

Teaching Economics in B-Schools

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Economics is one of the most important subjects taught in a B School. Yet, many MBA students show absolute indifference towards the subject. Compared to subjects like Marketing and Finance, Economics is considered a poor cousin. What should B Schools do to deal with this disturbing trend and to restore Economics to its rightful place?

To start with, we need to understand the very importance of Economics. Contrary to popular perception, Economics is not an isolated, theoretical subject. It has a strong application orientation. Indeed, many management disciplines and concepts originate from Economics. A large part of Management Accounting, is derived from the Theory of Costs. Competitive Strategy, draws many of its concepts from Competition and Game theory. Pricing, a very important decision in marketing, is based on the principles of demand and supply. A good understanding of Macro Economics, is essential for equity research analysts and currency traders. Unfortunately, MBA students spend little time in understanding Economics concepts. Seven out of ten MBA students I come across say with an air of confidence that if the interest rate is increased, cost of production will go up, leading to inflation! Thus they fail to appreciate how principles of economics can be used for a better understanding and analysis of business situations.

To deal with this unsatisfactory situation, we need to use more innovative ways of teaching economics. Traditionally, economics has been taught through the chalk and talk method. Right from the time the teacher draws the Production Possibility Frontier on the board (typically in the very first class and without explaining convincingly, why the graph curves outward) students feel at sea moving from one graph to another. To make economics more interesting, we need to make it less technical. After all, few MBAs are going to become professional economists. What is important for them is to appreciate the relevance of economics as a decision making tool and have a good understanding of how to interpret economic data.

At the Icaian School of Management, I have attempted for the past three years to structure the Economics course based on articles from magazines and journals. Among the sources I have tapped are The Economic Times, The Economist, Business Week, Far Eastern Economic Review, Asia Week, Business India, Business World and Business Today. Indeed when the last time I taught the course in the first half of 2000, there was not a single lecture. In all those classes, articles were discussed. Students enthusiastically took part in the animated discussion applying their mind. They arrived at answers to various problems typically faced in economics, using common sense.

The students picked up various insights, while doing the course. They learnt through an article in the Economist why countries rich in natural resources often fail to develop a sophisticated industrial base. They

understood the importance of raising productivity on an ongoing basis. In the class discussion on the Union budget, students realised that the budget exercise in India has become a sham with money being drained on items like interest payments, subsidies and defence. While discussing an Asia Week article on Singapore, they learnt that it is not just the literacy rate which is important. A more useful parameter to judge the quality of a country's human resources is the average number of years of schooling. (In India, a person who can write his or her name is declared literate!) Students also learnt that tinkering with the exchange rates will have no real impact on the economy in the long run. Companies should focus more on improving their competitiveness instead of looking over their shoulders at exchange rate movements. By discussing articles on various countries, students broadened horizons and gained global perspectives. I am sure that if they continue to read regularly the magazines and newspapers mentioned earlier, they will be able to think independently and analyse any important economic event/development.

The challenge for B Schools is to identify and develop Economics teachers who have no dogmas and who are prepared to allow students to discuss and arrive at conclusions rather than imposing their own views. B School teachers should appreciate that a pedagogic method which encourages students to question assumptions and find common sense answers is vastly superior to the traditional lecture method. It is time for B Schools to take up the challenge and give Economics teaching a new direction it deserves.

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