

Best of Mankiw: Errors and Tangles
in the World's Best-Selling Economics
Textbooks

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Why does it matter?

- Introductory textbooks shape the mindset of students: „There is no second chance to make a first impression.“
- „Textbook revolutions“ are an important element of scientific revolutions (Colander and Landreth 1966)*
- N. Gregory Mankiw is the world’s bestselling textbook author in economics

* David Colander and Harry Landreth, Political Influence on the Textbook Keynesian Revolution: God, Man, and Laurie Tarshis at Yale

<https://community.middlebury.edu/~colander/articles/Political%20Influence%20on%20the%20Textbook%20Keynesian%20Revolution.pdf>

What is wrong with Mankiw's textbooks?

- Flawed or biased presentation of the role of the government in the economic system:

"Government is not the solution to our problem, government is the problem." (Ronald Reagan)

- Flawed presentation of the role of the financial system
- Confusing presentation of the Keynesian theory



1 Role of the government



Does the market need a government at all?

Principle 7: „Government can sometimes improve market outcomes“

„The invisible hand does not ensure that everyone has sufficient food, decent clothing, and adequate health care.“

„This inequality **may, depending on one’s political philosophy,** call for government intervention.“



Distributional policies are bad for economic performance

Principle 1: “People face trade-offs”
(Mankiw, Principles of Economics 7th edition)



*How to cut a cake
into more slices for a crowd*

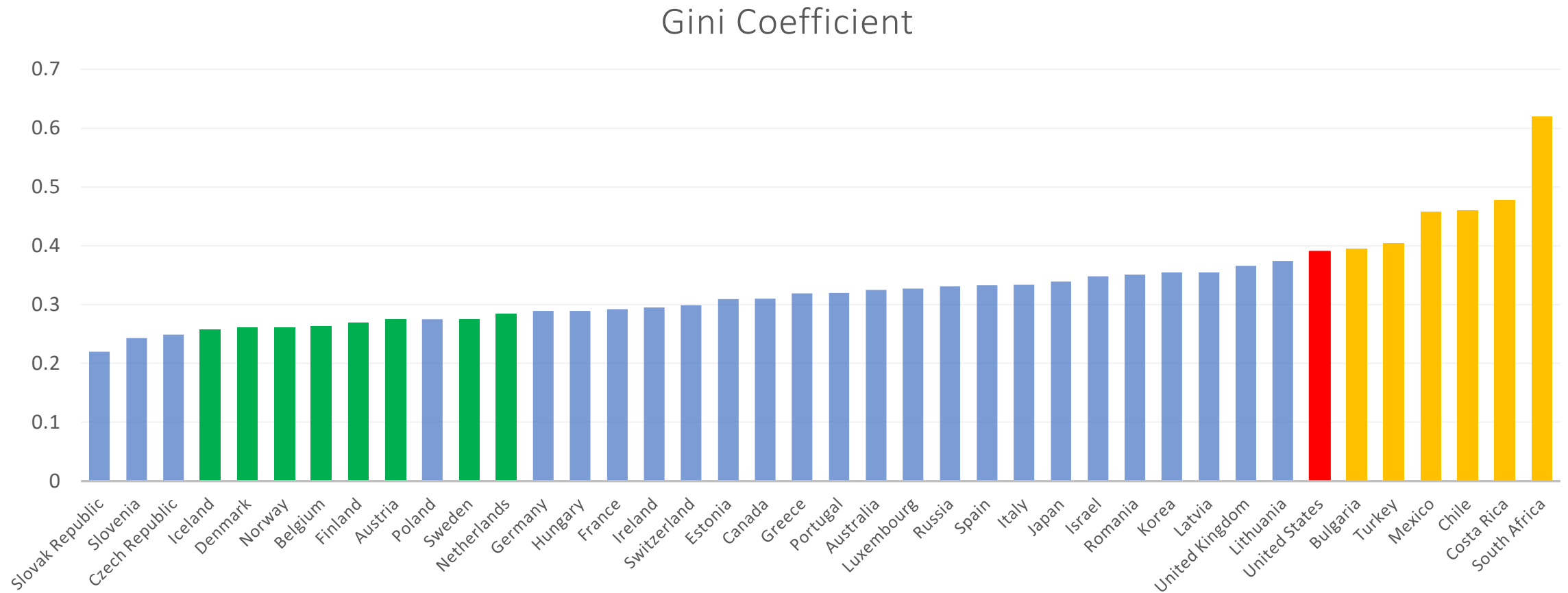
„When government redistributes income from the rich to the poor, it reduces the reward for working hard.

As a result, people work less and produce fewer goods and services.

