

HURDLES TO LEARNING REAL WORLD MACROECONOMICS (abbreviated RWM):

An Introductory Note Outlining the **Cunningham Constraint** Vivek Moorthy, 3rd / 8th October 2020

When I started teaching here in 1995, I came up with my own definition of macro: Macroeconomics is the study of how the following variables (some exogenous, some endogenous) interact in the short and long run, and listed about 8 to 10 variables. That has expanded into 3 blocks of 21 of them. These are shown in the EGISCHEMATIC which has the 3 blocks with acronyms for the books below.

Block ONE: Corresponds to Labour and Product Markets, covered in **EGI**, this first book. 7 variables. Labour (Emp., Unemp., Vacancies), Inflation (Wages, Prices) Output (GDP Growth, Output Gap.)

Block TWO: Corresponds to (Domestic) Financial Macroeconomics: A Policy Rate Approach (**PRA**). Interest Rates (Short and Long), Banking (Reserve Money, Total Money, Credit Growth), Fiscal (Government Spending, Taxes, Deficit & Debt), Financial (Equity Prices). Ten Variables.

Block THREE: Corresponds to Global Macroeconomics and Financial Markets, (**GMFM**) third book. Add Exchange Rate, Current Account Deficit, FX Reserves, External Debt (Four Variables).

One can expand or contract this list of 21 variables, but it is evident how vast the subject matter is. Thus, **The macroeconomy is like the anatomy: an interconnected set of parts:**

“Every part of the system fits into some other part...This is not a peculiarity of Indian Finance. It is the characteristic of all monetary problems... **The difficulty of the subject is due to it** Keynes, Indian Currency and Finance, 1913 This great quote from Lord Keynes at top of my SCHEMATIC says it all.

Note, the subject has got vaster over time. A 1919 book before the Great Depression would have much less content compared to a 1999 text. That in turn would have much less than a 2019 book, which should also cover (i) Euro as a currency starting 1999 (ii) Global Financial Crisis of 2008 and its aftermath (iii) emerging economies and their high growth rates (iv) Ongoing Classical austerity versus Keynesian stimulus views post 2008 crisis, relevant to Greek debt crisis; globally post corona.

(IMO recent editions of big name texts have gone too much the other way, hugely stressing the post 2008 crisis period and not covering the post war 1945 to 2008 period enough).

Also note that simultaneously, over decades the course duration has shrunk (annual to semester to quarter and less) and the number of courses have gone up. So learning suffers, even though total number of lectures and credits in macro is high and may even have gone up compared to the past.

Thus teaching macroeconomics, and trying to do so with applications, in twenty lectures is akin to **“confronting an irresistible force with an immovable object”** (VM). I call this the Cunningham Constraint. The great Scottish surgeon Daniel Cunningham was initially writing one text but his Manual of Practical Anatomy expanded into three volumes, then later distilled into one text.

Volume One: Upper and Lower Limbs;

Volume Two: Thorax and Abdomen;

Volume Three: Head and Neck and Brain.

I was initially writing a comprehensive text MIFA, on the left hand side, then broke it into three mini books, EGI, PRA, GMFM, basically modules of MIFA, to fit the course duration. See SCHEMATIC).

Bottom Line: For holistic learning, allow more credits per elective. You are better off with fewer courses per term, for same total credits. IMO (In My Opinion) less repetition, more learning.

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PEDAGOGY ISSUES AND SUGGESTIONS AND GUIDELINES FOR STUDYING AND LEARNING:

1] Value Addition comes from your reading & re reading the same material to absorb the content, built up over years, now decades. What you get in class is **Value Retention** and if you ask questions, Value Clarification. Stick to the full original source, avoid content duplication and variation. This may be boring, but macroeconomics is not suited for a theatrical performance, unlike say poetry.

2] Googling to read other books, like channel surfing, is not the way to learn. It is likely to confuse you for many reasons, since the content and approach here is different from other books. My approach is basically Classical Macro (with some Keynesian features) but eclectic and data driven, linking the labour market and the unemployment rate to financial markets and interest rates.

If you want to Google, I strongly suggest you instead read recent speeches of central bank heads, newspaper articles etc. Then assess the connections between their content and mine, versus that in other books, using keywords. Entries in the Index of a book (mine too) are good keywords.

A word of caution: too much commentary is floating around. The Net created 10 million economists, that doubled after demonetization, now over one billion in Whatsapp Univ. **AVOID**.

3] Content of course is a blend of history, events, simple models, policy debates etc. Year before last, a good student suggested that I emphasize less the facts and stress more on concepts and applications. Easier said than done. Macro is rooted in history and events. For every topic, one has to make a judgement as to what combination of history and theory etc. to cover, and that varies.

After 2008 crisis, the public realized how badly top economists and the Federal Reserve blundered. Most of the useful post 2008 writing has been by practitioners. Many books and/or videos have come out after the crisis: The Big Short, Margin Call, Money Heist etc. about ten. A classic set of videos is the chapters of Milton and Rose Friedman's book Free to Choose, mostly micro related, but also one on The Anatomy of Crisis, providing a summary of their view of the Great Depression.

Commanding Heights video is a good wide ranging introduction for macro. But it misses discussing work hours cf. my latest article The Great Inexcusable Macroeconomics (GRIM) Omission, 27 July 2020. I hope and expect this will become the most important topic for this corona decade.

(Discuss **FLASH** acronym and the use of Section 7 of RBI Act to replace RBI Governor Patel with Das.)

4] Is Rote Learning Bad? An oft chanted mantra, from HRD Ministry manuals & experts views: Questions should test concepts and applications, not rote learning and mugging. IMO that is easier said than done. When learning something new, such as a language, the early part involves drill and repetition: first the alphabet, then of words, then constructing sentences and paragraphs and finally writing essays. Ditto for Real World Macro with applications that may involve each sector.

