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1 Why Study Economics?

The short answer to the question ‘Why study economics?’ is that it is a terrific subject. Of course, we are biased; we are economists. But we think that there are three very good reasons to study economics.

- The first is that it is – or should be – interesting and that it is impossible to understand the world in which we live without some knowledge of economics.
- A second reason is that it is useful, both to the individual who studies it and also to society as a whole, since economics can lead to a better world.
- A third reason is that a qualification in economics is an excellent basis for a career.

We will examine these reasons in turn.

► Economics is interesting

Of course, not all economics is interesting to everyone. There are some people who are not really interested in understanding more about the world. This kind of person may well find economics boring. Similarly, not all economics is interesting, even to those who like economics. In some places, you have to *think* to get the benefit, and thinking can be hard work. If you are not in the mood to do this, then it may fail to raise your interest. Even when you are willing to work, you may find some aspects less interesting than others. For us, the most boring part of economics is that devoted to the ways in which we calculate national income and output – National Income Accounting – though others do find this interesting. Regrettably, sometimes economics fails to be interesting because its relevance is not made clear.

Economic theory is what gives the subject its strength. Subjects that lack theory are forced to become largely descriptive; this is sometimes

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interesting, but often shallow. The strength of economics as a subject is illustrated by the fact that it is one of the few subjects for which there is a Nobel Prize. Subjects such as law, sociology, marketing and business studies do not have this stature.

Another outward sign of the strength of the subject is that economists are willing to poke fun at their subject. You can see a large selection of (very poor) 'jokes' about economics on the Internet at <http://netec.mcc.ac.uk/JokEc.html>. This also gives several reasons to study economics including: Mick Jagger, Arnold Schwarzenegger and Arsene Wenger all studied economics and look how they turned out

A more serious reason for studying economics is that it helps you realise when politicians are talking economic nonsense. This is not infrequent. One of the great economists of the twentieth century, John Maynard Keynes, concluded his great book *The General Theory of Employment, Interest and Money* (p. 383) by writing:

the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist

Understanding economics will help you recognise this.

Economic misunderstanding is widespread. Wood (1997) lists a number of fallacies. These include:

- Ticket touts are harmful
- Free trade causes unemployment
- Raising interest rates causes inflation
- Central banks can control real interest rates
- Workers should get a living wage

Though it has to be admitted that some of Wood's 'fallacies' are not accepted as fallacies by all economists, some economists would add others. For example, most economists would agree that it is a fallacy that countries should aim to be self-sufficient: that is, to produce all the goods that they consume.

A look at almost any newspaper will show you how closely economics is linked to the real world, and how we cannot really understand the context of our lives unless we have some knowledge of the subject. Some examples can illustrate this:

- How do we as a society know how many pairs of jeans to produce? How many portions of fish and chips? How much beer?
- How do firms decide the prices of their products? My little diary cost £2.50 two years ago in 1998, last year it was £3.00, this year it is £3.50 – and this at a time of very low inflation. Why?
- Why does it cost more to watch Manchester United play than it does to watch Stockport County?
- Why do (largely useless) diamonds cost more than (essential) water?

The answers to all these questions – and a million others – derive from the economists' use of demand-and-supply analysis.

Another set of questions concerns poverty and wealth. Why do (some) professional footballers earn such large sums of money, and why do people doing essential jobs such as nurses earn relatively little? Questions such as these are the domain of distribution economics, whilst questions such as 'How can we improve the environment?' and 'How can we reduce poverty?' are covered in welfare economics.

Why, and how, do firms decide to build – and close – factories? What are the best methods of deciding if an investment will be profitable? These are the domain of business and industrial economics.

Then there are questions relating to the economy as a whole. These include topics such as unemployment and inflation. And why do most economists believe in free trade, even if it means that domestic firms go out of business?

These are just a few of the questions dealt with in economics. The conclusion is clear. You cannot understand the world around you unless you have some knowledge of economics in its various aspects.

► **Economics is useful to the individual and to society**

It would be nice if we could write that studying economics will make you rich, but it simply is not true (though, as we will see, it usually does lead to good jobs). What it can do is to give you some very useful mental tools and skills that will be helpful in many other aspects of life.

Many of these skills, such as the ability to write good essays, are the subject of the second part of this book and so will not be discussed here. But there are some less obvious skills that are developed by studying economics. Some of these skills are 'overarching', such as the

development of logical thought processes, whilst others are more specific to economics, such as the ability to read and interpret economic arguments.

Earlier in this chapter we mentioned that studying economics could make it possible to discover when politicians are talking nonsense. One reason why this is possible is that studying economics helps people realise the difference between statements of fact and expressions of opinion. It also helps develop a logical way of thinking about economic issues and the ability to present statements in a reasoned and relevant way. The ability to present and discuss ideas, concepts and arguments in a clear and accurate manner is an important general skill that is valuable in a wide range of careers. So is the ability to evaluate decisions, arguments and the reliability of information. This is allied to the ability to process data relating to economics, including the collection and collation of data and their use and presentation to support and illustrate arguments or points of view. Writing reports, interpreting data and analysing arguments are central to economics. If you master these skills in your study of economics you will be able to use them in a wide range of contexts, not only as a student but also in your working life.

