

TOK Presentation

Mihir Savadi
Saint Josephs Institution International
4/May/15

Candidate Number:

Real Life Situation

“Economists regularly measure the confidence of consumers and publish data in the form of a consumer confidence index”

Real Life Situation

THE CONSUMER CONFIDENCE INDEX (CCI)

Compiled monthly by The Conference Board

Investopedia Definition of the CCI:

“A survey by the Conference Board that measures how optimistic or pessimistic consumers are with respect to the economy in the near future.”

THE CONFERENCE BOARD
Trusted Insights for Business Worldwide



KQ: How can we determine if laws and conclusions found in the Human Sciences are reliable?

AOK: *Human Sciences*

Underlying assumptions of the Human Sciences (Economics)

“People are rational maximisers of utility”

i.e.

“The idea is that if the consumers are optimistic, they will tend to purchase more goods and services, which will increase spending and inevitably stimulate the whole economy.”

Major Benefit: A more objective and positivistic approach can be undertaken

Consumer Confidence Index (CCI) Methodology

1) 5000 households take Surveys monthly

2) 5 questions asked about personal opinions and situations on the following:

- 1. Current Business conditions
- 2. Business conditions for the next six months
- 3. Current employment conditions
- 4. Employment conditions for the next six months
- 5. Total family income for the next six months.

— Contribute to present situation index
— Contribute to expectation index

Survey participants are asked to answer each as “positive”, “negative”, or “neutral”.

3) Relative Value separately calculated for each question such that:

$$\frac{(\text{no. of positive responses})}{(\text{no. of positive responses}) + (\text{no. of negative responses})} = \text{Relative Value}$$

