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Teaching Economics in a Management School: Some Personal Quandaries

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Teaching Economics in a Management School:

Some Personal Quandaries

Partha Ray[1]

1. Introduction

At the risk of stating the obvious, to begin with, it may be noted that strictly speaking the discipline of Economics is not a management discipline.[2] An archaic but non-believer way to describe it could be to give it a status of a "subsidiary discipline", while to a sympathizer, it could be seen as a "mother discipline". But then that kind of relationship could be relevant for other braches as well – the relationship between "operations research" and "operations management" could be a case in point here. Thus, *a priori* it could be difficult to discern the relationship between Business Management and Economics as one of offspring-parent or near/distant-cousins.[3]

Nevertheless, there is an influential view that management as a discipline is of recent origin; as per this view, the birth of the discipline can be traced among others in the writings of the French Engineer turned Manager Henri Fayol (1841—1925) (Wren and Bedeian, 2009). To Fayol, management theory is essentially "a collection of principles, rules, methods, and procedures tried and checked by general experience". But what is meant by management principles? I turn to Fayol,

> "For preference I shall adopt the term principles whilst dissociating it from any suggestion of rigidity, *for there is nothing rigid or absolute in management affairs, it is all a question of proportion*. Seldom do we have to apply the same principle twice in identical conditions; allowance must be made for different and changing circumstances. …. Therefore principles are flexible and capable of adaptation to every need; it is a matter of knowing how to make use of them, which is a difficult art requiring intelligence, experience, decision and proportion. Compounded of tact and experience, proportion is one of the foremost attributes of the manager" (Fayol, 1916; emphasis added).

Perhaps, over the years this flexibility in the discipline of management has emerged as both its strength and weakness – strength could have come from the discipline's applicability in real instances and source of weakness could be from lack of formal theories in the Popperian sense of the term. In fact, many of the allegations that Popper made against Marx, Freud and Adler are perhaps true for management science as well. It is useful to remind

[1] I am indebted to Anup Kumar Sinha, Runa Sarkar and an anonymous referee for their detailed comments on an earlier draft of the paper. I am also grateful to Sudip Chaudhuri for clarifying a few points. The usual disclaimer applies. This paper is forthcoming as a chapter in Thakur, Manish and R. Rajesh Babu (eds.): *Management Education in India: Disciplinary and Institutional Practices* (Springer 2016)

[2] A distinction is made in this context between a 'management school' and a 'business school'. Intuitively, the curriculum for study of 'business' is far narrower (or 'focused' to a believer) as against study of management as a discipline. However, conceptually, business administration is a determinative function, while business management is an executive function.

[3] I have heard many a talk from a management expert on a contemporary economic issue that starts with a caveat, "I am not a macroeconomist". A macroeconomist speaking on a contemporary business issue is also seen to have started with a caveat, "I am not a management expert". Such caveats often smack of false modesty and a presumed sense of superiority of one discipline over the other.

us what Karl Popper said about inadequacy of selective reading of evidence and of experience:

> "The most characteristic element …. seemed to me the incessant stream of confirmations, of observations which "verified" the theories in question; and this point was constantly emphasize by their adherents. A Marxist could not open a newspaper without finding on every page confirming evidence for his interpretation of history; not only in the news, but also in its presentation — which revealed the class bias of the paper — and especially of course what the paper did *not* say. The Freudian analysts emphasized that their theories were constantly verified by their "clinical observations." As for Adler, I was much impressed by a personal experience. Once, in 1919, I reported to him a case which to me did not seem particularly Adlerian, but which he found no difficulty in analyzing in terms of his theory of inferiority feelings, although he had not even seen the child. Slightly shocked, I asked him how he could be so sure. "Because of my thousand-fold experience," he replied; whereupon I could not help saying: "And with this new case, I suppose, your experience has become thousand-and-one-fold" (Popper, 1963).[4]

Does this mean that study of management principles is non-scientific or loose? Is its falsification and discerning of underlying causal relationship difficult? Is it like learning a craft and 'learning by doing' has huge importance in its study?[5] While such questions do arise one is not at all clear about the answers and depending upon personal affiliation of the exponent the answers often vary and one is reminded of Blaise Pascal who said, "the heart has its reasons which reason knows nothing of... we know the truth not only by the reason, but by the heart." In essence, thus, this essay presents personal dilemmas and confusions rather than any definitive answers.

