**The Impact of the Financial Crisis on the Content of Six US Principles of Economics – Real or Apparent Changes?**[[1]](#footnote-2)

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Abstract: The financial crisis has already led to visible changes of six textbooks published in 2010. The financial crisis, however, tends to be confined to boxes and separate sections without influencing the theoretical core. The analysis suggests that this core will also remain unchanged for years to come.

*“Macroeconomic textbooks of the future will likely have a full chapter devoted to crises and also will likely reorganize the macroeconomic presentation to better explain the crisis (Colander, 2010, p. 383)*

When the financial crisis[[2]](#footnote-3) became a fact it rendered mainstream economists in a very vulnerable and uncomfortable position. First, what were they then to do with all the apparently rather sophisticated theoretical arguments claiming to prove the impossibility of such a crisis? Secondly, mainstream economists were not able to deliver theoretically based suggestions which could remedy the damaging effects of the crisis on production and employment. Thirdly, as politicians were forced to act anyway one could observe the implementation of policies running counter to mainstream economic theory.[[3]](#footnote-4) In sum, one could observe at least three anomalies not easily resolved by mainstream economic theory. As a logical consequence the media started to ask: “What went wrong with economics?”[[4]](#footnote-5) Hereby, suggesting an urgent need for changes in economics as a science.[[5]](#footnote-6)

The overall question addressed in this article is whether there is any tendency to be observed indicating a change of economic theory comparable to the change taking place as a reaction to the crisis in the 1930s. In order to answer this question it is helpful to draw a distinction between the development in economic theory (research) and the presentation of economic theory (textbooks) or as Colander (2005) puts it to ’do’ and ’teach’. Concerning research Colander has – in collaboration with a number of other economists (Colander et al, 2009) - stressed the compelling need for a reorientation of economic theory and research as a direct consequence of the financial crisis.

Apart from this contribution, it has primarily been heterodox economists which have considered the possible theoretical and methodological implications of the financial crisis.[[6]](#footnote-7) It would be wrong to claim that mainstream economists have ignored the financial crisis, but their main concern has been practical rather than theoretical focusing on causes of and solutions to the current recession of the American and global economy.[[7]](#footnote-8)

How about other areas such as the production of textbooks in the slipstream of the financial crisis? Some would probably already at the outset question this kind of question for the simple reason that one should not expect textbooks to change theoretically or methodologically when mainstream research has so far seemed to be rather immune theoretically to challenges posed by the financial crisis. It is, however, important to acknowledge, that the implied 1:1 relationship between research and teaching does not exist as it did in the heyday of Samuelson[[8]](#footnote-9) - despite the fact that this is still implicitly claimed by Davis (2006, p. 3-44).

On the contrary Colander (2005) argues rather convincingly that for a long time textbooks have been disconnected from research locked into the format and content of the original textbook launched long time ago by Samuelson. This helps to explain why so many textbooks live their own rather neoclassical inspired life emphasizing the importance of self-regulating markets and only occasional state intervention when absolutely necessary – despite the fact that present day mainstream research according to Colander (2005) covers areas such as ‘behavioral economics studies’, ‘evolutionary game theory’, ‘New Institutional Economics’ and ‘agent-based modeling’ (p. 251).

This discrepancy between textbooks and research implies that even within a mainstream economic context there is plenty of space for changing and developing the textbook without challenging the mainstream paradigm – even the seemingly immovable micro section. The financial crisis could, hence, in principle contribute to a narrowing of the ever increasing gap between textbook and research.

Having said so it might still be asked why it should be worthwhile discussing the content of US textbooks. Maybe the best answer to this question was also presented by Samuelson: “I don't care who writes a nation's laws or crafts its advanced treatises, if I can write its economics textbooks”. Undoubtedly Samuelson refers implicitly to the large impact his textbook has had. First, it has been sold and translated all over the world and the structure and content have been imitated by almost all other writers of economics textbooks. Secondly, it must mean something how all those readers conceive the economy – it affects some of their decisions at work – being civil servants or brokers on Wall Street. Relating to the theme of this conference it is an important political bone of contention and a pertinent economic theoretical question of relevance to textbooks whether countries should try to save or grow their way out of the crisis.

This study is economic but it is highly relevant to political scientist attending this conference for several reasons. We have argued elsewhere (Madsen, 2011) that political science will always involve a conception of the ‘other’ – in this case economics - and that it matters how political scientists conceive the economy. Secondly, this is a study of the change of (economic) ideas – according to the tradition launched by the seminal work of the political scientist Peter Hall (1993).

