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TEACHING INTRODUCTORY ECONOMICS: CRITICAL ANALYSIS OF “PRODUCTION COSTS”

Abstract:

If you flip through the pages of any classical textbook on Introductory Economics written by G.Mankiv, P.Krugman, R.Lipsey, M.Parkin or A.Layton and taught in North American, European or Australian universities you will discover that practically every page is riddled with formulas or graphs. Some Introductory Economics textbooks have been converted into a course on analytic geometry or calculus. I would not see any problems with this approach if all the beginning students were destined to apply to graduate schools and pass PhD exams. But in reality only a few of them follow that path.

In this paper I want to examine critically the current method of teaching one of the the fundamental topic in Introductory Economics course - Production Costs- and to identify the consequences of that approach on the application of the Production Costs concept to everyday economic and social issues. After studying this topic students would be able to derive rigorously the behaviour of the marginal and the average cost curves and to get understanding of the relationship between these two types of costs. But they have no clue how to apply that knowledge to the everyday practice of business firms. And not because they did not grasp well enough the production costs theory but because that theory by its nature – which is perfectly flawless in the realm of its assumptions - can not be immediately applied to real world issues. That is why many students who successfully passed “rigorous” economics tests based on the use of math failed the tests when they asked to apply the principle of opportunity cost to everyday economic problems.

One of the major area of my criticism of the traditional production costs theory as it currently taught in many universities across the world is that it inevitably – by its nature- creates in the minds of the beginning students a perception that the cost of producing goods is a constant fixed by the facts of nature and represents something objective. In this way of economic thinking sellers have a right to cover their costs, have no right to any price that is significantly above their costs, and have unfair advantage if the price if below the costs.

In my presentation at the conference I am going to discuss other aspects of my criticism of the traditional production costs theory.

Keywords:

economic education, introductory economics, production costs

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