A PRiME perspective on economics curriculum design [version 1; peer review: 3 approved]

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Abstract

The United Nations’ Principles of Responsible Management Education initiative aspires to transform the relationship between business and society by ensuring that the next generation of business leaders are shaped by management education that conceptualises businesses as generators of sustainable value. Simplistic economic models overemphasize the role of narrow profit maximization on the part of firms in generating broader economic wellbeing. More nuanced views of the relationships between firms and the societies in which they operate, such as those that allow for market power in product and labour markets, for the presence of externalities in the production of goods and services, for a role of the state in the provision of public goods, and for the existence of market failures more generally, offer profoundly different advice to aspiring practitioners of responsible management. This article proposes an introductory economics curriculum for management students that gives due emphasis to these more nuanced perspectives and thus equips aspiring business leaders with the skills they will need to build profitable enterprises that also fulfil the objective of generating sustainable value as envisioned by the Principles of Responsible Management Education.

Keywords

Economics education, introductory economics, responsible management, management training.

This article is included in the Responsible Management gateway.
Introduction

The U.N. supported Principles of Responsible Management Education (PRiME) initiative aspires to transform the relationship between business and society by ensuring that the next generation of business leaders are shaped by management education that conceptualises businesses as generators of sustainable value (UN Global Compact, 2007). This note argues that an economics curriculum designed in accordance with these principles can be a powerful tool to achieve this objective and proposes some key elements of such a curriculum.

Contemporary economics offers a wide range of perspectives on the interrelationships between business and society and thus on what constitutes responsible management in a specific context. The most simplistic of these perspectives implies that profit maximizing firms alone can deliver outcomes which maximize economic welfare. In this view, responsible management is reduced to the single-minded pursuit of profits. However, more nuanced views of the relationships between firms and the societies in which they operate, such as those that allow for monopoly power in product markets, monopoly power in labour markets, for the presence of externalities in the production of goods and services, for a role of the state in the provision of public goods, and for the existence of market failures more generally, offer profoundly different advice to aspiring practitioners of responsible management. Thus, a well-rounded management curriculum should give due emphasis to these more nuanced economic perspectives.

A common practice in the design of economics curricula is to present theory in layers of increasing complexity. However, a constraint that often faces economics educators on management degrees is that such degrees typically require students to engage with economics only at the introductory level, usually in large cohorts that include students on a variety of other degree programmes. In this context, a layered economics curriculum that is focused on the needs of specialist economics students, may do a disservice to students on other degree programmes as the narratives that emerge from the most simplistic economic models usually overemphasize the role of self-interest in generating value for society. Thus, a poorly designed introductory economics module can risk falling short of PRiME’s objectives by failing to prepare aspiring practitioners of responsible management with an education that covers a diversity of views on the relationship between business and society.

This note offers a perspective on the design of an introductory economics curriculum that is tailored to addresses the foregoing concerns. Such a curriculum will of course celebrate the power of profit-seeking firms to generate growth and prosperity, a power that is characteristic of the modern global economy. But it will also make future business leaders aware of the numerous contexts in which an overly narrow focus on self-interest can impair a firm’s ability to generate sustainable value for society. The next section reflects on how the principles of self-interest and profit maximization can be taught to foster responsible management practices. The note then goes on to discuss a number of specific economic models that can form the basis of a 15-credit introductory economics sequence that will equip aspiring business leaders with the skills they will need to build profitable enterprises that also fulfil the objective of generating sustainable value as envisioned by PRiME.

Narratives of self-interest and responsibility

The idea that narrow self-interest should motivate firms is not new. Intellectual curiosity around the sufficiency of self-interest in producing socially desirable outcomes goes back to the inception of the economic sciences. As is well known, in An Inquiry into the Nature and Causes of the Wealth of Nations Adam Smith observed that “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner but from their regard to their own interest,” and “By pursuing his own interest he frequently promotes that of society more effectually than when it really intends to promote it” (Smith, 1776). These quotes are often included in introductory economics lectures to motivate the central insights of the theory of the perfectly competitive firm.