In what is to follow we shall first discuss whether one is to expect significant changes of the textbooks due to the financial crisis. Next, the method is briefly accounted for, while the main section presents the results of the analysis of six textbooks.

1. *Are there a priori reasons to expect significant changes of the textbooks?*

The answer to this question depends on two issues which can be formulated as questions:

1. Are there aspects of the financial crisis, which in some sense challenge the existing theoretical framework of textbooks?
2. Taking into account what might normally change textbooks does the financial crisis have what it takes to initiate significant changes of textbooks?

Re 1) The first question is not easily answered and will be dealt with in the analysis below. The crisis and the attempts to deal with it politically do, however, already at the outset raise fundamental questions which even textbooks might be forced to at least address. The most pertinent questions might be: [[9]](#footnote-10)

1. Does the financial crisis lead to a questioning of the way markets mode of functioning is traditionally pictured in textbooks?
2. Will the state due to the financial crisis play a larger or qualitatively different role in regulating the economy in the future?
3. Has fiscal policy now a larger potential or different role to play than normally assumed in textbooks?
4. Does the financial crisis question the notion of ’the great moderation’ and if so what are the theoretical implications?[[10]](#footnote-11)
5. Does the financial crisis imply that future textbooks will discuss business cycles and crises and their underlying causes to a larger extent?
6. Will the actual change in US monetary policy and the pivotal role played by the financial sector also change the presentation of monetary policy?

Summing up, it is possible to point to a number of critical issues challenging the theoretical foundation in more neoclassical textbooks. By the term neoclassical we refer implicitly and explicitly to an approach which tends to depicture capitalism as a fundamentally stable system while crises and business cycles are treated as exceptions. We shall return to these six points in the analysis. They will be used as a kind of measuring rot for what the textbooks do or do not do.

Re 2) The answer to this question depends of the choice of perspective. We shall present three different perspectives as to what might change textbook in the shorter and longer term: a change in the educational background of teachers, Kuhn’s theory of shifting paradigms and the type of competition on the US textbook market. By applying these perspectives to the financial crisis different possible changes of textbooks are to be discussed.

One of the rather few researchers, which take textbooks seriously in his research is David Colander. He claims, that fundamental changes of textbooks will take place eventually when economists being educated in newer non-neoclassical theory start writing textbooks (2005, p. 255). As mentioned, Colander purports the view that most textbooks are neoclassical while research has developed in a more pluralistic direction. It follows that the education of future textbooks writers might be far more important for the future development of textbooks than the current fiscal crisis. Applying this perspective there are reasons to believe that the financial crisis will leave textbooks fundamentally unchanged – at least in the short run.

From a Kuhnian (1974) perspective, the question is rather whether the financial crisis constitutes a decisive anomaly eroding the dominant position of neoclassical theory in textbooks. If so one would expect theories being better suited to explain the financial crisis (Keynesian theory, behavioral theory, experimental theory, psychological economics, institutional economics etc.) to gradually replace neoclassical theory. At first textbook writers relying on neoclassical theory would be expected to ignore the theoretical challenge posed by the financial crisis but step by step they will be forced to incorporate other theories but without a change of the dominant paradigm. At some point of time this strategy will become untenable as the dominant theory will become too useless in explaining what’s going on. This will lead adherents of neoclassical theory to finally discard it as the dominant theory. Taking into account that so far we have only had four year to digest the American subprime crisis and less than three years to cope with the global financial crisis, it is still too early to expect paradigmatic changes, but there might be some indications or least attempts to deal with the financial crisis within the existing paradigm with some minor theoretical amendments.

The third possible perspective involves an analysis of American basic introductions as a commodity sold and bought on a market, which according to Stiglitz (1988) is working like a monopolistic market. In such a market all producers are supposed to attempt to differentiate their products as compared to competitors[[11]](#footnote-12) in order to obtain a monopoly-like position – at least temporarily. In order to avoid falling behind the other competitor one might at the same time observe numerous instances of imitation, which help explaining the surprising similarity of textbooks. They all look alike – with very few exceptions. In order to leave other competitors behind all textbook writers chase the latest ideas which ‘all’ textbooks eventually incorporate and later it might just as quickly be omitted in newer editions. The elusive character of textbooks might also be considered as a strength as:”it is important that textbooks speak to the current concerns of the students” (Stiglitz, 1988, p. 173). It might be added that in the present situation there are reasons to expect that publishers strongly urge – directly or indirectly – textbook writers to a least include something on the financial crisis. It is – so to speak – hanging in the air. These current adaptations should, however ‘*not* be confused with a fundamental change in the contents…” (Stiglitz, 1988, p. 173). In other words one should not expect this competitive process to lead to paradigmatic changes of textbooks – even in the longer run.

