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Is There Anything Worth Keeping in Standard Microeconomics?

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The French students' movement against autism in economics started with a revolt against the disproportionate importance of microeconomics in economic teaching. The students complained that nobody had really proved to them that microeconomics was of any use; what is the interest of going through "micro1", "micro2", "micro3", etc., using lots of mathematics to speak of fictitious households, fictitious enterprises and fictitious markets?¹

Actually, when one thinks about it, it turns out that microeconomics is simply "neoclassical theory". Realizing this, I agree with the French students when they say that:

1. In a course on economic theories, neoclassical theory should be taught alongside other economic theories (classical political economy, Marxist theory, Keynesian theory, etc.) showing that it is just one among several other approaches;
2. The principal elements and assumptions of neoclassical theory (consumer and producer choice, general equilibrium existence theorems, and so on) should be taught with very little mathematics (or with none at all). The main reason being that it is essential for students to understand the economic meaning of assumptions made in mathematical language. As they study economics, and not mathematics, students must decide if these assumptions are relevant, or meaningful. But, for that, assumptions must be expressed in clear English and not in abstruse formulas. Only if assumptions, and models, are relevant, can it be of any interest to try to see what "results" or "theorems" can be deduced from them.

I am convinced that assumptions of standard microeconomics are *not at all* relevant. And I think that it is nonsense to say – as some people do (using the "as if" argument) – that relevant results can be deduced from assumptions that obviously contradict almost everything that we observe around us.

The main reason why the teaching of microeconomics (or of "micro foundations" of macroeconomics) has been called "autistic" is because it is increasingly impossible to discuss real-world economic questions with microeconomists - and with almost all neoclassical theorists. They are trapped in their system, and don't in fact care about the outside world any more. If you consult any microeconomic textbook, it is full of maths (e.g. Kreps or Mas-Colell, Whinston and Green) or of "tales" (e.g. Varian or

¹ Bernard Guerrien is the author of [La Théorie des jeux](#) (2002), [Dictionnaire d'analyse économique](#) (2002) and [La théorie économique néoclassique. macroéconomie, théorie des jeux, tome 2](#) (1999).

Schotter), without real data (occasionally you find “examples”, or “applications”, with numerical examples - but they are purely fictitious, invented by the authors).

At first, French students got quite a lot of support from teachers and professors: hundreds of teachers signed petitions backing their movement – specially pleading for “pluralism” in teaching the different ways of approaching economics. But when the students proposed a precise program of studies, without “micro 1”, “micro 2”, “micro 3” ... , without macroeconomics “with microfoundations” or with a “representative agent” –, almost all teachers refused, considering that it was “too much” because “students must learn all these things, even with some mathematical details”. When you ask them “why?”, the answer usually goes something like this: “Well, even if we, personally, never use the kind of ‘theory’ or ‘tools’ taught in microeconomics courses (since we are regulationist, evolutionist, institutionalist, conventionalist, etc.) -, surely there are people who do ‘use’ and ‘apply’ them, even if it is in an ‘unrealistic’, or ‘excessive’ way”.

But when you ask those scholars who do “use these tools”, especially those who do a lot of econometrics with “representative agent” models, they answer (if you insist quite a bit): “OK, I agree with you that it is nonsense to represent the whole economy by the (intertemporal) choice of one agent - consumer and producer - or by a unique household that owns a unique firm; but if you don’t do that, you don’t do anything !”.

There are also, some microeconomists who try to prove, by experiments or by some kind of econometrics, that people act rationally. But, to do that you don’t need to know envelope theorems, compensated (hicksian) demand or Slutsky matrix! Indeed, “experimental economics” has a very tenuous relation with “theory”: it tests very elementary ideas (about rational choice or about markets) in very simple situations – even if, in general, people don’t act as theory predicts, but that is another question.

Microeconomics: “unrealistic” or “irrelevant”?

Most of the time microeconomics is criticized because of its “lack of realism”. But “lack of realism” doesn’t necessarily mean *irrelevance*; the expression is usually understood as meaning that the theory in question is “more or less distant from reality”, or as giving a more or less acceptable proxy of reality (people differing about the quality of the approximation). The idea is implicitly this: “if we work hard, relaxing some assumptions and using more powerful mathematical theorems, microeconomics will progressively become more and more realistic. There are then – at least – some interesting concepts and results in microeconomics, that a healthy, post-autistic, economic theory should incorporate”.

That’s what Geff Harcourt implicitly says in the *post-autistic economics review*, no.11, when he writes: Against this macroeconomic background, modern microeconomics has a bias towards examining the behaviour of competitive markets (as set out most fully and rigorously in the Arrow-Debreu model of general equilibrium), not as reference points but as approximations to what is actually going on. Of course, departures from them are taught, increasingly by the clever application of game theory. Moreover, the deficiencies of real markets of all sorts are examined in the light of the implications, for example, of the findings of the asymmetric information theorists (three of whom - George Akerlof, Michael Spence, and Joe Stiglitz - have just (10/10/01) been awarded this year’s Nobel Prize. From Amartya Sen on, the Nobel Prize electors seem to be back on track).

What is Harcourt saying? He is telling us that the Arrow-Debreu model has something to do with “the behaviour of competitive markets”; he is saying that game theory can be cleverly “applied”; he says

that there are “ findings ” made by Akerlof, Spence and Stiglitz. If all this is true, then students have to learn general equilibrium theory (as giving “ approximations to what is actually going on”), game theory, asymmetric information theory, and so on. That means that they need micro1, micro2, micro3... courses (consumer and producer choice, perfect and imperfect competition, game theory, “market failures”, etc.).

I don't agree at all with Geff Harcourt because:

1. The Arrow-Debreu model has nothing to do with competition and markets: it is a model of a “highly centralised” economy, with a benevolent auctioneer doing a lot of things, and with stupid price-taker agents;
2. Game theory cannot be “ applied ”: it only tells little “ stories ” about the possible consequences of rational individuals' choices made once and for all and simultaneously by all of them.
3. Akerlof, Spence and Stiglitz have no new “findings”, they just present, in a mathematical form, some very old ideas - long known by insurance companies and by those who organize auctions and second hand markets.
4. Amartya Sen, as an economist, is a standard microeconomist (that is what he was awarded the Nobel Prize for): only the vocabulary is different (“capabilities”, “functionings”, etc.).

But, perhaps, all “post autistic” economists won't agree with me.

It would be good then that they give their opinion and, more generally, that we try to answer, in detail, the question: *Is there anything worth keeping in microeconomics - and in neoclassical theory? If there is, what?*

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