents were representative of the total cohort. These weaknesses in the survey’s administration mean that claims made in relation to the effectiveness of the intervention need to be carefully qualified.

3. SURVEY FINDINGS

Table 2 and Table 3 present student responses to the survey questions that sought feedback regarding the usefulness of the tutorial program for attaining the desired learning outcomes (using a five point Likert scale: 1 = strongly disagree, 5 = strongly agree). In the case of the first question, only one student expressed disagreement that the tutorial program was useful for showing that the problems managers face are microeconomic problems. Around two-thirds of students expressed broad agreement with the statement. The pattern of responses was similar for the statement that sort to gauge the confidence that students were perceived to have acquired in applying microeconomic principles to help manage the problems that managers experience.
TABLE 2

“THE TUTORIAL PROGRAM HELPED ME TO SEE THAT PROBLEMS MANAGERS EXPERIENCE ARE MICROECONOMIC PROBLEMS”

<table>
<thead>
<tr>
<th>Response</th>
<th>Number of responses (% total in parentheses)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Strongly disagree)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>2</td>
<td>1 (5.5%)</td>
</tr>
<tr>
<td>3</td>
<td>5 (27.8%)</td>
</tr>
<tr>
<td>4</td>
<td>9 (50.0%)</td>
</tr>
<tr>
<td>5 (Strongly agree)</td>
<td>3 (16.7%)</td>
</tr>
</tbody>
</table>

TABLE 3

“THROUGH THE TUTORIAL PROGRAM I HAVE BECOME MORE CONFIDENT IN APPLYING MICROECONOMIC PRINCIPLES TO HELP MANAGE THE PROBLEMS THAT MANAGERS EXPERIENCE”

<table>
<thead>
<tr>
<th>Response</th>
<th>Number of responses (% total in parentheses)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Strongly disagree)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>2</td>
<td>1 (5.5%)</td>
</tr>
<tr>
<td>3</td>
<td>6 (33.3%)</td>
</tr>
<tr>
<td>4</td>
<td>11 (61.1%)</td>
</tr>
<tr>
<td>5 (Strongly agree)</td>
<td>0 (0.0%)</td>
</tr>
</tbody>
</table>

Feedback was also sought on the teaching innovations that were used in an attempt to achieve the desired learning outcomes. Table 4 presents responses relating to the learning experience provided by group work. The responses were extremely positive with nearly 80% in broad agreement that it was a good learning experience.

TABLE 4

“WORKING TOGETHER IN A GROUP TO PRESENT A TUTORIAL PROBLEM WAS…”

<table>
<thead>
<tr>
<th>Response</th>
<th>Number of responses (% total in parentheses)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (a poor learning experience)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>2</td>
<td>2 (11.1%)</td>
</tr>
<tr>
<td>3</td>
<td>2 (11.1%)</td>
</tr>
<tr>
<td>4</td>
<td>7 (38.9%)</td>
</tr>
<tr>
<td>5 (a good learning experience)</td>
<td>7 (38.9%)</td>
</tr>
</tbody>
</table>
Students were also provided with the opportunity to provide open-ended feedback regarding their group-work experience. These responses are presented by way of a thematic analysis in Table 5. The comments received suggest that group work was found to be a positive learning experience for most students on the basis that it exposed them to new ideas, allowed them to clarify and reflect upon their own ideas and to develop communication skills. Negative comments relating to group work were to the effect that it was an uncomfortable, inauthentic and / or time inefficient form of learning.

**TABLE 5**

THEMATIC ANALYSIS OF THE GROUP WORK EXPERIENCE

<table>
<thead>
<tr>
<th>Themes</th>
<th>Illustrative comment (sic)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Positive</strong></td>
<td></td>
</tr>
<tr>
<td>Be exposed to new ideas</td>
<td>• Working in a group is a good way to exchange ideas and to enrich knowledge so that we can view a problem in different ways.</td>
</tr>
<tr>
<td></td>
<td>• Group work provides a chance for share of workload and knowledge</td>
</tr>
<tr>
<td>Clarify and reflect upon own ideas</td>
<td>• Because we were able to share our knowledge and ideas, working in group also helped to clarify things about which we were not clear.</td>
</tr>
<tr>
<td>Develop communication skills</td>
<td>• Dealing with difficult people and how to make the best of it¹</td>
</tr>
<tr>
<td><strong>Negative</strong></td>
<td></td>
</tr>
<tr>
<td>The free-rider problem</td>
<td>• Groups work well if members participate evenly, otherwise some members have to carry other members</td>
</tr>
<tr>
<td>An uncomfortable, inauthentic and / or inefficient form of learning</td>
<td>• Actually don’t like the idea of going up in front because I feel nervous and shy and that’s where I make lots of mistakes</td>
</tr>
<tr>
<td></td>
<td>• It wasn’t a learning experience, only as an academic exercise. I have lots of commercial experience giving presentations both individually and in small teams so the fact that it was a group exercise was unimportant, learning the material was.</td>
</tr>
<tr>
<td></td>
<td>• It’s a good way of learning from peers, but sometimes too time-consuming as group discussion proceeds</td>
</tr>
</tbody>
</table>

Note: ¹. This comment was listed as a positive because the student strongly agreed that group work was a good learning experience.
The next section of the survey attempted to gauge the student’s previous experience with peer assessment and whether the student had concerns over its validity. Half of the respondents indicated that it was the first time they had encountered peer assessment. More than half (11) responded that they had concerns with its validity. Concerns were no more apparent in those experiencing peer assessment for the first time. As was the case with group work, students were provided with the opportunity to give open-ended comments relating to the problems and benefits they perceived as being associated with peer assessment. These responses are presented in Table 6. Themes relating to the benefits of peer assessment included that it helped students to reflect upon their own ideas, it represented a more democratic approach to assessment and that it increased attentiveness during the tutorial. Negative themes related to concerns over whether peers had the technical prerequisite skills necessary to grade accurately and/or the professionalism to do so.

### TABLE 6

THEMATIC ANALYSIS OF THE PEER ASSESSMENT EXPERIENCE

<table>
<thead>
<tr>
<th>Theme</th>
<th>Illustrative comments (sic)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benefits</strong></td>
<td></td>
</tr>
<tr>
<td>Helps to reflect on your own ideas</td>
<td>• Peer assessment is a good way to self-evaluate</td>
</tr>
<tr>
<td></td>
<td>• Peer assessment could give me some suggestion about how to improve my knowledge and presentation skill</td>
</tr>
<tr>
<td>More democratic approach to assessment</td>
<td>• Allows participants some input into how beneficial the tutorial was</td>
</tr>
<tr>
<td></td>
<td>• It is a fair assessment based on many people’s judgements not just one.</td>
</tr>
<tr>
<td>Increases attention</td>
<td>• Gives the people in the class a reason to listen</td>
</tr>
<tr>
<td></td>
<td>• Helps students to be participative in the class; because if student does not participate and pay attention can not assess.</td>
</tr>
<tr>
<td><strong>Problems</strong></td>
<td></td>
</tr>
<tr>
<td>Peers lack technical prerequisites to accurately assess</td>
<td>• Peers may not have the knowledge or depth of understanding to see through to the fundamental quality of the presentation.</td>
</tr>
<tr>
<td>Peers lack professionalism needed to accurately assess</td>
<td>• Can be biassed if for example someone wants to help a friend.</td>
</tr>
</tbody>
</table>
Over the course of the semester, there was little difference in the average mark awarded by the teacher (80.6%) and that given by peers (85.2%). One concern however was that the series of teacher-assigned marks displayed a standard deviation that was more than twice that of the peer series. The correlation coefficient between the teacher and peer series was 0.51. In comparison, the meta-analysis of 56 peer assessment studies undertaken by Falchikov and Goldfinch (2000) reported an average correlation coefficient of 0.69. While the difference in standard deviations would not deter the author from using peer assessment again in the future, prudent use would require that the conclusions of Falchikov and Goldfinch (2000) be better taken into account in subsequent iterations. For example, the low standard deviation in peer assigned marks may be indicative of peers being less confident than teachers in discriminating between presentations of differing quality. If this were the case, a more thorough explanation of the specified marking criteria at the start of the semester and/or perhaps the inclusion of a “practice run” might be in order.

The experience of designing, implementing and evaluating a teaching innovation was a valuable starting point for the author in terms of attempting scholarship in the area of teaching. However, as is the case with any new endeavour, at the intervention’s end it was possible to identify numerous parts that could have been done better. Indeed, the act of critical reflection was emphasised by the instructors of the GCEd as being one of the most important parts of teaching scholarship. One of the major weaknesses of the intervention’s design was clearly that it did not allow for the impact of the teaching innovations to be evaluated as accurately or as comprehensively as one might like. The possibility of a self-selection bias entering the survey findings has already been noted. It was also not possible for convincing conclusions to be drawn on whether student perceptions relating to the attainment of key learning outcomes were greater with the innovations than they would have been without them. For this, a baseline would have been required either in the form of a control group during the year of the intervention’s implementation, or from a previous year’s cohort. In practice, these are not simple issues to deal with. The use of a control group clearly raises ethical issues and may not even be possible if enrollment numbers are not sufficiently large. Changes in the staff and student mix from year to year raise validity concerns over using earlier cohorts as a proxy control. Finally, it was not possible to draw firm conclusions on the extent to which student perceptions relating to the attainment of desired learning outcomes translated into a demonstrated improvement of understanding. For this purpose, a problem that required the demonstration of understanding, pre and post intervention, would be necessary.
4. WHY DO FEW ACADEMIC ECONOMISTS INNOVATE IN THEIR TEACHING?