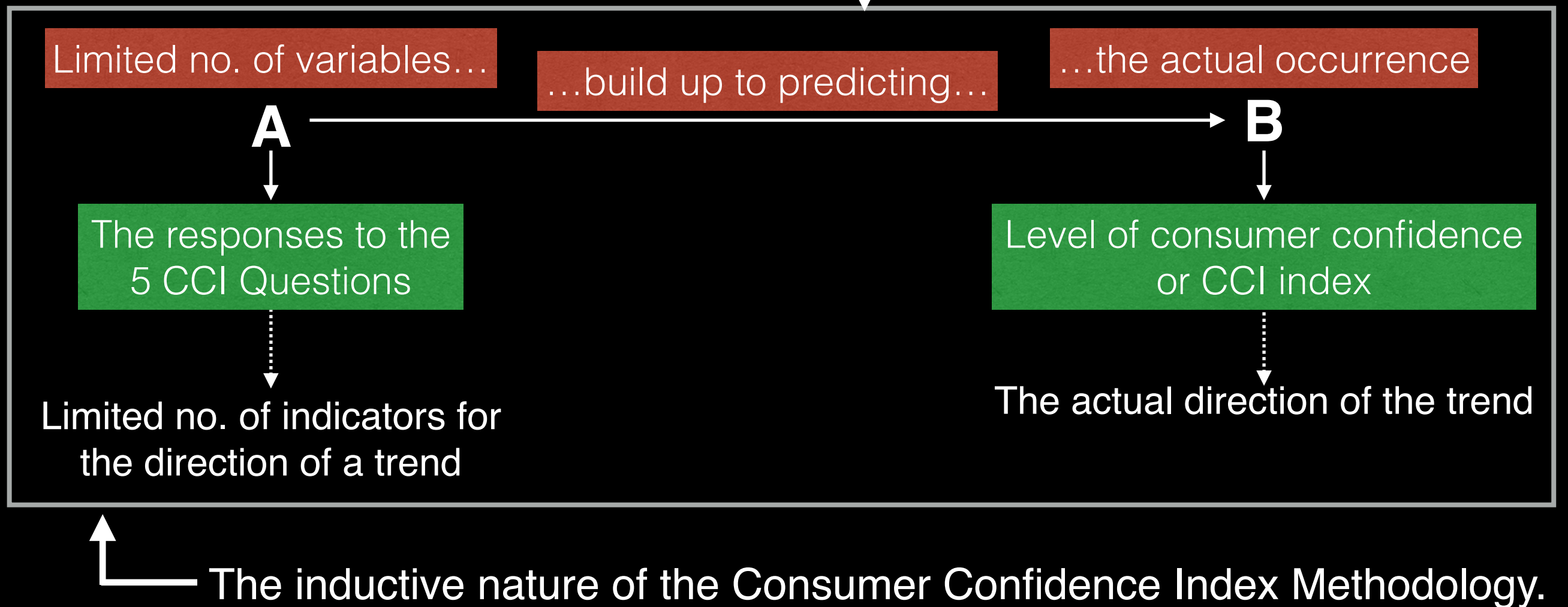
4) Values compared to 1985 as benchmark

5) Organisations monitor changes in the CCI to factor in their decision making processes.

(dismissed as inconsequential) < Δ of 5% < (Δ in economies direction)

Behaviourism

- Stresses the importance of measurable or observable variables, hence leaving out potential 'external variables' which might hold the casual link.
- It is hence inductive in nature



Introspection/Verstehen Approach

- Uses first person reports as evidence in investigations, directly observing reasons for action.
- Common example of such approaches - Surveys.
- Direct address allows better chance of finding causal link as subject is directly providing his/her perspectives.

Ideal Verstehenism - allows FULL expression of the subjects thoughts, feelings and experiences

can be done by ...

...asking a very wide array of questions

...asking a single wholly open ended question which doesn't expect a specific response

Conclusion

KQ: How can we determine if laws and conclusions found in the Human Sciences are reliable?

- Depends on the situation and the degree of Reliability needed
- Consistent and exact predictions are not possible, at least in this day and age.
- However, Economic indicators are still relied upon. They satisfy the level of reliability/accuracy needed of their applications.
- The human sciences can be justifiably satisfied with their conclusions interpreted as just trends.

Bibliography

- <http://heatherlench.com/wp-content/uploads/2008/07/svenson.pdf> [Accessed: April 2015]
- <http://www.investopedia.com/terms/c/cci.asp> [Accessed: April 2015]
- <http://www.investopedia.com/walkthrough/forex/advanced/level8/consumer-confidence-index.aspx> [Accessed: April 2015]
- <http://www.investopedia.com/articles/05/010604.asp> [Accessed: April 2015]
- <http://www.investopedia.com/university/releases/consumerconfidence.asp> [Accessed: April 2015]
- <http://onegoodmove.org/fallacy/induct.htm> [Accessed: April 2015]
- WENDY HAYDORN, S. J. 2013. *Decoding Theory of Knowledge for the IB Diploma: Themes, Skills and Assessment* Cambridge University Press.
- SUE BASTIAN, J. K., RIC SIMS 2014. *Theory of Knowledge 2nd Edition* Pearson Baccalaureate

TOK Practice Presentation Script

SLIDE 2 - REAL LIFE SITUATION

- Reading from Economics text book
- specifically macro economics
- came across how **speculation and consumer confidence are significant contributing factors to changes in investment and eventually interest rates.**
- But what really struck me in this section of the book was the following sentence
<read from slide>
“Economists regularly measure the confidence of consumers and publish data in the form of a consumer confidence index”
- Right here they were explicitly mentioning how a reasonably subjective, qualitative aspect of business was being quantified and used in objective analysis - this seemed a little bit dubious and caught my attention.

SLIDE 3 - REAL LIFE SITUATION

- **According to Investopedia the Consumer Confidence Index is described as:**
“A survey by the Conference Board that measures how optimistic or pessimistic consumers are with respect to the economy in the near future.”

“The idea is that if the consumers are optimistic, they will tend to purchase more goods and services, which will increase spending and inevitably stimulate the whole economy.”
- The fact that this method of quantification of qualitative data is widely used as an indicator to private and public firms in their business decisions, got me to form the following Knowledge Question.

