

Bruno S. Frey
Christoph A. Schaltegger
Editors

**21st Century
Economics
Economic Ideas
You Should
Read and
Remember**



 Springer

21st Century Economics

Bruno S. Frey • Christoph A. Schaltegger
Editors

21st Century Economics

Economic Ideas You Should Read
and Remember

 Springer

Editors

Bruno S. Frey
University of Basel
CREMA
Zurich, Switzerland

Christoph A. Schaltegger
University of Lucerne
Department of Economics
Lucerne, Switzerland

ISBN 978-3-030-17739-3

ISBN 978-3-030-17740-9 (eBook)

<https://doi.org/10.1007/978-3-030-17740-9>

© Springer Nature Switzerland AG 2019

This work is subject to copyright. All rights are reserved by the Publisher, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed.

The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.

The publisher, the authors, and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publisher nor the authors or the editors give a warranty, express or implied, with respect to the material contained herein or for any errors or omissions that may have been made. The publisher remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.

This Springer imprint is published by the registered company Springer Nature Switzerland AG.
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

Introduction

Modern economics is a vivid, dynamic and relevant social science—this is the firm conviction of the two editors.

But what is the content of modern economics? What should one read and remember?

In order to find out, we asked a number of young and old, beginning and accomplished, professional economists. We did not in any way interfere in what the contributions should contain; the contributors were completely free to choose any text they wanted.

There were only three requirements. The text recommended to be read and remembered:

- Must be publicly available. It can be an article, a book or any other type of publication.
- Must have been published since the year 2000. While we fully acknowledge the major impact exerted on economics by scholars like Adam Smith, Karl Marx, Joseph Schumpeter or John Maynard Keynes, we wanted to know what modern texts are recommended.
- The contribution must not exceed 3500 characters and must recommend only one text.

The result is this book containing recommendations to read and remember by 61 contributors. They come from many different countries and make a large number of different proposals. This illustrates that economics in the

twenty-first century is indeed a vivid and dynamic discipline. It is up to the reader whether, and to what extent, the proposed texts are relevant for the real world.

The editors are convinced that this is the case.

University of Basel
Basel, Switzerland

Bruno S. Frey

CREMA – Center for Research in Economics
Management and the Arts
Zurich, Switzerland

University of Lucerne
Lucerne, Switzerland

Christoph A. Schaltegger

Contents

- Christine Benesch* Recommends “Mostly Harmless Econometrics: An Empiricist’s Companion” by Joshua D. Angrist and Jörn-Steffen Pischke** 1
Christine Benesch
- Matthias Benz* Recommends “The Political Economy of Government Responsiveness: Theory and Evidence from India” by Tim Besley and Robin Burgess** 3
Matthias Benz
- Aleksander Berentsen* Recommends “Bitcoin: A Peer-to-Peer Electronic Cash System” by Satoshi Nakamoto** 7
Aleksander Berentsen
- Thomas Bernauer* Recommends “Tracking the Ecological Overshoot of the Human Economy” by Mathis Wackernagel, Niels B. Schulz, Diana Deumling, Alejandro Callejas Linares, Martin Jenkins, Valerie Kapos, Chad Monfreda, Jonathan Loh et al.** 9
Thomas Bernauer
- Peter Bernholz* Recommends “Redesigning Democracy: More Ideas for Better Rules” by Hans Gersbach** 13
Peter Bernholz

- Norbert Berthold** Recommends “The Son Also Rises: Surnames and the History of Social Mobility” by Gregory Clark 15
Norbert Berthold
- Urs Birchler** Recommends “Why Every Economist Should Learn Some Auction Theory” by Paul Klemperer 17
Urs Birchler
- Luigino Bruni** Recommends “The Idea of Justice” by Amartya Sen 19
Luigino Bruni
- Monika Bütler** Recommends “The Economic Importance of Financial Literacy: Theory and Evidence” by Annamaria Lusardi and Olivia S. Mitchell 21
Monika Bütler
- Peter Cauwels** Recommends “Critical Transitions in Nature and Society” by Marten Scheffer 25
Peter Cauwels
- Sir Paul Collier** Recommends “Identity Economics: How Our Identities Shape Our Work, Wages, and Well-Being” by George A. Akerlof and Rachel E. Kranton 29
Paul Collier
- Reto Cueni** Recommends “Too Much Finance?” by Jean-Louis Arcand, Enrico Berkes, and Ugo Panizza 33
Reto Cueni
- Jakob de Haan** Recommends “Why Nations Fail: The Origins of Power, Prosperity, and Poverty” by Daron Acemoglu and James Robinson 37
Jakob de Haan

