

The Case for Teaching Economics in American History: Assessment and the Economic Way of Thinking

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Abstract

This paper argues for teaching the economic way of thinking in American history courses. It shows how economic forces are vital in understanding historical events. The paper also introduces, and releases to other researchers, a new assessment instrument designed to test economic thinking skills. This new instrument is used in a pre- and post-test design to measure the effectiveness of using a supplemental text on economics in American history, with modestly positive results.

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I. Introduction

History matters. It matters not only because we can learn from the past, but because the present and the future are connected to the past by the continuity of a society's institutions. –Douglass North (2006, p. viii)

Douglass North understood that history matters. In the research that led him to a Nobel Prize in economics, he showed how we learn from our economic past. History matters because the world's most diverse democracy depends on history to help build national identity. It matters because history enriches the lives of the people who study it.

In their time, F.A. Hayek and his fellow contributors to *Capitalism and the Historians* (1963) understood that history matters. They also showed how history can be misunderstood when it is viewed through social commentary lacking in economic perspective.

Yet, as important as history is, complaints about its teaching abound. Students complain that history is merely an exercise in trivial pursuit. Professors complain that their students are historically inept. High school and middle school teachers say much the same thing: blame all around. The dismal statistics reported by the National Assessment of Educational Progress (National Center for Education Statistics, 2010) regarding young people's historical knowledge provides empirical evidence that we have plenty of room for improvement.

This article has three main purposes:

1. To examine how the economic way of thinking can be taught in American history. This is important because American history courses are a universal high school graduation requirement.
2. To introduce, and release to other researchers, a new assessment instrument designed to test economic thinking skills.
3. To report on a pilot project using the new instrument to measure the effectiveness of a supplemental text on economics in American history, through pre- and post-testing of high school students.

II. Economics: The Missing Link

A complete understanding of history requires a careful integration of key concepts and ideas from several of the social sciences. This is the conclusion of several key documents related to history teaching at the pre-college level. For example, the National Council for History Education (1997, p. 8) states:

...History is indispensable to an ordered view of the natural sciences, the social sciences, and the humanities. In this sense history is the generative subject, through which students gain understanding of, and respect for, human accomplishments in all fields of endeavor.

The Council goes on to explain that geography and history are “constant companions.” It is nearly impossible to study one without

studying the other. How can one meaningfully study European settlement of North America without reference to the basic tools of geography? History and civics are similarly linked. Imagine trying to teach a government course without reference to the historical context surrounding the writing of the Declaration of Independence and the Constitution. Similar points can be made for military, diplomatic and religious history.

In a similar fashion, *Expectations of Excellence: Curriculum Standards for Social Studies*, released by the National Council for the Social Studies (1994), stresses the importance of integrating the key social studies disciplines. The Council urges educators to use its standards in both integrated and single discipline configurations—a task requiring teachers to have solid subject matter knowledge and the appropriate instructional tools.

Where is economics in all this? Most often, it is the missing link. For various reasons, the connection between history and economics is rarely made. But it is nonetheless fundamental. The year 1776, for example, produced not one but two documents of historically significant importance to the new nation. One, of course, was the Declaration of Independence. The other was Adam Smith's *Wealth of Nations* (1776). The founders had read Smith. Thomas Jefferson had a copy in his library and considered it the best work of its kind. The ideas of Smith were subsequently imbedded into key sections of the Constitution. As a result, the Constitution established a framework for the efficient conduct of economic affairs. It defined the protection of private property and specified that contracts would be enforced in even-handed fashions; it stipulated rules for bankruptcy, an important element since bankruptcy implies a failure to fulfill contracts. In short, the Constitution created a system of well-specified property rights, which reduced uncertainty and permitted the development of free markets—essential, in Adam Smith's view, for a productive and prosperous economy. Unfortunately, such economic insights are completely overlooked in traditional textbooks.

III. Integrating Economics Can Strengthen Historical Understanding

Integrating economics into history can help learning in two ways. First, historical events require the application of basic economic concepts in order to understand them accurately. For example, it is impossible to understand the economic success of the American

colonies without a grasp of the free-market institutions inherited from the British such as rule of law, protection of private property rights, and openness to trade. Or, consider the Great Depression, a cataclysmic event in U.S. history. Despite its importance, our textbooks are woefully out of date in the treatment of this topic. They continue to portray the stock market crash of 1929 as the major cause of the Great Depression. This view is widely dismissed by economic historians. To understand the causes of the Great Depression requires a basic knowledge of monetary policy, fiscal policy, and the importance of international trade.

