

# **The Financial Crisis and the Systemic Failure of Academic Economics\***

David Colander,  
Department of Economics  
Middlebury College  
Middlebury, VE, USA

Hans Föllmer  
Department of Mathematics  
Humboldt University Berlin  
Berlin, Germany

Armin Haas  
Potsdam Institute for Climate Impact Research  
Potsdam, Germany

Michael Goldberg  
Whittemore School of Business & Economics  
University of New Hampshire  
Durham, NH, USA

Katarina Juselius  
Department of Economics  
University of Copenhagen  
Copenhagen, Denmark

Alan Kirman  
GREQAM, Université d'Aix-Marseille III,  
EHESS et IUF  
Marseille, France

Thomas Lux<sup>1</sup>  
Department of Economics  
University of Kiel  
&  
Kiel Institute for the World Economy  
Kiel, Germany

Brigitte Sloth  
Department of Business and Economics  
University of Southern Denmark  
Odense, Denmark

*Abstract:* The economics profession appears to have been unaware of the long build-up to the current worldwide financial crisis and to have significantly underestimated its dimensions once it started to unfold. In our view, this lack of understanding is due to a misallocation of research efforts in economics. We trace the deeper roots of this failure to the profession's insistence on constructing models that, by design, disregard the key elements driving outcomes in real-world markets. The economics profession has failed in communicating the limitations, weaknesses, and even dangers of its preferred models to the public. This state of affairs makes clear the need for a major reorientation of focus in the research economists undertake, as well as for the establishment of an ethical code that would ask economists to understand and communicate the limitations and potential misuses of their models.

**Keywords:** financial crisis, academic moral hazard, ethic responsibility of researchers

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<sup>1</sup> Corresponding author: Address: University of Kiel, Department of Economics, Olshausenstraße 40  
D-24118 Kiel, lux@bw1.uni-kiel.de