The perfectly competitive benchmark presents an elegant theoretical exposition in which profit maximization as the sole motivating force for firm behaviour is not only desirable, but socially optimal. Despite the alluring simplicity of this argument, economic theory circumscribes its relevance to a very narrow domain, i.e. where firms are small in relation to the market in which they operate, where products are homogenous, where there are no externalities or public goods and where the provision of information is perfect. Indeed, Smith himself was acutely aware of the potential for non-competitive outcomes to arise in practice. Nonetheless, the narratives that emerge from this theory hold very broad – arguably too broad – influence in social, political, and business decision making and can undermine the effectiveness of management education that is designed to nurture responsible business practices.

There are several steps that educators can take to counteract these forces. The perfectly competitive model should be presented as one abstract categorisation of firm behaviour, among many others. Attention should be drawn to the extreme nature of the assumptions on which the model is built to reinforce its hypothetical nature. Due care should be taken to explain to students that it is neither the model that most closely approximates reality, nor the workhorse model used in applied work. Rather, this note argues that it should be presented as a pedagogic tool that provides a useful point of departure from which other, more sophisticated models can be built.

Alternative models of the firm and responsible management

A constructive and engaging way to challenge the laissez faire narratives that emerge from the perfectly competitive benchmark and the potentially unsustainable management

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1 Also in The Wealth of Nations Smith writes, “People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.”
practices that they can imply, is to carefully and critically analyse the assumptions on which the model is built. The implications of relaxing each of the assumptions for the practice of responsible management can be modelled in turn, thereby forming the basis of an economics unit that engages meaningfully with PRiME’s objectives. This note now turns to cataloguing some of these critiques and their implications for aspiring management professionals.

Market power in product markets: generating value?
The PRiME initiative casts the role of a firm as an instrument that generates value for society. In the perfectly competitive model, profit maximization achieves this objective only as each firm is assumed to be small in relation to the market in which it operates, and products are assumed to be homogenous. Together, these assumptions imply that individual firms are price-takers and so have no market power. This complete lack of market power underpins the allocative and productive efficiency (Begg et al., 2014) of this theorised market structure, and thus the result that profit maximizing firms generate the most value for society. By contrast, in models that allow firms to exercise some degree of market power, a relatively straightforward diagrammatic exposition can show that profit maximization can no longer be relied upon to allocate resources efficiently (Begg et al., 2014). In general, when firms exercise market power, they can increase profits by raising prices through restricting output. Thus, market power implies that firms produce too little output, relative to the quantity that would maximize social welfare.

A management education that aspires to fulfil PRiME’s objectives should take care to reinforce this insight. In firms that exercise a considerable degree of market power, the objective of profit maximization no longer fully aligns with that of maximizing value for society. Thus, the managers of these firms need to be prepared to make judgements that on the margin trade-off the degree of profitability of their firm against the amount of value the firm generates for society.

During the Covid-19 pandemic (which is ongoing as of the writing of this document), it is not difficult to think of markets in which restricting the supply of a good or increasing prices may reasonably be deemed undesirable. The markets for healthcare and life-saving drugs present themselves as obvious and vivid examples. But the recent shortages of more ordinary goods such as flour and toilet paper in U.K. also provide examples where firms have not raised prices out of regard for the public interest (Sanders, 2020).

Market power in labour markets: behaving responsibly?
Firms have responsibilities to their shareholders and their customers, but also to the workers they employ. In the perfectly competitive labour market assumed in introductory economics classes, there exists a going market wage at which both buyers and sellers of labour are price-takers. In this simplistic model, a binding minimum wage will reduce employment (Card & Krueger, 1994). In reality, the relationship between workers and employers is usually characterised by an asymmetry in bargaining power which favours the employer. The presence of such monopsony power can enable firms to extract rents from their employees, where these excess profits come at the cost of workers whose households are left worse off (Card & Krueger, 1994). If firms throughout the economy behave in this way, then low wages and high business profits can exacerbate inequality in a society (Lee, 1999). Without the benefit of an economics education that explicitly studies these forces, even well-intentioned managers wishing to protect their most vulnerable workers from unemployment may act out of a misguided hostility to minimum wage legislation.

A further nuance of this model is that the asymmetry in market power between a firm and its employees is likely to be most pronounced among unskilled workers at the bottom of the wage distribution as these workers are themselves least likely to exercise market power (Card & Krueger, 1994). For these workers, a countervailing force to the asymmetry in bargaining power, such as a union, may help improve wages and working conditions and thereby support responsible business practice.

