Economics teaching must catch up with the real world

The financial crisis has, not surprisingly, created an intense interest in studying economics. According to UCAS figures, 7,800 students began an undergraduate degree in the subject in autumn 2011, and more than 50,000 applied to do so. This represented an increase in student numbers of 8.5 per cent since 2010, compared with a 1 per cent rise in the total number accepted to UK universities.

However, when newly graduated economists move into the world of work, they are finding that there is a chasm between what they have been taught and the knowledge and skills employers would like them to have.

The messages from employers are consistent, be they in the public sector, investment banks or consultancies. Young economists do not know enough economic history, or enough about the intellectual history of their own subject and the continuing debates about methods. Although they are technically adept, they are too narrow in how they approach the problems they face at work.

Scandalously, many economics students also leave university without two essential practical skills for employment as economists: the ability to find and use data correctly, and the ability to communicate their technical knowledge to non-specialists.

Sensible employers expect new recruits to need further training on the job, but many are shocked that economics students can go through their entire course without exposure to simple practical statistics and econometrics. Universities train all their economics students as if they will go on to become academic economists, but very few will do that. The result is that graduate economists are not as useful to employers or to society as they could be.

One cannot lay the blame entirely on the universities. The financial crisis has put all of economics under a harsh spotlight. Although some economists did predict a crisis, many were complacent about the tensions building in financial markets. Economics had also become too narrowly deductive and theory-based. Other subjects, lecturers in economics are rewarded for how universities value teaching are also needed. As in research, and have little incentive to employ economists but are not academics, I found a collective unease at how little academic economics appeared to be changing.

Some major employers of graduate economists in the UK, such as the Government Economic Service and the Bank of England, have become so alarmed at the absence of ‘real world’ knowledge and skills among their recruits that they agreed to sponsor a conference for employers of economists and the academics who teach them. This took place in February; a collection of essays based on the conference has just been published.

As far as undergraduate economics is concerned, one important change needed is to introduce more interdisciplinarity into courses. Among other things, this would help to teach that both inductive and deductive reasoning can be applied to the same problems. Economics has become too narrowly deductive and theory-based. Exposure to other social sciences can correct this.

One example of how this could be done is the LSE100 course, which has been compulsory for all first-year London School of Economics and Political Science undergraduates since 2011. This aims to introduce “the fundamental elements of thinking like a social scientist”, by looking at questions such as how to measure poverty and how to predict the impact of climate change from a variety of different perspectives. The course also includes training in handling information and communication.

As well as suggesting what might be added to economics courses to make them more useful and relevant, it is also possible to suggest some cuts. Macroeconomics gets too much weight in the curriculum relative to its role in the discipline; undergraduates spend too much time on pure microeconomic theory, and on theoretical statistics rather than practical econometric methods.

Other reforms will be harder to achieve. Changes to how universities value teaching are also needed. As in other subjects, lecturers in economics are rewarded for research, and have little incentive to teach well.

Developing a professional consensus to take the place of the pre-crisis economists’ world-view is not going to happen overnight. But that is no reason for academic economists to ignore the challenge. And reforming how economics is taught in our universities is a major part of any solution.

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