In other words, when the government tries to cut the economic pie in more equal slices, the pie gets smaller.“

„Inequality around the world“

Mankiw: The more equal the pie is divided, the smaller the pie becomes. This is the one lesson concerning the distribution of income about which almost everyone agrees.“



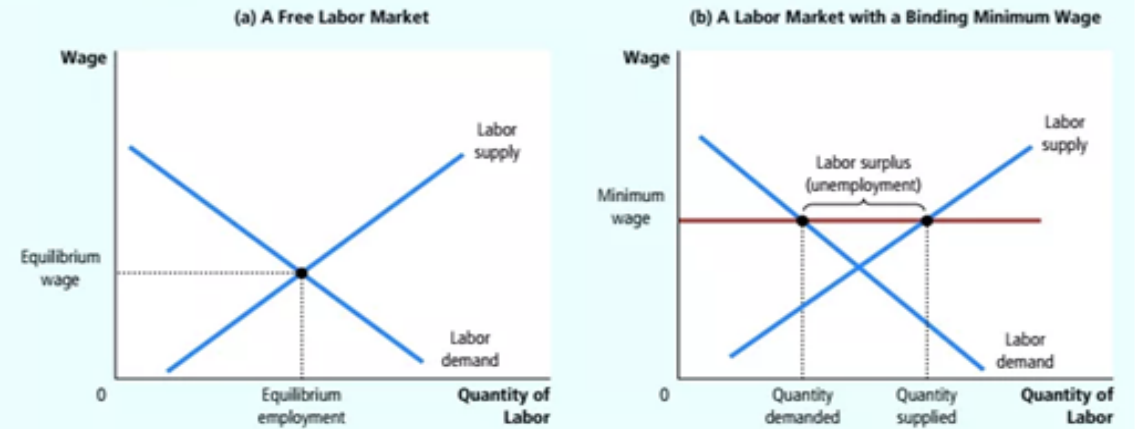
Source: OECD

Minimum wages cause unemployment

FIGURE 5

How the Minimum Wage Affects the Labor Market

Panel (a) shows a labor market in which the wage adjusts to balance labor supply and labor demand. Panel (b) shows the impact of a binding minimum wage. Because the minimum wage is a price floor, it causes a surplus: The quantity of labor supplied exceeds the quantity demanded. The result is unemployment.

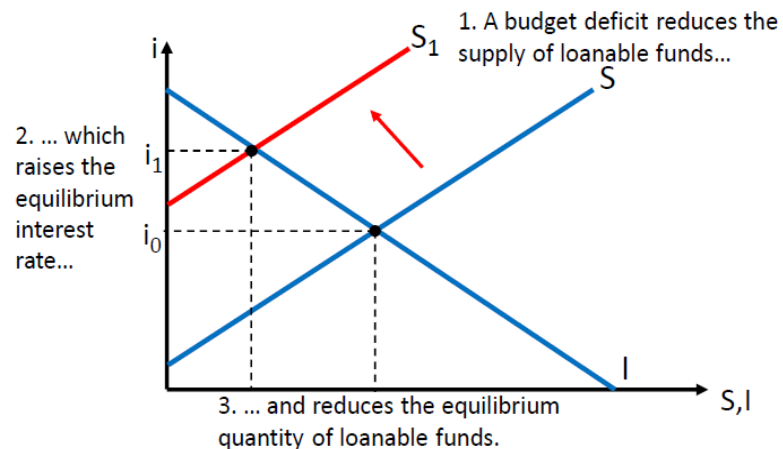


N. Gregory Mankiw: Principles of Economics, 7th edition, p.118

Government budget deficits are bad for economic growth

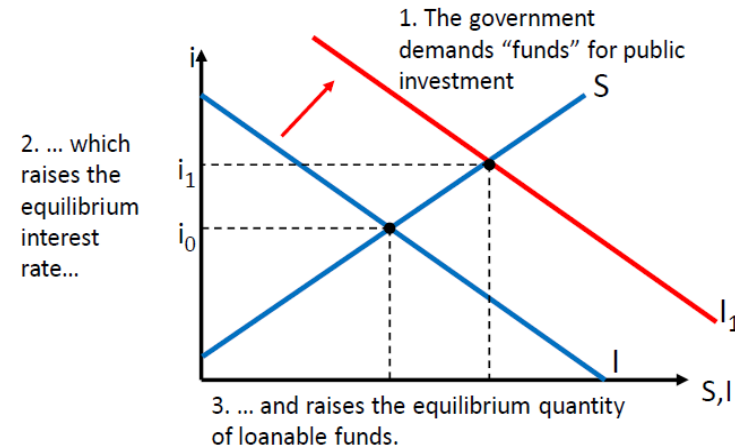
Best of Mankiw No. 7: „Government budget deficits reduce the economy’s growth rate.“

Mankiw: “When the government reduces national saving by running a budget deficit, the interest rate rises, and investment falls.”
Implicit assumption: Deficits are used for public consumption, not for public investment