Another major difference between the study of Management Principles vis-à-vis that of Economics perhaps lies in welfare implications of the respective disciplines. After all, management is typically taught from the viewpoint of private corporate sector where shareholders' value maximization occupies center-stage. On the contrary, even if neo-classical Economics starts with the primacy of market as an institution, maximization of societal welfare (*a la* Pareto's principle of optimality) is an essential element of it. Furthermore, while macroeconomists often take a public policy viewpoint, students in a management school learn to view everything from the point of view of managers. Does this mean Economics is a more ethical discipline than Management? The answer seems to be far less obvious. Suffice to it say that study of externalities of market outcomes perhaps is a far more important issue in study of Economics (even in its most traditional neo-classical garb) than study of management. But even here Management as a discipline seems to be doing some catching-up – study of sustainable management is a case in point.

With this backdrop the present essay look into a single question: what is the relationship between Economics and Management Studies in a management school? Instead of attempting any grand view, the present essay seeks to look into three distinct questions: (a) usefulness of learning economics in a management school; (b) utility of case studies as a pedagogical devise in the study of Economics; and (c) relationship between Finance and Economics as distinct disciplines.

The rest of this chapter is organized as follows. Sections 2, 3 and 4 are devoted to the three questions posed above. Section 5 concludes the study.

2. Usefulness of learning Economics in a Management School

[4] See Grünbaum (1976) for a critique on Popper's theory on falsification.

[5] In this context, one is reminded of Foyol's 14 principles comprising, division of work; authority and responsibility; discipline: unity of command; unity of direction; subordination of individual interest to general interest; remuneration; centralization; scalar chain; order; equity; stability of tenure; initiative; and team spirit.

To begin with, it may be useful to distinguish between microeconomics and macroeconomics.

Microeconomic theories of firm have immense application to the study of management. Revenue and cost functions, various market forms, strategic interaction via game theory and the likes have huge relevance to management. More recent microeconomic theories of firm based on asymmetry of information gave birth to, what has come to be known as, "agency problems" wherein there are conflict of interests between managers and shareholders of a firm (Jensen and Meckling, 1976; Williamson, 1964). In effect, "the firm is viewed as a team whose members act from self-interest but realize that their destinies depend to some extent on the survival of the team in its competition with other teams" (Fama, 1980). But if the functioning of a firm is couched entirely in terms of agency problems, what is the role of good managers? What is the role of "managerialism" in modern management theory?[6] Or, can the distinction between a good manager and a bad one solely be explained in terms of the incentive structure? Such questions do not seem to have definitive answers.

While microeconomic theories of firm could have relevance for management studies, what is the role of macroeconomics? Explicitly, what is the utility of macroeconomics to a business manager? At a mundane level, the study of macroeconomics provides the broad canvas in which business takes place. From this standpoint, knowledge of macroeconomics could be comparable to knowing oceanography to a marine and, thus, provides a rigour and discipline to thinking. This is perhaps reflected in a recent interview of David Moss, author of a book titled, *A Concise Guide to Macroeconomics: What Managers, Executives, and Students Need to Know* (Boston: Harvard Business School Press, 2007), who when asked, "What will executives and other business readers learn from the book?", replied, "One of the most important things is they're going to be able to read the *Financial Times*, the *Wall Street Journal*, and the *Economist* much more effectively than they could before; those publications integrate macroeconomics with what we know about business and markets, often in the very same articles. Without some background in macroeconomics, much of that goes past the reader". [7]

But the usefulness of macroeconomics is beyond understanding popular press articles or op-eds. Knowledge of macroeconomics is vital in "reading the economy" for formulation of long-term strategy of the firm. As the long-run perspective is vital for a firm, they need not have to be follower of the Keynesian dictum that "in the long-run we are all dead". Thus, the conditions like process of competition, presence of wages rigidity and collective bargaining process, regulatory restrictions are important for devising the strategy of a firm. [8]

But, a more interesting question in this context could be: Is a company comparable to a country? It is instructive to turn to Krugman (1996), who said:

> "College students who plan to go into business often major in economics, but few believe that they will end up using what they hear in the lecture hall. Those students understand a fundamental truth: *What they learn in economics courses won't help them run a business. The*

[6] I am indebted to Professor K R S Murthy for pointing this out to me.