To ensure that future business leaders are equipped to make informed decisions regarding their workers, an economics curriculum motivated by PRiME should include the basic insights of the monopsony model. Doing so will enable the next generation of management professionals to adopt better hiring practices and to understand the important role that minimum wage legislation and unions can play in protecting their vulnerable workers.

Externalities and the legitimacy of regulation
A key stated objective of the UN’s PRiME initiative is to promote sustainability. One of the ways in which the perfectly competitive benchmark does a disservice to sustainability is by assuming away the possibility of externalities. As can be simply illustrated in a demand and supply diagram, the social welfare maximizing property of the perfectly competitive benchmark depends crucially on the assumption that there are no externalities (Begg et al., 2014). The existence of externalities – effects of a transaction that do not fall on the parties engaging in the transaction, that are not captured by the price mechanism – will again place demands on tomorrow’s decision makers that an overly simplistic economics education will fail to prepare them for. Managers of firms that produce substantive negative externalities who strive to generate sustainable value for society will need to make difficult choices that trade-off firm profits against the harm that is done to society in the pursuit of these profits.

Proponents of a laissez faire system point to forces that may effectively align the incentives of firms with those of society more broadly, even in the presence of externalities (Hemphill, 1992). A firm that causes harm to the environment may suffer reputational damage which in turn affects profits, whereas a firm that proactively utilises more sustainable methods of
production may be more attractive to customers. In other words, an informed and socially engaged consumer base may provide firms with incentives to regulate themselves, thus allowing managers to focus simply on profit maximization.

This line of reasoning itself depends on some strong assumptions that are unlikely to be valid in the real world. First, it may be costly for consumers to gather reliable information on the nature and extent of damages inflicted on the environment by firms. Second, even if consumers have the appropriate information, there is no mechanism that suggests that the extent to which they penalize polluting firms or reward sustainable ones will be proportionate to the extent of the externality. Indeed, the 2015 Volkswagen emissions scandal (Hotten, 2015 provides a useful summary), where the company was found to have installed devices that were designed to cheat emissions tests on entire ranges of vehicles, illustrates that in practice firms may go to considerable lengths to actively mislead the public about the extent of the damage they are causing. It may also be argued that the long-term penalty exacted by market forces on Volkswagen for a relatively severe breach of consumer’s trust (cheating vehicles produced emissions levels 40 times those permitted by law) were relatively short lived, with share prices first returning to the pre-scare levels in November 2017, a little over two years since the news of emissions cheating broke (Bryant, 2017).

The presence of externalities thus implies an important role for the state to play in imposing and maintaining regulatory standards. A simplistic economics curriculum that overemphasises laissez faire narratives will encourage business leaders to argue that such standards are ‘burdensome regulations’ which ‘get in the way of business’, phrases that have been common refrains among business lobby groups, with those that advocated in favour of Brexit providing a recent example. An economics educator designing a curriculum in line with PRiME should take care to invert this narrative and celebrate appropriate regulation as enabling force towards sustainable businesses.

Public goods and the legitimacy of taxation

While it is certainly true that market forces have delivered incredible prosperity to the modern world, an economics curriculum consistent with PRiME should recognise that they have not done so in isolation. The market system relies on the state to provide functioning legal and regulatory institutions, as alluded to above, but also infrastructure such as ports, roads and highways, as well as essential inputs to the human capital employed by firms such as healthcare and schooling. Therefore, sustainable business depends on a sustainable state apparatus, which in turn must be funded by a sustainable level of taxation.

This reality – that markets can only function in the presence of a host of goods and services provided by the state and funded by taxation – is formally circumvented in the perfectly competitive benchmark by assuming that there are no public goods or externalities (Begg et al., 2014). Indeed, the logic of the perfectly competitive benchmark goes further, and concludes that taxes induce an ‘excess burden’ and a ‘deadweight welfare loss’ on society (Begg et al., 2014). While an economics curriculum should of course acknowledge the distortions induced by taxes, a curriculum that supports PRiME’s objectives must go further and explain the value added by strong and appropriately funded government agencies, both to society in general and to the business climate in particular. Indeed, the current understanding of economic growth processes suggests that the quality of a country’s institutions is the most important determinant of long-term growth and prosperity (Acemoglu & Robinson, 2012).