For all the limitations of the intervention described above, the education literature, including that dedicated to the teaching of economics, is replete with case studies featuring teaching innovations that have proven to be effective in promoting a deep approach to learning. Yet, as has been noted, academic economists in general show a reluctance to innovate in their teaching methods, assessment tools and in the content they include in their courses and textbooks. In light of less than flattering assessments of teaching quality in economics courses, this reluctance is vexing. As part of the author’s final report for the GCEd some reflection was therefore in order regarding how this lack of innovation might be explained and perhaps corrected.

There are two broad theoretical perspectives that purport to explain why the quality of university teaching, in economics and in other disciplines, is not as good as it might be. The staff development literature points to the fact that academics are generally not formally trained educators. According to this perspective, while useful teaching innovations may exist, many academics are either not aware of them or do not conceptualise their teaching in such a way as to make them seem relevant. Popular education texts, such as Ramsden (1992), are representative examples of the staff development literature. They advance the claim that many academics conceptualise their teaching in terms of the transmission of information they provide during a lecture. If however the ultimate goal of teaching is to best promote student learning as staff developers suggest it should be, this conceptualisation of teaching is woefully inadequate. Academics need to be aware that much teaching actually occurs outside the classroom and is reflected in the choices they make in areas such as curriculum and assessment design. To be in a position to make strategic choices in these areas, academics need to study their students' experiences of learning: to become familiar with, for example, the notion of surface versus deep learning and the strategies that can be employed to promote the latter. The policy implication of this perspective is that teaching quality can be and should be improved by academics participating in staff development courses run by expert educators.

In terms of the policies adopted by Australian universities in attempts to improve teaching quality, the influence of the staff development perspective is clearly observable. Nearly all universities allocate considerable resources to educational development units within their organisational structures.2

2 A listing of these institutes can be viewed on the Australian University Teaching Committee’s website at http://www.autc.gov.au/links.htm
It is the norm to require that new academic staff participate in mandatory orientation programs that deal with teaching and learning matters in varying degrees of depth. The drive for academic staff to hold a formal teaching qualification such as a GCEd has also become more pronounced with some faculties, such as the Faculty of Engineering, Physical Sciences and Architecture (EPSA) at UQ, writing into new staff contracts that a teaching qualification must be attained within a specified period of time. This practice is now institution-wide at Monash University, although it is notable that the requirement to attain a teaching qualification does not extend to appointments at the Associate Professor level or above.

The economics literature meanwhile points to a different root cause of poor teaching quality and one that implies a different policy response. It emphasises that academics often face an incentive structure that provides them with little rational reason to innovate in their teaching. Building on Adam Smith’s writings in the 18th century, economists such as Becker (1975) note the basic resource allocation problem facing academics, namely that they must produce multiple outputs, such as teaching and research, with limited resources, in particular their time. The conclusion of these models is that if research is relatively better rewarded than teaching (through tenure, promotions, direct pecuniary returns, etc), it is to be expected that academics will allocate more of their discretionary time to producing research, with consequent negative implications for teaching quality. While it is true that scholarship in the area of teaching offers a means through which the outputs of teaching and research may be regarded less as substitutes (Johnston et al., 2001), given that most staff can be expected to retain research interests apart from their teaching, the conflict between the different academic outputs remains. Fox and Milbourne (1999) present evidence that suggests the size of the tradeoff could be substantial. Their survey of 150 academic economists in Australia, which was designed to identify the factors that determine research output, reported that a 10 percent increase in the number of teaching hours is associated with a reduction in research output of 20 percent. Thus, according to the economic perspective, academics do not necessarily lack the knowledge or technique to improve their teaching performance, or the ability to acquire it; but they do lack the reason to do so. The policy implication is that improved teaching quality requires accurate output measurement systems be in place for both research and teaching and that the relative incentive structure must shift towards teaching (Becker 1979). That faculty time allocations are sensitive to relative incentive structures has been empirically demonstrated by Singell et al.(1996) and Harter et al.(2004). Brickley and Zimmerman (2001) also report case study evidence from a leading U.S. business school that found changes to the incentive structure in favour of teaching were associated with an increase in time
devoted to teaching, an improvement in teaching quality (as rated by students) and a reduction in research output. The importance of accurate quality appraisal systems being in place is self-evident. Quiggin (2004) comments on earlier findings by Brickley and Zimmerman and notes that where rewards have been tied almost exclusively to student evaluations, teachers have expectedly employed low-cost strategies aimed at improving their popularity in preference to adopting high-cost strategies aimed at improving the quality of their teaching.

Compared with the staff development position, the policy influence of the economics perspective is less evident. Survey evidence through the 1990s finds that Australian academics continued to perceive the incentive structure they faced to be biased in favour of research (Ramsden et al, 1995). Laurenceson and Duhs (2004) have pointed out that there also exist incentive structures that perversely impact on teaching quality, which are institutionalised in the Commonwealth government’s funding of universities and the practices universities themselves then adopt to allocate these funds to constituent faculties and schools. At least at the level of the individual academic, there are practices beginning to emerge that constitute meaningful change in the incentive structure towards teaching. At James Cook University, for example, promotion to Associate Professor level is now contingent on demonstrated excellence in teaching and excellence in two out of four other categories, one of which is research. Excellence in teaching is the sole non-negotiable criterion.

There has been considerable acrimony between the two strands of literature in the past, with both sides accusing the other of much slack thinking. This debate need not be revisited here (see Laurenceson and Duhs, 2004). What is important to note is that the staff development perspective and the economics perspective are more complementary than competing positions. The two can readily be integrated by observing that staff developers focus on identifying the characteristics and skill sets that excellent teachers embody - most fundamentally, how excellent teachers conceptualise their own teaching - and economists point to what can be done to give teachers the reason to acquire these skills and to apply them as an ongoing part of their teaching practice. There is good reason to conclude that a policy approach that draws from only one of these positions will be less effective than one that draws upon both. For example, Becker (2004, p.7) in reflecting on his earlier survey findings and the growing participation in teaching sessions at the annual conference of the American Economic Association, poignantly states that -

“Economists apparently have finally learned that their teaching is one of the few policy levers they control, but this does not necessarily imply that they know what is required for good teaching, or what should be taught”.

"Economists apparently have finally learned that their teaching is one of the few policy levers they control, but this does not necessarily imply that they know what is required for good teaching, or what should be taught".
A corollary on a personal level is that prior to undertaking a GCEd the author had never even heard of publications such as the *Journal of Economic Education*. At the same time, completing a GCEd has convinced the author that while such formal programs of study have the potential to bring about teaching quality improvements, innovating in teaching and conducting scholarship into teaching does come at an opportunity cost - not to mention the opportunity cost of attaining the qualification in the first place. This cost is worsened when simplistic measures are used to determine teaching quality such as the ubiquitous student evaluation alone, since what might be regarded as a desirable teaching innovation from a pedagogical viewpoint may not be rated by the average student as such. For these reasons, without addressing issues relating to resource constraints, output measurement and the incentives on offer, policies such as making it compulsory for academics to attain a formal teaching qualification are unlikely to effect the quality improvement that staff developers hope for. Economists are also likely to observe that if outputs were better measured and incentives were changed, a more efficient scenario would emerge from individual academics deciding for themselves how best to improve their teaching. This may or may not be in the form of a teaching qualification.
REFERENCES


APPROACHES TO LEARNING IN THE
HONOURS YEAR SUPERVISORY RELATIONSHIP:
A PRELIMINARY INVESTIGATION

Nava Subramaniam\textsuperscript{a,*}
Michael E. Drew\textsuperscript{b}, and
Kim Clowes-Doolan\textsuperscript{c}

ABSTRACT
This study considers the role and intervention strategies used throughout the
honours year supervisory process from the student perspective. Using an
adaptation of the presage-process-product model for the supervisory setting,
we report two key findings from a sample of eight honours students in
Economics and Commerce faculties at two major Australian universities.
First, the largest supervisory gaps observed related predominantly to
academic roles, specifically, students required greater mentoring and
intervention roles to be taken by their supervisors. Second, the students
surveyed preferred more facilitative interventions rather than authoritative
interventions. The study concludes with a discussion of implications of the
research for stakeholders in the supervisory process.

Key Words: Honours, Supervision, Student Perspective.
JEL Classification: A20, A22

\textsuperscript{*} Corresponding author: Email: n.subramaniam@griffith.edu.au; Tel: +61-7-5552-8769.
\textsuperscript{a} Griffith Business School, Griffith University, PMB 50 Gold Coast Mail Centre,
Gold Coast Campus, Qld, 9726, Australia.
\textsuperscript{b} School of Economics and Finance, Queensland University of Technology, GPO Box
2434, Brisbane, Qld, 4000.
\textsuperscript{c} Griffith Institute for Higher Education, Griffith University, Mt Gravatt Campus,
Qld, 4111, Australia.

This research was undertaken as part of the Griffith University, Griffith Institute for
Higher Education, Graduate Certificate in Higher Education. We thank Margaret
Buckridge and our colleagues in the program for helpful comments and convey our
sincere appreciation to the cohort of honours’ students and supervisors who took the
time to participate in the study. We thank the \textit{AJEE} editor, Mohammad Alauddin for
his invaluable advice, and two anonymous reviewers for comments that sharpened the
focus of the study. All errors are the sole responsibility of the authors.
1. INTRODUCTION

Recent reform of the Australian Higher Education sector has added pressure on universities to improve research performance, as research outcomes become increasingly critical for funding and for a university’s standing.\(^1\) The path to postgraduate research studies (Masters and PhD) in economics and commerce is usually via an honours degree where an undergraduate student undertakes a fourth year of study during which he/she is taught research methods as part of a structured coursework program. Another requirement is to conduct a supervised dissertation. The quality of learning experienced by students enrolled in the honours year thus has important implications for their research outcomes as well as for attracting and retaining honours graduates in higher degree studies.

