

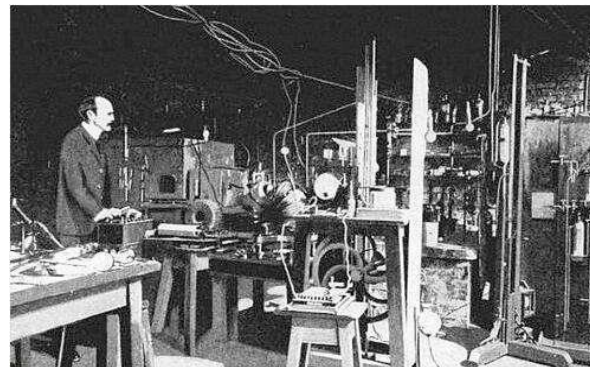
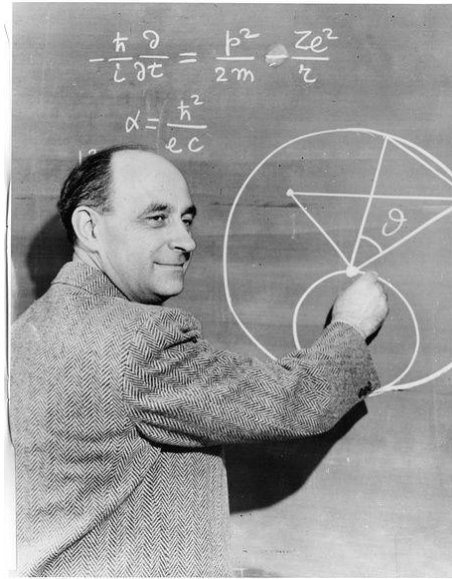


Economics is...



- **Economics** is a **social science** which deals with human society and behaviour, and particularly those aspects concerned with how people organize their activities and how they behave to satisfy their needs and wants. Its approach to studying human society is based on the **scientific method**.

How do scientist approach the world?



Natural Science and Social Science

- **Natural science:** A science, that deals with the objects, phenomena, or laws of nature and the physical world. E.g. Physics, Chemistry, Biology, Astronomy, etc.
- **Social Science:** academic disciplines that study human society and social relationships. E.g. Economics, Philosophy, Political science, Psychology, etc.

It may seem like they are very different, but The essence of science, however, is the **scientific method**—the dispassionate development and testing of theories about how the world works.



Observation, theory and more observation

The Social Scientific Method

Economic deals with human society and behaviour, its approach to studying human society is based on the social scientific method.

To observe:

- Newton: apple falling from the tree.
- Economist: The price of commodities is raising.

Theory:

- Newton: Theory of universal gravitation
- Economist: inflation theory – when government launched too much currencies, high inflation occur, the price level will go up.

More observation:

- Newton and following scientist: test the theory and it is valid in most cases.
- Economist: Collect data from different country, analyze the relationship between price and current amount.



The use of empirical evidence

- Natural scientists often perform experiment to test their hypothesis.
- Economist compare the predictions of the hypothesis with real-world events, based on **empirical evidence**. They collecting data on the variables in the hypothesis, and examining whether the data fit the relationships stated in the hypothesis. (econometrics)

Empirical evidence refers to real-world information, observations and data that we acquire through our senses and experience

Assumptions in economic model-building

In scientific method step 4: make assumptions

1. Ceteris paribus (Latin expression means “other things equal”)

- ✓ Excepting the variables we are studying, everything else does not change.
- ✓ The aim is to isolate the effect of each one of the variables.

2. Rational economic decision-making

- ✓ Individuals are assumed to act in their best self-interest, trying to maximize the satisfaction they expect to receive from their economic decisions.
 - a. Producers try to maximize the profits
 - b. Workers try to secure the highest possible wage when they get a job
 - c. Investors in the stock market try to get the highest return
 - d. ... etc.

