



Cambridge (CIE) A Level Economics



Your notes

Economic Methodology

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* Economics as a Social Science



Economics as a social science

- Economics is a **social science**
 - Social sciences study societies and the **human interactions** within those societies
 - Human interactions are complex and are influenced by **many variables**
 - Social sciences also include subjects such as Psychology, Politics, Geography and Business Studies
- Due to the complexities within societies, economists **build models** so as to better understand certain interactions
 - A model is a **simplified version** of reality
 - Some models are **more complex** than others. Examples of models include, the circular flow of income, production possibility curves, demand and supply
 - All models make a **range of assumptions**. These are often generalizations about behaviour, choices and likely outcomes
 - These assumptions are necessary so as to account for complex human behaviour and **constantly changing variables**
 - When evaluating different models, the **underlying assumptions** should always be considered
- To **think like an economist** involves identifying which variables will be studied and which ones will be excluded
 - This way of thinking considers the type of relationship between variables (**causal or correlation**). E.g. Data shows that when ice cream sales increase, so do car thefts. Correlation, yes. Causation, no
 - Some economists will **build an argument** to include certain variables in a study and others will argue to exclude them. They will each provide a **justification** for their decision
 - Two economists analysing the same data may end up with **vastly different interpretations**. This is often due to the different variables that each economist chooses to focus on
 - This is the complexity found within **social sciences**

The social scientific method

- As a **social science**, Economics deals with complex and continuously changing **human interactions**
 - It is hard to examine a relationship between **two variables** and always come to the same conclusion (as can be done in Science or Maths)

- There are a variety of tools used in economic analysis to help ensure that **positive (factual) statements** can be made with a degree of reliability



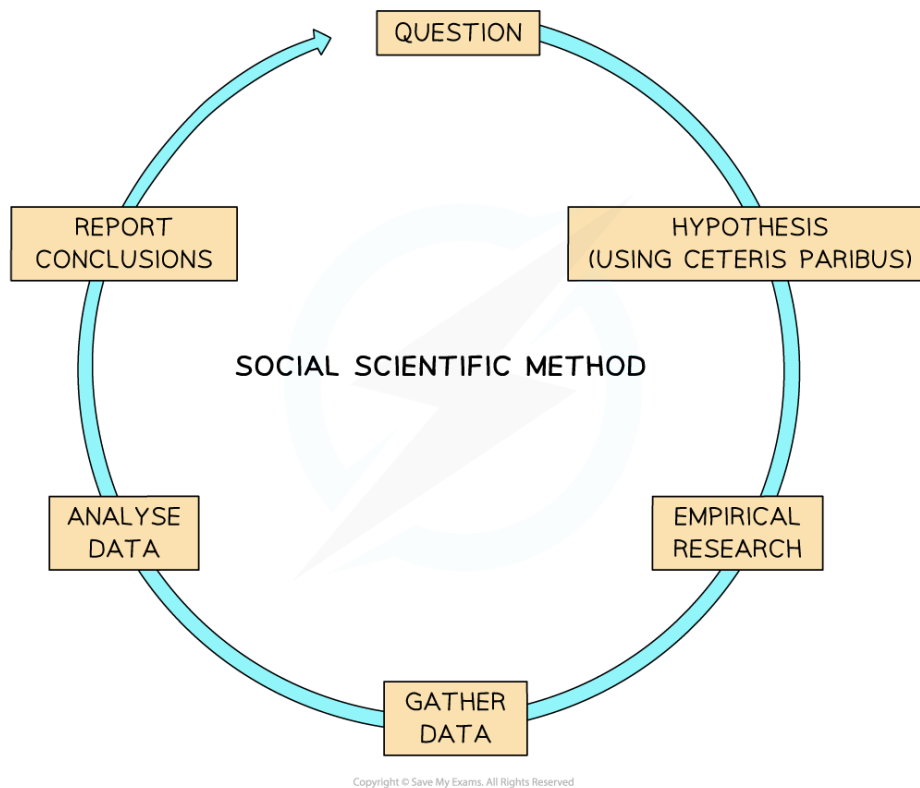
Your notes

1. The use of logic

- When analysing markets, a **range of assumptions** are made about the **rationality of economic agents** involved in the transactions
- In classical economic theory, the word '**rational**' means that economic agents are able to consider the outcome of their **choices** and **recognise the net benefits** of each one
- Rational agents will select the choice which presents the **highest benefits**
 - **Consumers** are assumed to act rationally. They do this by **maximising their utility**
 - **Producers** are assumed to act rationally. They do this by **selling goods/services** in a way that **maximises their profits**
 - **Workers** are assumed to act rationally. They do this by **balancing welfare** at work with consideration of both pay and benefits
 - **Governments** are assumed to act rationally. They do this by placing the interests of the people they serve first in order to maximise their welfare

