Economists versus Economics

In the past hundred years or so, the economics discipline has been accused of having scientific pretensions as it has become more and more dependent on mathematics and statistics. In addition, the discipline has been faulted for neglecting social goals and focusing instead on GDP and for its shortcomings in predicting disturbances like bubbles or financial crises.

In recent years, further criticisms have come from within the rank of economists. Krugman is not impressed by the newer macroeconomic models and believes that plain old Keynesian models should not be ignored. Other economists have been accused by their peers of “mathiness,” using mathematics to complicate rather than clarify. Another internal criticism refers to the widely used assumption in most models that people are rational optimizers thus overlooking their real-world behavior.

How can one respond to such variety of criticisms? First one must understand that economics is not a science based on natural facts, but a craft depending on human behavior. The social world differs from the physical world because it is man-made and always evolving. So there is no true model like the law of gravity that is right at all time and in all circumstances. Economists devises many models and their skill is to figure out which model is right in a particular context.

The fact that there is more than one model does not mean that economists never agree and cannot make their mind. It just means that there is a model applicable for every circumstance. For instance, there are models of markets under perfect competition and models of markets under imperfect competition or asymmetric information. The second categories of models do not imply that the first ones are incorrect and useless.

The discipline advances by building models dealing with recent developments like widespread capital mobility or by integrating state-of-the-art mathematical/statistical methods allowing the profession to introduce more sophisticated insights like rational expectations. More recently, behavioral models that emphasize heuristic decision-making have made economists better analysts in specific instances; but these models do not displace the rational-choice models, they just add a new dimension to the understanding of human behavior. Choosing the right model is one of the challenges of the discipline. For instance, a growth model that applies to developed countries would be a poor choice for emerging economies. Similarly, models that emphasize expectations work better when predicting inflation, while a plain Keynesian model of the economy would still work wonder in the short run.

In order to understand how things work in the economic world, we need simplification. However, we also need models that are more and more elaborate, since we want to understand how the causal mechanisms work. The huge models of the 50ies including every aspects of the economy have been replaced by smaller, more intricate and sophisticated models. So it is now crucial for students of the discipline to learn how to choose the right model for their research.

Read the article above and write an essay addressing the following thoughts: “Many criticisms have been leveled at the discipline. There are so many models that do not necessarily contradict each other that the main skill of economists has become to determine what model to choose for each situation. But is there a risk that economists, while becoming so involved in constructing their elaborate models, might lose track of what is happening in the real world of business and of politics where the economic decisions are actually made?

Economists versus Economics – Feedback from the graders

The article makes several points:

- Economics as a social science is different from physical sciences. Human behavior and the institutions that regulate it are complex and evolving
- The various economic models do not necessarily contradict each other; they pertain to different economic conditions.
- Economic models include the large empirical models of 1950s, simpler theoretical models that accompany more advanced econometric and statistical methods to test hypotheses, and experimental/experiential models in the field of behavioral economics.

The prompt asks you to evaluate whether in creating elaborate models economists may lose track of the real events and interaction in the world of business and politics—where economic decisions are made.

You can address the prompt in several ways, including:

- The role of economists in setting monetary policy by the Central Bank to keep the economy stable and growing.
- The contribution of economists to making fiscal policy (government tax and expenditures)
- The evolution of economic models in conjunction with the newly developed field of data science and machine learning (used by large companies such as Amazon)
- The contribution of economists as expert witnesses in courts of law, anti-trust matters, discussion on minimum wage, etc.
- Alternatively, you can also argue that economists are <u>not</u> able to capture the complexities of an economic system, that economic models are unable to forecast downturns (recessions) and that the economics profession missed any signals prior to the last recession—the Great Recession of 2009-2010, and has not been able to adequately take account of the negative external effects of economic activities that have contributed to climate change.

It is very important that

1. You answer the essay question thoroughly
2. You introduce your own ideas and factual knowledge and do not regurgitate the article
3. You support your points
4. You organize your essay such that it reads well.

If all the points, facts, or ideas in your essay come directly and only from the article itself, you will not get a good score.