Activity



Discuss: what is the difference between the following two statements:

1. The unemployment rate of China is 5.2% in 2020.
2. Chinese government should control the housing price.

Economist plays different roles



- As a **scientist**, economist make positive statement to describe and explain how things in the economy actually work.
- As a **policy adviser**, economist make normative statement to advise how things ought to work. (subjective)

Positive statements

- **Positive statements** are descriptive and objective.
- May be true or may be false.
- Positive statement are usually used to:
 - ✓ Describe something
 - ✓ Describe a Cause-and-effect relationship, such as in a hypothesis
 - ✓ Make Statement in a theory, model or law.

Normative statements

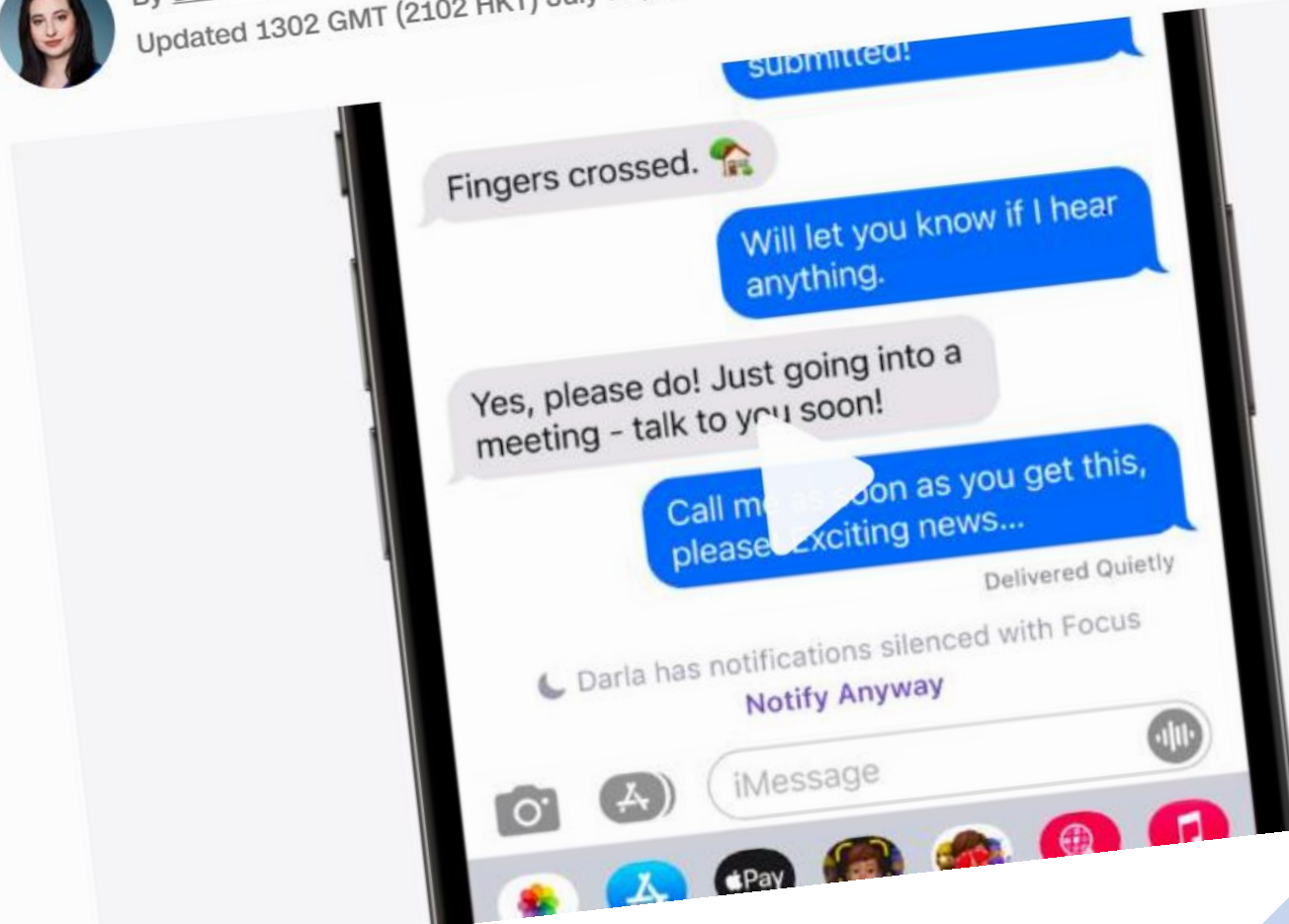
- **Normative statements** are subjective and prescriptive.
- Cannot be true or false, it can only be assessed relative to beliefs and value judgement.