The textbooks market has, however, changed since 1988. Today two players account for around 40 % of the market for basic introductions[[12]](#footnote-13) and hence being close to a duopolistic market, which economists expect to behave similarly to an oligopolistic market. On such a market the dominance of few players is more outspoken and permanent. Furthermore, the barriers of entry are higher compared to a monopolistic market. The market form is strategic and producers try to brand their products like monopolistic firms. The market will be marked by inertia – partly explained by the barriers of entry and partly because teachers rather than students are choosing most textbooks.

Regrettably, the two duopolies did not publish a revised version in 2010. Hence, there are good reasons to believe that the many competitors will exploit the financial crisis to differentiate themselves in relation to the two. Summing up on possible prediction on the content of textbooks, one might expect that 2010 textbooks will deal rather intensively with the financial crisis – at least apparently and without compromising the paradigmatic core. Actual paradigmatic changes might only occur in the longer run when changes in the education have changed in the mindset of textbook writers.

It will of course differ from book to book how much time and effort there is devoted to the financial crisis given the short time span. That is why the analysis is based on editions from 2010 which gives the authors 1-2 years to digest the effects of the financial crisis. Still, one has to take into account that it takes time to produce a new edition and the year of publishing might indicate an unsubstantiated newness (e.g. Colander, 2010 was actually published September, 2009). This lag helps explaining why most of the textbooks have very few data on the financial crisis.

Finally, we have to take into account that it is in principle impossible to predict how textbooks cope with such a dramatic and pervasive event as the financial crisis. This change is not comparable to the current ‘concerns’ aired in the text by Stiglitz. One could imagine that the financial crisis would represent such a challenge that it might lead to fundamental changes of the textbook – even in the short term. Everything depends on the coping strategy chosen by textbooks writers which cannot easily be predicted in advance.

*2. How to investigate the research question?*

There are different kinds of categories of textbooks but as mentioned we have chosen to focus on basic American ‘principles of economics’.[[13]](#footnote-14) In addition there exist four types of textbooks which are *not* analyzed: basic introductions to either micro or macro and more advanced textbooks (’intermediate’ and ’advanced’). [[14]](#footnote-15) Focus is on principles as they are the most widely used textbooks (it is estimated that around 7-800.000 American students are using these books every year).[[15]](#footnote-16) All analyzed textbooks are so-called international or global edition for practical reasons.[[16]](#footnote-17)

It could be argued that the analysis should have focused on advanced textbooks as one could expect them to be closer to the complex reality but contrary to what might be expected by non-economists more advanced textbooks tend to be very mathematical, theoretical and deductive and hence less related to reality than basic introductions. Or to put it more dryly: “Graduate students are much more accepting of abstract discussion that do not relate to reality” (Colander, 2010, p. 383).

The six textbooks have been identified by means of the list in appendix B, friendly assistance from a local Liberian (Helle Rovsing) combined with own searches on World Cat (a database also comprising introductory textbooks targeted at the American market). The downside of using this method at this particular time of history has been that by accident the two duopolies Mankiw and McConnell, Brue and Flynn published their most recent edition in 2009. The preliminary and rather extensive research and analysis did demonstrate that textbooks from 2009 did not mention the financial crisis at all, but only the American subprime crisis. [[17]](#footnote-18) For this reason focus will be on the most sold textbooks in 2010.

As mentioned in the presentation of Stieglitz’s thoughts the content of textbooks is in a state of flux and constant development. Being adaptive is a major competitive parameter. Most textbooks[[18]](#footnote-19) present major changes in the preface making it rather easy to identify changes following from the financial crisis. The analysis is helped by a tendency to over-report and overstate changes in the preface of the textbooks. The focus will primarily be on changes which the textbooks themselves perceive and present as a direct consequence of the financial crisis as well as their direct presentations and analyses of the financial crisis. The method on a more detailed level will become apparent in the presentation of the results.

