

Suggested answers to Written Exam for the B.Sc. in Economics June 2013 in Philosophy of science

1. Profit maximization is not a concept borrowed from psychology. When economics evolved as a science the idea was that firms, at least in the long run, had to maximize profits if they wanted to avoid losses. This idea does not seem to apply to large modern corporations but managers may have contracts that give them an interest in profit maximization, see lecture 2. There has been opposition to the assumption in e.g. behavioral economics and experimental economics. General alternatives to profit maximization, such as e.g. satisficing or revenue maximization have proved inadequate.
2. Leibenstein certainly questions a central part of economic theory and thus the existing paradigm but he does not really present an alternative. Rather, he demonstrates a number of anomalies, see lecture 6.
3. We are talking about confirming evidence rather than attempts at falsification as Popper requested. One can often find such evidence but the question is if other examples not in favour of the thesis have been overlooked, deliberately or not.
4. If the economy does not show any allocation waste then this could be taken as an economic theory was on the right track and succeeded in providing guidelines for the management of the economy. However, it should be remembered that Harbinger's result is based upon a specific model of the economy. Essentially, it disregards a lot of questions such as the size of the public sector and the corresponding tax burden and the question of unemployment.
5. It is certainly true that most economic theory is based upon profit maximization. It is certainly also true that we may produce formal theory using other assumptions such as e.g. revenue maximization. But we need a formal alternative, but the suggested by e.g. Simon of satisficing without any specification as to when and what will not give us basis for formal theory. And Stigler is right, and in accordance with Kuhn but contrary to Popper, that people do not give up their paradigm unless presented with an alternative.
6. The concept of *tight prior* would seem to fit in nicely to Lakatos' idea about a protective belt. The profit maximization assumption must be upheld at all costs.
7. This amounts to the question as to what will actually persuade you. A number of "imperfections" could be seen as minor deviations from a basically correct theory or as an indication that basic theory is in need of repair.