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TEACHING MACROECONOMICS AFTER THE FINANCIAL CRISIS

Abstract:

There is considerable dissatisfaction in the profession regarding the teaching of macroeconomics after the financial crisis. The 'Great Recession' highlighted the inadequacy of traditional macroeconomic modelling, based on real business cycle theory and rational expectations, to appropriately explain why the contraction world-wide was so widespread and why it has been so persistent. Textbooks have been slow to respond to these concerns, possibly because it was believed that this recession would be temporary. In addition, new policy measures such as quantitative easing and the possibility of the zero lower bound in interest rates required a re-orientation of macroeconomics pedagogy. The purpose of this paper is three-fold. First, we sketch and highlight how some of these policy issues could be explained within a traditional Keynesian macromodel. However, such formal presentation to students quickly becomes arid, so to sustain interest we need to supplement the core analytical material with innovative pedagogic strategies which needs interactive student participation. The second purpose of the paper is to give examples of such teaching methods that we have used: the use of video material; utilization of websites from news media; film screening and in-class discussion (Inside the Meltdown); flipping the classroom; playing monetary policy games; as well as, organizing a debate between the proponents of Keynesian ideas and neoclassical models in solving the long recession. Our approach is a synthesis of traditional teaching of economic models with blended learning methods. The third purpose of the paper is to evaluate an early presentation of this method and content to students and how they responded to such an approach. Our pedagogic approach is not vastly different from what policy institutions such as Central Banks are thinking. Consider the following quote from a highly rated British macroeconomist, Professor Wilhem Buiter, on the applications of monetary policy by the Bank of England: "The Bank of England in 2007 faced the onset of the credit crunch with too much Robert Lucas, Michael Woodford and Robert Merton in its intellectual cupboard. A drastic but chaotic re-education took place and is continuing. I believe that the Bank has by now shed the conventional wisdom of the typical macroeconomics training of the past few decades. In its place is an intellectual potpourri of factoids, partial theories, empirical regularities without firm theoretical foundations, hunches, intuitions and half-developed insights. It is not much, but knowing that you know nothing is the beginning of wisdom".

Keywords:

macroeconomics, Great Recession, teaching methods

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