Previous research has suggested that there is considerable variance in the completion rates of honours across different disciplines and that only a relatively small proportion of students continue with postgraduate research studies (Moses, 1992).\(^2\) One of the possible determinants of poor retention rates relates to the supervisory quality. Moses (1992: p9) argues that “it is obvious that many students are not enthused to the extent that they want to commit themselves to research studies. A contributing factor may be inadequate supervision”. Good supervisory practice is essential for honours’ students because the honours candidature is not only a culmination of the undergraduate study but the students are also expected to transcend to a higher level of analytical reasoning in a chosen research area. The guidance provided by a good supervisor, no doubt, becomes an important determinant of a student’s learning. Unfortunately, there is a paucity of empirical evidence on the supervisory practices and student experience of learning in the honours’ year. In an effort to provide greater insight into approaches to learning in the supervisory relationship, this paper considers the following three questions: First, what are honours’ students’ expectations of supervision? What supervisory roles are important to students? and, finally, which intervention strategies used in the supervisory relationship are most helpful? In considering these questions,


\(^2\) Hockey (1991, 1995, 1996) observes that the completion rate of research projects in the United Kingdom has been traditionally lower for students in the social sciences than for those in the physical sciences. Moses (1992) provides corroborating evidence of higher completion rates for honours projects in the physical sciences domestically. While the reasons for this disparity remain unclear, the trend raises concerns over the quality of supervisory practices. Moreover, empirical findings at the postgraduate level by Whittle (1992) indicate that students from the Arts faculty are less satisfied with supervisory practices and tend to more frequently change to part-time status than Science faculty students.
we commence our discussion with an analysis of the received theoretical framework for understanding teaching and learning – the presage-process-product model. It is hoped that this Note will invite further, more detailed research on the issue.

2. THEORETICAL FRAMEWORK

The presage-process-product (3P) model of student learning is an interactive system that describes learning-related factors through various points in time. The model proposed by Biggs (1979), Prosser, Trigwell, Hazel and Gallagher (1994) and Prosser and Trigwell (1997, 1999) is premised on the notion that students’ perceptions of the learning and teaching context are a complex interaction of prior experiences of learning and teaching, and the learning and teaching context itself. This study interprets the 3P model using a constitutionalist approach to understanding teaching and learning. Prosser and Trigwell (1999) explain that the essence of this view is that meaning is constituted through an internal relationship between the individual and the world. In this context, learning is about experiencing the object of study in a different way, where the experience is a relationship between the person experiencing and the object experienced.3 Central to the constitutionalist conception of student learning is the role of perceptions. Variation in students’ perceptions of their learning situation is well documented in the literature.4 Research by Ramsden (1979, 1991, 1992) and Entwistle and Ramsden (1983) have linked student perceptions with learning outcomes across five scales: good teaching, clear goals; appropriate workload; appropriate assessment; and, emphasis on independence.5 Biggs (1999) and Prosser and Trigwell (1999) summarise that students adopt approaches to learning consistent with their perceptions, resulting in variation in the quality of their learning. The framework for this study requires an adaptation of the received 3P model. Whilst the common goal is still learning, the immediate system has changed from the tertiary classroom (Biggs, 1999), to the supervision relationship. Figure 2 outlines the model, as adapted by the authors.6 Appendices 1 and 2 offer a

---

3 Prosser and Trigwell (1999) note that the constitutionalist approach is fundamentally different from other perspectives of learning, such as cognitivist, individual constructivist and social constructivist perspective.

4 One of the preliminary studies contributed in the field was by Fransson (1977). Fransson’ (1977) research found wide variation in students’ perceptions to various approaches to learning and teaching contexts.

5 See Ramsden’s scales of the Course Experience Questionnaire (1991) for examples of each item.

6 We commence with the presage factors, noting that student based factors are normally well specified at the honours’ level. Students have met the various undergraduate coursework and grade point average requirements to enter the
more detailed description of the supervisory roles, and interventions used in supervision.\footnote{Heron's (1986) six-category intervention analysis was used because it deals with six basic kinds of intention a supervisor can have in working with his / her student. According to Biggs (1999), students’ learning outcomes are represented by quantitative (e.g. facts, skills), qualitative (e.g. structure), and affective (e.g. involvement) qualities. Whilst we agree that these qualities are important, the current researchers have defined the students’ learning outcomes within the context of this paper, as that where the student is recognised as an independent researcher.}

According to Shuell (1986: p.429), “if students are to learn desired outcomes in a reasonably effective manner, then the teacher’s fundamental task is to get students to engage in learning activities that are likely to result in their achieving those outcomes”. This quote forms the theme of the current study. We will show that in an effort to develop a student as an independent researcher, both the role of the supervisor and the intervention strategies used in the supervisory relationship, can greatly impact firstly, whether supervision is effective, and secondly, whether the desired learning outcomes are achieved. If this is to be achieved the alignment of all factors in the 3P model is essential.

honours’ year program. As a result, pre-determined student factors are generated upon completion of the undergraduate program, and used by academic coordinators and potential supervisors to screen likely honours’ students. The current study argues that as a result of this screening process, a homogenous group of honours’ students (for instance, homogeneity in high GPA scores) is created prior to engaging in supervision. However, it is the HOW of supervision (Process) that ultimately predicts the desired learning outcomes (Product). Factors that are included in this Process phase, will be discussed. Similar to the student factors outlined above, the second presage factor is also characterised by certainty. Information is given to students that outlines objectives, assessment practices, supervisory requirements and institutional procedures for the dissertation unit. The current study argues that these two presage factors, working together, generate certain expectations by the student, about supervision, prior to engaging in the supervisory relationship. If the supervisor matches these expectations, then it is likely that the effectiveness of supervision is improved and the desired learning outcomes, achieved. The Process Phase of the adapted 3P model includes the actual supervisory relationship, and the learning that is achieved as a result of the interaction between the supervisor and student. The model shows key learning focused activities (e.g. identification of a topic, writing a literature review etc), targeted at the honours’ level, and the influence that supervisory roles and interventions have on the students’ learning.
FIGURE 1
3P MODEL OF TEACHING AND LEARNING FOR HONOURS’ SUPERVISION

Pre-Determined Student Factors
Characteristics of the student that are known by the institution and supervisor, prior to engaging in supervision. E.g. student’s academic performance.

Supervision Learning Context
Characteristics of supervision that are outlined by the institution, and are known by the supervisor and student prior to engaging in supervision.

Learning Focused Activities
Topic Identification
Literature Review
Research Question
Hypothesis Development
Data Collection
Data Analysis
Final Write Up

Intervention Strategies
Authoritative Facilitative

Students’ Learning Outcomes
Desired learning outcomes for the student as a result of supervision
3. METHODOLOGY

A total of eight honours’ students participated in the study, within the Economics and Commerce Faculties at two major universities in Australia. All students were in the Dissertation stage of the program, which included elements of the research project that dealt with, for example, formulation of the research question, data collection, analysis, and write-up. Whilst we acknowledge that a contrasting approach to this work would be to survey students post the completion of their dissertation, we were motivated in this study to attempt to ‘get inside’ immediate concerns of the supervisee.8

- **Self-Report Measures:** In an effort to determine some measure of students’ perceptions of their supervisor’s approach to learning in supervision, two self-report measures were used within the current study.

- **Supervisory Roles Inventory:** The first instrument was based on Bennett & Knibbs (1985) supervisory roles inventory, which identify 10 possible academic supervisor roles, grouped under four headings: Process roles (bureaucrat, initiator); Academic roles (expert, mentor, innovator); Interpersonal roles (friendly helper, motivator); and Validation roles (stern critic, judge).

- **Heron’s Six Category Intervention Analysis:** Heron’s Six Category Intervention Analysis (1986) was chosen to illuminate the supervisory role: Authoritative Interventions (prescriptive, informative, confronting); and Facilitative Interventions (catalytic, cathartic, supportive).

---

8 A combination of both quantitative and qualitative measures was used within the current research. This included a survey made up of a number of self-report instruments used to measure student perceptions of supervisory practices and approaches to learning. A 90-minute interview that addressed issues associated with the following areas, was also carried out with each student: 1. General background of student, their stage of progress in the program and their interest in the research topic; 2. An open-ended assessment of their perceived strengths and weaknesses as Honours candidates; 3. Students’ ranking of the roles undertaken by their present supervisors and what they believe ought to be assumed by an ideal supervisor; and the students’ perceptions of the intervention strategies they see as being important and those seen as being undertaken by their supervisors; and, 4. Student perceptions of the efficiency of their candidature in terms of their level of satisfaction with their supervision, willingness to undertake a PhD, and the level of confidence they have in completing the project in time.
4. FINDINGS AND ANALYSIS

4.1 Student Perceptions of Supervisor Roles in Supervision

In an effort to determine whether student expectations of the supervisor matched the role of the supervisor played in the supervisory relationship, students were asked to provide information on their perceptions of both the ‘actual’ and ‘ideal’ roles of their supervisors. The largest supervisory gaps across the sample related to predominantly academic roles, specifically students perceived that their supervisor was not taking on mentoring and innovation roles. Comments from students suggested that they wanted their supervisor to guide them through their dissertation, such that “mutual respect” could be developed. Students also appeared to want their supervisor to be innovative in the supervisory relationship, anticipating an environment where new ideas could be discussed and explored. Table 1 provides a summary of these findings. What the findings also showed was that in an effort for students to fill in this gap, a strategy used was to become involved in peer interactions. This was evidenced by student comments like “the most useful discussions I have is with other honours’ students, we bounce ideas off each other in a more relaxed environment”.
# TABLE 1