[7] However, a random survey of a few textbooks on Macroeconomics for Management / Business Managers was not helpful in understanding the relationship between the disciplines of macroeconomics and management studies. For example, one of the best-selling textbooks titled, "Macroeconomics for managers" by Michael K. Evans (Oxford: Blackwell; 2004) in discussing the importance of Macroeconomics for business managers finally emphasized finance and noted, "Even if the sales of your company are not directly affected by the twists and turns in the economy – and many dot.com companies belatedly realized that they were not isolated from the business cycle – the ability to construct an optimal capital structure is vital for every corporation. Managers must understand how much to borrow, when to borrow, and the appropriate debt/equity mix. A clear understanding of the macroeconomic factors that determine financial market prices is also essential for successful business management" (p. 3).

[8] An illustration of the various forms of wage–rigidity as embodied in the recent models in New-Keynesian economics may illustrate this point; see Blinder (1994) for details.

> *converse is also true: What people learn from running a business won't help them formulate economic policy. A country is not a big corporation.* The habits of mind that make a great business leader are not, in general, those that make a great economic analyst; an executive who has made $1 billion is rarely the right person to turn to for advice about a $6 trillion economy"(p. 40; emphasis added).

Krugman (1996) in this context went on to elucidate his point by considering two distinct episodes: (a) exports and jobs; and (b) investment and trade balance. Illustratively, the basic intuition behind "more exports mean more jobs across the globe" tends to neglect the underlying fact that increase in trade may not necessarily make higher global output. Presence of a negative trade-off between inflation and unemployment could make the issue more complex. The other issue is the difference in scale and complexity between study of a country and of a corporate. As far as scale of operations between an economy and a corporation is concerned, writing in 1996, Krugman pointed out that the employment of the U.S. economy at 120 million people, was about 200 times of the employment in General Motors, the largest employer at that point of time in the U.S. [9]

The moral of Krugman's analysis is that success of a particular corporation more often than not is non-replicable as, "Because a corporate leader succeeds not by developing a general theory of the corporation but by finding the particular product strategies or organizational innovations that work" (Krugman, 1996). To a management pagan the story of a successful corporation is often post-facto rationalization and, thus, at best, is an illustration of some unique experience and rarely a general principle. Then, one is reminded of Popper's critique of Adler referred to earlier.

Take another illustration of Michael Porter's classic notion of competitive advantage of nations. Porter identified four attributes behind competitive advantage of a nation, *viz*., factor conditions, demand conditions, related and support industries, and company strategy, structure and rivalry (popularly known as Porter's Diamond). Besides these, government policy and exogenous shocks could also complement national competitiveness (Porter, 1990). Was Porter's idea explicitly anti-Economics? There are views that Porter's "focus on competition or 'rivalry' is a diversion from traditional economic thinking" (Stone and Ranchhod, 2006) and Porter himself commented on the flaws in economics thinking behind comparative advantage. Interestingly, while Porter's (1990) Diamond Framework appears in most International Business textbooks, this is conspicuously absent in most of the textbooks on International Economics. In fact, in light of recent developments of strategic trade policies and presence of monopolistic competition in international trade Porter's idea of competitive advantage seems to be out of sync of the modern economic theories of trade. This has invited comments like, "it (Porter's Diamond) does not distinguish between hypotheses, theorems, conjectures and facts and thus cannot proceed to prove causality" (Waverman 1995).

Do these illustrations in any way highlight the basic differences in methods of these two disciplines (in their mainstream version)? Does mainstream Economics try to follow the Popperian ideas of falsification while Management Studies encompass a general body of loose associations that appeal to human intuition? These questions seem to be blowing in the wind.

There is an influential view particularly among economists that deep influence of economic principles (particularly microeconomic principles) on fields like Finance, Strategic Management, Operations Management and Human Resource Management can hardly be neglected. While the issue of relationship between Finance and Economics is far more involved and hence a section below is devoted to this issue, the affiliation of other branches of Management with Economics demands further attention. Even if one adheres to the viewpoint that the starting point for all these disciplines is basic microeconomics, all these management-related disciplines try to go beyond what they see as the limitations of micro-economic

[9] The same may not be true between a giant multinational corporation and a small economy in Asia, Latin America or Africa.

reasoning. But from this standpoint, the relationship between Economics and many of these disciplines is quite complex and plural; it often swings between the bipolarities of lineage and hostility. The discipline of "Strategic Management" is a case in point. While the role of Economics in the transition from the disciplines of "Business Policy" to "Strategic Management" cannot be undermined, there is no unanimity about the role of Economics in this process. It is useful to turn to Rumelt, Schendel, and Teece (1991) in this context:

> "Although there can be little doubt that economic thinking is reshaping strategic management, opinion is divided as to the usefulness of this trend. Within strategic management, there is a growing group who cross over between the fields, but maintain an understanding of their distinct strengths and weaknesses. However, there are also some who see economics as the 'solution' to the strategy problem … rejecting the field's traditional preoccupation with situational complexity and managerial processes. Finally, there are some who strongly oppose the confluence, seeing economics as 'imperialistic,' as taking undue credit for formalizing that which was already known by others, and as insensitive to aspects of the human situation other than the rational, pursuit of gain. Within economics, the situation is simpler: there are those who follow and appreciate the contributions of strategic management research, but there is a much larger group who are unaware of traditions outside of economics and apprehend business management only through their own constructs (and an occasional reading of the Wall Street Journal)" (p. 5-6).

Another important issue in this context is the role of ideology in a discipline like Economics. After all, Economics is dominated by a number of schools. This, in particular, is perhaps more visible in Macroeconomics. Even if the macroeconomic textbooks are dominated by North-American curriculum, these mainstream Macroeconomics texts devote quite a bit of attention to the following six to seven schools: Classical, Keynesian, Neo-Classicist, Monetarist, New Classicists or Rational Expectationists, New Keynesian and Real Business Cyclists. These apart there are non-mainstream schools like Marxian, Austrian, Heterodox and structuralist. So, a key question facing a Macroeconomics teacher is which school to cover and at what level of depth and sophistication. Should one just cover the basics of standard North American Macroeconomics lest one is branded (somewhat derogatively) as a "two handed Economist"? Or, should one attempt to provide the students with a sense of the differing discourse? In fact, exposure to plurality is often avoided with the pretext that aim of the instructors is not to confuse the students. Faced with such a maze, often the choice of schools boils down to confining attention to North American texts, many of which could have questionable relevance for macroeconomic reality of a country like India. A key conundrum in this context is: how does one see the target audience in a management school. Sinha (2015) noted, "Students, who enter business schools the world over, are taught early on in their education that rational thinking inevitably leads to structured and unique solutions to problems and questions". Teaching students (who expect unique solution) the plurality of macroeconomics could be a tall order!

3. Usage of Case Studies in teaching Economics

Usage of case studies has been quite popular in teaching in management schools. As is well known the case method owes its origin as a pedagogical device in Harvard Business School (HBS) with Edwin Gay, first Dean of HBS, calling it the "problem method". Perhaps it is appropriate to start with a working definition of a case study. The following description of case studies seems useful:

> "Cases are stories about situations in which individuals or groups must make a decision or solve a problem. Cases supply students with information, but not analysis. Although many cases are drawn from real events in which decisions have been made and the outcome is known, most do not describe the decision itself, leaving students with the task of determining what the correct course of action would be. Case method teaching is a form of discussion teaching in which students prepare a case, either individually or in groups, and then seek

collectively through in-class discussion to discover a solution to the problem presented by the case."[10]

Interestingly, a discipline like Economics is traditionally not taught through case study method but *deductively*, wherein, "the instructor introduces a topic by lecturing on general principles, then uses the principles to derive mathematical models, shows illustrative applications of the models, gives students practice in similar derivations and applications in homework, and finally tests their ability to do the same sorts of things on exams" (Prince and Felder, 2006). From this standpoint, case study is essentially a method of inductive learning and by no means a unique one.[11]

Is this deductive method of teaching in conflict with the case studies method? Should one go "from general to specific" or "from specific to general"? A digression on the empirical strategy of British econometrician David Hendry of "general to specific modeling" (popularly called the LSE approach) may not be out of context here. To Hendry and his followers, "the economy is a complicated, dynamic, nonlinear, simultaneous, high-dimensional, and evolving entity; social systems alter over time; laws change; and technological innovations occur" (Campos, Ericsson and Hendry, 2005). Thus, in such a situation a strategy of general-to-specific modeling (wherein empirical analysis starts with a general statistical model that captures the essential characteristics of the underlying dataset) is preferable. Are not the epithets used against economy (e.g., complicated, dynamic, nonlinear, simultaneous, or high-dimensional) in the above quote applicable for a company as well? If so, does the case study method lose much of its charm?