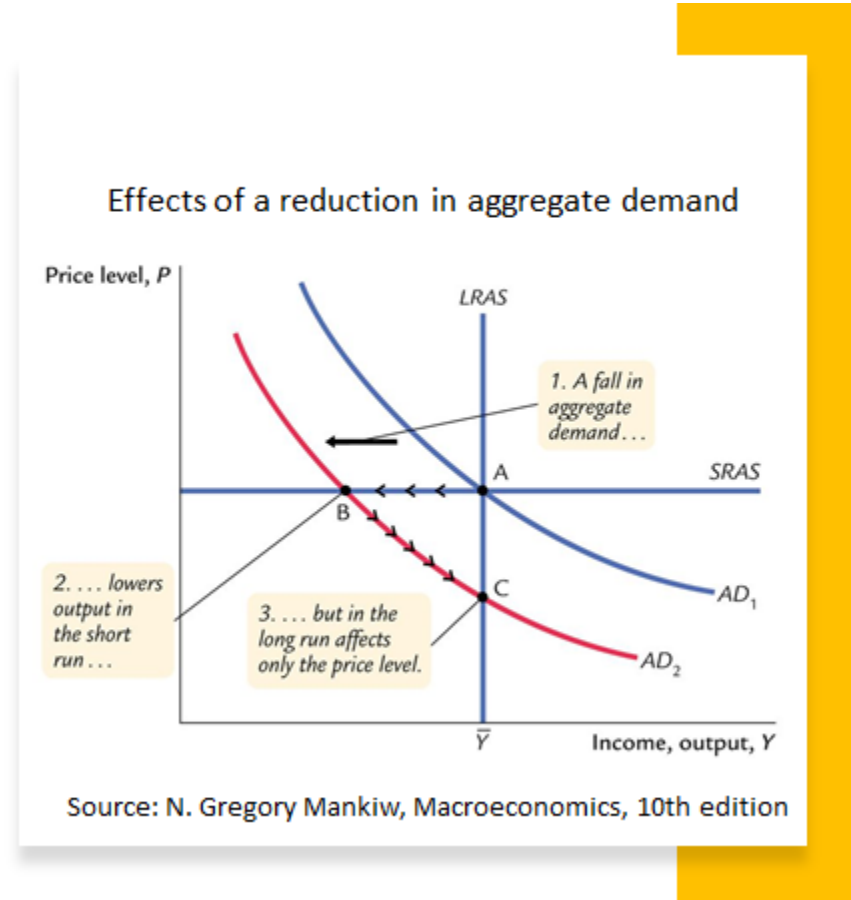
Alternative view: If the government finances additional public investment by running a budget deficit, the interest rate rises and investment increases.

Mankiw: “Higher investment means more rapid economic growth.”



Overall, the economic system is self-stabilizing

- Deflation (i.e. a fall in the price level) helps the economy to recover after a demand shock





2 Role of the financial system, especially banks



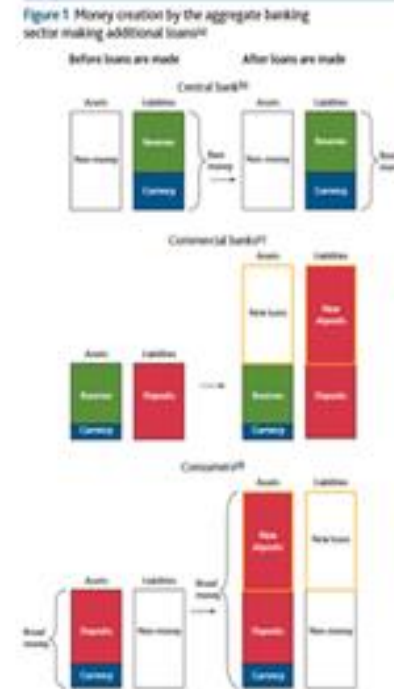
Banks in a corn economy and in a monetary economy

Mankiw: Banks collect deposits


„A primary job of banks is to take in deposits from people who want to save and use these deposits to make loans to people who want to borrow“.

(Principles, 7th edition, p. 550)



Bank of England: Banks create deposits



Source: http://www.bankofengland.co.uk/media/boe/files/quarterly_bulletin/2014/money_creation_in_the_modern_economy.pdf



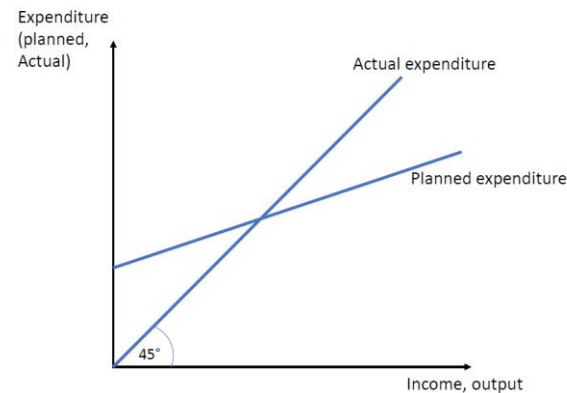
3 Role of the Keynesian Theory



“ (...) the simplest interpretation of Keynes's theory”.

