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## Earth-economics: A closed economy approach with real world data<sup>☆</sup>

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### ABSTRACT

This article develops the idea of using the closed economy concept to discuss our planet's economy. The article illustrates how observations at the level of planet Earth can be used while teaching relationships that are studied in a closed economy setting. It provides an overview of internet resources with world data and some practical examples that can readily be used in teaching.

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'Policymakers all over the world must change their preconceptions and accept that we live in one world.' – Kishore Mahubani, 2013

## 1. Introduction

Today's globally aware students of Economics want to learn about the world and about policy. They want to understand what is happening to them and their economic, social and natural environment and hope to learn what can and what cannot be done about that. Our teaching could be made more attractive when we change the way we use the closed economy concept. After all, the first steps that our students set, are in a hypothetical economy that does not resemble any nation that they might be familiar with. Of course, the closed economy abstraction is an extremely useful concept for teaching purposes because it keeps the analysis relatively uncomplicated and transparent. The closed economy concept forestalls the need to introduce the imbalances associated with international trade, investment and (public) finance that arise in an analysis that is based at the levels of countries or

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regions. Consequently, the basic economic concepts can be discussed in the closed economy setting without too many complicating factors. For this reason all introductory courses and textbooks in macroeconomics and economic growth start with the concept of the closed economy. The abstraction is convenient, but the way the closed economy is typically being taught asks a lot from students that want to understand the economic headlines in terms of connecting such abstractions to real world economic phenomena.<sup>1</sup> The idea that I develop in this article is a simple one: we can make better use of the only closed economy that all our students know well: Earth.<sup>2</sup> Earth Economics *could* be used in several ways. It could, for example, be used as a guided self-learning project that is complementary to the conventional analysis of national income accounting and growth.<sup>3</sup> At my own institute it is part of a remedial course at the start of the Masters that enables us to present basic refresher material in a new context. Or it can be helpful as a benchmark for international policy coordination, for example in discussions on the optimal global policy mix. I will, however, take this idea one step further and will argue that we *should* use the closed economy model, not only for didactical purposes but also because it is a logically sound approach to economic activity at the planetary level.

Of course the analysis of Earth as a closed economic system, like any abstraction, also carries a cost. Some readers may find the closed economy's simplicity unrealistic in view of the real world complexity as earth-economics apparently neglects that countries can learn from, cooperate with and help each other and also, and perhaps more important, that countries differ to a large extent, focus on national interests and may not agree on the appropriateness of some considered economic, monetary and/or financial policy. It is also important to recognize that students will often have relevant recent experiences regarding the economic performance and policies of the country and region in which they live and in which cross border issues are relevant. Finally earth-economic data are still evolving while the statistical information that is available in developed market-oriented economies is more comprehensive, more consistent and available at higher frequencies and for longer periods.

These costs should of course not be neglected, but they should also not be exaggerated and – importantly – be balanced against the benefits of a new manner of framing positive and normative questions that are deemed important by many students. What would be the best course of action for a world government? How can we increase Earth's human, natural and physical capital? How to distribute Earth's proceeds? (and to whom?) How can we ensure that *the* earthling – now and in the future – develops, learns, gets work, produces...? Starting with the global picture also brings benefits to instructors because it will be easier to demonstrate later in the course that nationally oriented policies and globally optimal policies may differ and why this is the case.

The remainder of this article is organized as follows. Section 2 discusses the logic of earth-economics. Section 3 provides an overview of the expanding set of internet resources that cover global economic processes. Section 4, by way of illustration, provides three exercises related to key fields in macroeconomics 101 (national accounting, growth accounting and debt dynamics) that demonstrate some of the possibilities of earth-economics and that can readily be used in existing courses. The final section highlights how the earth-economic approach may be used in addition to the usual open economy approach and provides some reflections on how the 'big questions' might change when addressed from an earth-economic point of view providing links between economics and other sciences that could emerge within this perspective.

## 2. Logic

For instructors it will be important that the economics of Earth enable the use of concrete real world examples from the start and that key macroeconomic concepts can be illustrated by concrete

<sup>1</sup> A number of leading textbooks use a very big economy (the US or the EU) as an example of a closed economy. Such an example is not convincing because the big economies are integrated in the world economy. Using these economies may also become less relevant in the near future as the share of the US and EU in the world economy is shrinking, not so much because they become smaller but because other economies grow faster and will be bigger soon than the US and EU.

<sup>2</sup> I teach at a development studies institute with students that come from developing and advanced countries all around the world. I discovered that a very helpful aspect of earth-economics is that the students can all relate to a place that they inhabit. Indeed, Earth provides a common meeting ground for my students.

<sup>3</sup> I owe this point to an anonymous referee.

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