1. *How much has the financial crisis changed textbooks?*[[19]](#footnote-20)

In this section the content of six best selling American principles of economics is analyzed (cf. appendix A[[20]](#footnote-21)). The overall result is that they are all highly affected by the financial crisis measured in quantitative terms. First, all textbooks have a number of entries being related to the financial crisis of 2008 (going from 22 to 235 entries). Secondly, we have counted the number of pages mentioning the financial crisis (from one line to a whole page). The result goes from 19 to 85 pages which should be compared to the standard size of a typical principle (800 pages). Focusing on pages which give the financial crisis a serious treatment (not merely mentioning it in passing) the number of pages is reduced to seven to 69 pages and of these are six to 31 pages constituted by ’boxes’ clearly separated from the general text – often without any linkages – from the text to boxes or vice versa.

Another interesting quantitative result is that *all* textbooks share the common feature that the financial crisis is persona non grata in large parts of the textbook. One can identify up to 3-400 pages without any mentioning of the financial crisis whatsoever – typically for the microeconomic part. Without any argument the financial crisis is with very few exceptions treated as an entirely macroeconomic phenomenon leaving the whole discussion about the possible inefficiency of markets attenuated by the financial crisis aside.[[21]](#footnote-22)

Furthermore, it has been investigated whether the financial crisis has also been given a full treatment (causes, consequences etc.) in a separate section or chapter or whether the financial crisis is scattered all over the text. Four of six textbooks deliver a general presentation of the financial crisis and only one of the books devotes an entire chapter to the financial crisis (Colander, 2010, chapter 32, pp. 753-775).

The term ’quantitative’ does also cover the many instances in which the financial crisis is ’added’ to the general presentation. By ‘added’ we understand that the financial crisis does not interact with the general presentation. This is also implicitly indicated in the manner the treatment of the financial crisis is referred to in some of the prefaces: ’fresh illustrations’, ’tied to each chapter’ (Schiller, 2010, p. xv) or ’new coverage’ (Hubbard and Brian, 2010, p. 7). In all textbooks the financial crisis is treated in isolation – except in Hubbard and Brian as they succeed in integrating the actual development during the financial crisis in a pedagogically manner in a number of chapters (especially the beginning), but without letting the financial crisis lead to changes in the theoretical content.

The most pertinent question is, however, whether one can observe any *qualitative* changes of the textbooks. That is: to which extent has the textbooks considered it necessary to change the normal content in order to be able to contain the financial crisis? By reading the prefaces it has only been possible to identify one minor qualitative change in the main text. Parkin (2010) states that he has also covered the so-called ’lemon problem’ in earlier editions, but this treatment has been ’heavily revised’ (p. viii) in the light of the fiscal crisis.

Another more implicit and qualitative change in the preface is observed in Schiller (2010). When comparing the two most recent editions of Schiller’s textbook, it is apparent that something has changed. In 2010 he argues that ‘I have always emphasized the problems associated with short-run instability’ (p. vii). This clear statement is a couple of lines later linked to the 2009 stimulus program. This is slightly striking and, hence, it was checked whether this particular approach was just as evident in preface of the previous edition (Schiller, 2008). Unsurprisingly, it was not. One possible interpretation is that the financial crisis legitimates or makes it more acceptable to present capitalism as an unstable economic system. What has changed is that apparently Schiller does not feel that he has to defend himself against a paradigm downplaying instability and business cycles.[[22]](#footnote-23) Or to put it slightly differently – he is less in the defensive in 2010 than in 2008.

The only textbook which reflects theoretically on the financial crisis is Colander (2010). He develops new concepts tailor-made to cope with the financial crisis (‘triage, treatment, and rehabilitation’, p. xvi). At the same time he is the writer that to the largest extent conceptualizes the financial crisis (26 concepts in comparison with four to 15 in the other books, cf.). Colander is also the only textbook which applies behavioral economics (very briefly) to analyze the financial crisis (2010, p. 756-758). The main reason why Colander does not develop the theoretical universe outside the chapter on the financial crisis can be ascribed to the fact that like Schiller he is already operating with the possibility of instability and he did already refer to behavioral economics in the latest edition from 2008 (Colander, 2008, p. ??). The urgent need for a paradigmatic change is, hence, less obvious in the case of Colander. This is an important conclusion implying that Colander is right about mainstream being somewhat broader than claimed by heterodox economists – also when it comes to textbooks.

