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The Keynesian bias in A-level economics [1]

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I have taught A-Level Economics for twenty-five years. The economic crisis has pushed macroeconomics into the spotlight. Non-teaching friends often say that it must be a really interesting time to teach Economics. They are right, it is. However, it is also a frustrating time to be an A-Level Economics teacher. The source of my frustration pertains to the Keynesian bias that exists within the A-Level Economics specification, examination papers and marks schemes.

Keynesian economists were unable to foresee the economic crisis that erupted in 2008. This view is not controversial. Unsurprisingly, Keynesian demand-side policy remedies have been unsuccessful. Despite fiscal stimulus and ultra-loose monetary policy, UK national income remains lower than what it was before the crisis. The Keynesian paradigm is under pressure. Unfortunately, students across the country are being taught this failing paradigm.

Examples of Keynesian bias within A-level economics

Teachers have opinions. Good teachers are not afraid to express their personal opinions. However, opinions should never be presented as objective facts. Sadly, the Oxford, Cambridge and RSA Examinations board (OCR) A-Level Economics specification (the trendy new word for syllabus) that I teach does exactly that: students are required to learn and then regurgitate Keynesian opinions as thought they were indisputable facts.

The OCR examination assesses AS-Level macroeconomics via a series of questions based on a case study. The simplest of these questions requires the candidates to provide a definition of a well-known economic term. On several occasions students have been asked to define inflation. Without exception, the mark scheme that examiners are forced to follow only credits the Keynesian interpretation of inflation. For example, a candidate that defines inflation as the annual percentage increase in the general price level will be awarded full marks. Students that refer to a rising government price index will also score highly. Austrian economists would not define inflation in this way. Austrians define inflation as the annual percentage increase in a country?s money supply.

According to Ludwig von Mises ?If you increase the quantity of money, you bring about the lowering of the purchasing power of the monetary unit?. In other words Austrian economists believe that inflation is caused by those that issue and debase currency. Currency debasement causes the general price level to rise. Inflation is not a rise in the general price level; rather higher prices are merely a consequence of what inflation really is, i.e. an increase in the quantity of money. The exam board?s mark scheme does not allow examiners to credit the Austrian view on inflation. A student that defined inflation in terms of a growing money supply would not be awarded any marks. Keynesians and Austrians have different views on what constitutes inflation. The exam board ignores this debate. The Keynesian opinion is passed off as an indisputable fact.

In the Upper Sixth the Keynesian macroeconomic bias continues. A good example of an A2 topic afflicted by Keynesian bias is the economic cycle. Students are only expected to learn the Keynesian view on the causes of boom and bust. The role played by demand-side shocks, animal spirits, fluctuating stock levels and the interaction of the multiplier and accelerator all have to be taught. The specification fails to take into account the fact that there are other theories that can be used to explain the cycle of boom and bust.

Austrian economists believe that booms are caused by an expansion of credit. The malinvestment created during the boom causes a financial crisis. The crisis causes a credit contraction, which is the bust. Economic activity stays low until banks, firms and households have repaired their balance sheets. This view of the economic cycle fits in well with contemporary economic events. Unfortunately, the specification does not require students to know anything about the causes and consequences of credit cycles; the issue of private debt is ignored by the exam board. A-Level Economics also steers clear of the following issues: fiat versus commodity money; fractional reserve banking; and speculation and speculative bubbles. This cannot be right.

Conclusions

At A-Level macroeconomics is entirely Keynesian. Students are not expected to know anything about competing schools of thought. Bright students realise that Keynesian policy remedies are not working. Students can see Keynesian economics failing with their own eyes. The Keynesian bias in the OCR Economics specification has, and will continue to cause, student dissatisfaction. Why should students study Economics if what they are taught seems incapable of explaining contemporary macroeconomic events?

Like many others, I subscribe to the view that the UK, USA and most of the Eurozone are currently suffering from a debt crisis. This crisis was brought on by a thirty year credit expansion. According to Ludwig von Mises the current predicament can only be resolved in only one of two ways:

?There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as a result of the voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved.?

So far Keynesian policy makers have attempted to re-inflate the bubble. If the Austrians are correct, continued rounds of quantitative easing will lead to currency extinction events and hyperinflation. Sadly, this event will come as a complete shock to most students that have spent two years of their life studying A-Level Economics. They will not have seen it coming. This is because these students were only asked to learn the Keynesian view on inflation, based on output gaps. History refutes the Keynesian Phillips curve trade-off between inflation and unemployment. Hyperinflation occurred in Zimbabwe despite the fact that the economy suffered from mass unemployment and a negative output gap at the same time.

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