But that is more of a form of empirical (or pedagogical in this case) strategy. There could be a far more serious critique against the case study method. In a field like Economics, a case could illustrate a particular situation that can be interpreted from a multitude of views / theories. Does it mean that by its existence a case could be *atheoretical*? One is reminded of the Lucas Critique and the practice of imposing "incredible" identifying restrictions whereby depending upon the prior belief (reflected in the restrictions imposed) of the exponent the same equation can be identified as a demand curve or a supply curve (Sims, 1980).

Does it mean the case study method is unsuitable for a discipline like Economics? The answer to this question perhaps lie in the prior whether teaching Economics in a Management School is different from teaching Economics in a Social Science School / Economics Department of a University.

Interestingly, a number of studies have revealed the popularity of case study method in Economics. Why explains the popularity of the case study method among students? The survey of Carlson and Schodt (1995) among students of Economics revealed interesting insights. The following major reasons emerged as the primarily motivation of students favoring case study method:

- "Case studies illustrate the practical application of theories and, most important, the relation between theories and practical results".
- "Made class interesting".
- "Readings and cases taught theory while cases taught how these theories fit into a larger context, and I learned more from the cases. I think the cases can only be helpful, however, if used in conjuncture with readings and lectures".
- "It's very difficult for me to pick up information that I cannot clearly apply to something. Courses like microecon and macroecon are frustrating because they seem to be just a mass of garbled concepts that must be memorized for tests. Cases allow me to see those concepts as tools for problem solving".

[10] http://www.economicsnetwork.ac.uk/handbook/casestudies/11

[11] Other methods of Inductive learning could include teaching methods like, inquiry learning, problem-based learning, or project-based learning.

A key question that remains in this context is: can *economic theories* be taught through the case study method? To answer this, one needs to consider what is meant by "teaching economic theory". Carlson and Schodt (1995) probed into this question and arrived at the following interesting conclusion:

> "The theory of economics is embodied in a series of analytical models, all with well-defined structures and rules by which they are to be used to carry out analysis. …..*To expect undergraduates, or graduate students, to derive these models from cases, even with the best of guidance from their instructors, is probably unreasonable and undoubtedly inefficient.* However, cases provide a context in which the theory can be embedded and used by students; and cases promote insights into the intuition that is more formally expressed in the theoretical models. While lectures are important for transmitting information about economic theory to students, cases hold the potential to enhance dramatically students' learning of economic theory" (p. 23-24).

Thus, for motivating the students even in subjects like Economics, the usefulness of case study method cannot be negated. Of course, case study method could be superfluous or even redundant to teach formal models of economics – say, general equilibrium analysis or welfare economics or even econometric methods. But for motivating a student who is exposed to Economics first time in life usefulness of case study method cannot be underestimated. Case studies along with other methods of deductive learning go a long way for illustrative and discursive purpose for teaching Economics to students in a management school. However, dearth of good cases in Economics could pose a constraint in this effort.

4. Finance and Economics: Siamese Twins or Distant Cousins?

Compared to Economics, Finance is a younger discipline. In some sense, the birth of finance as an independent academic discipline can be traced in birth of the American Finance Association (AFA). While the AFA was planned at a meeting in December 1939 in Philadelphia its first journal called *American Finance* was published in 1942.[12] During the war period the activities of the AFA were suspended and at its annual joint meeting in January 1946, its work was revived and its journal renamed as *The Journal of Finance* that started getting regularly published since August 1946. The very first issue delved the relationship of the AFA with the American Economic Association (AEA) and noted:

> "Whether the reader teaches or practices in one of the several fields finance encompassed by this Association, he must at times have felt the difficulty of keeping abreast of major developments in so broad an area served by such diverse publications. Our founders recognize the splendid and indispensable contribution of the American Economic Association for our craft but believed that *a special organization would have two advantages: (1) to insure that at joint annual meetings with that organization, programs of adequate diversity would be assured to include major topics currently engaging the world of finance; and (2) to develop the managerial and business aspects of finance*" (AFA, 1946; emphasis added).

Nevertheless, till about the 1950s, finance was seen primarily as study of details of financial institutions (Constantinides et al., 2003). This is best illustrated in Markowitz's initial travails of getting his Ph. D thesis accepted in University of Chicago.[13]

[12] http://www.afajof.org/details/page/3710241/About-the-Association.html

[13] In connection with Markowitz's Ph. D thesis, Keenan (1990) noted, "people were not quite sure what to make of him or his work since it bridged uncrossed disciplines. The mathematics professor said it certainly wasn't new math (though it was in terms of some quadratic programming algorithms), the economics professor said it wasn't economics, and the sociologist said it certainly wasn't something that affected people's behavior. What it turned out to be, of course, was a powerful new view of the world that had significant impact on professional behavior in all three disciplines."