- Reiner Eichenberger* Recommends “Self-Interest Through Delegation: An Additional Rationale for the Principal-Agent Relationship” by John Hamman, George Loewenstein, and Roberto Weber** 39
Reiner Eichenberger
- Lars P. Feld* Recommends “Happiness, Economy and Institutions” by Bruno S. Frey and Alois Stutzer** 43
Lars P. Feld
- Reto Foellmi* Recommends “Firms in International Trade” by Andrew B. Bernard, J. Bradford Jensen, Stephen J. Redding and Peter K. Schott** 47
Reto Foellmi
- Nicolai J. Foss* Recommends “Economics and Identity” by George A. Akerlof and Rachel E. Kranton** 49
Nicolai J. Foss
- Bruno S. Frey* Recommends “Mindful Economics: The Production, Consumption, and Value of Beliefs” by Roland Bénabou and Jean Tirole** 51
Bruno S. Frey
- Jetta Frost* Recommends “Collective Action and the Evolution of Social Norms” by Elinor Ostrom** 53
Jetta Frost
- Clemens Fuest* Recommends “Yes, Economics Is a Science” by Raj Chetty** 57
Clemens Fuest
- Allan Guggenbühl* Recommends “Storytelling Animal. How Stories Make Us Human” by Jonathan Gottschall** 59
Allan Guggenbühl

<i>Jochen Hartwig</i> Recommends “In It Together: Why Less Inequality Benefits All” by OECD	63
<i>Jochen Hartwig</i>	
<i>Jürg Helbling</i> Recommends “Capital in the Twenty-First Century” by Thomas Piketty	65
<i>Jürg Helbling</i>	
<i>Sir David F. Hendry</i> Recommends “An Analysis of the Indicator Saturation Estimator as a Robust Regression Estimator” by Søren Johansen and Bent Nielsen	67
<i>Sir David F. Hendry</i>	
<i>Gerard Hertig</i> Recommends “Legal Origins” by Edward L. Glaeser and Andrei Shleifer	71
<i>Gerard Hertig</i>	
<i>Bruno Heyndels</i> Recommends “Gender Quotas and the Crisis of the Mediocre Man: Theory and Evidence from Sweden” by Timothy Besley, Olle Folke, Torsten Persson, and Johanna Rickne	75
<i>Bruno Heyndels</i>	
<i>David Iselin</i> Recommends “The Superiority of Economists” by Marion Fourcade, Etienne Ollion, and Yann Algan	77
<i>David Iselin</i>	
<i>Beat Kappeler</i> Recommends “Beyond the Keynesian Endpoint: Crushed by Credit and Deceived by Debt – How to Revive the Global Economy” by Tony Crescenzi	79
<i>Beat Kappeler</i>	
<i>Martin Killias</i> Recommends “Crime and Everyday Life” by Marcus Felson and Rachel Boba	81
<i>Martin Killias</i>	

<i>Hartmut Kliemt</i> Recommends “Violence and Social Orders” by Douglass C. North, John Joseph Wallis, and Barry R. Weingast	85
<i>Hartmut Kliemt</i>	
<i>George Loewenstein</i> Recommends “Self-Signaling and Diagnostic Utility in Everyday Decision Making” by Ronit Bodner and Drazen Prelec	87
<i>George Loewenstein</i>	
<i>Ulrich Matter</i> Recommends “Towards a Political Theory of the Firm” by Luigi Zingales	89
<i>Ulrich Matter</i>	
<i>Peter Nijkamp</i> Recommends “The False Duality of Work and Leisure” by Joy E. Beatty and William R. Torbert	91
<i>Peter Nijkamp</i>	
<i>Karl-Dieter Opp</i> Recommends “Nudge: Improving Decisions About Health, Wealth, and Happiness” by Richard H. Thaler and Cass R. Sunstein	95
<i>Karl-Dieter Opp</i>	
<i>Margit Osterloh</i> Recommends “Do Women Shy Away from Competition? Do Men Compete Too Much?” by Muriel Niederle and Lise Vesterlund	97
<i>Margit Osterloh</i>	
<i>Martin Ravallion</i> Recommends “Poverty Traps” by Samuel Bowles, Steven Durlauf, and Karla Hoff	99
<i>Martin Ravallion</i>	
<i>Susan Rose-Ackerman</i> Recommends “Corruption, Norms, and Legal Enforcement: Evidence from Diplomatic Parking Tickets” by Raymond Fisman and Edward Miguel	103
<i>Susan Rose-Ackerman</i>	