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By [Julia Horowitz](#), CNN Business

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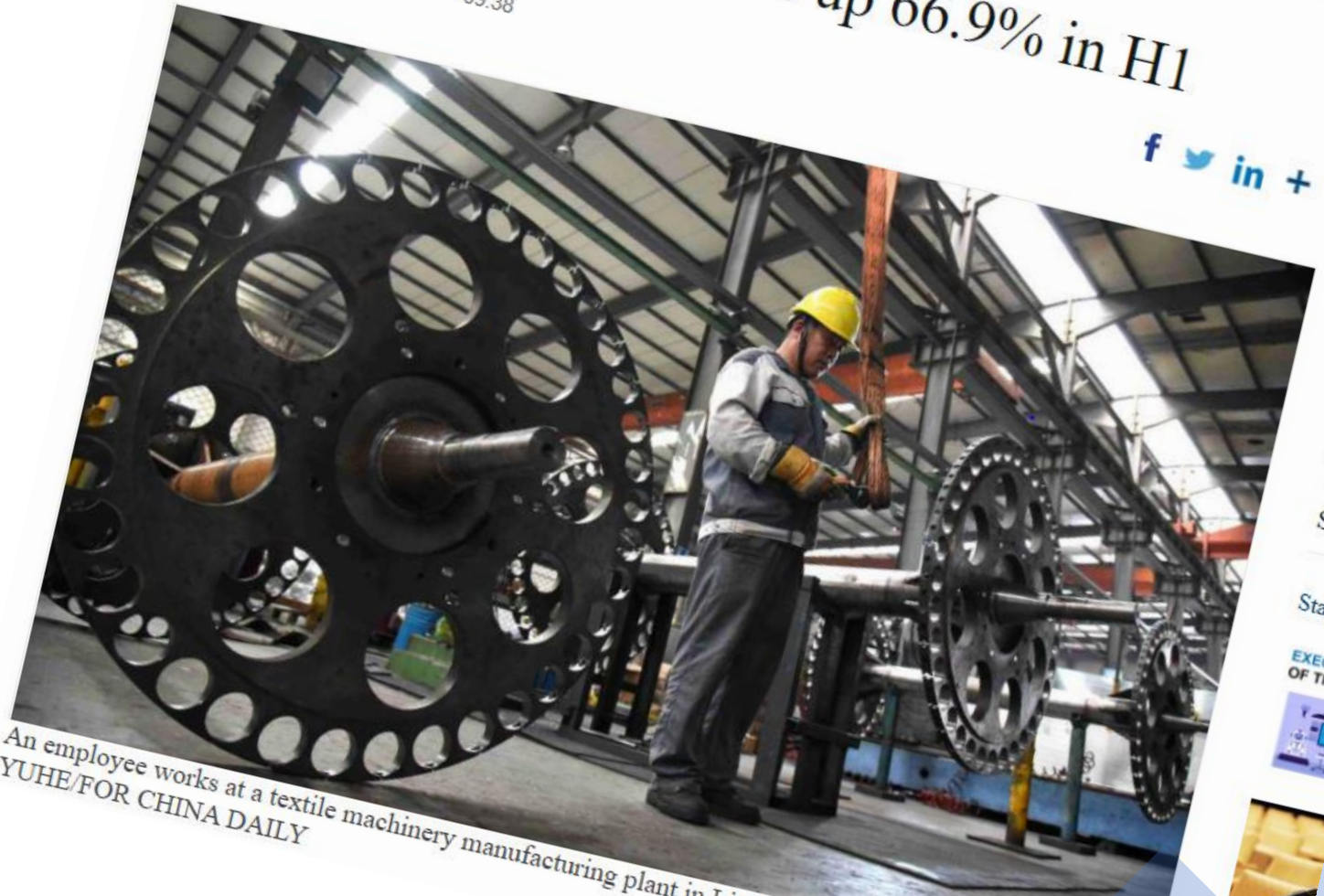
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An employee works at a textile machinery manufacturing plant in Lianyungang.
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The roles of positive economics

