Reinventing the Bazaar: A Natural History of Markets  
By John McMillan

‘Markets make the world go around’ could have been another title for this book. John McMillan, a Professor at Stanford University Graduate School of Business, writes about questions such as: What are markets? How do they work? What can they do for society and what can’t they do? When do they work well and badly? And, what can we do to improve them? The book draws on a range of economic theory – from the basic to current frontiers – but it is all presented in a highly readable manner. As well, every chapter contains a wealth of examples and applications to illustrate McMillan’s arguments. If you are looking for something to read that will tell you more about the main topics we’ll cover in the first section of Intro Micro on theory of perfectly competitive markets, then this is the book I’d most recommend.

The Undercover Economist: Exposing Why the Rich are Rich, The Poor are Poor – and Why You Can Never Buy a Decent Used Car!  
By Tim Harford

Think of this book as a textbook for Intro Micro, minus the diagrams, but plus a whole raft of illuminating examples and applications. The author Tim Harford writes a ‘Dear Economist’ column for the Financial Times Magazine, and in this book he does a great job of surveying all the key topics we’ll cover in Intro Micro (or as he calls them, ‘the investigative tools of the economist’) – scarcity, the role of markets, international trade, market failure, how firms choose pricing strategies, and game theory – and in a way that is highly accessible.

Freakonomics: A Rogue Economist Explores the Hidden Side of Everything  
By Steven D. Levitt and Stephen J. Dubner

Steven Levitt is probably the most well-known economist in the world at present. This book was no.3 on the New York Times Bestseller list for 2005. Jointly authored with Stephen Dubner, it provides an introduction to some of Levitt’s research written for a general audience. Levitt has become famous for working on research questions that – while having a strong economic focus – are weird and wacky, and for finding ingenious ways of answering those questions. For example, for his research on ‘Why do drug dealers live with their Mums?’ he had access to detailed account books kept by a crack gang in Chicago. If you want to see some of the ways that economics can be applied to answer interesting questions, and at the same time provide fundamental insights into human behaviour, then this book is well worth reading.
Fifty Major Economists by Steven Pressman

If you are interested in knowing about the people behind the ideas – and the ideas - that have made economics, then I’d highly recommend this book. Pressman provides engaging profiles of all the major figures in economics that you will have heard of such as Adam Smith, Karl Marx, John Maynard Keynes, and Milton Friedman, as well as others who are not so well-known, but often equally important in the development of economic thought. As well, and this is the real strength of the book, for each economist Pressman provides a summary of their main contributions and works. These summaries are sharp and written in a very clear style with a minimum of technical detail. Profiles of Adam Smith, Antoine Cournot, Alfred Marshall, Friedrich Hayek, and John von Neumann are especially relevant for topics covered in Introductory Microeconomics.

Capital Ideas by Peter Berstein

If Finance is what you want to do, this is a great book to read as you begin your studies in that field. Bernstein traces the development of finance theory – from Markowitz’s pioneering research on selecting an optimal portfolio of financial assets through to the Black-Scholes formula for option pricing, and along the way covers ideas such as the Separation Theorem, mean-variance model, Capital Asset Pricing Model, MM model, and random walk theory. This is all done in a way that is highly readable, and intelligible for someone who has a little knowledge of economics and finance. It incorporates interesting profiles of the people such as Harry Markowitz, William Sharpe, Eugene Fama, and Fischer Black who were responsible for the development of the ideas. As a successful portfolio manager Bernstein is also able to describe the way in which finance theory – mainly developed in academe – has suffused into the finance sector and influenced (in some cases dominated) the workings of that sector. So you finish with an excellent overview of the main concepts in finance theory, but as well, an strong feel for how the finance sector works.

Soccernomics by Simon Kuper and Stefan Szymanski

What happens when you combine the world’s leading sports economist (yes, sports economics is a legitimate specialist area of study) and one of the world’s leading soccer journalists? You get ‘Soccernomics’. In the recent burst of ‘pop economics’ publishing there have been several books on sports economics for the general reader, but none as good as ‘Soccernomics’. Why England loses and other countries win? Why soccer clubs don’t make money? Are soccer fans loyal? How to take a penalty kick? These are some of the questions that the book is about. Not only does the book give a thorough coverage of the soccer industry today, but it also has the attraction that much of its contents are undoubtedly relevant for other sports. Any AFL club CEO would benefit from reading the chapters on transfer markets and the business practices of sporting clubs. The book is engaging throughout. The authors do a great job of combining a wide range of material – from stories and anecdotes about soccer in almost every country around the world through to findings from econometrics done especially for the book.
Economics: A Very Short Introduction by Partha Dasgupta

This book is part of a series of ‘Very Short Introductions’ (last count 160 books, with more on the way). With only 160 pages it would be impossible to cover the whole of the field of economics. Instead Dasgupta focuses on what he (and many others) regards as the fundamental application of economics – Trying to understand how people’s lives come to be what they are. The examples of Becky, living with her parents in a town in Midwest America, and Desta, also living with her parents, in southwest Ethiopia, motivate the analysis of why there are differences in living standards between people in different parts of the world. The book begins with excellent introductory chapters on the idea of economics and on how economists measure living standards. In the rest of the book each chapter presents an alternative perspective on why living standards might differ – such as the role of trust and institutions, communities, markets, and science and technology.