<i>Katja Rost</i> Recommends “The Network Structure of Social Capital” by Ronald S. Burt	105
<i>Katja Rost</i>	
<i>Christoph A. Schaltegger</i> Recommends “Toward a Second-Generation Theory of Fiscal Federalism” by Wallace E. Oates	107
<i>Christoph A. Schaltegger</i>	
<i>Mark Schelker</i> Recommends “Salience and Taxation: Theory and Evidence” by Raj Chetty, Adam Looney, and Kory Kroft	109
<i>Mark Schelker</i>	
<i>Sascha L. Schmidt</i> Recommends “Moneyball: The Art of Winning an Unfair Game” by Michael Lewis	111
<i>Sascha L. Schmidt</i>	
<i>Friedrich Schneider</i> Recommends “Public Choice III” by Dennis C. Mueller	113
<i>Friedrich Schneider</i>	
<i>Ronnie Schöb</i> Recommends “Economics and Identity” by George A. Akerlof and Rachel E. Kranton	115
<i>Ronnie Schöb</i>	
<i>Gerhard Schwarz</i> Recommends “Why Capitalism?” by Allan H. Meltzer	117
<i>Gerhard Schwarz</i>	
<i>David Stadelmann</i> Recommends “Public Policy and the Initiative and Referendum: A Survey with Some New Evidence” by John G. Matsusaka	119
<i>David Stadelmann</i>	
<i>Bruno Staffelbach</i> Recommends “The Lucifer Effect: Understanding How Good People Turn Evil” by Philip Zimbardo	121
<i>Bruno Staffelbach</i>	

<p><i>Tobias Straumann</i> Recommends “This Time Is Different: Eight Centuries of Financial Folly” by Carmen M. Reinhart and Kenneth S. Rogoff</p> <p><i>Tobias Straumann</i></p>	123
<p><i>Alois Stutzer</i> Recommends “Political Selection” by Timothy Besley</p> <p><i>Alois Stutzer</i></p>	125
<p><i>Cass R. Sunstein</i> Recommends “Scarcity: Why Having Too Little Means So Much” by Sendhil Mullainathan and Eldar Shafir</p> <p><i>Cass R. Sunstein</i></p>	127
<p><i>Guido Tabellini</i> Recommends “A Model of Social Identity with an Application to Political Economy: Nation, Class, and Redistribution” by Moses Shayo</p> <p><i>Guido Tabellini</i></p>	129
<p><i>Mark Thoma</i> Recommends “Learning and Expectations in Macroeconomics” by George Evans and Seppo Honkapohja</p> <p><i>Mark Thoma</i></p>	131
<p><i>Benno Torgler</i> Recommends “Economics Rules: The Rights and Wrongs of the Dismal Science” by Dani Rodrik</p> <p><i>Benno Torgler</i></p>	133
<p><i>Jean-Robert Tyran</i> Recommends “Patience and the Wealth of Nations” by Thomas Dohmen, Benjamin Enke, Armin Falk, David Huffman, and Uwe Sunde</p> <p><i>Jean-Robert Tyran</i></p>	135
<p><i>Ruut Veenhoven</i> Recommends “The Broaden-and-Build Theory of Positive Emotions” by Barbara L. Fredrickson</p> <p><i>Ruut Veenhoven</i></p>	137
<p><i>Carl Christian von Weizsäcker</i> Recommends “Trills Instead of T-Bills: It’s Time to Replace Part of Government Debt with Shares in GDP” by Mark J. Kamstra and Robert J. Shiller</p> <p><i>Carl Christian von Weizsäcker</i></p>	141

<i>Gert G. Wagner</i> Recommends “Homo Ignorans: Deliberately Choosing Not to Know” by Ralph Hertwig and Christoph Engel	143
<i>Gert G. Wagner</i>	
<i>Hannelore Weck-Hannemann</i> Recommends “Orchestrating Impartiality: The Impact of ‘Blind’ Auditions on Female Musicians” by Claudia Goldin and Cecilia Rouse	147
<i>Hannelore Weck-Hannemann</i>	
<i>Barry R. Weingast</i> Recommends “Economic Backwardness in Political Perspective” by Daron Acemoglu and James A. Robinson	149
<i>Barry R. Weingast</i>	
<i>Barbara E. Weissenberger</i> Recommends “Management Control Systems: Performance Measurement, Evaluation, and Incentives” by Kenneth A. Merchant and Wim A. Van der Stede	153
<i>Barbara E. Weissenberger</i>	
<i>Ludger Woessmann</i> Recommends “Measuring the Impacts of Teachers II: Teacher Value-Added and Student Outcomes in Adulthood” by Raj Chetty, John N. Friedman, and Jonah E. Rockoff	157
<i>Ludger Woessmann</i>	
<i>Klaus F. Zimmermann</i> Recommends “Identity Economics: How Our Identities Shape Our Work, Wages, and Well-Being” by George A. Akerlof and Rachel E. Kranton	161
<i>Klaus F. Zimmermann</i>	
Postscript	163
<i>Bruno S. Frey and Christoph A. Schaltegger</i>	

About the Editors

Bruno S. Frey is Permanent Visiting Professor at the [University of Basel](#). He was Professor of Economics at the University of Zurich from 1977 to 2012; Distinguished Professor of Behavioural Science at the Business School of Warwick University, UK, from 2010 to 2013; and Senior Professor of Economics at Zeppelin University Friedrichshafen, Germany, from 2013 to 2015.

