

Pedagogical Synergies Between Austrian Economics and the Case Method

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Abstract

There is a tendency for academics to focus too much on instructor-centered learning and not enough on participant-centered learning. This paper argues that the “case method” is a pedagogical method that should be of interest to Austrian school economists. Not only can it provide students with a richer learning experience, but there are important methodological points of tangency. I also provide examples of cases that can be used to teach Austrian *theory* and provide honest reflections on my own efforts to implement the case method in my teaching.

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I. Introduction

It is widely acknowledged that the university system incentivizes departments and faculty toward research at the cost of teaching quality. In addition to this, students’ expectations are increasing, and the desire for relevant and practical classes is high. Especially with regard to business education, junior faculty members are often torn between the institutional pressure to focus on publishing academic articles and both a lack of training (and experience) in pedagogical techniques and a lack of understanding of the practical relevance of their material.¹ In short, there are both demand-side and supply-side forces that suggest there is room for improvement. This paper discusses one particular form of participant-centered learning, the “case method,” and recounts the author’s own attempts to introduce it into the classroom. In addition, a link is made between the

¹ In this article I am focusing mostly on teaching general management degrees (such as an MBA program). I believe that this article will still be of use to instructors that teach economics majors, but more attention should be given to cases that tease out economic theory rather than trying to develop management skills.

pedagogy and the actual content of the discipline. The argument being made is not only that the case method is an effective way to generate positive learning experiences but that it is especially conducive to teaching economics courses that are grounded in the Austrian school. The article will proceed as follows. Section II defines the case method, appraises some of its strengths and weaknesses, and argues that they are conducive to the methodological position of the Austrian school. Section III introduces three “cases” that the author uses in his own classes, discusses their economic insights, and provides a rough teaching plan. Section IV offers reflections on the author’s efforts to introduce more case method teaching, including an honest appraisal of mistakes made. Section V concludes.

II. Austrian Elements of the Case Method

There are a number of alternative forms of participant-centered learning, such as reading groups, open-ended seminars (Finckel, 2000), role-play, experiments, simulations, deliberative practice (Deslauriers, Schelew and Wieman, 2011), and action inquiry (Foster & Carboni, 2009). The case method should be seen as one of many options, and in practice the same classroom activity might possess characteristics of different methods. But the case method is a unique pedagogical tool (Christensen, Garvin and Sweet, 1991; Ellet, 2007; Garvin, 2007; Christensen and Carlile, 2009). The case method originated at Harvard Law School, where students were already used to reading and considering real and historic “cases.” The role of the case method instructor is twofold. The first role is the selection of a case for students to read prior to class. According to Ellet (2007, p. 3), “a business case imitates a real situation. Cases are verbal representations of reality that put the reader in the role of a participant in the situation.” A case can be viewed as a type of *parable*, in the sense that there are three crucial aspects to it (see Finkel, 2000, p. 12). First, it is a *concrete* situation offering a rich descriptive account (although not necessarily a real one). Second, it is *profound*, in the sense that it signals that it contains a learning opportunity. And third, it is *opaque*—the lesson is not obvious at first glance. The second role is to lead a class discussion: “The art of a case method instructor is to ask the right question at the right time, provide feedback on answers, and sustain a discussion that opens up the meaning of the case” (Ellet, 2007, p. 1). Thus, students prepare for class by reading a

relatively open-ended "case," typically 5–15 pages long, including lots of exhibits and data, threaded together with a historical narrative. The instructor then leads an 80-minute class discussion with the deliberate aim of encouraging dialogue and representing views from different positions. Typically the context will be a pressing business problem, and there is no clear "solution."

The case method is not without criticism. Shugan (2006) argues that although it might be appropriate for law school (where the issues of precedent necessitate a historical survey of important cases), when imported into business schools it severs links between research and teaching. Cohen (1989) views it as a mere rhetorical exercise, and Foster and Carboni (2009) believe it denies students an opportunity to develop their own thinking. There is also a tendency for proponents of the case method to be somewhat uncharitable in terms of the comparisons they draw, for example, comparing good instances of case method teaching with bad instances of traditional lecturing.