In fact, academically, the birth of finance as a modern academic discipline can perhaps be dated from Markowitz's 1952 classic article on portfolio selection in Journal of Finance. This was followed by the publication of what is now known as Modigliani-Miller theorem in 1958. This field of modern finance came also to be known as financial economics. So far, the Nobel Memorial Prize in Economics was awarded to six scholars related to finance.[14] All these scholars have contributed to the development and recognition of finance as an academic discipline capable of fruitful application in practice. As far as Nobel Laureates in finance are concerned two side comments may not be out of context. First, the LTCM (Long Term Capital Management) crisis in the US during the late 1990s hugely discredited Black-Scholes model; after all, both Myron Scholes and Robert Merton were in the Board of LTCM. Second, as far the 2013 Nobel Prize is concerned, its sharing between Fama and Shiller was somewhat non-conventional; after all, while Fama as the father of capital assets pricing model was a great believer of rationality of the financial markets and Shiller as an exponent of behavioural finance was a believer of 'irrational exuberance" of financial markets.

In the world of practice, what is the role of the finance specialist in a corporation? A best-selling textbook on Finance enumerates the following functions of an CFO, viz., planning (e.g., pricing policies and sales forecasting); provision of capital; administration of funds; accounting and control; protection of assets; tax administration; investor relations; evaluation and consulting; and management information system (Bodie, Merton and Cleeton, 2009). Clearly, Economics is only related to a subset of these nine functions and hence Economics and Finance can be seen more as close cousins.

The academic zenith of finance accompanied the peak of finance in economic activities as well. In the United States, at its peak in 2006, the financial services sector contributed 8.3 percent to U.S. GDP, compared to 4.9 percent in 1980 and 2.8 percent in 1950 (Greenwood and Scharfstein, 2012). Three factors seemed to have played a great role in peaking of financial services, viz., growth of active asset management, household credit, and shadow banking. Has this expansion of financial activities been socially beneficial? Purely from an empirical viewpoint the answer seems to be beyond a linear 'yes' or 'no'. Looking at detailed data for the US, Greenwood and Scharfstein (2012) have arrived at the following major conclusions:

a) Due to lowered required rates of return on risky securities, young firm were greatly benefitted.

b) The enormous growth of asset management could have distorted the allocation of talent.

c) While there may be benefits of expanding access to mortgage credit and lowering its cost, the U.S. tax code already biases households to overinvest in residential real estate.

d) The shadow banking system made the financial system more fragile.

But the share of financial services in GDP is only a part of the story of finance's influence in the aggregate economy. Robert Shiller, in his 2012 classic *Finance and the Good Society*, has noted how the rich and mighty are connected to finance. He has taken the Forbes 400 list of the richest American and pointed out that even if finance is not listed as specialty for a number of them, finance has played a significant role their huge earnings.

[14] The Nobel Laureates in Economics related to finance were as follows: Franco Modigliani (for his "pioneering analyses of …. financial markets" in 1985), Harry Markowitz - Merton Miller - William Sharpe (for their "pioneering work in the theory of financial economics" in 1990), Robert Merton - Myron Scholes (for "a new method to determine the value of derivatives" in 1997- Fischer Black would have joined them in the honour, if not for his death in 1995); and Eugene Fama - Lars Hansen and Robert Shiller (for their "empirical analysis of asset prices" in 2013).

In the days following global financial crisis, both financial activities and finance professionals earned a bad name. Movements like Occupy Wall Street that aims at "fighting back against the corrosive power of major banks and multinational corporations over the democratic process, and the role of Wall Street in creating an economic collapse that has caused the greatest recession in generations"[15] bear testimony to such antipathy of the Main Street against the Wall Street. Does an average citizen conceive finance to be sleazy? Even without any pathological distaste against finance, several explanations behind such a phenomenon have been offered in the literature.