## STUDENTS’ PERCEPTIONS OF SUPERVISOR ROLES

<table>
<thead>
<tr>
<th>Students Perceptions of what they Wanted from Supervision</th>
<th>Student Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Role</strong></td>
<td><strong>Academic</strong></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>The Mentor</strong></td>
<td></td>
</tr>
<tr>
<td><strong>The Innovator</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Students Perceptions of what they Experienced in Supervision</strong></td>
<td><strong>Role of Supervisor is</strong></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Students’ Strategies to Fill in the Gap of Supervision</strong></td>
<td></td>
</tr>
</tbody>
</table>
TABLE 2
STUDENTS’ PERCEPTIONS OF INTERVENTION STRATEGIES USED IN SUPERVISION

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Students Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilitative</td>
<td>“. . . (my supervisor) has given me the confidence to research independently, he/she is very supportive and I have learnt to tackle problems on my own. . . “</td>
</tr>
<tr>
<td>Catalytic</td>
<td>“. . . (the supervisor) is good at motivating students, after we discussed the framework for the literature review, I went about completing this myself. . . “</td>
</tr>
<tr>
<td>Supportive</td>
<td>“. . . (the supervisor) must be helpful, but not spoon-feeding, I want to be pushed to think about how best to complete my dissertation. . . “</td>
</tr>
<tr>
<td></td>
<td>“. . . my supervisor is my coach. I am happy for him/her to tell me when I am going wrong and what I need to change. . . “</td>
</tr>
</tbody>
</table>

TABLE 3
MATCHING SUPERVISORY ROLES AND INTERVENTIONS TO STUDENT LEARNING OUTCOMES

<table>
<thead>
<tr>
<th>Stages of Supervision and Students Comments</th>
<th>Student Characteristics and Learning Outcomes</th>
<th>Learning Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early stages of supervision</td>
<td>Dependent on Supervisor</td>
<td>Supervisor uses instruction and interpretation to structure the learning</td>
</tr>
<tr>
<td>“. . . (I expected) a supervisor to have superior technical knowledge and be able to give clear instruction.”</td>
<td>Lacks self awareness, minimal experience, limited conceptual understanding</td>
<td>Possible Supervisory Roles: The Bureaucrat, The Expert, The Initiator</td>
</tr>
<tr>
<td></td>
<td>Possible Interventions: Prescriptive, Informative</td>
<td>Dependent/Autonomy Conflict</td>
</tr>
</tbody>
</table>
“... (the supervisor) must be helpful, but not spoon feeding, I want to be pushed to think about how best to complete my dissertation.”

Increase of self-awareness, striving for independence, fluctuating motivation, becoming more self assertive, building confidence as an independent researcher

**Possible Supervisory Roles:** The Innovator, The Motivator, The Friendly Helper

**Possible Interventions:** Informative, Confronting

<table>
<thead>
<tr>
<th>Conditional Autonomy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identity as an independent researcher begins to develop, increased insight occurs, with more consistent motivation</td>
</tr>
<tr>
<td><strong>Possible Supervisory Roles:</strong> The Stern Critic, The Evaluator, The Motivator</td>
</tr>
<tr>
<td><strong>Possible Interventions:</strong> Confronting, Cathartic, Catalytic</td>
</tr>
</tbody>
</table>

“... My supervisor is my coach. I am happy for him/her to tell me when I am going wrong and what I need to change.”

Final stages of supervision

**Independent Researcher**

Adequate self awareness, insightful of own strengths and weaknesses, student can adequately function independently of the supervisor

**Possible Supervisory Roles:** The Mentor, The Innovator

**Possible Interventions:** Catalytic, Supportive

Adapted from Stoltenberg (1981)
4.2 Students Perceptions of Intervention Strategies Used by their Supervisors

In an effort to obtain a more holistic picture of the supervisory relationship, and the student learning that occurs, students were also asked to comment on the type of intervention strategies used by their supervisors. Both ‘actual’ and ‘ideal’ ratings were recorded. The findings showed that students preferred more facilitative interventions, rather than authoritative interventions. Students sought supervisors who could provide an environment of “academic freedom” that supported the students’ desire to “express [my] views without recrimination”. Table 2 provides a summary of some of the key findings.

4.3 Matching Supervisory Roles and Interventions to Student Learning Outcomes

From this preliminary investigation, we suggest that students' learning outcomes are influenced by the roles played by their supervisors, and the type of intervention strategies used in the supervisory relationship. By comparing supervisory roles and interventions to student learning, we can develop a better understanding of how to make supervision more effective, and overcome some of the problems of supervision, as outlined by Rudd (1985) and Moses (1992). Table 3 offers a possible framework of student learning outcomes, and how supervisory roles and interventions can impact students’ learning. From the existing findings we can see that at the beginning of supervision, the student is quite inexperienced and lacks self-awareness and conceptual understanding. In an effort to improve student learning the supervisor can play a role of initiator and expert to encourage discussion and development of the dissertation. Intervention strategies such as informative and prescriptive, will also add value to the supervisory relationship and student learning. The framework shows the continuation of student learning throughout the duration of supervision, and illustrates the changes in supervisory roles and interventions. In an effort for the student to develop into an independent researcher, it is necessary for the supervisor to become more aware of how to better meet student needs.
5. IMPLICATIONS OF THE RESEARCH

Some of the implications that result as a consequence of this framework are considered below:

- **Implications for the Student**: To demonstrate a willingness to communicate individual needs to the supervisor throughout the duration of supervision.

- **Implications for the Supervisor**: To incorporate reflection on professional practice as a supervisor in an effort to ensure student needs are being met. This would include analysis of supervisory roles and interventions used in supervision, both currently and in future supervision work.

- **Implications for the Student and Supervisor**: To demonstrate and implement discussion of a ‘psychological contract’ at the commencement of the supervisory relationship with clear expectations of the communication processes to adopt particularly the need for regular, open and frank discussions.

- **Implications for the School**: Introduction of workshops/seminars/information sessions for staff and students on how to make supervision more effective, and the role/s they can play in supervision. Possibly, coordinating a more informal gathering of student supervisor pairs may also aid in the communication process.

Our preliminary findings suggest that the quality of supervisor-student relationships have direct implications for student learning and teaching outcomes. In particular, it appears that greater clarity and mutual understanding of supervisory roles and intervention strategies between student and supervisor, are associated with more favourable student learning and teaching outcomes. It is our conjecture that the preliminary analysis in this paper opens some important areas for future consideration. One important direction may consider students being surveyed after they have completed their honours year, with more universities included in future work to provide further capture of other environmental effects on the supervisor relationship. Another avenue for future research is to consider whether variations in the nature of the Honours thesis, particularly in terms of the type of data collection and analysis may affect supervisor-supervisee relationships. For instance, building student skills to conduct case study and interviews versus dealing with large scale, capital market data may involve different communication and learning strategies. Further, a more systematic, large scale study investigating the impact of gender, age and
other demographic differences on the supervisor and supervisee relationship is likely to further improve our understanding of the effectiveness of the various intervention strategies available for the supervisory process.

### APPENDIX 1

### DESCRIPTION OF SUPERVISORY ROLES

<table>
<thead>
<tr>
<th>Role Group</th>
<th>Specific Roles and Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Academic Roles</strong></td>
<td>Supervisor plays an important part in the development of the thesis, and checking of the students’ work</td>
</tr>
<tr>
<td></td>
<td><strong>The Expert</strong></td>
</tr>
<tr>
<td></td>
<td>Supervisor must be able to provide insight and be knowledgeable in the field of study</td>
</tr>
<tr>
<td></td>
<td><strong>The Mentor</strong></td>
</tr>
<tr>
<td></td>
<td>Supervisor must be able to guide and counsel the student across a wide range of issues</td>
</tr>
<tr>
<td></td>
<td><strong>The Innovator</strong></td>
</tr>
<tr>
<td></td>
<td>Supervisor offers suggestions to the project, including new ideas and possible alternatives to approaches</td>
</tr>
<tr>
<td></td>
<td><strong>The Stern Critic</strong></td>
</tr>
<tr>
<td></td>
<td>Supervisor must be able to challenge the student and offer critical appraisal of the student’s work</td>
</tr>
<tr>
<td></td>
<td><strong>The Evaluator</strong></td>
</tr>
<tr>
<td></td>
<td>Supervisor evaluates the work across the research project, outlining key issues that need to be reviewed</td>
</tr>
<tr>
<td></td>
<td><strong>The Judge</strong></td>
</tr>
<tr>
<td></td>
<td>Supervisor offers judgement on the type of work being produced by the student</td>
</tr>
<tr>
<td><strong>Process Roles</strong></td>
<td>Supervisor plays an important part in the ‘process’ of the research project and monitors the project throughout its duration</td>
</tr>
<tr>
<td></td>
<td><strong>The Bureaucrat</strong></td>
</tr>
<tr>
<td></td>
<td>Supervisor must be able to inform the student of relevant institutional procedures and policies regarding how research work is carried out and submitted</td>
</tr>
<tr>
<td></td>
<td><strong>The Initiator</strong></td>
</tr>
<tr>
<td></td>
<td>Supervisor have to be able to initiate key activities and decision making processes</td>
</tr>
<tr>
<td><strong>Interpersonal Roles</strong></td>
<td>Supervisor plays an important part in emotional and psychological support of the student, often the ‘make or break’ of the student-supervisor relationship</td>
</tr>
<tr>
<td></td>
<td><strong>The Friendly Helper</strong></td>
</tr>
<tr>
<td></td>
<td>Supervisor must be able to provide support when student experiences times of stress and frustration</td>
</tr>
<tr>
<td></td>
<td><strong>The Motivator</strong></td>
</tr>
<tr>
<td></td>
<td>Supervisor must be able to offer praise for work carried out by the student, and encourage ongoing efforts in regards to the research work</td>
</tr>
</tbody>
</table>