SLIDE 4 - KNOWLEDGE QUESTION

<read out KQ and RLS>

SLIDE 5 - ASSUMPTIONS IN ECONOMICS

- ‘Humans exercise Free Will’. This is an issue that is commonly associated with the Human sciences in that the Subject of investigation, Humans, cannot be precisely controlled or predicted as apposed to a beaker of hot water for example.
 - So then in order to more precisely form laws and conclusions in the Human Sciences, some assumptions have to be made about the nature of humans and the way they behave.
 - One of the underlying assumptions in Economics as a subject is that people are *“Rational Maximisers of Utility”* which basically means that *“People are rational agents who always aim to get the best amount of satisfaction (OR utility) for their given resources (OR money/capital).”*
 - This assumption completely gets rid of the FREE WILL issue in humans.
 - While it would seem very dubious in every day circumstances to assume that everyone is a rational maximiser of utility, this assumption still allows for a good amount of flexibility and predictability in the decisions people can make, instead of reducing Human Behaviour to overly simplified variables.
 - This is the sole assumption that describes humans, which brings us to the fact that Economics as a subject (and the index’s, tools, etc they produce, like the Consumer Confidence Index) only looks at Humans as units of consumption and nothing else.
 - What this means is that Humans are a collective body of rationally behaving agents and are analysed likewise.
 - The major benefit of this:
A more objective and positivistic approach can be undertaken for further study, which would lead to more precise (less subjective) conclusions.
- > A purely positivistic approach however comes with its disadvantages as well, which will be explained shortly.

SLIDE 6 - CCI METHODOLOGY

- Before we go any further, it is useful to note the method in which the CCI, or consumer confidence index is generated.
- 1) Each month a survey is issued to 5000 households in the US.
 - 2) This survey consists of 5 questions asking respondents their personal opinions and situations on.....
< read off slide >
 - 3) Each questions positive and negative responses are processed such that a 'Relative value' is produced.

$$\frac{(\text{no. of positive responses})}{(\text{no. of positive responses}) + (\text{no. of negative responses})} = \text{Relative Value}$$

- 4) Values are then compared to 1985 as a base year.
 - 5) All five values are then arranged to form a CCI index
 - 6) Manufacturers, retailers, banks, and governments monitor changes in the CCI to factor in their decision making processes. While index changes of less than 5% are often dismissed as inconsequential, moves greater than 5% indicate a change in the economies direction.
- But as always, this approach has problems of its own, SO I will attempt to identify and evaluate these problems by analysing the CCI methodology in terms of the Behaviourist and Introspective approaches that it takes in generating knowledge.

SLIDE 7 - BEHAVIOURISM

- The behaviourist (or in a broader sense positivist) is suspicious of any explanation that is grounded in something that cannot be observed, and stresses the importance of measurable or observable variables.
- The measurable or observable variables here are the 5 Questions of the CCI surveys. The CCI hence follows a very behaviourist approach as it collects data in the form of a Survey where-in only the questions asked are focused on and nothing else.
- ✓ The advantage of the behaviourist approach is that it takes a potentially subjective situation, like ones often found in the Human Sciences, and breaks it down into explicitness allowing a stricter more scientific approach.
- × HOWEVER, the issue with Behaviourism is that it effectively tries to eliminate any reference to what MIGHT be the 'purpose' or 'inside meaning' of a persons actions that cant be observed but are obviously significant.
Hence behaviourism only draws conclusions from external factors without including potential 'inside' ones.
This is illustrated with the CCI as its generated 'Confidence index values' are INDUCED from a set of responses from 5 Questions.
Because of this inductive characteristic, there is a significant possibility that the actual causal link might not even lie in the 'realm' of the possible answers from the set of 5 questions.
Hence, as with Behaviourism, arguments by induction such as this are likely to mistake a correlation for a causation.

