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What Aspiring Economists Aren't Being Taught

Many colleges no longer offer classes in price theory, which means they're imparting knowledge without wisdom.

By Steven E. Landsburg

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Here's an economics brain teaser: Apples are provided by a competitive industry. Pears are provided by a monopolist. Coincidentally, they sell at the same price. You're hungry and would be equally happy with an apple or a pear. If you care about conserving societal resources, which should you buy?

Most of my sophomore-level economics students can solve this problem, which I posed on an exam. Almost nobody else can. I've tried it out on a lot of smart lawyers, accountants, entrepreneurs and scientists. Neither can the latest version of ChatGPT.

First I'll tell you the answer; then I'll tell you the moral. In a competitive industry, prices are a pretty good indicator of resource costs. Under a monopoly, prices usually reflect a substantial markup. So a \$1 apple sold by a competitor probably requires almost a dollar's worth of resources to produce. A \$1 pear sold by a monopolist is more likely to require, say, 80 cents worth of resources. To minimize resource consumption, you should buy the pear.

The moral is that we need well-trained economists. Economists know things that are true, important and entirely counterintuitive to anyone who hasn't had the right kind of training—and at least for now, that includes the bots.

Economists learn to reason quickly, rigorously and accurately from facts to an important conclusion. That skill is usually taught in courses called price theory, or sometimes Chicago price theory in honor of the academic venue where it was developed into an art form by such practitioners as Milton Friedman, George Stigler, Gary Becker and Deirdre McCloskey.

A course in price theory covers much of the same material as a course in microeconomics, and college catalogs often use the two course titles interchangeably. But price theory puts far more emphasis on problem solving and real-world applications. A good microeconomics student can write an essay on monopoly pricing. A good price-theory student can solve my brain teaser.

Price theory seems to be fading from the economics curriculum. Surveying the course offerings of the top few dozen economics departments, I see a lot more coursework offered in theoretical microeconomics and a lot less in price theory than I did five years ago. I've talked to many economists who have noticed the same thing.

I'm not sure why this is happening. Maybe it's driven by students who demand courses in which they can succeed by memorizing the textbook rather than learning how to think. But if economics majors aren't learning how to think about economics, then who will?

Here's another of my exam questions: After a frost kills half the Florida orange crop, the price of oranges more than doubles, and orange growers enjoy a windfall. Is this evidence of monopoly power among the orange growers?

The answer is a resounding no. If windfall profits are that easily available, no monopolist will wait for a frost. Long before the frost arrives, the grower will already have withheld half his crop from the marketplace—probably by planting fewer oranges to begin with.

Most of my students get that question right. Yet when I posed the same question to top students majoring in economics at a prestigious college that no longer teaches price theory, every one of them was able to explain the relevant theory but failed to answer the question correctly. How many of those students will go on to have careers as antitrust regulators?

Economics without price theory is knowledge without wisdom. Any economist can analyze data to estimate how many lives you'd save by requiring car seats for toddlers on airplanes. It takes a price theorist to ask how many lives you'd lose when the resulting increase in airfares prompts families to drive—which is far more dangerous—instead of fly. Price theory breeds wiser policymakers and wiser voters. If we fail to teach it, that's a tragedy.

Mr. Landsburg is a professor of economics at New York's University of Rochester and author of "Can You Outsmart an Economist?"