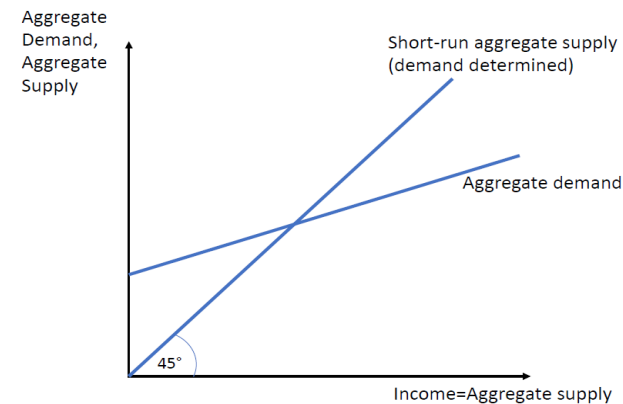
The „Keynesian Cross“

Mankiw: Planned Expenditure=Actual Expenditure



Mankiw, Macroeconomics, 10th edition, Figure 11-3

Keynesian presentation: Short-run aggregate supply=Aggregate demand



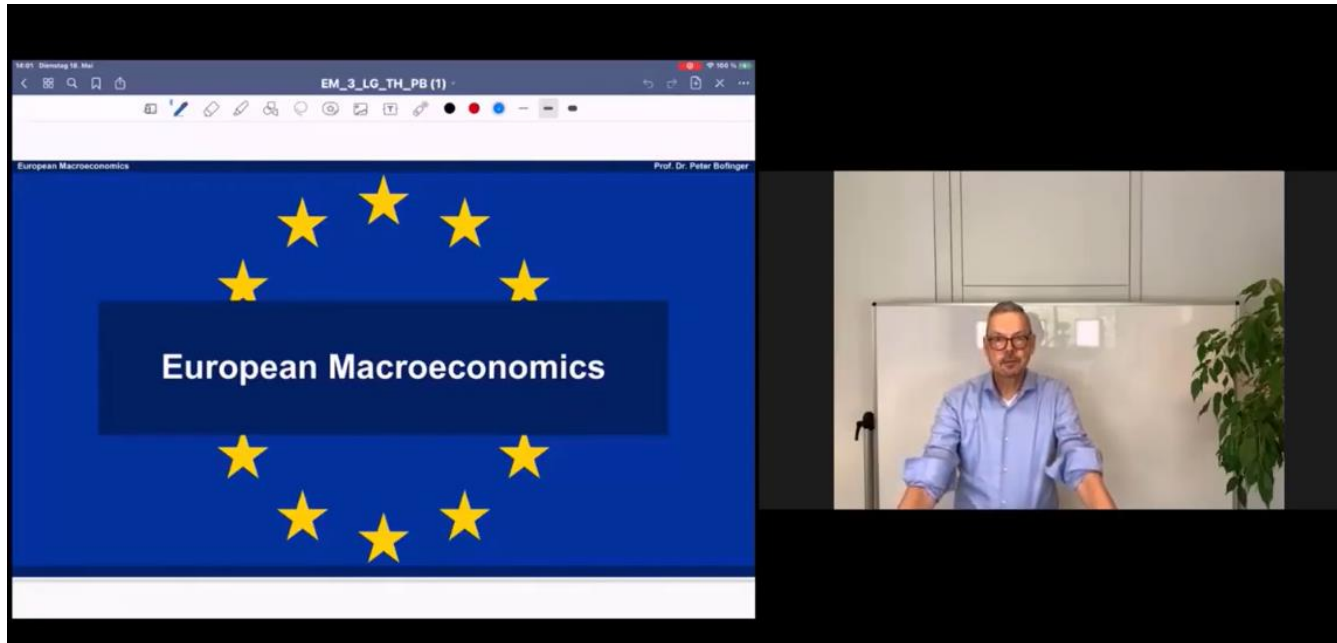
More on the IS/LM-AS/AD model: <https://www.econstor.eu/bitstream/10419/55839/1/687806313.pdf>

Teaching matters

- In the daily academic business, the importance of teaching and textbooks is underrated
- No scores in academic rankings for textbooks which require a huge input of time
- Examples for modern approaches



My new course: European Macroeconomics Funded by INET



Links to my Mankiw critique

Tweet series on Mankiw



INET Blog



YouTube discussion with Mankiw