These arguments are not just theoretical curiosities, but the subject of heated contemporary public debate that a responsible economics curriculum would do well to engage with. A major battle line in the recent U.K. election was the rate at which corporations would be obliged to pay taxes on their profits (Adam, 2019 provides an informative summary). A number of cases where large corporations such as Amazon and Apple have been able to legally reduce their tax bills in the U.S. and U.K. have also generated considerable media scrutiny (for example Sherman, 2019). While it is certainly advantageous for firms in the short run to minimize their tax burdens, such strategies are likely to prove neither responsible nor sustainable. In the long run, an impoverished state may struggle to provide the quality public services that businesses depend on. The U.K. government’s Coronavirus Job Retention Scheme provides a vivid contemporary example of the immense value that businesses can reap from strong and properly funded public initiatives (Dias et al., 2020).

Conclusion

The UN-backed PRiME initiative calls for businesses to interact with the societies in ethical and sustainable ways. The narratives that emerge from simplistic economic models that are often encountered in introductory economics modules on the typical management curriculum can be at odds with these objectives and can leave aspiring practitioners of responsible management unprepared for the difficult trade-offs they are likely to face in their careers. This note has argued that a careful critique of each of the assumptions that underpin these simplistic narratives and an exposition of the alternative models that arise from each critique can provide a basis for an engaging economics curriculum that will better equip the next generation of managers to make informed decisions between the extent of firm profits and other considerations such as the welfare of customers, the wages of workers, and making a just contribution to the functions of the state that enable business to flourish. Such an economics curriculum will help business schools to deliver a management education that fulfills the ambitious objectives envisioned by PRiME.

Data availability

No data are associated with this article.
References


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The article suggests a mapping of the UN’s Principles of Responsible Management Education (PRiME) into the one semester first year economics module curriculum taken by business management students. The author provides a coherent, well-argued and compelling argument to show that key market failure concepts such as monopoly power in products or labour markets, externalities and public goods nicely align with the PRiME advocated by the UN. In turn, the author’s advice is to make sure that a PRiME-inspired year 1 economics curriculum taken by business management students is designed around such key economics concepts. I found the article well written, logically organised and supported by current examples and literature. In particular, I liked the very current examples about the economic challenges posed by the COVID-19 pandemic. I believe that the article can be of great support and inspiration for lecturers in Business Schools who are designing their first year introduction to economics modules.

I have a couple of suggestions for the author that, I hope, can enhance the curriculum design in terms of its matching with the PRiMEs as well as students’ learning.

First year economics modules for business management students tend to generally be ‘boxed’ within the context of either microeconomics or macroeconomics. Even when both subjects are included in the curriculum they are usually presented as two separate and not necessarily interconnected fields. In his analysis the author suggests that profit maximisation as one of the key assumptions of economic theory should be challenged and broadened. Perhaps a starting point of a PRiME curriculum should be the focus on the definition of GDP and on how this definition has evolved over time from the limited inclusion of only goods and services produced in a country in a given period of time to one that encompasses wider ‘ideals’ and concepts such as happiness, environmental stock and living standards. Students can be challenged to provide their views on such alternative definitions and to reflect on what role firms and government should play. Such a reflection can then be the starting point for the acknowledgement of the various ‘imperfections’ that characterise laissez-faire economic systems and of the challenges in addressing them.

Our ability to instil PRiME into the next generation of managers depends very much on the
pedagogy employed in the classroom. I believe it is important to lead the students in a process of discovery and learning based on case studies and engagement with the real economy rather than through the learning of abstract theoretical models. In particular, if students are unlikely to take further economics modules in their UG studies, it is more likely that key ideas and concepts will be ‘owned’ and understood by students if they are cast within the context of experiential learning. The success of the PRiME initiative depends very much on a review of the curriculum along the lines suggested by the author but also by the ability of teachers to engage the students in an active and deep learning of such a curriculum.

