Thoughts on the Future of Economic Theory

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A Brief History

Prior to the 1970’s economic theory was generally divided into consumer theory, producer theory, general equilibrium, and social choice/welfare economics.

The game-theoretic revolution of the 1970’s featured both important theoretical advances in game theory and information economics and a burst of interest in the application of game theory in industrial organization, international economics, and other fields. Theory sequences started to feature courses in game theory, information economics, general equilibrium, and decision theory.

By the 2000’s game theory and contract theory were the two main fields of theory taught in all top departments. Decision theory remains in some departments. Two new field courses are also sometimes offered: behavioral economics and market design.
Recently Active Topics in Theory

Some of the recently active topics in theory have been:

- Game Theory – repeated games, learning in games, higher order beliefs
- Contract Theory – dynamic contracting, theory of the firm, mechanism design
- Behavioral Economics
- Market Design – multiunit auctions, matching markets

Some observations on the active topics are:

1. Several are related to economic issues that arose.
2. Others relate to developments in other fields in and out of economics.
3. Some seem to just grow out of dissatisfaction with current techniques.
Many topics economists want to address are inherently theoretical: net neutrality, the TARP program, the Google-Yahoo! search partnership, etc. Economics departments will always need to provide students with theory skills so they can develop models.

Theory will continue to be spurred by topical economic issues. Predicting such developments is hard, however, because it depends both on what the issues are and on how much economists are able to say about the issues.

Theory will also be spurred by research in related fields. This could be work in other disciplines on related topics, but can also be intradisciplinary spillovers. Imported ideas must prove useful.
Some Thoughts on Specific Topics

My main thought on the future of theory is that it is likely to look like the present. Fields that are currently active and considered useful in applied fields are likely to remain active and considered useful.

- Game Theory
  - Networks
  - Auctions and sales mechanisms

- Contract Theory
  - Dynamic contracting
  - Multi-agent problems
  - Behavioral contracting?

- Behavioral Economics
  - Applications within fields of economics