*Adapted from Bennett & Knibbs (1986)*
APPENDIX 2

DESCRIPTION OF THE INTERVENTION STRATEGIES USED BY SUPERVISORS

<table>
<thead>
<tr>
<th>Types of Intervention Strategies</th>
<th>Authoritative Interventions</th>
<th>Facilitative Interventions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Prescriptive</td>
<td>Cathartic</td>
</tr>
<tr>
<td></td>
<td>A prescriptive intervention seeks to direct the behaviour of the student</td>
<td>A cathartic intervention seeks to enable the student to speak out about certain frustrations, anger etc, that may be impacting on their work</td>
</tr>
<tr>
<td></td>
<td>Informative</td>
<td>Catalytic</td>
</tr>
<tr>
<td></td>
<td>An informative intervention seeks to impart knowledge, information, and meaning to the student</td>
<td>A catalytic intervention seeks to elicit self-discovery, self-directed learning, and problem solving</td>
</tr>
<tr>
<td></td>
<td>Confronting</td>
<td>Supportive</td>
</tr>
<tr>
<td></td>
<td>A confronting intervention seeks to raise the student’s consciousness about some limiting attitude or behaviour of which they are relatively unaware</td>
<td>A supportive intervention seeks to affirm the worth and value of the student</td>
</tr>
</tbody>
</table>

Adapted from Heron (1986)

REFERENCES


NOTES AND COMMENTARIES

SOME THOUGHTS ON ECONOMICS EDUCATION RESEARCH,
Tommy Tang

I attended a one-day workshop on business education at Melbourne University in early 2005. The theme of the workshop was “empirical analysis of teaching and learning at the tertiary level” in the areas of economics and commerce. It was a well organised workshop with close to 100 people attending. In this short paper, I would like to share with the reader some of my observations from this workshop.

There were basically two types of research studies reported at the workshop. The first type examines how various teaching innovations impact on learning outcomes. The other investigates factors that determine academic performance. It is interesting to note that none of the 4 papers about teaching innovations was on economics – two were on accounting, one on information systems and one on management. While the sample is too small for us to draw any definitive conclusion about innovations in teaching economics in Australia, this does remind me that there have been past contributions in this area. I recall a few papers that I read sometime ago relating to teaching and assessment methods in undergraduate economics in the USA and Australia. In the absence of workshop contributions to the topic of innovation in teaching economics, I would like to briefly discuss these papers.

Keywords: research methodology, input-output approach, student experience of learning, learning inventory.

JEL Classification: A22.

1. TEACHING AND ASSESSMENT METHODS IN INTRODUCTORY ECONOMICS

In a survey of instructional methods employed in teaching introductory economics in America, Siegfried and his colleagues (Siegfried, Sanuders, Stinar, & Hao, 1996) found that up to the mid-1990s, lectures still represented the dominant mode of delivery, and end-of-semester multiple choice exams were commonly used for assessment. However, more recent studies have shown a growing trend towards the use of active learning methods, such as problem-based learning, case studies, and group work. These methods are designed to engage students more deeply with the material and enhance their understanding of economic concepts.

1 Queensland University of Technology.
2 The papers are: ‘The role of computer-assisted learning packages in determining learning outcomes of accounting students’ by Tracey McDowall & Beverley Jackling (Deakin University), ‘The effect of interactive online learning systems on student learning outcomes in accounting’ by Bradley Potter (University of Melbourne), ‘Flexible learning and academic performance in information systems’ by Kay Bryant & Done Kerr (Griffith University) and ‘Using multimedia to help develop graduate skills in management students’ by Lea Waters (University of Melbourne).
choice examinations the dominant assessment format, despite the existence of a huge amount of educational research evidence for the effectiveness of various alternative techniques used in promoting deep learning in other disciplines.

In a more recent study, Becker and Watts (2001) surveyed academics economists in 1995 and again in 2000. They observed a shift toward teaching and away from research, and found that more weight was being given to teaching in promotions and performance appraisals (White, 1995). They also noted a growing interest on the part of academic economists in teaching related activities, as evident in the significant rise in number of hits at the *Journal of Economics Education* website, and in the devotion of more sessions to the teaching economics at economics conferences. The launch of the *AJEE* and the popularity of the annual Teaching Economics Conference are also testimony of similar growing interest in Australia. However, despite the advancement and understanding gained in teaching and learning research, Becker and Watts (2001) found that ‘the use of innovative, active-learning and technology-based approaches’ was not evident, and the amount of time spent lecturing was exactly what it was in 1995, the methods of teaching economics to undergraduates having changed very little, and still being dominated by ‘chalk and talk’ classroom presentations. Multiple-choice tests also remained the dominant assessment format in principles courses.

The situation in regard to methods of teaching in introductory economics in Australian universities is similar to the US. Traditional teaching and assessment methods have continued to dominate. A 2001 survey of teaching in first year economics (Olekalns, 2003) found that ‘chalk and talk’ has now been replaced by ‘click and talk’. First year economics lecturers still used a narrow range of assessment activities, the most popular formats consisting of a mid-semester examination, one (or more) assignment(s) and a final (MCQ) examination. Lack of incentive is a possible reason for lack of innovations in teaching introductory economics. In a study of economics lecturers’ time allocation on teaching and research, Guest and Duhs (2000) observed that, despite the increasing emphasis on promotion of teaching scholarship and effective teaching, many economics lecturers still believed they would receive no benefit at all if they improve their teaching. Research performance remains the most important pathway to career advancement.

The Teaching and Learning Unit of the Faculty of Economics and Commerce at Melbourne University will again conduct the one-day workshop in February 2006. I hope there will be a few papers on teaching innovations in economics this time.
2. RESEARCH METHODS IN ECONOMICS EDUCATION

Let me now turn to the other group of research papers presented in the workshop. I will describe these papers in a bit more detail in order for the reader to have a better idea of the research methodology employed in these studies. I will then comment on some methodological issues that these papers raise.

Joan Rodgers of Wollongong University used panel data to model the effect of tutorial and lecture attendance on academic performance of her introductory statistics students (Rodgers, 2005). Rodgers included a number of control variables in her model such as gender, ability, first year or later year student, part-time or full-time. Diane Dancer (Sydney University) and X.? Fiebig (University of New South Wales) constructed a production function to identify the factors that determine student progression in their econometrics class, using a multinomial logit model (Dancer & Fiebig, 2005). Her variables include: ability (measured by tertiary entrance rank, maths aptitude), effort (stream, lecture/tutorial attendance, number of hours studying per week in year 12 as proxy), socioeconomic background (parents’ levels of education), travel time to university, age and gender. The third and last paper of this group is on accounting. Ramburuth (University of New South Wales) and Mladenovic (University of Sydney) measured students’ learning orientations and general abilities, using Biggs’ SOLO (Structure Of Learning Outcome) taxonomy and SPQ (Study Process Questionnaire), respectively and investigated how they are related to academic achievement (Ramburuth & Mladenovic, 2005).

Ramburuth and Mladenovic are well versed in the literature of the Student Experience of Learning (SEL) framework ((Marton, 1988; Ramsden, 1988)) and made it very clear that their modified SPQ measures students’ general learning orientations upon entry into university, not learning approaches utilised in their accounting unit. Nonetheless, they argue that there is permanency of learning orientations in the approach to learning for a task, which implies students’ SPQ scores would influence their academic performance. However, they found only statistically significant but very weak relationship (r = -0.091) between surface orientation and performance, and no significant relationship at all for deep orientation. Apparently, this permanency of learning orientation is very weak, if it exists at all, in their accounting students.

This takes me to the methodological issue that these papers raise. It is succinctly articulated by Mark Freeman of Sydney University who was invited to make a summary speech for the workshop. Among other
insightful remarks, Freeman pointed out that the research studies presented in the workshop (including the four mentioned earlier) all utilised the input-output approach (Shanahan et al., 1997). Here is how Dancer and Fiebig (2005) described this approach as she used it in her study presented at the workshop:

“The process of modelling performance is typically thought of as a production function for new knowledge … In empirical work, students grades are taken as a (crude) measure of new knowledge acquired. The student’s ability, their level of effort and their commitment then determine performance.”

The input-output model is based on the assumption that there is a direct (often linear) link between the learning inputs (ability, effort, gender) and learning output (grades), which can be modelled using econometrics. This has been the dominant approach to economics education research in the past three decades (Tang, 2001). The path of the input-output approach to investigating learning in economics has so far led to very limited impact on teaching practices in economics, as mentioned earlier. According to the SEL framework the fundamental weakness in the input-output theoretical framework is its omission of the learner’s interpretation of the content and context of learning. As Bruner (1976) puts it:

‘… A theory of human behaviour that fails to make contact with man’s conception of his world and his way of knowing, that sets these aside as epiphenomena, will neither be an adequate human behaviour nor will it prevail in commonsense’ (quoted in Marton & Svensson, 1979, p. 473).

On similar philosophical ground, Sosin, Dick and Reiser (1997) observe that ‘researchers have not yet developed the definitive learning/understanding model for economic education’ (p.101). Freeman in his summary speech called for more research effort that focuses on the learning contexts in economic and business education, if research was to have impact on learning and teaching.

3. DISCIPLINE-SPECIFIC COGNITIVE ABILITY

My final observation concerns the use of generalised measures of student ability in research on academic performance. In Ramburuth and
Mladenovic’s study, the student’s SOLO level was used as an indicator of student’s generalised cognitive processing ability. Dancer used the TER scores and Rodgers used student’s average scores in other subjects as measures of student’s ability. All three studies utilised generalised ability in their models as an explanatory variable of academic performance, and in all three studies, it was found to be the single most important factor that accounts for variations in academic performance. It is not a surprising finding. In a review of research studies into factors determining academic performance in economics, Becker (1997) concludes that aptitude (or general ability) is the only consistent and meaningful factor that explains variations in academic performance. It is as if in all economics education research conducted in the last three decades we have succeeded only in proving the obvious.