It might be added that as an empty posture Parkin (2010) writes that: ’Even the *idea* that the market is an efficient mechanism for allocating scarce resources came into question as some political leaders trumpeted the end of capitalism and the dawn of a new economic order in which tighter regulation reigned in unfettered greed” (p. vii). Empty – because Parkin leaves this sentence hanging in the air without discussing it but chooses to close this important theoretical discussion with the words: ‘Rarely do teachers have such a rich feast on which to draw.’ Another way of handling the same point can be found in Schiller (2010, p. vii): “As the Great Recession of 2008-9 again reminded us, markets are powerful but not perfect…” This observation does, hence, not lead to any changes but in the preface! In all of texts the sections devoted to the financial crisis cover a number of interesting observations and statements several of which could in principle have led to important theoretical modifications of the textbooks but so far nothing has happened.

The most important quantitative change has not been mentioned before as it is so encompassing that it is close to constitute a qualitative change. All textbook have changed their presentation of American monetary policy as Fed has arrogated new competences and instruments and it conducts policies unseen before – in quantitative and qualitative terms. Again this knowledge is added on to the existing monetary chapter – without any change of the summaries condensing the essence of the chapters. Hereby, the significant changes appear as exceptions without any theoretical repercussions.

Finally, the analysis has so far concentrated on what is to be found in the textbook. The six points (a-f) mentioned above draws the attention to what the textbooks do *not* cover. None of the textbooks reflect upon the first five points. One cannot expect them to agree to these points but one could expect them to at least debate some of them. As indicated by the latter paragraph we can only answer yes to point f. (concerning the change in monetary policy). This leads to the conclusion that the fiscal crisis has the potential to change textbooks from 2011 and 2012 somewhat more than could be observed in the 2010 editions.

1. *Conclusion: Has the textbook changed markedly due to the financial crisis?*

The short and essential answer to the research question is no - despite the fact that the textbooks have been visibly changed. This change has either been encapsulated into boxes or added to the original text without any real interaction with and, hence, change of the theoretical core. Consequently, it has been very difficult to find significant signs of actual qualitative change of the theoretical core. It appears that the coping strategy has essentially been concerned with making changes look rather dramatic in the preface while leaving everything basically the same.

The second overall result is that there are some indications that the textbooks have far from digested the financial crisis. The financial crisis has implied rather drastic changes in use of instruments as well as choice of political goals. This indicates an unresolved potential for change which might make it difficult to uphold the encapsulating strategy. On the other hand the analysis presented as well as the theoretical framework applied indicate that theoretical changes will only appear in a very long term perspective. The possible development trend could be traced by repeating the analysis for textbooks from 2011 and 2012. One possible approach to such an analysis could be to observe whether and how the textbooks position themselves to the more recent discussion on ’austerity’ versus ’growth’ as a recipe to counteract the negative repercussions of the financial crisis.

A third important result is an important modification – mainstream textbooks is a much wider concept than imagined by most heterodox economists. Mainstream textbook writers cover a continuum going from market fundamentalists in disguise to believers in capitalism being fundamentally unstable.

One could argue that it is too early to see any real change in textbooks as a reaction to the financial crisis. It counts as a counterargument, that the textbook devoting most attention to the financial crisis is from September 2009 (Colander, 2010), while the other textbooks with one exception (Parkin, 2010) have been published in 2010.[[23]](#footnote-24) This indicates that the approach is more decisive than the time factor. Consequently, we should also expect changes to be very limited in textbooks from 2011.

One lesson to be drawn from the thirties is, however, that the actual economic development might be an important joker. If the American economy runs into even more serious problems, this might trigger theoretical changes in textbooks. On the other hand the present analysis and the past development of textbooks indicate that textbooks have so far managed to be very flexible without compromising the paradigmatic core.

Looking ahead it would be of interest to investigate whether different coping strategies towards the financial crisis will change the duopolistic character of the textbook market between existing textbook writers. The financial crisis might even work as a ’window of opportunity’ giving new players a chance on the market.