The starting point of effective teaching needs to be that students that have a "present interest" in the course. Saying that economics is important to learn because "it's useful in later life" or a "prerequisite for other modules" is an attempt to convince the student that learning economics leads them to a higher goal. However, it is the *learning of economics* that needs to be the goal, and this is done if students recognize that economics can help solve problems that they are interested in solving.² As a humane science that shuns the sterility

² And these "problems" should not necessarily be big and abstract but *interesting* and *engaging*. For example, typically students will have only a "higher" interest in answering a question such as "Interest rates are too low. Discuss." But consider this as an alternative:

Imagine that you are sitting on the Bank of England's Monetary Policy Committee. You are meeting to vote on whether to increase, reduce, or keep unchanged the Bank rate of interest. According to today's newspaper, around 70% of household mortgages have an adjustable rate, and your analysts suggest that any increase in the Bank rate would be passed on to consumers and lead to widespread negative equity and repossessions. Your own daughter has recently bought a house and is already struggling to meet her monthly repayments; for thousands like her a rise would be catastrophic. On the other hand, inflation is running at 4%, double the target set by the Treasury. Markets are increasing their inflation expectations, and public sector unions are starting to make pay demands. The value of the savings held by people on fixed incomes (including your grandparents) is eroding significantly. You look across the

of *homo economicus*, Austrian economics allows room for such engaging narratives. Whereas neoclassical economics tends to focus on “representative agents” or other means to formalize and aggregate behaviour, Austrian methodology has room for verbal reasoning and emphasis on choice. Indeed, I here briefly discuss five different ways in which cases reflect Austrian methodology.

First, *cases tend to focus on conditions of uncertainty*. They tend to be open ended in the sense that students are required to make a decision without knowing how the story ends (and in many cases the story *doesn't* end).³ Therefore, cases reinforce the notion that managers are required to make decisions under conditions of uncertainty:

Most educational texts represent the real as logical and coherent. But real business situations are fluid and inevitably involve uncertainty; they don't present selected and sorted information (Ellet, 2007, p. 4).

Second, *cases tend to be value neutral*. Students have a tendency to want to know a professor's opinion about an issue; however, one goal of teaching is to help students develop their own independence of thought.⁴

One of the most common case discussion questions is “Should person X do action A?” but this can really be broken into two subquestions, namely, “What are the consequences of doing A?” and “What are the consequences of *not* doing A?” The discussion is a

table as other members make their decision. You have the deciding vote. What do you do?

³ There is a convention of writing up “B” cases that can be distributed in class and move the story forward by revealing “what happened next.” In some instances, particularly engaging stories will have C or even D cases.

⁴ Consider Israel Kizner's (1976) account of the role of value neutrality in Carl Menger's teaching, “In his 1884 *Untersuchungen* Carl Menger included an appendix that briefly but very clearly criticized the tendency of the German ‘historical’ economists to confuse ethical positions with the conclusions of economics. At that time holders of chairs of economics at the German universities considered themselves social reformers. They fused their economics with their personal views on social justice and morality. In their lectures they reportedly permitted their emotions free rein. Adolf Wagner, for example, would shake his fist at imaginary opponents of his proposals. Other professors would lecture as if addressing preelection meetings, to the cheers of their students. It was with this style of economic discussion that Menger was expressing his disenchantment.”

forum for thinking through alternative views, and although simulating an actual debate (i.e., requesting students to make arguments that support a specific view) can be a useful technique to generate contributions, we are only superficially concerned with students' *opinions*. Whether X should in fact do A is of less importance than allowing students to appreciate the consequences of the action. Many teaching notes will reveal board plans that have a “+” and a “–,” demonstrating a discussion whereby students are asked to list arguments in favor of a proposition and then arguments against. Most students appreciate that there is no “right” answer here and that the objective is *not* to try to work out what the instructor believes and then support it. Rather, it is to weigh up two sides of an argument and form their own opinions.

Third, *cases tend to be methodologically individualistic*. In their excellent MBA textbook, Froeb and McCann (2007) argue that organizational inefficiencies can be solved by following three steps:

1. Identify the decision maker.
2. Establish whether they had the incentives to act in the right manner.
3. Establish whether they had sufficient knowledge to make the right decision.