While the SEL approach directs us to look into the learning context to understand how contextual factors influence approaches and outcomes of learning, Meyer and Shanahan (2002) point out another much neglected area in our attempt to better understand the learning process in economics. It is the subject-specific nature of modelling learning. Drawing on the work of Eley and Meyer (2000) and Meyer and Cleary (2001) (cited in Meyer and Shanahan 2002), Meyer and Shanahan argued that sources of variation in the affective and process dimensions of learning in mathematics and clinical diagnosis respectively, are specific to the discipline. And hence, general student learning models such as SPQ and ASI that ‘are transportable across different discipline contexts cannot, by definition, be sensitive to sources of variation that may be subject-specific’ (p.204). They argue for a need to ‘seek additional sources of variation that are perhaps conceptually unique … within the discourse of particular disciplines’ (p.205). In their research program, they look for the sources of variation of learning outcomes that reflect the discourse in economics. They found them in students’ prior knowledge in economics. Built on Meyer and Shanahan’s research, Tang and Robinson (2004) developed an instrument to tap into this subject-specific domain, viz. student’s misconceptions about economics and naïve economic thinking. Both research programs are on-going. So expect to see more of their publications on this topic in this and other economics education journals.

---

3 Dancer also uses student’s stream as a proxy of their maths ability, which is obviously subject-specific in her study.

4 ASI stands for Approach to Study Inventory.
Acknowledgment

I would like to thank Associate Professor Tim Robinson for his comments on an earlier draft of this paper.

REFERENCES


business, economics and commerce, University of Melbourne, February 11, 2005.


NATURE VERSUS NURTURE IN THE ECONOMICS OF EDUCATION

A forthcoming paper in the Economic Journal (“Does Family Income Matter for Schooling Outcomes?”) argues that nature, not nurture, is the main determinant of how well children perform at school and university.

Wim Vijverberg (Texas University) and Erik Plug (Amsterdam University) compared how well adopted children did at school when they were brought up alongside parents' biological children. The relative effects of genes and the home environment were then separated out. Previous studies have suggested that the home environment, and in particular the level of family income, is the most important determinant of educational attainment. But the new study argues that while income and home environment account for about 25 per cent of educational attainment, inherited intelligence is responsible for the rest.

Doubling a family's income would have only a small effect on educational performance, say Vijverberg & Plug, who examined more than 15,000 children, 574 of them adopted.

They found that, on average, the adopted children performed less well, although this does not necessarily debar success in life. Many adopted children enjoy spectacular careers. Government policies aimed at improving the performance of poor children at school and university may come under question, however. Such policies, they suggest, will work only if targeted at able children.

The study concludes that previous studies suggesting a strong link between family income and educational performance were flawed. "Children of higher-income parents probably do well in school because they inherit superior genes, not because they can afford to buy their children a better education," Professor Vijverberg said. Critics of Vijverberg & Plug in turn argue that other factors such as trauma and child abuse may have been involved in the background of adopted children.

See “Genes have it over means in determining academic performance”, The Australian, 7 November 2005.

Alan Duhs and Mohammad Alauddin
The Editors
A NOTE ON OPPORTUNITY COST: A CONTEMPORARY PROBLEM

Paul Ferraro and Laura Taylor have stirred up something of a storm as to whether professional economists themselves correctly understand their own fundamental notion of opportunity cost. Ferraro and Taylor (2005) ["Do Economists Recognize an Opportunity Cost When They See One? A Dismal Performance from the Dismal Science", Contributions to Economic Analysis & Policy: Vol. 4: No. 1, Article 7. http://www.bepress.com/bejeap/contributions/vol4/iss1/art7 ] oblige teachers of economics to raise serious questions about their efforts if the correct answer to a simple question is the least popular one selected by well qualified professional economists.

Teachers of economics at all levels, but especially teachers of Principles courses, will find provocative material here.

The troublesome Ferraro and Taylor question, as put to a group of professional economists, was:

You won a free ticket to see an Eric Clapton concert (which has no resale value). Bob Dylan is performing on the same night and is your next-best alternative activity. Tickets to see Dylan cost $40. On any given day, you would be willing to pay up to $50 to see Dylan. Assume there are no other costs of seeing either performer. Based on this information, what is the opportunity cost of seeing Eric Clapton? (a) $0, (b) $10, (c) $40, or (d) $50.

The answer given as correct was (b) $10. The article went on to say that only about 21% of respondents got this "unambiguously" correct answer right. Robert Frank thereafter commented in The New York Times ("The Opportunity Cost of Economics Education": 1/9/05) that there is convincing evidence that even economists don't understand opportunity costs. Web-based debate rages on, however, with some participants (C. Decker, University of Nebraska) arguing that

"Basically there are at least two approaches to answering the above question that can lead to two different "opportunity cost" answers. While this might be a troubling result, I also suggest that so long as the decision maker is consistent in his calculation, both procedures will result in the correct decision being made."
Hence, the study the Times’ article cites may be "much ado about nothing" rather than an indictment of the economics profession.”

Ferraro and Taylor have reignited such questions as:

Do graduate economists in fact have a deeper understanding of economic processes and reasoning than people without such training? Has modern graduate education so emphasized mathematics and technique as to be detrimental to economic reasoning?

Those interested might check the following sites for relevant comment and debate:


Alan Duhs and Mohammad Alauddin
The Editors

THE CHINESE ORIGINS OF THE INVISIBLE HAND

When Joseph Needham published his Science and Civilisation in China series, it called to the attention of nearly all in the West (and a great many Chinese) that China’s status as a large developing country playing technological catch-up is a relatively recent phenomenon. Prior to the 14th century, China led the world in mathematics, astronomy, seismology, physics, engineering, material and civil technology, medicine and agricultural technology (Chai, 2000). This edge in science and technology, along with a highly developed and well functioning market economy (Skinner, 1964, Chao, 1986) formed the basis of China’s status as the world’s only economic superpower at the time of the Song dynasty (AD960-1279). In Maddison’s The World Economy: a millennial perspective, he estimated that at the turn of the first millennium, China had a GDP more than two and a half times larger than the countries of Western Europe combined, as well as the world’s highest GDP per capita (which it shared with India).
When European countries began to seek to engage in trade with China several centuries later, it was met largely with disinterest from the Chinese side. The problem was a fundamental one; while China had much that foreigners desired such as tea and silk, the Europeans had little to entice the Chinese with in return. The Chinese themselves were not surprised by this state of affairs; after all, it was their country that was the “Middle Kingdom”. For the European nations however, influenced by the prevailing Mercantilist view of international trade at the time, a trade deficit was a disastrous situation and it remained so until the 18th century. By this time the technological gap that the European countries had once suffered vis-à-vis China had long since been made up and they were able to use their military strength to forcibly open China up to imports of the drug opium. China’s past prowess in science and technology gave rise to the “Needham puzzle”, which asks the question of why, having stood on the cusp of industrial revolution several hundred years before Europe, did China not take the final step but rather began a long period of relative decline? This question has occupied the minds of leading China scholars including Elvin (1973) and Lin (1995) and continues to be debated today. Yet there is another important question that might equally be asked. Given China’s long history with a well-functioning market economy, why did we have to wait until 1776 for the Scottish philosopher Adam Smith, using his “invisible hand” metaphor, to show how a market economy comprised of economic agents acting according to their own self-interest might generate a desirable outcome for a society as a whole? Fortunately, this question is answered more easily than the Needham puzzle. Smith may have coined the metaphor of the “invisible hand”, but it was the Chinese historian, Sima Qian writing 1800 years earlier, who first grasped the logic underlying it.

Consider the following quote from Smith’s *Wealth of Nations* -

“Every individual...generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention”.

And now the following quote from Sima Qian’s *Records of the Historian* (cited in Chow, 2004) -
"There must be farmers to produce food, men to extract the wealth of mountains and marshes, artisans to produce these things and merchants to circulate them. There is no need to wait for government orders: each man will play his part, doing his best to get what he desires. So cheap goods will go where they fetch more, while expensive goods will make men search for cheap ones. When all work willingly at their trade, just as water flows ceaselessly downhill day and night, things will appear unsought and people will produce them without being asked. For clearly this accords with the Way and is in keeping with nature".

Economic theory, it appears, ought to be added to the list of disciplines in which China enjoyed relative superiority in the past. In introducing students to the merits of the market economy, microeconomic principles textbooks commit a significant error of omission by exclusively crediting Smith as the source of original thought in this area. For our part as teachers, let’s ensure due credit is given to the Chinese origins of the “invisible hand”.

James Laurenceson
The University of Queensland
THE STUDENT’S GUIDE TO WRITING ECONOMICS,

Anyone who has spent time marking essays over the years is bound to have some comments to offer. Sprinkled in amongst the conscientious and capable papers are those that leave a good deal to be desired, either because they lack effort or because they lack the know-how required to put a good paper together. Neugeboren, who is assistant director of undergraduate studies at Harvard, seeks to help the latter group to “write economically”. The purpose of his Guide is to help students to think and write like economists.

He opens with an account of how economists see the world in terms of opportunity cost, rational choice and response to incentives, and follows with commonsense suggestions about ensuring that students don't just assert their opinions but first establish their credentials by demonstrating an understanding of issues and controversies which characterise the relevant literature. To say that clarity of exposition and sharpness in deductive reasoning are requirements of good economics writing is not saying much, but Neugeboren's goal is to offer practical advice on how to achieve that clarity by first conforming to a schema or skeleton outline of the proposed exercise. His book provides tips on how to choose a topic (when that choice is left to students), the importance of acknowledging shortcomings (or offering a critique of one's own effort), and on the presentation of empirical results. “Less is usually more” is a phrase that publicly funded Australian Universities will have become familiar with, but in the present context Christopher Foote of the Boston Fed offers a contribution in which he uses the phrase to counsel students against including so many parameter estimates as to muddy the essential message of their papers. Moreover, while there is of course sense in asking a friend to proofread your work, actually getting the paper ready in time for that to happen is a hurdle at which many will probably continue to fall. Proofreading is commonly below par, as academic staff well know, but just why that remains so in economics papers is perhaps mainly dependent on just what incentive there is in the assessment system for upgraded proofreading effort.