So far we have been looking at how people who study economics can benefit. But there is a more general benefit. Whole societies can benefit from good economic policies. Low rates of unemployment, low inflation and high economic growth do not occur by chance, but because of good economic policies. These issues are discussed in detail later in the book and, as we will see, there are no easy answers. Moreover, external circumstances sometimes make it difficult to implement such policies. For example, after the break-up of the Soviet Union, political factors in Russia meant that it was not possible to implement appropriate economic policies.

The elimination – or at least reduction – of poverty can also be helped by appropriate economic policies. This is such a huge topic that we cannot possibly cover it all here. So, instead of attempting the impossible, we will illustrate the way in which economics can be useful by considering the work of one economist, Amartya Sen, who won the Nobel Prize for Economics in 1998.

Sen was born in India, and experience of the desperate poverty of the people of Bengal, particularly its women, made him keenly aware of the dehumanising effect of all who were touched by it. When he was nineteen, he came to Cambridge to study economics. Since then he has worked as an economist in several places including

Harvard University. At the time of writing he is Master of Trinity College, Cambridge.

Some of Sen's ideas are complicated and theoretical, for example, formulating ways of measuring development, but we can give an outline of some of his concerns. He argued that unregulated markets were often unsatisfactory because one person's freedom may constrain someone else. Sen argued that we need to recognise the complexity of people's choices, wants and behaviour. For example, the fact that many Bengali women collude in the subjection of their daughters does not mean that this is what they would freely choose. If we want a world where we can choose to have more or less inequality or poverty, then we need to think carefully about which inequalities we care about because dealing with one will have an impact on another.

Much of Sen's career has been about developing practical measures that boost the intellectual crusade against inequality. For Sen, it is not enough just to focus on poverty; we need to think about what poverty means for the poor. In particular, poor women are disadvantaged in that they are worse off than men in terms of diet, education and medical care. Sen has written about 100 million missing poor women, implying that politicians often behave as if these women did not exist.

Let us take a specific example: famine. The cause of famine is obvious, is it not? – there is a shortage of food.

Sen argued that this was not the fundamental cause. As he put it, 'Starvation is the characteristic of some people not *having* enough to eat. It is not the characteristic of there *being* not enough to eat' (1982, p. 1). In other words, when famine strikes, there is often enough food, but it does not reach the poor because they do not have enough money for the food that is available on the market. Thus famine can be regarded as a *failure of entitlement* – it can take place without there being a substantial decline in the availability of food, but people starve because conventional obligations and ownership rights restrict the availability of food to those in powerful positions. One solution to this is democracy, which can empower the poor and make it more difficult for the rich to corner all the food. This analysis of famine is just one aspect of the way in which Sen argues that the benefits of competitive markets are distributed unequally.

Sen is just one economist; other economists have other concerns, but his work shows how economics can be used to improve people's lives.

► **Economics as a foundation for a career**

For most employers, a degree is what matters; the subject is less important. Thus you will find economics graduates working in a very wide range of jobs. But economics is a subject that also leads to jobs where knowledge of the subject is very useful. Thus about one half of economics graduates go into jobs in the financial services industry. Some of these will work in the commercial banks where a degree in economics is particularly useful since it gives exemption from some bankers' examinations. This also applies to some accountancy examinations, another source of employment for many graduates in economics. Many economists also work in other sectors of the financial services industry. Insurance companies, building societies and merchant banks all employ economists. In many of these careers a knowledge of economics is combined with another area of study. In such cases, economics gives a strong theoretical underpinning to a wide range of careers.

Economists are widely employed in the public service, either as general recruits into the civil service or as specialist economists in the Government Economic Service. The senior members of this Service will advise ministers on the economic implications of alternative courses of action. The privatised utilities and the regulatory agencies such as OFWAT and OFGAS all rely on economic analysis and advice from economists and many economists also work in local government, advising on economic development. And, of course, many economists work in the education industry as teachers or lecturers (these tend to earn less than other economics graduates).

There are also jobs overseas for graduates in economics. The European Commission in Brussels and the OECD in Paris both employ a large number of economists. So do international agencies such as the World Bank and the International Monetary Fund.

Firms sometimes employ economists to make use of specialist skills such as economic forecasting, but they also employ economists because the subject gives a good grounding of skills. Since economists are literate, numerate and can analyse and evaluate, they are very useful to employers.