- ✓ Because of practicality, especially the time scale in which the CCI is required to be published - which is every month -, it is obviously unfeasible for the CCI to include a wider range or more complex questions on their surveys in order to reduce their induction-related drawbacks.
The CCI however, is already a well regarded index, which should reflect on its survey questions abilities to give a well ENOUGH indication to the firms and individuals that use it, and its ability to cover suitable ENOUGH ground that the causal link would likely to lie in the "realm" of the questions they ask.

SLIDE 8 - INTROSPECTION/VERSTEHEN APPROACH (FURSHTEN)

- On the other hand we have the introspective or furschteen approach, which uses the subjects first person reports as evidence in the investigation, directly observing the reasons for the action. It therefore pleases the behaviourist in terms of not strictly limiting the variables and areas of observation, while drastically reducing the the chances that a Causation VS correlation problem will arise.
- A very common example of an introspective approach in the everyday world would be with Surveys, as it directly addresses the subject. Since the CCI uses surveys for 'first person accounts', it does follow in the footsteps of the furshteen approach.

- x An advantage of the furschteen approach is that is far more likely to find a causal link due to its 'direct address'. However, in order to be truly 'FURSCHEEN', the survey should be able to allow the subject to express his or her thoughts, feelings and experiences as freely and openly as they can. Only then can a survey or question enjoy the full advantage of Furshteenism, which is being able to find the causal link with far higher likeliness. In order to achieve this, a very wide and extensive array of questions OR a single wholly open ended question must be asked.
- x However IF the number of questions asked in a survey aren't a very large amount, then the more questions one asks in a survey below a certain "large-number turning point", the further away from ideal "furshteenism" one gets as it implies that each successive question has a specific aim in mind, and asks for a more specific answer. So the more questions that are asked, the more specific and streamlined each question becomes. As this happens, the survey starts to deviate away from pure furshteenism. In order to overcome this issue, a very very extensive range of questions must be asked in order to cover a wide enough ground that the subjects appropriate thoughts, feelings and experiences may be addressed. This would obviously be every impractical in real world scenarios especially those pertaining to the CCI.
- x If not a wide array of questions then a single very open ended question would be required which would have to allow the subject to express his or her thoughts, feelings and experiences as freely and openly as they can. The problem with this is that it is very likely that not all of the survey candidates would be Economists, which would likely result in answers that might not be useful to the researchers. Also, the aim of the research might not even be addressed in the answer, AS the question would have been so open ended that the survey candidate would be free to dabble in whatever they choose. Analysing the answers would also prove more difficult and cumbersome and wouldn't be very practical in real world scenarios where time is limited.
- So, the CCI tries to overcome these problems by using, as previously described, 5 specific questions that are still relatively open ended because of their long answer nature. However these questions are made open ended by pretty much asking "in your opinion", where again, because everyone isn't an economist, accurate answers aren't always guaranteed. On top of that, the honesty of the answer can also be questioned, as there is nothing stopping the subjects from untruthfully answering questions because of embarrassment or whatever other reason that may pertain.

However in the real world researchers wouldn't be so pedantic as to strive towards pure vershteenism, as the 'streamlining' and increased practicality of adding a few questions would still satisfy the level of preciseness that would be demanded of them as they do not need to be pin-point accurate.

SLIDE 9 - CONCLUSION

- Whether or not the conclusions that the Methods of the Human Science's produce are Reliable depends on the situation and the degree of Reliability needed. In the case of Economics as a study, while we would love to have the ability to EXACTLY predict outcomes, from the fact that very few economists have been able to predict recessions in the past for example, we can say that for now, that is not possible.
- Despite this, economic indicators (which are built upon the same premises that underly economics as a subject) are still successfully relied upon to a good extent by many, which substantiates the idea that these indicators are still relied upon due to the fact that they successfully satisfy the level of accuracy/reliability NEEDED from them.
- This ties in well with the idea that at the end of it all, the Consumer confidence index is only evaluated over a barrier of a 5% relative change, and not down to absolute discrete points. It can be therefore said that they do not need to be pin-point accurate but rather "give a sense of direction". In other words, the Human Sciences can be justifiably satisfied with their conclusions interpreted as being just trends.