Appendices are provided on statistical sources, online search engines and electronic indices to the Journal literature.

The book is clearly written. It offers commonsense advice on how to write academic papers. While those tips will doubtless seem self evident to some, the fact remains that commonsense does not always seem so
common, and experienced markers will recognise the scope for improvement in the essay writing styles of many students, including conscientious ones. It is to those students that this book speaks.

Alan Duhs
The University of Queensland


This Handbook is a set of individual guides designed to inform and improve the practices of university lecturers of economics. It is a supplement to the generic professional development services now offered by most universities. It extends these generic teaching and learning strategies in order to address issues and ideas specific to economics. Due to the focused nature of this handbook I believe it is an essential resource for any economics department that is genuinely interested in quality teaching and learning.

It is made up of eleven separate, A4 size booklets, with four more being planned for release in 2005 (marked with an * throughout this review¹). Each booklet is self-contained and can easily be removed from the folder they are stored in. The storage folder is actually the worst part of the handbook as it is large and extremely cumbersome and the two-ring mechanism is simply not up to the task of supporting and holding the eleven booklets. This problem will be exacerbated if the four new booklets are added. The shift to a three-ring mechanism could help but I would prefer a less cumbersome storage device.

The booklets are grouped around four section headings of teaching, assessment, course design and evaluation. This format of the handbook therefore lends itself to a pick and mix approach or can be selected to support a specific area of concern. Attempting to read the entire handbook sequentially would result in a serious information overload problem.

The largest of these sections is the teaching section with six original guides and three new ones. These guides cover all types of teaching forums and are suitably labeled for that purpose: Lectures; Tutorials and Seminars; Problem-based Learning; Games, Simulations and Role Playing; Case Studies; Virtual Learning Environments; Online Communication

¹ Although these are now available only the Plagarism one has been read by the reviewer.
using Discussion Boards*; Group work and Assessment*; and Using the Web to Teach Economics*.

The Assessment section contains three guides: Alternative Forms of Formative and Summative Assessment; Computer-Assisted Assessment; and Plagarism: Deterrence, Detection and Prevention*.

Section three on Course Design covers: Personal Development Plans; and Designing Undergraduate Degree Programmes. It is this section that I personally believe has the most potential for additional guides to be added and/or for 'international' versions of the guides to be developed.

The final section, Evaluation, contains only one guide on Questionnaires. Many universities do have some centralised evaluation system so this section is perhaps of more limited use if 'over-evaluation' is to be avoided.

Each guide is structured in a similar way with an introduction, summary of the standard ideas relevant to the topic, extensions to this basic approach, case studies illustrating how the approaches may be used and finally, suggestions for further reading. Throughout each guide there are 'Top Tips' highlighted as boxes that visually leap out at the reader. If in a hurry, these provide a great way to find something new and useful and facilitate reading of only the relevant section. This consistent structure makes it very easy for experienced lecturers to skip the introductory material and move directly to new ideas or case studies. The inclusion of the introductory material does link the specific economics material to the standard content of generic professional development courses. However, the specific applications provide significantly more guidance and help to new staff than they are likely to find in those generic development courses.

Rather than review the entire content of the Handbook I have decided to provide detail of only one guide as a representative example of the others. The one chosen is the Computer-assisted Assessment Guide and the reason for this choice is that it is most likely to cover new content for the majority of readers.

This introduction starts off by clearly defining what computer-assisted assessment (CAA) is, why we assess students (both formative and summative) and then discusses the advantages and disadvantages of using this type of assessment. Discussions on both pedagogical and administrative issues are included. This section also provides a useful discussion that could provide the rationale or justification in any proposal for the introduction of a new assessment programme.

Having provided this general overview of CAA the guide moves on to the main content. This systematically goes through the things to consider in introducing CAA and the implications for the different stakeholders - lecturers, students, students with special needs, IT staff and administrators. It is this rich consideration of the wider issues involved in all of these
teaching and learning strategies that provides such strength to the value of this Handbook. Having considered the 'human' side of CAA the guide goes on to discuss the economic topics and skills that best suit this type of assessment and why. The main content then finishes discussing the CAA system to be used and suggesting avenues and links for further research and information. This section covers the main commercial platforms in common use (WebCT and Blackboard) as well as the case for custom systems.

The next section of the guide provides a rather detailed case study of how CAA has been introduced and used at the University of Aberdeen. The case study is useful and informative in that as well as illustrating the guide's content it also specifically deals with some of the issues and constraints faced in the implementation. The Aberdeen case is specific to a second year macroeconomics course but still provides many useful insights that would be relevant for any course. This real world approach is what makes the content of these guides so useful. Forewarned is forearmed in dealing with university bureaucracies.

The final section of the guide is a useful list of references for further reading and suggested links to useful websites. All of the guides are structured in a similar way and it is this convergence of theory and application that minimises the costs involved for a lecturer to introduce new ideas into the teaching and assessment programmes.

The broad range of topics covered, from traditional, large lecture approaches to virtual learning environments means that there is something useful to be found here for all ranges of teaching experience. Experienced lecturers may use these handbooks as a source of fresh ideas or in order to develop their teaching capability in new forums or even just as a benchmark when reflecting on their professional practice. New lecturers, and this can include tutors or the staff responsible for training new tutors each year, will also find the advice, suggestions and case studies included in these booklets an invaluable resource and guide to commencing their teaching in an informed and constructive way. Moreover, for any staff thinking of starting research and writing in the area of economic pedagogy this handbook will provide a very useful foundation of key literature in the field.

The only significant shortcoming of the content is that it often uses United Kingdom examples and/or references to the UK Higher Education sector. However, for those of us based in Australasia we are quite used to this geographic bias in many of the materials we use and the UK examples employed usually have more applicability to the Australasian environment than many North American resources. For much of the teaching and assessment material this problem is relatively minor and if the user is just 'dipping' into the Handbook they may manage to miss these entirely.
However, the guides on course design and evaluation are specifically written within the UK higher education framework. If they wish to acquire a more international market for the Handbook however, it could be useful to develop an "International Version", written by local contributors, particularly the Designing Undergraduate Degree Programmes Guide.

Overall, this Handbook provides an excellent, economics specific, introduction and ideas bank of teaching and learning strategies. It is the type of resource that you can continually dip into when searching for new ideas and to adjust your teaching to changing groups of students. It is not something most lecturers would want to purchase individually unless they are committed to research in this area as well but it should be held in all departments as a basic resource. For anyone that regularly reads this journal there will not be a lot of new material contained in the handbook but one or two little pearls makes it worth having a look through. If you feel your teaching may be getting stale this Handbook can provide small innovations that keep you stimulated and through that help inspire another semester of students.

Mary R. Hedges
The University of Auckland


Stilwell seeks to provide an overview of political economy, and to illustrate how conventional economics is limited in its ability to enlighten us on significant matters of production, distribution and sustainability. He makes a case for “modern political economy”, which he highlights in Chapters 33-37 largely around the themes of environment, technology and feminism. He finds the roots of this modern political economy perspective in the liberal democracy of Keynes, the social democracy of Galbraith and the revolutionary socialism of Marx. In expounding his case he asks how and why it is that neoclassical economics retains its dominance, and why critics are not more successful in exposing orthodox economics as an ideology which exaggerates the accomplishments of capitalism as a vehicle for efficiency and equity.

He does not accept that the contest of economic ideas takes place on a level playing field, but within institutions (including universities as well as the institutions of corporate capital) that systematically favour some viewpoints and marginalise others. Thus he concludes (p368) that the teaching of economics is constrained by the prevailing orthodoxy – to the
detriment of millions of students worldwide. What is in the textbooks shapes what is taught in the classroom. In this he effectively paraphrases Ted Wheelwright's 1978 view (p4) that “students arrive, they must be taught - most teachers know only the orthodox doctrine; and the models lend themselves to endless refinement which give a false impression of rigor and precision." Wheelwright accepted that eliding power from orthodox analysis may have been an attempt to make the subject non-political but it destroys the relation of orthodox economics to the real world. He therefore endorsed Galbraith's view that orthodox economics is not neutral and hides the realities of economic power in the modern world.

Stilwell's *Political Economy* builds on this tradition. It is a plea for pluralism in the teaching of economics, the better to combat what Wheelwright and Galbraith condemned as “a new despotism” in academia. For Galbraith orthodoxy persisted, despite its bias and incapacity to illuminate social issues, because it is a formula for a quiet, non-controversial life; one that owes a lot to tradition as it is a not implausible account of a society that once existed. It is the available doctrine, not yet replaced. For Wheelwright the main charge against orthodox neoclassical economics similarly is ideological bias and irrelevance. For him, questions need to be asked about where correct economic ideas come from. For Stilwell, orthodoxy similarly persists despite having an ideological character, and economists disagree as to which vision of society properly informs the practical use of economic ideas. Economists disagree because of different methods of analysis and because they adopt distinctive value judgements, derived from rival political philosophies (p355). He concludes that the contest of economic ideas takes place not on a level playing field but subject to systematic bias insofar as the economically most advantaged groups are well able to fund and influence outcomes and help preserve the system of greatest advantage to them.