First, psychologist Daniel Kahneman and Amos Tversky put forward the notion of "prospect theory", whereby there is an asymmetry in peoples' behaviour and they exhibit a tendency toward loss aversion (Kahneman and Tversky, 1979).[16]

Second, people may suffer from 'cognitive dissonance' and hypocrisy (Shiller, 2012).[17]

Finally, while the role of finance in American financial capitalism has been special, its evolutions has not been inclusive as has been observed, "For nearly a century from the time of the Civil War through the Great Depression, Wall Street had been the an essential element of the country's cultural iconography, nearly as omnipotent as Uncle Sam or the Western Cowboy; …. for the next forty years … it vanished from the front page and lived out its life in the business section of the daily newspaper" (Fraser, 2005).

While in some sense the relationship between Economics and Finance as a discipline is captured well in the metaphor of the 'front page' *versus* the 'business page' of a newspaper, at the current juncture when the world is yet to recover fully from the global financial crisis, two comments on the relationship between Finance and Economics are in order.

First, even the standard economic theory have tended to neglect financial sector issues and cannot claim to have paid much attention to what has happened in the US financial sector since the beginning of the new Millennium and the subsequent development of the sub-prime crisis culminating into a full-fledged global financial crisis. In fact, the Queen of England in her visit to the London School of Economics in November 2008 raised precisely this concern and asked: "Why had nobody noticed that the credit crunch was on its way?" The British Academy convened a forum on 17 June 2009 to debate this question, with contributions from a range of professional from Finance and Economics. Their reply was indeed humbling when they pointed out:

> "So where was the problem? Everyone seemed to be doing their own job properly on its own merit. And according to standard measures of success, they were often doing it well. The failure was to see how collectively this added up to a series of interconnected imbalances over which no single authority had jurisdiction. This, combined with the psychology of herding and the mantra of financial and policy gurus, lead to a dangerous recipe. Individual risks may rightly have been viewed as small, but the risk to the system as a whole was vast. … So in summary, Your Majesty, the failure to foresee the timing, extent and severity of the crisis and to head it off, while it had many causes, was principally a failure of the collective imagination of many bright people, both in this country and internationally, to understand the risks to the system as a whole (British Academy, 2009)."

Secondly, I have already pointed out that the negligence of welfare implications of management disciplines stand in stark contrast to Economics. This is all the more relevant in

[15] http://occupywallst.org/about/

[16] Daniel Kahneman received the 2002 Nobel Prize for Economics for "having integrated insights from psychological research into economic science, especially concerning human judgment and decision-making under uncertainty".

[17] 'Cognitive dissonance' refers to the state of mental tension that occurs whenever a person holds two cognitions that are psychologically inconsistent. Traders in most of the financial asset classes tended to exhibit this behavior.

a discipline like Finance. Luigi Ziggales in his 2015 Presidential Address to the American Finance Association have brought home this point succinctly and went on say:

> "The First Welfare Theorem (of Economics) ….. demonstrates that in a competitive economy individual choices lead to an allocation that is Pareto efficient. The First Welfare Theorem, however, holds only if every relevant good is traded in a market at publicly known prices (i.e., if there is a complete set of markets). When this condition is violated (as it generally is), the Pareto optimality of the equilibrium is not guaranteed. More interestingly for the financial sector, Hart (1975) shows that starting from an incomplete market economy, adding a market can make all agents worse off. Elul (1995) shows that far from being an exception, Hart's result is very robust and pervasive. *Thus, there is no theoretical basis for the presumption that financial innovation, by expanding financial opportunities, increases welfare*" (emphasis added).

Thus, the disconnect between Finance and Economics have turned out to be costly to both the disciplines and increasingly it is believed that the emergence of what may called as "macro-financial economics" needs to occupy the attention of both these disciplines in the days to come.

5. Concluding Observations

It is difficult to draw any sort of broad take-away from a paper that has presented personal quandaries of an Economics teacher in a Management School. The essay has looked into three distinct questions, viz., (a) usefulness of learning Economics in a Management School; (b) usage of case studies in teaching Economics; and (c) the relationship between Finance and Economics as independent disciplines. At the risk of oversimplification, one can venture to suggest some broad inferences. First, while learning Economics would be of use to a student of management as a background, its usage and application need not be exaggerated in the sense that knowledge and running of a corporation quite different from knowledge / running of the whole economy. Second, traditionally Economics is taught in a deductive manner, usage of case studies to teach Economics could be worthwhile in a Management School. Third, despite the close links / parentage Finance as discipline has been able to establish its adulthood from Economics. Going forward, however, absence of welfare implication of Finance could turn out to be costly both to the discipline of Finance as well as to the Finance professionals.

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