Is the topic of the opinion article discussed accurately in the context of the current literature?
Yes

Are all factual statements correct and adequately supported by citations?
Yes

Are arguments sufficiently supported by evidence from the published literature?
Yes

Are the conclusions drawn balanced and justified on the basis of the presented arguments?
Yes

Is the argument information presented in such a way that it can be understood by a non-academic audience?
Yes

Does the piece present solutions to actual real world challenges?
Yes

Is real-world evidence provided to support any conclusions made?
Yes

Could any solutions being offered be effectively implemented in practice?
Yes

**Competing Interests:** No competing interests were disclosed.

**Reviewer Expertise:** pedagogical approaches to economics teaching

I confirm that I have read this submission and believe that I have an appropriate level of expertise to confirm that it is of an acceptable scientific standard.

Reviewer Report 18 August 2020

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Dimitra Petropolou

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I have now had the opportunity to read the article above with interest. The author raises an important point, that students of Management can – by taking only a foundational course in Economics that focuses on the benchmark competitive model – be exposed to a rather narrow perspective of narrow profit maximisation as a sufficient mechanism for efficient allocation. Rather than an exploration of the competitive model as a benchmark against which alternative market structures and outcomes with market failure can be compared.

Reflecting on this when designing economics modules for students of other disciplines whose exposure to Economics is more limited – and even for students of Economics – is of value. Especially as issues relating to market failures are brought to the fore with the Covid-19 pandemic. The emphasis of discussing with students at a very early stage how market failures can alter the standard narrative is of pedagogical interest. Whether this is monopoly power in product or labour markets, externalities or public goods.

One further area that could be incorporated in the discussion is the market failures arising from asymmetric information – namely adverse selection and moral hazard. Both of these are very important in the wider discussion of firm management and social value, with many pertinent examples to choose from.

Adverse selection can explain major gaps in the provision of health coverage in the United States, for example, and can explain the basis for regulation in health markets. While moral hazard is a key concept in understanding how decision-making in the financial organisations contributed to the 2008 financial crisis. Given the potential far-reaching social impact of the manifestation of moral hazard in firm management, this could also be reflected upon. The principal-agent model in its simplest form also emphasises the distinction between the incentives of managers or employees (agents) operating on behalf of shareholders or other stake-holders (principals). Introducing this in the curriculum early on adds insights into how the internal structure of firms matters and the limitations in treating firms and those who manage them as synonymous.

Overall, I strongly favour publication of this piece. My recommendation is for the author to consider adding a further section reflecting on social value and problems arising from asymmetric information. It is the one market failure not addressed in the piece.

Note also a typo in the final paragraph of the section entitled ‘Narratives of Self-interest and responsibility’: it should read characterisation rather than ‘craterisation’.

Is the topic of the opinion article discussed accurately in the context of the current literature?
Yes

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Yes

**Is real-world evidence provided to support any conclusions made?**
Yes

**Could any solutions being offered be effectively implemented in practice?**
Yes

**Competing Interests:** No competing interests were disclosed.

**Reviewer Expertise:** Pedagogical aspects of Economics education; Economics primary research field is International Economics.

I confirm that I have read this submission and believe that I have an appropriate level of expertise to confirm that it is of an acceptable scientific standard.

Reviewer Report 29 June 2020

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Professor C. Rashaad Shabab’s “A PRiME Perspective on Economics Curriculum Design” is terrific. It makes a compelling and important and argument with great clarity. I hope that it will be widely read, and I hope that economics curricula in management programs everywhere will be informed
by the concerns and vision articulated so well in Shabab’s short note.

Most intro textbooks are clear that the model of perfect comp is a pedagogical device. Intro texts eventually turn their attention to a more complicated (and less rosy) story about how a market economy operates. But too many students – many of them prospective corporate managers - leave an intro course believing that they have learned that unregulated markets and the pursuit of profit maximization lead to “optimal” outcomes (or, at least, the best results that we can reasonably expect). The implication is that the pursuit of profit is “socially responsible” – indeed, for the greater good! - and claims that profit maximization is “anti-social” are rooted in a misunderstanding of the magic of the invisible hand.

Too often, the misinterpreted narrative of intro to econ can serve as a rationale for – and a defense of - selfish behavior, greed, exclusion, meanness, plunder, lower taxes, cuts in public services and inappropriate government inaction ... even when these attitudes, behaviors and policies may well make the world worse (and even though the textbook – eventually – provides a basis for rejecting this erroneous conclusion).