*Literature (except the analyzed textbooks from 2010)*

Baumol, William J. and Alan S. Blinder (2009), *Economics: Principles and Policy*, Eleventh Edition,

 Mason: South-Western Cengage Learning

Colander, David (2010), “Introduction to Symposium on the Financial Crisis and the Teaching of

Macroeconomics”, *The Journal of Economic Education*, 41(4), pp. 383-384

Colander, David (2005), “What Economist Teach and What Economist Do”, *Journal of Economic*

 *Education*, Summer, 36/3

Colander, David, Hans Föllmer, Armin Haas, Michael Goldberg, Katarina Juselius, Alan Kirman,

Thomas Lux and Birgitte Sloth (2009), “[The Financial Crisis and the Systemic Failure of Academic Economics](http://ideas.repec.org/p/kud/kuiedp/0903.html)”, *[Discussion Papers](http://ideas.repec.org/s/kud/kuiedp.html)*,09-03, University of Copenhagen, Department of Economics

Davis, John B (2006), “The turn in economics: neoclassical dominance to mainstream pluralism”,

*Journal of Institutional Economics*, 2: 1, pp. 1-20

Hall, Peter (1993), “Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking

in Britain”, in *Comparative Politics*, 25 (3): pp. 275-96

Kuhn, Thomas S. (1974), *The Structure of Scientific Revolutions*, Chicago: University of Chicago

Press Madsen, Poul Thøis (2011), 'How do Five American Political Science Textbooks Deal with the

Economic Dimension?’, *Journal of Political Science Education*, 7: 1, pp. 79-94

Mankiw, Gregory N. (2009), *Principles of Economics*, Fifth Edition, International Edition (?),

Mason: South-Western Cengage Learning

McConnell, Cambell R., Stanley L. Brue and Sean M. Flynn (2009), *Economics: Principles,*

*Problems and Policies*, Eighteenth Edition, International Student Edition, Boston: McGraw -Hill

Samuelson Paul A. and Nordhaus, William D. (2010), *Economics*, Nineteenth Edition,

Boston: McGraw Hill

Schiller, Bradley R. (2008), *The Economy Today*, Eleventh Edition, International Edition, Boston:

McGraw-Hill/Irwin

Stiglitz, Joseph E. (1998), “On the Market for Principles of Economics Textbooks: Innovation and

 Product Differentiation”, *The Journal of Economic Education*, Vol. 19, No. 2, Spring, pp. 171-177

Trichet, Jean-Claude (2010), *Reflections on the nature of monetary policy non-standard measures and*

 *finance theory*, Speech by Jean-Claude Trichet, President of the ECB, Opening address at the ECB Central Banking Conference Frankfurt, 18 November 2010

**Appendix A: The seven most sold principles textbooks 21.4, 2010 being published in 2010**

1. Miller, Roger L. (2011), *Economics Today. Updated edition*, Fifteenth Edition, International Edition, Boston: Addison-Wesley. Published May 2010
2. Hubbard, R. Glenn and Anthony P. O’Brien (2010), *Economics*, Third Edition, Global Edition, Upper Saddle River: Prentice Hall Pearson. Published January 2010
3. Parkin, Michael (2010), *Economics*, Ninth Edition, Global Edition, Boston: Pearson. Published October 2009
4. Schiller, Bradley R. (2010), *The Economy Today*, Twelfth Edition, International Edition, Boston: McGraw-Hill/Irwin. Published September 2010
5. Bade, Robin and Michael Parkin (2010), *Foundations of economics*, Xth Edition, International edition, Boston: Addison-Wesley. Published September 2010
6. Colander, David (2010), *Economics*, Eighth Edition, Boston: McGraw-Hill/Irwin, International Student Edition, Published September 2009
7. O’Sullivan, Arthur, Steven Sheffrin and Stephen Perez (2010), *Economics. Principles, Applications, and Tools*, Sixth Edition, International edition, Upper Saddle River: Pearson. Published May 2010.

**Appendix B:** Principles of Economics Books in Market Share Order, April 21, 2010[[24]](#footnote-25)

1. McConnell/Brue (MHP)
2. Mankiw (Cengage)
3. Miller (Pearson)
4. Hubbard (Pearson)
5. Case/Fair (Pearson)
6. Parkin (Pearson)
7. Schiller (MHP)
8. Arnold (Cengage)
9. Krugman (Worth)
10. Bade/Parkin (Pearson)
11. McEachern (Cengage)
12. Colander (MHP)
13. Frank/Bernanke (MHP)
14. Gwartney/Stroup (Cengage)
15. Baumol/Blinder (Cengage)
16. Boyes/Melvin (Cengage)
17. O'Sullivan/Sheffrin (Pearson)
18. Tucker (Cengage)
19. Slavin (MHP)
20. Hall/Lieberman (Cengage)
21. Taylor, John (Cengage)
22. Sexton (Pearson)
23. Ayers/Collinge (Pearson)
24. Samuelson/Nordhaus (MHP)
25. Gottheil (Cengage)
26. Stiglitz/Walsh (Norton)
27. Stone (Worth)

**Notes:** MHP = McGraw/Hill Publishing. This list may not be fully exhaustive; some principles of economics textbooks may sell so few copies that nobody bothers keeping track of them. This data is from MIR (Monument Information Resources) which was recently acquired by Bowker ([www.bowker.com](http://www.bowker.com)). Bowker collects and publishes information on book sales as well as bibliographic information on book contents and is the company that handles ISBN numbers in the United States. After acquiring MIR, Bowker rebranded MIR as PubTrack (http://www.pubtrackonline.com/product-education.asp).