In short, the Sydney political economy project still has unfinished work to do, and Stilwell seeks to make his contribution in challenging the tight hold that the orthodox professional gatekeepers have on entry to the ranks of professional respectability. His orientation is revealed by the fact that six of his chapters are devoted to Marxist economics, and five to Keynesian economics. He provides an account of the emergence of classical political economy, and he joins Hirsch, Streeten, Sen and others in claiming some part of Adam Smith for himself. Although classical political economy played a key role in legitimising capitalist market relationships, Stilwell notes that Adam Smith was not a simple advocate of laissez faire, and remained deeply suspicious that “people of the same trade seldom meet together ... but the conversation ends in a conspiracy against the public”. Moreover, Stilwell notes that in his lectures on jurisprudence Smith argued that the chief purpose of government is to preserve justice and this requires
the state to protect individual rights and social relations. This included a state role in maintaining institutions of transport, education and religion. Smith opposed monopoly and “was deeply concerned about the moral dimension of economic behaviour” (Stilwell: p72). In Heilbroner's words (cited in Stilwell: p72) “Smith was by no means oblivious to the moral costs of acquisitiveness”. Stilwell therefore adds his name to the list of those who dispute the claim of modern neo-liberals that they are properly descended from Smith. Heilbroner adds that “In Smith's hands the interplay of market forces and moral decline takes the form of a subtle dialectic that invests his work with its remarkable depths. In the hands of his successors the dialectic disappears, and the evaluation of economic growth emphasises its material aspects without any concern as to untoward moral consequences, in terms of either motives or social outcomes”.

Despite the detailed attention given to classical political economy, some of the less traditional, more recent highlights of modern political economy are nonetheless downplayed. Commons is mentioned, but not Coase, for example. No more than fleeting reference is made to Becker or Sen. Stiglitz is another central figure of recent debates about globalisation, information economics and welfare economics who rates no mention, despite some treatment of globalisation and related themes. Economic rationalism is discussed, but it is not highlighted, and no reference is made to the Chicago School notion of economics as imperialist science.

Stilwell's concern is with political economy rather than with economic philosophy but he does allow (p204) that “In practice, economic rationalism has the characteristics of a faith” and amounts to a vulgarised form of neoclassical economics in action, devoid of all its caveats about 'market failure', and problems of 'second best'. In an allusion to philosophical themes in economics he acknowledges (p365) that Keynesians, Marxists, neoclassicists and institutionalists cannot be expected to easily agree when fundamentally different political philosophies infuse their economic analyses. Stilwell objects that welfare economics has turned out to be a dead end (p205) - yet many of the major political economic changes in the real world in recent decades have reflected the influence of neoclassical economics. Stilwell concludes that it seems that the real world is being changed so that it conforms more closely to orthodox neoclassical, economics textbooks. In itself, that is quite an endorsement of the notion of economics as imperialistic science, whether he explicitly discusses it or not.

Stilwell hopes for a pluralist outcome in which modern political economy will move forward, such that students will find stimulus in confronting the contending perspectives. One thing that does stand out is the simplicity and clarity of Stilwell's writing style. He presents a user friendly and enjoyable read, and offers the prospect of much gain to the
interested student – even if there remains enough additional territory for another book yet.

Alan Duhs
The University of Queensland

References


About 18 months ago, we switched to Frank and Bernanke after a protracted beauty contest involving what boiled down to a handful of finalists. We wanted a book that would avoid gratuitous detail, engage students and arouse their ability to see the economics in the world around them. But we didn’t want to dumb things down; the hope was to focus on a deeper understanding of concepts. By the way, the narrow runner-up was Colander, from the same publisher, which is probably a richer book but a riskier choice given the wider range of abilities of students nowadays.

What mattered most to the five people involved in the decision was the book itself rather than the publisher’s extras. These days, most publishers provide a reasonably attractive bundle anyway. The MCQ bank, though, is better than average, and some of the questions probe the meaning and application of concepts to allow assessment of aspects involving deeper learning.

I particularly like the way the book hits the ground running in chapter 1 by introducing challenging concepts and establishing up front that economics confronts the errors people routinely make. So many textbooks are written by unthinking authors who counter-productively say “people are rational and well informed and do the best they can, and markets do a great job”. This directly implies that studying economics is of no use to anyone in a market economy: you are fine, and the system is fine. Of course, studying economics helps you reduce all-too-common reasoning errors (looking at average costs and benefits instead of marginal ones, confusing proportional and absolute costs, including sunk costs and so on). Misidentifying opportunity costs is widespread even if most people readily accept that there are costs beyond money paid, such as time and effort.
Other attractions are unusually challenging topics in later chapters on game theory and the economics of information, though we do avoid the parts where technicalities mount unduly.

I lectured in the first half of semester on chapters 1, 3, 4 and 6. In 2004, we skipped both chapter 2, on production possibilities and comparative advantage, and chapter 5, on deriving individual and market demand curves – and got away with it! In 2005 we’ve restored ch. 2, but this material is mostly rather dry (surely, it should not be), and it’s at the end of the course.

I think that there is still room for enhancement though. I have several examples of things that I think could have been explained better, but this is rather fewer than in the average textbook. Ch. 6, alas, is about as dull as every other book’s treatment of costs.

Even in the second edition, there’s unnecessary repetition and topics could be finished off quickly in an earlier chapter rather than revisited later, though I appreciate from experience how difficult "optimal" sequencing is in drafting a textbook. Reviewers can make conflicting assertions about the right way to do things. Even so, chapter 7 interrupts the flow, I feel, and chapter 8 strikes me as a miscellany that could have been cut and pasted into earlier chapters. So, though pretty lean already, it could be more so.

My overall response remains positive: it is an engaging and direct book, but it does not dumb down so far as the conceptual and intuitive side is concerned. I think it succeeds in establishing that economics is important and interesting, and it challenges some of the stereotypes held about economics. Incidentally, Frank sent me an email message to thank me (us) for setting the book, which was a nice touch.

Bruce Littleboy
The University of Queensland


It is very pleasing to see that Dr. Bruce Littleboy, and Professor John. B. taylor, in this book, has moved away from the pure monetarist approach adopted in Professor Taylor’s earlier text book on introductory economics in explaining macroeconomic phenomena and in dealing with major macroeconomic problems. In this book, although the authors hold the middle ground by not exclusively relying on the Keynesian approach to deal with macroeconomic issues, they clearly recognise the importance of the state’s role in rational economic growth and social sector development.
To maintain aggregate expenditure at a level necessary to maintain a robust real GDP growth, required investments can be lumpy and large in comparison to national savings flows.

Hence, in absence of sufficient private sector investment, public interventions are required in the economy both to support private investors (via cheap credit subsidies), and to invest directly to break critical bottlenecks. Their acceptance of this interventionist state philosophy is made reasonably clear in their treatment of economic growth, economic fluctuations, fiscal and monetary policies, aggregate demand and supply models and of other issues.

The organisation of chapters in the book starts with the measurements of Gross Domestic Product. But since changes in national income contribute to changes in economic growth rate, the discussion of national income has been followed by a discussion of long term economic growth. This is followed by discussions on unemployment, inflation and economic fluctuations. Since minimising the adverse effects of economic fluctuations requires alteration of aggregate expenditure, the Keynesian aggregate expenditure and income model has been introduced along with the business cycle model.

I would have liked to see the discussion of income expenditure model preceded by the discussion of the economic fluctuations. After that, monetary and fiscal policies would have been introduced. In chapters 14 and 15, the standard issues in international trade and finance have been introduced while the last chapter touches on some current issues in economic development. If the primary objective of the authors has been to write a macroeconomics textbook at the introductory level for the students who will continue to pursue higher studies in economics, as well as for those who are not likely to study economics anymore in their academic careers but want to obtain enough understanding of basic microeconomic problems which occur and the measures needed to tackle those in individual and the global economy, then that objective appears to have been met.

There are, however, a few deficiencies which I would like to point out. First, a simpler, more straightforward and wider coverage of business cycles than what has been presented in this book would have been beneficial to students who need a clear understanding of the meaning of business cycles, types of business cycles, phases of business cycles and their development, the crucial role played by investment (changes in investment in fixed capital goods, changes in inventories and changes in total stock of capital) in the occurrence of business cycles and the supporting factors which join hands with the changes in the stock capital to accentuate the force of recession or to accelerate the speed of recovery and the appropriate policies to keep inflation and recession under control.
Since business cycles are linked to fluctuations in national income, in economic growth, to changes in aggregate expenditure and employment, to inflation, recession and unemployment, a better understanding of various aspects of business cycles would have helped a student better understand other topics discussed in this book.

Also, a better treatment of Phillips curve, stabilization policy dilemma, and of supply side economics (both merits, demerits and long term implications for the economic and social welfare of a country) would have benefited students considerably.

Kartik C. Roy
The University of Queensland
Thomson is committed to nurturing academic excellence through strategic partnerships and new generation technology.

**We offer:**

- Resources developed specifically for Australian & NZ courses.
- Wide range of resources from US and UK-based Thomson companies.
- Custom Publishing — it’s your choice!
- Aplia, helping economics students become active learners

**Thomson & Aplia,** A dynamic alliance integrating the best of text and technology.

To preview Aplia’s online interactive tools and experiments, please visit [www.aplia.com/thomson-au](http://www.aplia.com/thomson-au)
Tables and Figures should be numbered consecutively in Arabic numerals. They should not be placed in the main body of the manuscript. They should be provided on separate sheets and placed at the end of the manuscript. Tables and Figures should be centred, and numbered and titled in bold capitals.

Acknowledgements should appear at the end of the main text and before the references.

Any appendices should appear before the References.

Footnotes should be numbered consecutively in the text and placed on a separate sheet of the manuscript. Any footnote attached to the main heading should be designated by an asterisk.

References follow the author-date Harvard style. References in the text should give the author’s surname, year of publication and page number if a direct quote is included. References should be listed alphabetically after the text. Journal and book titles should be written in full. Some examples are:


Authors of accepted articles will be required to send the final version of the manuscript on a computer disk. The final document must conform to the format of AJEE.

Proofs will be sent to the corresponding author for correction. These must be corrected and returned within a week.