

A Commentary on Economics and its Methodological Development in Different Fields

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Commentary

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ABOUT THE STUDY

Economics is concerned with the behavior and interactions of economic agents, as well as the operation of economies. Microeconomics studies what are considered basic elements of the economy, such as individual agents and markets, their interactions, and the outcomes of those interactions. Individual agents can include households, businesses, buyers, and sellers. Macroeconomics examines the economy as a system in which production, consumption, saving, and investment interacts, as well as the factors influencing it: employment of labor, capital, and land, currency inflation, economic growth, and public policies that affect these elements.

Methodology

Theoretical research: Mainstream economic theory is founded on a priori quantitative economic models that employ a wide range of concepts. Theory typically begins with a *ceteris paribus* assumption, which means holding constant explanatory variables other than the one under consideration. When developing theories, the goal is to find ones that are at least as simple in terms of information requirements, more precise in predictions, and more fruitful in terms of generating new research as previous theories. While neoclassical economic theory is the dominant or orthodox theoretical and methodological framework, economic theory can also take the form of other schools of thought, for example, heterodox economic theories.

For example, in monetary theory, the quantity theory of money predicts that increases in the growth rate of the money supply increase inflation, and inflation is assumed to be influenced by rational expectations. Slower growth in developed countries has been predicted in development economics due to declining marginal returns on investment and capital, as seen in the Four Asian Tigers. Two-dimensional graphs are frequently used to illustrate theoretical relationships in economic reasoning explanations. At a higher level of abstraction, mathematical economics is the use of mathematical methods to represent theories and analyze economic problems. The method is exemplified in Paul Samuelson's treatise *Foundations of Economic Analysis* (1947), particularly in terms of maximizing behavioral relations of agents reaching equilibrium. The book examined the class of statements known in economics as operationally meaningful theorems, which are theorems that can be refuted by empirical data.

Empirical research: Economic theories are frequently empirically tested, primarily through the application of econometrics to economic data. Controlled experiments, which are common in the physical sciences, are difficult and uncommon in economics, and instead broad data is studied through observation; this type of testing is typically regarded as less rigorous than controlled experimentation, and the conclusions are typically more tentative. However, the field of experimental economics is expanding, and natural experiments are being used more frequently. Regression analysis is a common statistical method. Such methods are used by practitioners to estimate the size, economic significance, and statistical significance of the hypothesized relationship, as well as to account for noise from other variables. A hypothesis may gain acceptance in this manner, albeit in a probabilistic rather than certain sense. The use of scientifically controlled experiments has been promoted by experimental economics. This has reduced the long-noted distinction between economics and natural sciences by allowing direct tests of previously assumed axioms. In some cases, it was discovered that the axioms were not entirely correct; for example, the ultimatum game revealed that people reject unequal offers. In behavioral economics, psychologist Daniel Kahneman and Amos Tversky were awarded the Nobel Prize in Economics in 2002 for their empirical discovery of several cognitive biases and heuristics. In neuroeconomics, similar empirical testing takes place.