Note that this approach is highly consistent with the Austrian school. First, it is methodologically individualistic in the sense that any solution must derive from the decision-making process of individual people. Second, it rests on the twin issues of incentives and knowledge that underpin Austrian attention to the role of prices and profit in economic calculation. The similarity between the above and the case method is that they both take a problem-solving approach. Cases almost always have a central protagonist who is in a situation that students attempt to enter. Students aren't lulled into attributing explanatory power to non-human actors, such as “What should Starbucks do?”—cases are grounded in individual choice.

Fourth, *cases tend to be subjective and demonstrate the limits of knowledge*. In being grounded with a central protagonist, cases are necessarily subjectivist—the information that students receive is typically seen through the eyes of that protagonist. Their biases and errors are part of the analysis, and part of the challenge is separating the “facts” from the protagonist's interpretation of them. As Ellet (2007, p. 4)

says, “every case character is subject to scepticism based on his or her self-interest and limited point of view.” Many cases rely on interviews to pool a number of different opinions and perspectives, and students are required to piece these together to form a basis for decision making. While textbooks pride themselves on complete and unambiguous information, cases *intend* to provide partial and flawed accounts.

Fifth, *cases tend to be analytic narratives*. The “case method” is a form of case study. It presents a central narrative grounded in history, and this tends to be meticulously researched. Multiple interviews are involved, as authors build a deep and non-trivial account (Roberts 2001). To this extent the techniques involved in writing cases bears a strong resemblance to the tradition of analytic narratives, and although not all analytic narratives are “Austrian,” they are methodologically compatible, and many Austrian school economists have found this to be a fruitful means of empirical research (see Aligica and Evans, 2009).⁵

III. Three Examples of Cases with Austrian Insights

In an effort to provide readers with practical guidance on how to incorporate the case method, I will provide an outline to the Cases and Teaching Notes of three examples.⁶ Teaching notes are supplementary materials typically written by the Case author that provide guidance on how to teach the case. They typically are significantly longer than the case itself and not only provide details on where the case fits into the context of a course (i.e., how the case ties into other cases or sections of commonly used textbooks), but also provide a detailed session plan. This includes discussion questions, timings, and a board plan. The discussion questions can often be released to students prior to class so that they can begin to

⁵ For a definition of analytic narratives, consider “We call our approach analytic narratives because it combines analytic tools that are commonly employed in economics and political science with the narrative form, which is more commonly employed in history. Our approach is narrative; it pays close attention to stories, accounts, and context. It is analytic in that it extracts explicit and formal lines of reasoning, which facilitates both exposition and explanations” (Bates et al., 1998, p. 10).

⁶ Interested instructors should download the Cases and the official Teaching Notes from the Harvard Business School Press website, <http://hbsp.harvard.edu> (accessed July 9, 2011).

focus on the key issues of the case. The timings help the instructor plan the class and often account for every 5 minutes of class time. Finally, the board plan is either a screenshot of PowerPoint slides or a handwritten replication of the chalkboard to show exactly how the instructor records the class. Of course, instructors are free to develop their own Teaching Notes (and as I shall explain, there is a massive opportunity to teach existing cases in new ways), but their existence dramatically reduces the preparation time required.⁷

A. Hamilton Real Estate

This is in fact two cases (Malhotra, 2005), and the first 30 minutes of the class are a role-play as opposed to case discussion. Students are put into pairs and receive one of two short cases. One of the pair plays the role of a potential buyer for a piece of real estate, whereas the other is the seller. They are given 15 minutes to prepare and then 15 minutes to conduct the negotiation. Rarely are my students more alert than when it comes to revealing the prices that each pair have agreed upon so that they can see how much profit they have made. This case is taught in the Negotiation courses at Harvard Business School, and on the surface it appears to have little to do with economics. However, the post-negotiation discussion is based entirely on establishing the value of the venture in relation to one's *next best alternative*. Indeed, because this alternative is an *action*, it provides an excellent example of opportunity cost reasoning and the subjective nature of costs. This can lead directly into a discussion about the hidden cost of meetings and how companies can use techniques such as Economic Value Added[®] (Stern et al., 2004) to make costs more explicit. Because participants tend to neglect opportunity cost reasoning, the case provides an “a-ha” moment that can be a joy to witness.

