

*The Apprentice Economist: Seven Steps to Mastery.* By Filip Palda. Kingston, Ontario: Cooper-Wolfing, 2013. pp. 285. \$24.95. ISBN 978-0-9877880-4-7.

The preface to this book implies that it is not easy to read, and the epilogue says that it is not witty. The question is whether it is useful. I believe that it is, but perhaps not in the way that the author intended.

Palda purports to teach economics to laypeople in seven steps, labeled substitution, time, chance, space, equilibrium, games, and control. He devotes a chapter to each step, but the steps often involve numerous subtopics.

*The Apprentice Economist* could be a handy resource for newly minted Ph.Ds. who, having been absorbed in writing a dissertation on some narrow topic for several years, could stand a refresher course on the breadth of economics before being unleashed on an Econ 101 class. It may also prove beneficial for older economists who, having specialized in some small area of economics for much of their careers, could stand to be reminded how far-reaching the field can be. But I am skeptical that the book could meet the challenge of teaching economics to laypeople. It is simply too difficult.

The author explains many topics very well. I enjoyed reading his take on signaling, tied sales, the differences between adaptive and rational expectations and the implications of assuming one over the other, and many other topics. But Palda displays a common weakness of economist-authors: he finds it hard to resist technical jargon, and he delves unnecessarily into the technical wizardry of economics. For example, do we need to refer to dynamic programming when explaining that planning consumption over a lifetime is complicated? Many will be mystified by the following quote from Nash: “An equilibrium point is an  $n$ -tuple such that each player’s mixed strategy maximizes his payoff if the strategies of the others are held fixed. Thus each player’s strategy is optimal against those of the others”? Palda translates this economist-speak into English two sentences later, but a lay reader has probably put down the book by then.

Notably absent from this book is any mention of economists’ propensity for disagreeing with each other. *The Apprentice Economist* includes an excellent discussion of the theories of Robert Lucas and other members of the rational expectations school and why such theories imply that economic stimulus programs may be futile. It fails to explain, however, why so many econo-

mists fully supported the stimulus programs enacted during America's Great Recession, and why so many continued to advocate more stimulus during the slow recovery. A later chapter discusses Keynes's belief that an equilibrium can exist with considerable unemployment if wages are rigid and that a government-engineered increase in aggregate demand can ameliorate the situation. Here, Palda could circle back to the discussion of rational expectations and clearly explain why some economists believe in the effectiveness of stimulus programs and some do not. Unfortunately, he doesn't.

Only one chapter, labeled "Control", deals with empirical work in economics. Palda strongly concludes that randomized experiments tend to be far superior to ordinary regressions in reaching reliable conclusions about things like the effectiveness of government policies. (Full disclosure: as director of a company that designs randomized experiments, I like this conclusion.) But, as the author admits, most randomized experiments are very expensive, and they are not without flaws. Mainly because of the expense, many more economists use traditional econometric analysis than use randomized experiments. A more detailed discussion of this work would have been useful. In particular, the most important recent advance in empirical economics relates to the steadily increasing power of computers. It is now possible to manipulate a huge micro database, such as that created by the Health and Retirement Study, and draw conclusions about such topics as retirement saving behavior, the impact of government programs on work effort, and more. That capability was unimaginable three decades ago.

The possibility of drawing conclusions from analyzing large databases or from other types of econometric analysis does not imply that these conclusions will be consistent. One of the most disturbing characteristics of empirical research in economics is that we can generally predict an economist's conclusions if we know his or her ideology. When evaluating an increase in the minimum wage, a conservative economist will normally predict more job losses than a liberal economist will. There is considerable science involved in economics and that does limit the range of plausible results, but this range is often too wide to be useful to policymakers. Keynes argued that it would be a big advance if economists attained the level of proficiency of dentists. We have not done so yet.

I do not mean to imply that economists are useless; our own theory clearly suggests that we could not earn a living if we were. But we do not earn the salaries of star basketball players. *The Apprentice Economist* should be a bit

more modest about the accomplishments of economics and the confidence with which we can regard its conclusions. On the other hand (a favorite phrase of economists), the world does not suffer a shortage of people willing to criticize our profession.

Suppose that I am wrong and that laypeople could work their way through this sometimes difficult book, what would they know? Certainly, a lot about economics. Their knowledge would be slightly biased in favor of the Chicago school, but not overly so. They would be better able to evaluate government policies and perhaps be better informed voters. These are all good things. So it is too bad *The Apprentice Economist* is not easier to read. Palda would have been well served by a lay editor who could have simplified the hard parts.

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