Filthy Lucre by Joseph Heath

When I bought this book I was expecting it to be another uninformed diatribe against economics. What could a Professor of Philosophy know about economics anyway? It was a pleasant surprise then to read the book. It is split into two main sections. The first section addresses what Heath describes as six ‘right-wing fallacies’, while the second section takes up six ‘left-wing fallacies’. Being organised around the theme of fallacies, the coverage of topics is a little idiosyncratic and not as complete as a textbook. As well, I don’t necessarily agree with all of Heath’s fallacies – Not all economists are libertarians, for example. But anyone reading this book will learn a lot about microeconomics and sensible policy-making. Current events and philosophy are blended with a solid knowledge of economics to produce a book that is informative and readable. As just one illustration, chapter 1, on the fallacy that ‘Capitalism is Natural’ is the best account I can remember reading of why we need government in any modern market economy. If you have read a book like ‘The Undercover Economist’, and want to go a bit deeper into the proper role of economic theory in society’s decision-making, I’d highly recommend ‘Filthy Lucre’.

Economic Gangsters by Raymond Fisman and Edward Miguel

This book is ‘Freaknomics’ meets development economics. (Development economics is the field of economics concerned with understanding about developed economies and policy-making to assist those countries.) Fisman and Miguel are two of the world’s leading development economists, and they do research that is creative and clever (that my colleagues who are development economists tell me is ‘state of the art’). Each chapter presents a non-technical summary of one of their research projects. Using stock price data to understand the benefits that companies linked to the Suharto family gained from those contacts; Examining data on parking tickets given to United Nations diplomats to understand the role of culture in causing corruption; Establishing the relation between water shortage and civil war, or famine and killing of people labelled as ‘witches’ – These are several of the research projects described. For anyone interested in development economics, and who wants to know about the type of research that it’s possible to do today, the book is well worth reading.
The Ascent of Money: A Financial History of the World by Niall Ferguson

Today, in the aftermath (or continuing evolution) of the GFC, the appropriate place of financial markets in the economy is much contested. But as Niall Ferguson reminds us ‘Today’s financial world is the result of four millennia of economic evolution’. An important starting point for anyone wanting to contribute to the current debate then is to understand that history. This book is intended to provide that understanding, charting the evolution of financial instruments, from money and banking, to bonds, to the joint stock company, to insurance and hedge funds, to property. Its main themes are the good and the bad of financial markets – the role of financial development in facilitating economic growth set against the cycle of booms and recessions that financial markets have imparted to capitalist economies. This book began life as a TV series, and therein lie its strengths and weaknesses. It is well-written with wonderful set pieces such as the story of Robert Wallace and the invention of insurance and the rise of the Rothschild banking dynasty; but is somewhat episodic and partial in its approach to telling the history of financial markets. Overall, as background to studying Finance I, or for understanding more about where the GFC came from, it is well worth reading.

Nudge by Richard Thaler and Cass Sunstein

Behavioural economics, the introduction of psychological foundations to economic theories of decision-making, arguably has been the most important and exciting development in economics in the past two decades. By providing better ways of thinking about our objectives when we make decisions and the process by which those decisions are made, behavioural economics is offering a range of new insights into human behaviour and outcomes from economic activity. This book is part introduction to the new field of behavioural economics, and part application of knowledge from the field.

The first section of the book provides an authoritative review of what has been learned about decision-making, including the way that biases such as optimism and over-confidence affect our decision-making, the problems we have with self-control, and how we often end up ‘following the herd’ in our decisions. The book’s second section provides a set of policy applications. All the applications have as their stepping off point the central finding from the book’s first section - that as humans ‘we make mistakes in a way that is predictable’. Hence Thaler and Sunstein argue for an approach to policy-making that they describe as ‘libertarian paternalism’. This is the idea that ‘…it is legitimate for choice architects to try to influence (or nudge – hence the book’s title) people’s behaviour in order to make their lives longer, healthier and better.’

Here is one example. It begins with two facts. First, currently many people do not save enough for retirement. Second, behavioural economics tells us that people display inertia in decision-making, being significantly influenced by default options. The policy conclusion we derive from these facts is that – if there is a choice between offering workers retirement savings plans with a default to not to be in the plan, and a default to be in the plan, it is much better to choose the latter, as this will maximise the proportion of workers saving for their retirement through the plan. Thaler and Sunstein have both been important contributors to the field of behavioural economics and design of public
policy, and the depth of coverage and insights in the book reflect their knowledge. At the
same time they have done a great job of explaining the main ideas, so that the book is
easily accessible for a general audience.

**Predictably Irrational by Dan Ariely**

Dan Ariely strikes me as someone who has a lot of fun in his job. Trained as a
psychologist, and now a Professor of Behaviour Economics at MIT, Ariely has spent his
working life (and part of his social life it seems) doing neat experiments that reveal the
inner workings of human decision-making. Each chapter in this book is about one aspect
of the inner workings that Ariely’s research has revealed. It’s hard to choose just one
example to illustrate Ariely’s work, but I especially like his experiment on the value of
zero. Simplifying things, it goes like this. Offer people a choice between item A for 15c
and item B for 1c, about 73 per cent chose item A. Then offer item A for 14c and item B
for free. Nothing should change in people’s decision-making, right, because the relative
prices are unchanged. Well, Ariely, in what he calls an example of ‘the power of zero’,
found that now only 31 per cent of people now chose item A. We like getting things for
free! Not only are his experiments interesting, but Ariely has a great writing style. Each
research project becomes a story, and reading the book you feel like you are listening to
him talking to you across a table at a coffee shop. Perhaps the only shortcoming is that
Ariely doesn’t try to put together all the individual pieces of research to give an
integrated picture of how he thinks decision-making occurs. So if you want to see how a
creative researcher who is making a huge contribution to knowledge in his field goes
about it, and be entertained at the same time, this book is for you.