B. Prediction Markets at Google

This is a long case (Coles et al., 2007) that provides a thorough overview of how Google began to operate internal prediction markets, explaining how they actually work and how they received organizational support. The typical way to run this is to require

⁷ Teaching Notes should never be shared with students because they are written as honest and confidential advice between instructors. However, there is no substitute for observing other professors teaching a case and discussing the teaching plan with those who have experience with it.

students to do the reading in advance and then use the whole session for group discussion. Because I often teach this as part of an intensive 3-day executive MBA program, I like to give participants the chance to debate the discussion questions in smaller groups for 60 minutes *in class* and then have a shorter group debrief. Ordinarily these small groups (i.e., 4–6 students) should take place prior to class, but the important thing is that they take place without the ongoing presence of the instructor: “a teacher who assigns students to talk together and removes herself from those discussions conveys her trust in their ability to learn through mutual conversation. Once this trust is taken for granted, the odds that useful things will happen through student discussion increase dramatically” (Finkel, 2000, p. 46). I ask students to consider the following situation, which is used as a basis for the discussion:

You work for a large multinational corporation, and your sales manager has boasted that your new product line will sell 10,000 units. You are concerned that he is exaggerating and would like to alert senior management.

After a technical discussion about how to write a contract that would reflect this situation and how it would operate, one of the key discussion questions asked is “Why do prediction markets work so well?” which initiates a discussion about the “wisdom of crowds” and the coordination of dispersed information. It is an excellent opportunity to introduce students to the differentiation between hierarchy (which requires information to flow up the chain of command to those who have decision rights) and markets (in which decision rights flow down to those with information). In addition, I ask students to consider the following two situations:

1. Imagine that a sales agent has a regular client that often makes orders for 8,000 units or more. Should the agent be allowed to participate in the prediction market?
2. Imagine that someone in R&D believes that there’s a major flaw in the product and it will be subject to a recall. Should he be allowed to participate in the prediction market?

The purpose here is to understand when prediction markets are appropriate and how they break down. The first situation is an

example of *manipulation*, whereas the second is *inside information*. By taking a vote on both questions, it is easy to generate a lively discussion, which can be continued outside of class by asking whether their instincts regarding an internal market are consistent with their beliefs about public stock markets.⁸

C. *Automation Consulting Services*

This case (Weston, 2000) relates to three founding partners of a small but growing consulting company facing distinct challenges in each of their four offices (San Jose, Detroit, Boston, and Philadelphia). I go off piste from the Teaching Notes and instead use this case to teach Market-Based Management (MBM)[®] (Koch, 2006). By providing a handout with the five dimensions of MBM[®] (vision, virtue and talent, knowledge, decision rights, and incentives), the suggestions of the students are grouped into these categories to create a theoretical framework with which to incorporate market-type solutions. In short, the creation of a new mission statement, hiring decisions, better reporting techniques, establishment of profit centers, and performance-based incentives are all part of the discussion.

As previously mentioned, there is a fundamental compatibility between the case method and Austrian economics, but there are also specific cases that demonstrate uniquely Austrian concepts. All this suggests that the case method is a potentially fruitful method for Austrians to teach.

IV. Reflections on Implementation

It would be misleading to extol the virtues of a particular pedagogical technique without discussing some of the problems relating to implementation. From 2005/6 to 2008/9, the average student satisfaction for my “Economics for Managers” course was 2.99 (on a 4-point scale). In the first year that I attempted to integrate case method teaching, this fell to 2.12; however, in 2010/11 it rebounded to 3.47. This low evaluation can be explained by a number

⁸ By this I mean that most students tend to appreciate that the impact of the person in R&D being allowed to “bet” on their belief will move the market price closer to equilibrium and that this is the purpose of the market. But, despite accepting the importance of private information being traded upon in internal prediction markets, many are then intrigued by an apparent inconsistency when I ask whether insider trading on public stock markets should be legal!

