

Written Re-Exam for the B.Sc. in Economics summer 2015

Philosophy of Science

Final Exam

6. August 2015

(3-hour closed book exam)

Please note that the language used in your exam paper must correspond to the language of the title for which you registered during exam registration. I.e. if you registered for the English title of the course, you must write your exam paper in English. Likewise, if you registered for the Danish title of the course or if you registered for the English title which was followed by “eksamen på dansk” in brackets, you must write your exam paper in Danish.

This exam question consists of 2 pages in total

Please answer the following questions that all refer to the article:

Daniel M. Hausman (1989), Economic Methodology in a Nutshell, Journal of Economic Perspectives, Volume 3, Number 2, Pages 115–127

Question 1:

On page 115 of the article Hausman writes: “For example, few writers on economic methodology recognize that the activities of formulating economic models and investigating their implications are a sort of conceptual exploration.”

Please explain what is meant by “conceptual explorations” and explain why they can be valuable. Furthermore explain and discuss Karl Popper’s likely opinion regarding conceptual explorations?

Tentative answer:

- For points that should be mentioned in this answer see, for example, lecture 2 slides 35 to 34 and the mandatory readings for this lecture.
- ‘Conceptual explorations’ can be valuable as they uncover in how far the predictions of our models, our theoretical results, the explanations that we give for certain social phenomena depend on (i) the specific assumptions that are made in our theories, (ii) the concepts we use etc.
- An example that could be mentioned here is Akerlof’s idea regarding the markets for lemons.
- Akerlof explores the difficulties that arise in market interactions when asymmetric information is introduced.
- Asymmetric information is difficult if not impossible to ‘measure’ and thus to ‘test’ for. Therefore his work should be understood simply as a conceptual exploration answering the theoretical question what would/could happen were we to assume that buyers of used cars have incomplete information regarding the quality of the cars they want to buy.
- Karl Popper would be an opponent of the idea of conceptual explorations. For points that should be included regarding Popper’s ideas and why they imply that he would be in disagreement see lecture 5 slides 1 to 16 and the mandatory reading to this lecture.

Question 2:

On page 118 of the article Hausman mentions Samuelson and writes: “Positivistic recastings of economic theory, such as Samuelson’s (1947) “operationalism” and particularly his revealed preference theory, which appeared to provide a behaviorist reduction of talk about preference and utility to observable claims about actions, were beginning to appear.”

Please explain modern utility / revealed preference theory and define what is meant by rational choice theory. Furthermore, explain what is meant by methodological individualism and how modern preference theory in economics can be seen as a part of this philosophical approach.

Tentative answer:

- For points to include in this answer please see all slides of lecture 10 and the associated mandatory reading.

Question 3:

On page 119 of the article Hausman mentions “surveys”. Please explain the difference between a “survey” and an “experiment”. Furthermore, explain why economists are generally skeptical regarding the value of survey answers in comparison to experimental results.

Tentative answer:

- Surveys are questionnaires in which participants have to answer questions without necessarily proper incentives to answer correctly/precisely
- That is, it is not ensured that participants have the proper incentives to answer the questions with rigor and truthfully
- Experiments circumvent this problem by incentivizing people’s answers and decisions. This not only ensures that people are motivated to answer according to their true preferences but also ensures control.
- Control is an important prerequisite to ensure internal and external validity of the experimental results.
- For more relevant points that should be included on the difference between surveys and experiments and why economists are skeptical about hypothetical survey responses please see lecture 15 (slides 37 to 55) and lecture 16 (slides 1 to 13)

Question 4:

On page 123 of the article Hausman writes “.. such as the relations between micro- and macroeconomics or ...”

In the course we discussed the relation between micro and macro-economics. In particular we tried to answer the question: “Do macro models need micro foundations?”. Please explain what is meant by micro foundations and explain the early attempts to introduce micro foundations into macro models with the help of a representative-agent.

Tentative answer:

- For points that should be included into this answer please see ‘lecture 8’, slides 22-35.