**Appendix C: Table of concepts used to explain the financial crisis**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Colander(Sep. 2009) | Parkin (Oct. 2009) | Bade and Parkin (Jan.) | Hubbard(Jan.) | O’Sullivan(May) | Miller (May) | Schiller (Sept.) | Arnold (Oct. ) |
| Adverse selection | X |  |  | X |  | X |  |  |
| Asymmetric information | X |  |  | X |  | X |  |  |
| Bail outs | X | X |  |  |  |  | X |  |
| Bank failures | X |  |  |  | X |  |  |  |
| Bank run | X | X |  |  |  | X |  |  |
| (Housing) bubble | X | X |  | X |  |  |  |  |
| Buy american | X |  |  | X |  |  |  |  |
| Credit crisis | X | X |  |  | X |  | X |  |
| Deposit insurance | X |  |  |  |  | X | X |  |
| Derivatives | X |  |  |  |  |  |  |  |
| Financial crisis | X | X |  | X | X | X |  |  |
| Fiscal stimulus (package)[[25]](#footnote-26) | X | X |  | X |  |  | X |  |
| Glass-Steagall Act | X | X |  |  |  |  |  |  |
| Great recession |  |  |  |  |  | X | X |  |
| Investment bank(s) | X | X |  |  |  | X |  |  |
| Leverage | X |  |  | X | X |  |  |  |
| Moral Hazard | X |  |  | X |  | X |  |  |
| Mortgage backed securities | X |  |  | X |  |  |  |  |
| Mortgage default | X |  |  | X |  |  |  |  |
| Mortgage (loans) | X |  |  |  |  |  | X |  |
| (Financial/bank) Panic | X |  |  |  |  | X |  |  |
| Quantitative easing | X |  |  | X |  |  |  |  |
| Securitization | X |  |  | X |  |  |  |  |
| Subprime mortgages | X | X |  | X |  |  |  |  |
| Subprime credit crisis | X | X |  |  |  |  |  |  |
| Troubled Asset Relief Program | X | X |  | X |  |  | X |  |
| Number of concepts | 26 | 11 |  | 15 | 4 | 9 | 7 |  |

Note: The concepts mentioned are also used as entries. We have chosen to disregard central institutions such Lehman brothers, Freddie Mae/Mac, Merrill Lynch, Northern Rock, Bear Sterns. We have also ignored two entries in Colander: ‘credit default swaps’ and ‘too big to fail’ because they are of more general nature.

