

ESD.864 CLASS CASE: ECONOMICS

Economic Modeling

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Macroeconomic models that describe the monetary system of countries or regions -- are the focus of much theory in the field of economics. These theories have been particularly influential in policy-making over the past several decades.

In 2008, there was a global financial crisis. What is interesting about this from a modeling perspective is that existing models -- and in fact, most economic experts -- utterly failed at predicting or even signaling this possible outcome. For a brief history of this, you might start with the article by Paul Krugman in the New York Times magazine, which you will receive as part of your background material. You should also reference the Nate Silver book's treatment of the topic.

Despite this very obvious failure of using models, macroeconomic theory in general occupies a privileged place in government decision-making. This stands in contrast to many other fields, where models and simulations are not so widely accepted (as is apparent, for example, in the climate change case study and others). Your task as a group is to explore the reasons for this, and to explore what the collapse and subsequent financial crisis means in the context of providing policy advice based on economics. Why did both economists and policy makers trust the models? Will policy-makers trust these models in the future? Why or why not?

As a group, you should define your case study around the questions of how and why macroeconomic theory and models became so influential in policy, what best practices are for using economic knowledge, and what the future holds for economic modeling (this is a broad summary, so feel free to narrow the topic according to the elements you are most interested in). Focus on lessons that might be applicable across the domains of interest to the class.

A few references to get you started are the Krugman article referenced above, and two references that survey using macroeconomic models in policy, one from before the economic crisis, and one from after. You are expected and encouraged to do further research on your own.

Remember to follow the general instructions for your memo and presentation.

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