Second, economics can provide students with a way to prioritize historical content to help them better understand human actions. History often presents students with a confusing array of people, facts, events, locations, and dates. Yet, all of this information is not equally valuable in problem solving. The economic way of thinking provides a device to prioritize the data. It encourages students to focus their attention sharply on the choices individuals made, the costs involved, and the incentives in play. This takes history beyond the examination of scattered facts and dates and toward a way of thinking critically about people's choices. This is especially important when people's choices seem unexpected or are easily dismissed as being irrational or perhaps involving no choice at all. This brings us to the heart of the economic perspective of history: an examination of the choices individuals make and why they make them. This economic perspective helps students better understand how institutions are shaped by individual choices and, in turn, how these institutions themselves provide incentives that influence people's choices and incentives.

The *Voluntary National Content Standards in Economics* of the Council on Economic Education (2010) state: "Institutions evolve and are created to help individuals and groups accomplish their goals." The standards name banks, labor unions, corporations and legal systems as examples of important economic institutions. The standards also emphasize clearly defined and well-enforced property rights as essential to a market economy. A focus on enforcement of private property rights (or the lack thereof) is fundamental to getting the economics right in American history.

How might this stress on choices, costs, and incentives reveal a deeper understanding of people's behavior in the past? Indentured servitude provides a good example. Indentured servitude is often

presented as an institution only slightly better than slavery. In fact, examinations of indentured servitude in U.S. history textbooks are often placed near early descriptions of slavery—implying that they were similar institutions. A careful application of economic principles such as choice, incentives and freedom of contract reveals a different picture. It allows students to sift through the same basic set of facts but arrive at a different destination.

Indentured servants signed contracts that had the force of law. Their provisions were enforced by the courts. Unlike slavery, this meant that both sides had rights. Both sides—masters and servants—were obliged to fulfill the terms of the contract.

Passage across the Atlantic was expensive. For some individuals who faced tough economic circumstances in England, for example, signing an indenture appeared to be their best choice. A new sort of labor market arose. The market, while far from perfect, by and large allowed the parties involved to accomplish their goals. On the one hand, colonial farmers, artisans and other business people had a high demand for workers. The colonies always faced labor shortages. On the other hand, many people in England—those willing to take serious risks—were willing to sign indentures in anticipation of obtaining new economic opportunities in North America.

Much to the dismay of the Spanish and the French, indentured servitude provided the impetus for the widespread settlement of people from Britain in North America. This helps explain how market institutions—and the prosperity they produce—were established in North America and not in South America. And as quickly as indentured servitude arose, it faded away. Parliament passed no law to eliminate the system. Instead, the incentives changed once again. As the cost of passage across the Atlantic became less expensive, people wishing to come to North America made different choices. Why sign a labor contract when you can save up some money and purchase a ticket?

IV. A Pilot Study: *Economic Episodes in American History* and the *Test of Economic Thinking*

Economic Episodes in American History is a textbook supplement designed to provide teachers of U.S. history with a simple tool to sharpen students' historical understanding through the integration of basic economic principles into existing U.S. history courses. It includes a broad collection of vignettes from every major period in

U.S. history, featuring content where economic principles are most relevant. Most important, it explicitly teaches the economic way of thinking with a consistent emphasis on the importance of individual choices, costs, incentives, institutions, and trade.

A grant was obtained from a national foundation to sponsor workshops for U.S. teachers designed to instruct them on how to use *Economic Episodes in American History* within their existing U.S. history courses. During the fall of 2012, the grant provided funding for full day workshops for 50 teachers on teaching economics in American history. Teachers who attended the workshop received a small stipend and a classroom set of *Economic Episodes in American History* texts for their classes. Further, teachers were introduced to a new assessment instrument called the *Test of Economic Thinking*, and further stipends were offered to those teachers willing to pre- and post-test their students using this instrument before and after teaching a set of prescribed lessons.