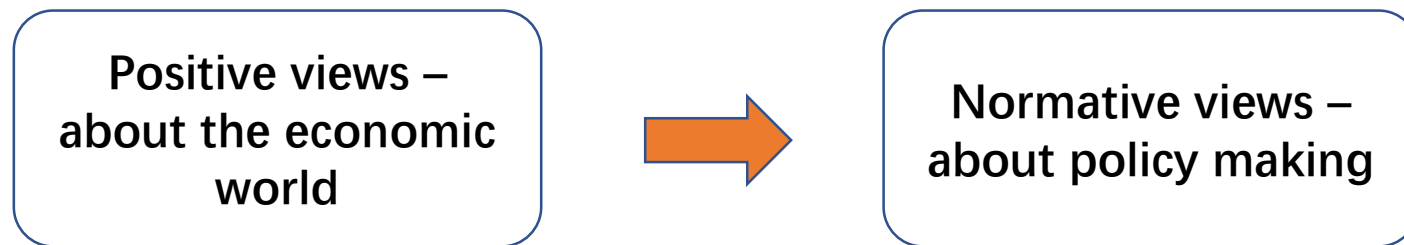
- **Positive economics** is the study of economics based on the scientific method, used to arrive at knowledge about the economic world.
- **Positive economic thinking** is used to **describe and explain** in a systematic way why economics events happen the way they do, and attempts to predict economic events that are likely to occur in the future.
- Based on the **use of logic**. It is a method of reasoning, which involves making a series of statements each of which is true if the preceding statements are true.
 - “the inflation rate is 4%” → describe
 - “When the price increase, the quantities of demand will fall” → explain
 - “the housing price will increase next month.” → predict

The roles of normative economics

- **Normative economics** forms the basis of value judgements about what economic goals and economic policies **should or ought to be**.
 - What is good or bad
 - What should happen
 - What is right or wrong
- **Value judgements** in normative economics are important for **economic policy-making**
 - “The unemployment rate should be lower”
 - “the government should make the covid-19 test free of charge”
- Identify the important economic problems that should be addressed and recommend policies to solve them. Economic policies are government actions that try to solve economic problems.
- It cannot be true or false. They can only be assessed relative to beliefs and value judgements.

Positive & Normative economics work together

- positive views about how the world works affect normative views about what policies are desirable.
- Much of economics is positive: It just tries to explain how the economy works. Yet those who use economics often have normative goals: They want to learn how to improve the economy.



Economic systems:

- Free market economy: based on the market approach
- Planned economy: based on the command approach.

	Free market economy	Planned economy
Resource ownership	Private sector	Public sector
Economic decision-making (Questions of <i>what/how much, how</i> and <i>for whom</i>)	Private sector	Public sector
Rationing systems (method to make resource allocation and output distribution decisions)	Price rationing	Non-price rationing

*Public sector: the parts of the economy that are under the ownership of the government.

*Private sector: the parts of the economy that are under the ownership of private individuals or groups of individuals. (consumers, firms, resource owners, etc.)

- Mixed economy: Most real world economy positioning itself in somewhere between the free market and planned economy. ➡ Mixed economies are increasingly becoming mixed market economies.