Professor Shabab’s note offers a partial antidote to this consequential misunderstanding: a careful deconstruction of the assumptions of perfect competition, with explicit attention to the specific ways in which violations of each assumption may lead to outcomes that are, in particular ways, “sub-optimal” and anti-social. Professor Shabab lays all of this out with great clarity – the deconstruction of each of the key assumptions, and the important ways in which the “conclusions” of the perfectly competitive model are overly rosy. He lays out well “what is at stake.”

These are not, of course, original insights. But the clear, precise deconstruction of these assumptions is a very useful contribution to economic pedagogy – especially in contexts where “market failures” are treated as relatively inconsequential exceptions to the rule that “markets work.” I’ll share this note with my students the next time I teach perfect competition.

What’s here is terrific and enormously useful. But I will note that Professor Shabab’s clear, persuasive narrative is not enough! Professor Shabab is, of course, aware of this – but I think that it is important to recognize the limits of this contribution. I don't think that an elaboration of all of this (below) would necessarily improve Professor Shabab’s very good and clearly focused note.

But I think that intro to econ instructors – in management programs and elsewhere – and their students would do well to keep them in mind.

A few questions/additional thoughts.

○ The re-education (or more careful education) of prospective managers about the relationship between profitability and “the greater good“ is surely useful. But I wonder: to what extent are the “anti-social” pursuits of firms (that is, the choices they make that come with “un-internalized social costs”) the result of a misunderstanding by managers about the social consequences of their choices? Or are they rather primarily (entirely?) the result of “rational” profit maximizing choices? That is, perhaps managers are not misinformed but, rather, indifferent to the ways in which their behavior degrades society. Or perhaps the structural imperative to generate profit overwhelms their awareness of and concern about generating “sustainable value.”

I appreciate very much that Professor Shabab’s note suggests (presumes, really) that
underscoring the ethical and social welfare consequences of management choices might lead these prospective managers to behave differently. It suggests a richer, more complicated, more appealing (and, I think, more accurate) vision of “human nature” than we encounter in introduction to economics.

I’ll also note that, however optimistic Professor Shabab and I might be about the prospects that education might create more ethical human beings, this is surely not enough! The structural pressures maximize profits are very powerful and so it is crucial to emphasize – as Professor Shabab does – that even in a neoclassical world, state policy is required to move us toward a better (more efficient) economy.

- An intro to economics instructor might (should) also note that a world described by the perfectly competitive model – that is, a world in which all of the assumptions hold - might not be “optimal.” Is more really better? Is the distribution of resources at t=0 fair? Is the distribution of income fair? Is it obvious that income should be a “reward” for productivity? Are preferences really “given,” rather than socially constructed? Is “efficiency” clearly the best criterion by which we might judge the allocation of resources? Why not evaluate an economy by its fairness, sustainability, equality, or the extent to which it promotes/facilitates community, creativity or love? What are we assuming about the legacies and the current-day economic implications of racism, colonialism, sexism, and plunder? This is all to say that the neoclassical model is loaded with implicit assumptions and normative judgements. And – like every course and every paradigm – it prioritizes some questions over others.

Obviously, many thoughtful people have embraced the assumptions – positive and normative – embedded in the Neoclassical model. My point here is not that instructors should try to persuade students that the model is “wrong.” But it is important to alert students to the fact that these assumptions, judgements (about, e.g., fairness) and rhetorical choices are debatable. And, pedagogically, I think it is useful to challenge students to think about what they think a “good” economy (society) looks like, and to ask themselves whether they find the neoclassical vision of a “good” economy compelling.

I am, again, grateful for Professor Shabab’s clear and effective note. And I appreciate that has provoked me to think about introductory economics in some ways that have been productive and clarifying for me.

I repeat: I don't think that Professor Shabab's nicely focused note needs to incorporate (or respond to) the issues I've raised here. A few sentences about what he is not doing in his note might enrich the note but, again, it is a terrific piece of work in its current form. I plan to use it in my classes.

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Is real-world evidence provided to support any conclusions made?
Yes.

Could any solutions being offered be effectively implemented in practice?
Yes.

**Competing Interests:** No competing interests were disclosed.

**Reviewer Expertise:** Economic inequality, urban economics, international economics, and alternative theories. I've taught economics, urban studies and international studies for 30 years.

I confirm that I have read this submission and believe that I have an appropriate level of expertise to confirm that it is of an acceptable scientific standard.