5] Types of Exams: My questions are a mix of fill in blanks, short factual ones, numericals, conceptual ones. You are good at numericals (mug the formula and plug in values) but when part of the question is conceptual, you are not able to answer that. Solving numericals is partly mugging.

I would like to set more open book application questions: i.e. give you an recent article or policy statement, write a short essay to evaluate it. That requires a much higher level of learning.

My experience: your answers are not so good. An example of such a question from my 2013 core Macro exam is attached. I had given the article Overheated and Lacking Heat? By Swaminathan Aiyar. 27th Feb 2013 and exam was in early March. Very much a Real World, Real Time (RWRT) question. My rejoinder to him is summarized in Pg 162, Sec 7.2.1, EGI. A good example of such a RWRT question is Evaluate *Why Bharat won't lift a troubled economy*, Vivek Kaul mint 4th Aug 2020.

To summarize, exams will be mostly content based rather than application based. However, I end up giving some RWRT question. If I do find a good precise one, may use it for upto 30-40% of exam.

PEDAGOGY ISSUES AND SUGGESTIONS AND GUIDELINES FOR STUDYING AND LEARNING (contd.):

6] Facts, opinions and opinions based on facts (“*We are all entitled to our own opinions, but we are not entitled to our own facts*” Great quote from Moynihan, who can be considered the founder of “public policy” based on his diverse, practical contributions. Even more relevant in fake news era. Nevertheless, what is badly needed for policy macro are opinions based on our facts.

In assessing opinions, what criterion help in identifying a good expert opinion? (versus credentials). In science, credentials are usually enough to identify an expert, even if opinions vary greatly (e.g pro herd immunity strategy Stanford epidemiologist Ioannides vs. those pro lockdown). Molecular biologists such as Susan Weiss pointed out Covid19 was far more contagious and lethal than flu. But nevertheless, Ioannides who was conducting annual flu tests for years is a top public health expert.

In economics, credentials are misused. Real scientists rarely offer views and policy recommendations outside their domain while Nobel laureates and other non-macro economists almost always do.

How to identify genuine econ. experts and deciding whether to pay attention to them or not? IMO, (i) See if content is fact based (ii) What is their sub domain of expertise, going by publications etc. (iii) Real time track record or prediction on that matter: have they written something on an issue before it came into the limelight? Warnings about the 2008 financial crisis and good books about it, both before and after, were mostly by practitioners. Most Ivy Leagues macro Profs were clueless.

Monetary policy particularly has a long and connected history. Most macro policy makers in India and those considered experts about India are ‘Johnny-come-latelies’ to the subject, with background in development economics, trade and finance. While expertise of those with finance background is certainly useful for some topics such as banking and financial markets, macro is more wide ranging.

A FactsQuizFilter can filter genuine from pseudo experts, even those with good credentials.
Inflation Targeting commentary after RBI 2014 Report and Parliament 2016 mandate is a good case.

Most of what we read, most of what is written, the academic literature and the experts themselves are subject to “recency bias” (relevant for virus & epidemics too). It is crucial to keep up with developments in the real world and what is written about it. However, partly due to the pressure to publish, much of new research is not new, often wrong. Behavioural economics, dealing with fads, is itself quite faddish. To some extent, it is an overdue reaction to the earlier fad of efficient markets.

7] PPT versus Word documents: I largely follow Edward Tufte’s tenets in his masterpiece The Visual Display of Quantitative Information (maximize data to ink ratio, text density etc). Recommended reading.¹ Unfortunately Economist magazine etc. have hugely drifted in the opposite direction. A great quote from him: *All power corrupts, Power Point corrupts absolutely.* (This quote is a take-off on Lord Acton, the great English jurist *All power corrupts, absolutely power corrupts absolutely*).

¹ From a review of Tufte on the web: The classic book on statistical graphics, charts, tables. Theory and practice in the design of data graphics, 250 illustrations of the best (and a few of the worst) statistical graphics, with detailed analysis of how to display data for precise, effective, quick analysis. Design of the high-resolution displays, small multiples. Editing and improving graphics. The data-ink ratio. Time-series, relational graphics, data maps, multivariate designs. Detection of graphical deception: design variation vs. data variation. Sources of deception. Aesthetics and data graphical displays

IMO, packing more on one page to see the connections is better than having to switch pages to do so. What is PPT suited for and what are its advantages? Discuss. It is good for SWOT (Strengths, Weaknesses, Opportunities and Threats) broad strategy talking points versus dense legal case.

A major benefit of PPT, IMO, is that it is landscape, far better suited to eye than portrait. Have converted most of my notes into PPT. You all prefer PPT, am mostly using it, but it may not be best.

8] Feed back on Content versus Delivery: You are competent to give feedback on delivery (including PPT versus Word) but not on content. That I can and will take into account, very vital for ZOOM. Too many comments have been on content and a few even indicating disdain for a *desi* book.

Hope this criticism of your criticism does not make you silent. Never hesitate to ask questions. If not in class, then afterwards, either phone or email, use your judgement as to what is appropriate.

9] Learning involves both teaching and studying. You have to put much more effort into learning. Whatever is written these days about education, it fails to stress that studying is also needed.

There may be other issues. There is some repetition across points, while the points themselves could have been longer. For this Orientation Note, nine is enough. Welcome to this course.

PGP FINMAC Orientation Note modified and expanded for my PhD Macro and PGPEM Courses.

Prof Vivek Moorthy, ESS Area, vivek.moorthy@iimb.ac.in website **economicspersiscope.com**