of factors, but there are several key lessons that I learned. First, it is important to focus on communication. To incentivize a good case method discussion, students will need to be evaluated on class participation. It is important that they know in advance how this will be done so that they don't feel surprised when the final grades are released. Second, liaise with colleagues. If other faculty members are using the case method, there are gains from having a common message in terms of the importance of bringing name cards, how class participation is graded, the balance between quality and quantity of contribution, etc. If colleagues are oblivious of each other's methods, it can lead to conflicting messages to students and the unintended undermining of your efforts. Third, it is crucial to deal with ambiguity. One of the biggest challenges of the case method is that it deliberately creates something that students tend to abhor: ambiguity. I am uneasy when students complain that "things weren't clear." The message I tried to give was that I wasn't intending for it to be "clear" *as soon as the class ended*. For me, the case discussion was one stage of the learning process, which is complemented by wider reading and contemplation. Ambiguity is a fact of life, and it is imperative that students realize that it is *not* accidental—it is something that you are *deliberately* trying to create.

In my experience it can be difficult to know which cases will work well for a particular course and a particular group of students, absent experimentation. At the end of each course I provide students with a feedback form and ask them to vote for one case I should drop from the course. If there is a reasonable majority, then this is usually telling advice. We all know the feeling of writing a "perfect" lecture, only to encounter an audience with less enthusiasm and awe than you hoped for. Participant-centered learning increases the potential for this because you relinquish a larger amount of the responsibility to the participants themselves. Therefore, there can be a divergence between a case that looks good on paper (i.e., it covers some important key concepts) and one that works well as a basis for class discussion. Recommendation is therefore an important source of advice because it reduces the burden on trial and error. But instructors and students need to have enough trust in each other to be willing to experiment.

When selecting cases I try to find something that is well written (therefore, I sometimes use magazine articles) and on an engaging

topic.⁹ According to Thomas Delong of Harvard Business School, a good topic is one that has the following characteristics: at least two different points of view that are both reasonable (so that you can get students to debate them), controversy (to get their attention), accessibility (so that they all come of the class with sufficient background information), and a core takeaway—which is an insight that is counterintuitive, important, and applicable.

V. Conclusion

I believe that the case method is effective and something we should strive to roll out despite the fact that it is *tough*, requiring immense preparation not only from students but also faculty. However, embracing the case method—or focusing on teaching more generally—does not necessarily mean an abandonment of research. The key is to find ways to create positive feedback loops between the two, and the case method is adept at this. Almost by definition the instructor focuses on challenging, ambiguous issues and pursues them in an open-ended manner. By requiring participants to engage in background reading and pre-class discussion, they have an obligation to bring new information and original interpretations into the classroom.¹⁰

There is a growth opportunity within business schools for the types of ideas that Austrian economists like to emphasize—decision making under uncertainty, entrepreneurship, opportunity cost reasoning—and the case method is an effective way to uncover them that is grounded in individualism, subjectivism, and uncertainty. As teachers we owe it to our students to take a broad and eclectic view of the pedagogical landscape and think creatively about how we can *eliminate the tedium by changing the medium*. Most nursery tales end with the line, "and they all lived happily ever after," and students want that

⁹ There is a tendency to equate “engaging” with “contemporary,” and therefore there is often a rush to publish cases on whatever “hot topic” is in the news. On balance, though, I find old cases that have stood the test of time to work better than new ones.

¹⁰ For example, “Promotion is often based upon our published research, and we find that responsibilities to teach detract from the mandate to publish. When approached properly, case studies can transform teaching into research, which enrolls students as ‘course researchers,’ whose class participation can be exceptionally valuable in the theory-building process” (Christensen and Carlile, 2006, p. 240).

in their classes. They want the "so what" so that they can file it away and think about other things. But the best novels and movies tend to be open ended; they tend to leave things unanswered. They stay with you, whether you want them to or not. They command your attention, strike your curiosity, and give you a present interest in attempting to think them through and possibly solve them. That's how class should be—one stage on a journey of discovery.

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