Frey is Research Director of [CREMA](#)—Center for Research in Economics, Management and the Arts, Switzerland, and Co-Founder of [CREW](#)—Center for Research in Economics and Well-being at the University of Basel. He was Managing Editor from 1969 to 2015 and is now Honorary Editor of *Kyklos*. Bruno Frey seeks to extend economics beyond the standard neo-classics by including insights from other disciplines, including political science, psychology and sociology.

Christoph A. Schaltegger has been Professor of Political Economics at the [University of Lucerne](#) since 2010. Since 2016, he has acted as the Dean of the Faculty of Economics and Management. He also teaches public finance at the [University of St. Gallen](#), where he serves as a director of the Institute of Public Finance and Fiscal Law (IFF). In spring 2009, he was Visiting Scholar at the Queensland University of Technology in Brisbane (Australia).

The editors want to thank Evelyn Holderegger for the excellent work and great help in editing this volume. They are also grateful to Gabriela Rychener for her support and especially to Dr Simon Milligan for his careful proofreading.



Christine Benesch Recommends “Mostly Harmless Econometrics: An Empiricist’s Companion” by Joshua D. Angrist and Jörn-Steffen Pischke

Christine Benesch

»» *Angrist and Pischke are not the first or only ones to present econometric methods for causal inference and emphasize the importance of a credible research design. However, by writing an accessible, concise, and even fun-to-read textbook, they have made the concepts and methods palatable to a large audience.*

It might be a bit surprising to find an econometric textbook in a collection of “economic ideas you should remember.” *Mostly Harmless Econometrics: An Empiricist’s Companion* by Joshua Angrist and Jörn-Steffen Pischke, however, is far more than a textbook. Not only does it differ from traditional econometric textbooks because of its catchy title and refreshing language, but its focus on identification of causal effects and quasi-experimental analysis has also—for better or worse—influenced an entire generation of (micro)economists in their approach to empirical research.

The book starts with the question whether hospitals make people healthier in order to illustrate the selection problem empirical researchers are plagued

C. Benesch (✉)

University of St. Gallen, St. Gallen, Switzerland

e-mail: christine.benesch@unisg.ch

with when analyzing observational data. While people who have recently been to the hospital might be less healthy than those who have not, going to the hospital does not necessarily make people sicker. People who go to the hospital are of poorer health to begin with. A simple comparison of people who have and have not been to the hospital will thus lead to faulty conclusions. Random assignment, though it could solve the selection problem, is often not feasible. Angrist and Pischke therefore discuss alternative methods for causal inference—such as regression with controls, instrumental variable approach, difference-in-difference analysis, and regression discontinuity design. Since all the methods are well illustrated with examples of empirical studies, the intuition behind the empirical approaches is always comprehensible, even if the reader decides to skip the formal parts of the chapters.

The presented methods all emphasize research design as the key element for credible empirical studies. Angrist and Pischke are convinced that such a focus on better and more transparent research design has led to a “credibility revolution in empirical economics” and a subsequent increase in policy relevance and scientific impact of empirical research. Nonetheless, the allegedly narrow focus of the design-based approach has sparked a heated debate in economics. One concern is that the concentration on identification of causal effects and quasi-experimental methods might create incentives for researchers to ignore many policy-relevant questions—especially if alternative approaches such as structural modeling or time series analysis are discredited as less plausible (to which potential referees might agree). Hence, researchers might decide that an analysis is simply not worthwhile in cases where the institutional setup impedes the analysis of a natural experiment. Still, the design-based approach can be applied to a wide array of questions and “good research designs complement good questions,” as Angrist and Pischke write in an article in the *Journal of Economic Perspectives* in 2010.

Angrist and Pischke are not the first or only ones to present econometric methods for causal inference and emphasize the importance of a credible research design. However, by writing an accessible, concise, and even fun-to-read textbook, they have made the concepts and methods palatable to a large audience. Thus, anyone interested in credible empirical research should read *Mostly Harmless Econometrics* and remember its ideas.

Literature

Angrist, J. D., & Pischke, J.-S. (2009). *Mostly harmless econometrics: An empiricist's companion*. Princeton: Princeton University Press.