

## Core Objectives of Economics Development and its Methodology

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### Commentary

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### DESCRIPTION

The study states that economics must be devoid of normative judgments in order to be accepted as objective and to inform normative economics (for example, whether to raise the minimum wage). Normative judgments frequently include implicit predictions about the outcomes of various policies. The essay suggests that progress in positive economics could narrow such fundamental differences.

The essay contends that a useful economic theory should not be judged primarily by its tautological completeness, which is important in providing a consistent system for classifying theory elements and validly deriving implications from them. Rather, a theory (or hypothesis) must be evaluated based on:

- Simplicity in that it can predict at least as much as an alternate theory while requiring less information.
- The precision and scope of its predictions, as well as its ability to generate additional research lines, demonstrate its fruitfulness.

Truly important and significant hypotheses will be discovered to have "assumptions" that are wildly inaccurate descriptive representations of reality, and the more significant the theory, the more unrealistic the assumption. This is due to the fact that such hypotheses and descriptions extract only those crucial elements necessary to yield

relatively precise, valid predictions, while leaving out a slew of predictively irrelevant details. Of course, descriptive unrealism does not guarantee a "significant theory". Friedman rejects testing a theory based on the realism of its assumptions. Rather, simplicity and fruitfulness favor assumptions and postulates such as utility maximization, profit maximization, and ideal types-not just to describe (which may be beside the point), but to predict economic behavior and provide an engine of analysis. Firms are posited to push each line of action to the point of equating the relevant marginal revenue and marginal cost in profit maximization, for example. However, businessmen's responses to questions about the factors influencing their decisions may show no such calculation. Nonetheless, if firms behave as if they are attempting to maximize profits, this is the relevant test of the associated hypothesis.

### **Economic methodology**

Friedman is widely regarded as a seminal figure in the Chicago School of Economics. The essay can be read as a manifesto for that school. Nonetheless, Melvin Reder claims that a sizable minority of Chicago-school economists, such as Ronald Coase and James M. Buchanan, have written as if "the validity of an economic theory lies in its intuitive appeal and/or compatibility with a set of common-sense axioms rather than the conformity of its implications with empirical observation." However, Friedman's fruitfulness criterion and use of the word 'positive' appear to blur this point.

The essay's central claim and representation were widely deployed in mainstream economics by the late 1980s, even if methodological judgments, like other regulative judgments, are not purely positive. Its detractors, on the other hand, had long pointed out the flaw in Friedman's reasoning: by exempting assumptions from the requirement of realism, Friedman admits falsehoods as part of his theory. He defends himself against this by requiring only specific phenomena of interest to be explained, but as Samuelson pointed out, this can result in unscientific cherry-picking of results. Samuelson dubbed Friedman's principle the F-Twist rather than naming it after him directly.