1. I would like to thank an anonymous author of a US-principles for valuable inputs. [↑](#footnote-ref-2)
2. By the term ’financial crisis’ we refer to what triggered the crisis as well as the resulting effects (’the great recession’). [↑](#footnote-ref-3)
3. Based on mainstream economic theory one would expect a very lax monetary and fiscal policy to undermine the supposed demand stimulating effects via a significant rise in inflation and the rate of interest – sooner or later. [↑](#footnote-ref-4)
4. This was the headline and main story in the Economist, 2009, July, 18th, p. 11-12. [↑](#footnote-ref-5)
5. This sense of urgency is very apparent in Trichet (2010): “we felt abandoned by conventional tools… we need to develop complementary tools to improve the robustness of our overall framework”. [↑](#footnote-ref-6)
6. According to a search on econlitt (database covering economic journals) on the concept of ’financial crisis’ in the relevant period of 1.9.2008 to 1.1.2011. To substantiate this point the search has been repeated but narrowed down to books only. This led to the identification of eight books (search date 7.1.2011) of which several have been written by heterodox economists even though they constitute a tiny minority of all economists. [↑](#footnote-ref-7)
7. According to the general search mentioned in note 3. [↑](#footnote-ref-8)
8. Once ’everybody’ knew the now late Paul A. Samuelson. He was one of the leading researchers of his time while at the same time being responsible for *the* textbook of all times first produced in 1948 and later imitated by all other textbooks. He revised the textbook until 1985. The book is still on the market (Samuelson and Nordhaus, 2010), but now only revised by Nordhaus and is somewhat surprisingly only the 24th most sold principles textbook in the US (cf. appendix B). [↑](#footnote-ref-9)
9. These six questions are not self-evident. They have been deduced from an analysis of the financial crisis and of how the six textbooks deal with the financial crisis. [↑](#footnote-ref-10)
10. This expression refers to a widespread American perception (prior to the financial crisis), that American recessions from 2001 to 2008 tended to become ever shorter and less serious – a development normally ascribed to an activist monetary policy. [↑](#footnote-ref-11)
11. Differentiation as a strategy is not normally as evident as in this quote: ’We have included in the eleventh edition a substantial discussion of the role of the entrepreneur… in a substantial set of the textbooks the word *entrepreneur* does not even appear in the index” (Baumol and Blinder, 2009, p. xxvii). [↑](#footnote-ref-12)
12. The two duopolies are Mankiw (2009) and McConnell, Brue and Flynn (2009) according to an industry insider having access to market data. [↑](#footnote-ref-13)
13. This is the American wording for basic introductions to micro and macro in one volume. This concept has a long history dating back to the early nineteenth century when the title of books by economists often included the phrase ’Principles of Political Economy’. [↑](#footnote-ref-14)
14. One could also have mentioned ’essentials’ but as they are just condensed version of principles they are not really different and likely to leave out the financial crisis due to lack of space. [↑](#footnote-ref-15)
15. According to an e-mail from an author of an US principles dated 22.4.2010. [↑](#footnote-ref-16)
16. Or to be more precise: when ordering American textbooks from a European library one will automatically get the international/global edition. American textbooks are normally only sold to the American market and cannot be ordered by a European library due to high costs of transportation. [↑](#footnote-ref-17)
17. The duopolies have only managed to include a little bit on the subprime crisis. Mankiw (2009) has one entry called ’subprime crisis’, which directs you to a very brief resume (p. 821) concluding with a short mentioning of Bear Stearns. McConnell, Brue and Flynn (2009) has four entries on the subprime crisis. It is described in a box partly covering two pages (p. 682-683). The response by Fed to the crisis is presented on page 670 (quarter of a page) and later more condensed (9 lines, p. 737). [↑](#footnote-ref-18)
18. The only exception is Colander. He states simply that: ‘In addition, I also added a fourth new chapter dealing with the financial crisis that hit the economy in 2008’ (p. xii) and later in the preface (p. xvi) this chapter is described in 10 lines. [↑](#footnote-ref-19)
19. The section covering results is short compared to the rest of the article. This is a result in itself. [↑](#footnote-ref-20)
20. In this list there are seven textbooks but at the time of writing Bade and Parkin (2010) had just been delivered to the author and has yet to be analyzed but it is probably not all that different from Parkin (2010). [↑](#footnote-ref-21)
21. Tellingly, the Colander quotation in the beginning of the article is from a ‘Symposium on the Financial Crisis and the Teaching of *Macro*economics’ (my emphasis). [↑](#footnote-ref-22)
22. In accordance with this one of the less sold textbooks from 2010 proclaims in Samuelson’s introductory words to the preface: ’A Centrist Proclamation’, that the financial crisis highlights the “the value of the mixed economy” (Samuelson and Nordhaus, p. xvi). In accordance with this view, another of the analyzed textbooks (Schiller, 2010) also emphasizes very briefly that the financial crisis has ’expanded the government’s share of total output yet further” (p. 83). [↑](#footnote-ref-23)
23. In the footer of Colander and Parkin both books have apparently been published in 2010 probably for competitive reasons. From the publisher’s homepage one can see the exact publishing data. If the year of analysis of 2010 were to be respected those two textbooks should be left out of the analysis. We have, however, chosen to include these two texts in the analysis as Colander is – despite the early date – the textbook which takes the lesson learned by the financial crisis most seriously. What matters is not the specific year but actual content dealing with the financial crisis. Substance is more important than literal consistency. [↑](#footnote-ref-24)
24. This appendix has been published by representative from a publisher and passed on to me by an author of a principles. [↑](#footnote-ref-25)
25. In Hubbard it has another name: American Recovery and Investment Act of 2009. [↑](#footnote-ref-26)