2. The use of hypotheses, models and theories

- The **social sciences** use a variation of the **scientific method** of research, which is called the **social scientific method**
- There is an **inability to make scientific experiments**, the results of which can be proven time and time again
 - This is due to the complexity of human nature and the significant **number of social interactions** that are taking place in any economy **at any given point in time**
- The steps in the **social scientific method** are similar to the **scientific method** but there is a key difference



The social scientific method uses empirical research to gather data

- **Empirical research** is collected through **observations, surveys, opinion polls** etc.
 - The results of **the same hypothesis** can vary significantly when conducted by **different researchers** at **different time periods** and **between different places and cultures**
- **Refutation** is the act of a statement or theory being proved to be wrong by the empirical evidence
 - Refutation helps to determine if an **economic statement is positive**
 - **Economic models** are developed by economists once a **hypothesis has been repeatedly proven or rejected** in **different circumstances**
 - A model is a **simplified version** of reality
 - All models make a **range of assumptions**. These are often generalisations about behaviour, choices and likely outcomes
 - These assumptions are necessary so as to account for complex human behaviour and **constantly changing variables**
 - When evaluating different models, the **underlying assumptions** should always be considered

3. The ceteris paribus assumption



Your notes

- Due to the **large number of variables** that can influence any particular economic interaction in society, economists **create models** using the principle of **ceteris paribus**
 - Translated from Latin, 'ceteris paribus' means '**all other variables remain constant**'
 - It allows economists to **simplify and explain** causes and effects, even if the explanation is somewhat limited by the assumptions
 - E.g., there are **many factors** that affect the level of unemployment in an economy (interest rates, consumer confidence, firms' investment, government policies, etc.). Using **ceteris paribus**, economists can simplify the **economic model** to analyse **just two variables** (e.g. unemployment and interest rates)

Positive and normative statements

- **Positive economics** is concerned with **objective statements** of how a market or an economy works.
 - These **positive economic statements** are based on empirical evidence and tend to be **statements of fact**
 - They can be proven to be **true or false**
 - These are examples of positive economic statements
 - The UK unemployment rate **has fallen** from 4% to 3.7% in the past three months
 - Increasing the minimum wage last year in the UK **resulted in improvements** to wage inequality
 - Prices in the UK **have risen dramatically**, partly due to the 20% **increase in the price of oil**
- **Normative economics** focuses on **value judgements**. These judgements are built around **opinions and beliefs** as to what the best economic policies or solutions may be
 - These judgements are called '**normative economic statements**'
 - **Normative economic statements** are what separate political parties and the different economic agendas they put forward
 - These are examples of normative economic statements
 - Every economy **should** aim to provide free healthcare for its citizens
 - Corporation taxes in an economy **should** be higher than personal income taxes
 - **The best way** to deal with a rise in crime is to employ more police



Examiner Tips and Tricks

Examiners will often assess your understanding of positive and normative economic statements. They do this by asking you to identify statements from the text

Normative statements often have the word 'should' in them (but not always). Value judgement must be used in definitions, not opinions

Positive statements usually include data that is hard to challenge. Any use of concrete data points towards the statement being a positive statement



Your notes

The role of value judgements

- **Value judgements influence individuals'** choices in the **economic decisions** they make
 - These decisions can be related to any part of their lives, from what they eat, to where they work, to how they maintain their health
 - For example, deciding not to eat meat is often a **value judgement** based around unethical methods of food production
 - By providing statistics on the harmful impact that meat production has on the environment, environmental campaigners are attempting to demonstrate that this is **no longer a normative issue**
 - Another example is the way that many individuals choose to smoke nicotine-based products
 - The value judgement they make is that the benefits they get from smoking outweigh any risk of cancer.
- **Value judgements influence governments'** choices with regards to the **economic policies** they choose to adopt and spend money on
 - The USA spends more money on imprisoning drug users than rehabilitating them
 - In the UK, the Government has recently increased its spending on **rehabilitation**
 - To say the **UK approach is better** would be a normative statement
 - To say that the UK government spends more per head on rehabilitation would be a **positive statement**

The importance of time periods

- Economies are constantly changing. Change affects daily life, work, and the way resources are used in production.
- Economists use **time periods** to analyse how change influences economic activity over time
- Different time periods are useful when considering the **factors of production** – the resources used to produce goods and services (land, labour, capital, and enterprise)

Short run

- In the **short run**, a firm can only change some of its inputs
- Typically, **labour** is variable, while other factors such as land and capital remain fixed

- Example: Hiring more workers can increase output, but the size of the factory or machinery cannot change

Long run

- In the **long run**, all factors of production can be adjusted
- Firms can expand capital, improve technology, or build new factories to increase efficiency and output
- This allows firms to plan more effectively to meet their objectives

Very long run

- In the **very long run**, all factors of production **and other key inputs** can change
- Key inputs include technology, government policies, and social factors
- Firms can fully adapt to changes in the economic and social environment



Examiner Tips and Tricks

You must avoid using time periods such as weeks, months or years

There is no fixed timescale for the short, long, or very long run

The distinction depends on which factors of production can be varied, not on a set number of months or years



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