There is much evidence that getting a degree leads to higher salaries. For example, an economist called Psacharopoulos (1985) reviewed the research in many countries and found almost without exception that investment in higher education was a good investment, both for society as a whole and also for the individual who was educated. More

recently, researchers in Britain obtained data from people aged 33. They found that the wages of both men and women with higher educational qualifications were significantly higher than those with just A-levels. Men with first degrees had hourly wages that were 21 per cent higher than those of men with just A-levels, and women with degrees had incomes 39 per cent higher than women with just A-levels, though correcting for other factors (such as ability) slightly reduced these figures (Blundell *et al.*, 1997). Similar results were obtained by Belfield *et al.* (1997). These researchers surveyed the careers of 18000 graduates from over 40 higher education institutions. They found that by age 30–34, male graduates were earning 30 per cent more than those with A-level qualifications who did not go on to higher education. Women graduates earned even more than this compared to those women who did not go on to take a degree. So, taking a degree pays, though, of course, this does not mean that everyone who graduates will benefit. There are many exceptions, such as poorly educated individuals with high incomes and highly educated people with low incomes. The question which needs to be answered here is ‘How do graduates in economics compare with graduates in other subjects?’

Four separate pieces of evidence show that on average economics graduates tend to earn considerably more than other graduates.

The first evidence is research by Dorton (1992) which examined the salaries of 1985 graduates five years after graduation. Computing graduates came top, earning 28 per cent more than the average graduate. Economists came second in his list of subjects, earning 18 per cent more than the average. Mathematics graduates earned 12 per cent more than the average whilst graduates in history earned 11 per cent less and graduates in English 12 per cent less than the average graduate.

The second piece of research is by Blackaby *et al.* (1998). This used information from a labour force survey to compare graduates in various subjects with others who had similar grades at A-level but who chose not to go to university. As suggested earlier, the results showed that it paid to take a degree. They also showed that graduates in arts subjects earned 9.4 per cent more than those who did not progress beyond A-level, whilst those taking ‘economics, accountancy, law and management degrees’ earned 40.8 per cent more. The researchers also compared individual degree subjects and a selection of these results are shown in Table 1.1. (It should be emphasised that this is a selection: economists earned more than average, but graduates in a few other subjects such as medicine earned more than economists.)

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TABLE 1.1 GRADUATE EARNINGS IN GREAT BRITAIN BY SUBJECT (% INCREASE IN EARNINGS COMPARED WITH THOSE NOT PROGRESSING BEYOND A-LEVEL)

Economics	38%
Business and management	37%
Mathematics	32%
Mechanical engineering	27%
Biology	18%
English	15%

Source: Blackaby, D. H., Murphy, P. D., and O'Leary, N. C. (1988) 'Graduate Earnings in Great Britain: A Matter of Degree?', Economics Department, University of Wales.

Our third piece of research also comes to similar conclusions. The results are shown in Table 1.2

One reason for the differences between men and women in this particular piece of research is that the number of women sampled was relatively low and hence evidence is less strong for them. Male economics graduates were the second-highest earners, while female graduates were the fifth-highest earners. Note however, that some careers, such as law and medicine, are not included here.

Our fourth piece of evidence comes from the research mentioned earlier by Belfield and colleagues. Table 1.3 compares the earnings of 1990 economics graduates in 1996 with those who took other subjects.

TABLE 1.2 MEAN SALARIES OF 1985 GRADUATES IN 1996 BY SUBJECT (£)

Females		Males	
Electrical engineering	34686	Dentistry	41692
Mechanical engineering	33360	Economics	34971
Dentistry	33246	Management	33404
Accountancy	25225	Chemical engineering	31005
Economics	24389	Accountancy	29771
Business	22657	Physics	29552
Biology	22410	English	26842
English	21790	Geography	23345
Management	21647	Biology	22213
Politics	20946	Education	20393
Theology	16455	Theology	14243

Source: Belfield, C. R. *et al.* (1997) *Mapping the Careers of Highly Qualified Workers*, HEFCE Research Series, University of Birmingham.

TABLE 1.3 MEAN SALARIES OF 1990 GRADUATES IN 1996 BY SUBJECT (£)

Females		Males	
Dentistry	38861	Dentistry	34666
Economics	20597	Economics	22424
Accounting	22097	Accounting	22085
Geography	18739	Geography	17490
Business and Management	18103	Business and Management	21802
History	16474	History	18658
Education	17091	Education	17068

Source: Belfield, C. R. *et al.* (1997) *Mapping the Careers of Highly Qualified Workers*, HEFCE Research Series, University of Birmingham.

So, the evidence is very substantial: economists earn considerably more than those who take most other subjects. Whilst there are many exceptions, a degree in economics tends to lead to relatively higher earnings. (One reason for the different results between these investigations is that they were using different groups of graduates to obtain their figures for earnings. There were also differences in their methodology and in their sample size.)

► Conclusions

Economics is a good subject to study. It is interesting, and without an understanding of the subject we cannot understand the world in which we live. It develops valuable skills and so is useful for the individual, and the application of its ideas can lead to a better world. Finally, there is much evidence that it leads to good careers with relatively high earnings.

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