Article Review: Part I–The Methodology of Positive Economics In: Essays in Positive Economics

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1 author:

Deena Saleh
Istanbul University
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In: Essays in Positive Economics

For ages, an inevitable confusion has been between positive and normative economics. Positive economics is generally independent of normative judgments, as its concern is 'what is' rather than ''what ought to be''. Its generalizations provide predictions, which are evaluated based on their scope and precision. However, positive economics cannot be regarded as objective science, as it deals with human interrelations, compared to physical science.

To form policy conclusions, we predict consequences of one action. These predictions are made based on positive economics. This implies interdependency between normative economics, art of economics and positive economics. The author argues that US citizens have different expectations regarding consequences and efficacy of certain policy/action, rather than differences in value. This, in turn, causes different views on economic policies. Positive economics can be distinguished from normative economics owing to role of positive economics in forming a consensus on economic policies.

Positive science develops a theory/hypothesis, which helps making convincing predictions and explanations about yet, unobserved phenomenon. It helps simplifying the complex reality by abstracting its features. A theory is a system to file and organize empirical items and help us understand. When using factual evidence, we reflect on what is believed to be right/wrong. Hypotheses cannot be 'proved' by factual evidence, which can just 'disprove' it. That is why we reject a hypothesis if it contradicts previously set predictions. However, for a given phenomenon, there will always be many hypotheses, among which we choose, but chosen hypothesis has complied with factual evidence. Reliance should not be only on consistency or logical completeness.

Even in controlled experiments, disturbing influences always exist. These disturbances make hypothesis interpretation harder, and require chains of reasoning. The hard it is to test economic hypotheses based on predictions, the more is our misunderstanding for empirical evidence role in theoretical work frame.

Empirical evidence is important in building hypotheses and evaluating their validity: two stages closely related. We use facts to test hypothesis implications; these same facts can be raw materials in constructing the hypothesis, and vice versa. Moreover, an initial stage often compares implications of previous hypotheses, so old ones are revised, and new ones are formed. It implies that hypothesis validity depends not on its underlying assumptions and implications, but rather on conditions under which it works. These assumptions can conform to reality, but what matters is predictive power of hypothesis itself. This means that for each theory, there are assumptions, which realism evaluation is independent of predictions' validity. However, the author rejects this view, as it misleads our understanding of empirical evidence, and confuses valid and invalid hypotheses.

The author believes that real significant hypotheses will have assumptions that inaccurately describe and represent the reality. A hypothesis should explain more by less. This means that a theory's assumptions are never realistic, but they have to predict accurately. Giving an example from physical theory, Freidman confirms that we cannot test a theory by its assumptions, as we can reach the same formula using different assumptions. A common error is the wide belief that assumptions shape conditions under which theory works. Unlike physical sciences, social sciences do not have luxury of 'controlled experiment', as we cannot rule out disturbing influences. Even if we were not able to conduct experiments, we still can test hypotheses based on their predictions, based on experience. Similar to controlled experiments, experience can generate evidence that is direct, dramatic, and convincing.

There are three positive roles for theory assumptions: they represent an economic way for depicting a theory, make it easier to test hypothesis by its implications, and help determine the conditions under which a theory holds. Assumptions provide a more compact, but comprehensive way to describe a theory. Moreover, they shed the light on factors and forces that were important for a phenomenon, and how these factors have to act.

We use abstract models to represent the reality, using theory assumptions for approximation. The goal is to make science as objective as it could be. Key elements of this abstract model are stated by these assumptions. Theory assumptions can provide indirect evidence on whether hypothesis is acceptable or not. The evidence is indirect as it normally has implications different from those the hypothesis intended to describe. These assumptions can help in indirectly testing the theory; they help relating the evidence validity to hypothesis.

The author mentioned some implications for economic issues. He stated that orthodox economic theory is criticized to be an 'unrealistic' science, as it presumes that individual's act is based on selfish and self-interest based motivations. However, he justifies this criticism, as all sciences are unrealistic. No single science can describe the reality fully. He states that confusion is present between descriptive accuracy and analytical relevance. This confusion is the reason behind this criticism to economic theory, and misunderstanding it.

To sum up, the article's main goal was to highlight goal of positive economics, which is to generate better future predictions. He discussed some problems that emerge in positive economics. Through giving some examples, the author reached some conclusions about theory and hypotheses, and their relation to assumptions.

References

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