The *Test of Economic Thinking* is intended to measure how well students are able to apply a problem-solving approach called the “economic way of thinking.” This is a system of logical thinking that is based on key assumptions deeply rooted in traditional economic problem analysis. The economic way of thinking involves the application of one or more well-established principles which include, but are not limited to, the following: choices and scarcity, costs, incentives, economic systems, voluntary trade, and primary and secondary effects. The *Test of Economic Thinking* is designed primarily for high school students and is deliberately focused on only these six principles of economic thinking. Thus, many important principles have been excluded.

The body of the test is made up of 13 situations for students to consider. Students read each situation and then circle the letter of the answer that best reflects the principles of economic thinking. Students are then asked to indicate the top two economic principles that are the most appropriate to apply to the situation under discussion. Using this approach, the test measures two types of thinking skills: (1) the respondent’s ability to recognize the best economic explanation underlying a situation and (2) the respondent’s ability to predict the outcome of an economic situation. Each skill is tested in each of the 13 scenarios, making the maximum score on the test 26 points. The body of the test and a scoring rubric are included

as an appendix.

V. Evaluating the *Test of Economic Thinking*

To obtain some preliminary data on the reliability of the new test, as well as on the effectiveness of the *Economic Episodes in American History* curriculum in helping students learn the economic way of thinking, a small number of teachers participated in a pilot pre- and post-testing experiment. Four teachers who attended the aforementioned workshops in the fall of 2012 were willing to immediately teach a minimum of five carefully chosen lessons in their U.S. history classes. They pre- and post-tested their students before and after integrating the *Test of Economic Thinking* into the classroom.

A total of 92 students participated in this project. Table 1 displays descriptive statistics on the pre- and post-test results. Table 1 also shows the results of t-tests conducted to determine whether a statistically significant change occurred in the mean scores of students taking this test before and after using the curriculum. Prior to using the *Economic Episodes in American History* materials, the 92 students in this study scored an average of 11.5 out of 26 (44.2%) on the *Test of Economic Thinking*. After using the curriculum, the mean score improved to 12.9 out of 26 (49.6%). As shown in the table below, this result represented a modest but statistically significant change at the 5% level of significance.

A number of factors likely explain the only modest increase in student achievement found in this study. First, the project was designed to evaluate the *Test of Economic Thinking* and not the lessons in *Economic Episodes in American History* directly. In fact, the test is only

Table 1: Descriptive Statistics for Learning, Earning and Investing Test

Mean Score Before Training (Standard Deviation)	Mean Score After Training (Standard Deviation)	Change in Predicted Direction?	t-Statistic	p-Value (2-Tailed Test)
11.5 (3.74) N = 92	12.9 (3.32) N = 92	Yes	-2.03	0.049

tangentially related to the book. Further, teachers were only asked to teach a small number of *Economic Episodes in American History* lessons between the pre- and post-test given time constraints. Lastly, because of the lack of experience with the *Test of Economic Thinking*, teachers did not use the results of this pilot test as part of their students' grades. Almost certainly the results would have improved had students been incentivized to do well beyond participation in the study.

Lastly, item-total correlation and split-half reliability tests were run to investigate the reliability of the test. Cronbach's alpha was calculated in an effort to measure the extent to which the items on the test provide consistent information with regard to students' responses. Cronbach's alpha ranges from 0 to 1.00, with values close to 1.00 indicating high consistency. For a classroom exam, a reliability coefficient of 0.70 or higher is desirable. At 0.655, the Cronbach's alpha for the *Test of Economic Thinking* was a bit lower than this ideal. One reason for this finding is the relatively short length of the new test. Longer tests have higher reliability ratings as measured by Cronbach's alpha. Further, and perhaps more important, a split-half reliability analysis revealed three questions with negative item-total correlations. However, in each case, if the item were deleted, the Cronbach's alpha would decline, suggesting that none of the items are seriously problematic.

VI. Conclusion

We believe it is vital for students of American history to approach the subject with a basic background in economic reasoning. If this background is lacking, too much of the subject matter will be either mysterious or inaccessible to them. We attempt to fill the existing gap by providing a rationale for teaching economics in conjunction with American history. With this paper we release a new assessment instrument, the *Test of Economic Thinking*, and its accompanying grading rubric. We believe that this 16-item test has substantial value for researchers measuring the effects of intervention aimed at teaching the economic way of thinking. Our preliminary results are promising and they point the way toward additional progress in integrating the teaching of economics into related disciplines' courses.

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