

YOURS UNCONVENTIONALLY, ECONOMICS

Guest Article

Economics as a Science: The Undergraduate Experience

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Econometrically put, being an undergraduate economics student surely must be associated with an increased likelihood of being grumpy at your subject of study. But we aren't yet sure if the causality stems from the content of the subject itself. Need further research.

And a strange kind of grumpiness at that. Dissatisfaction with studies is usual for students; expected, in fact. But what mysterious and complicated relationship with the subject is this, to hear groans about the reality of the subject matter (including the impossible spiral of the debate over applicability of models), or innocent queries

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³The observations and opinions are based solely on my own experience, hence error in judgment and selectivity bias are quite possible. Any corrections and comments are welcome.

pertaining to its “scope”, or indignant criticism of the “mathematization” of the subject?

It is perhaps that such incisive criticism is more abundant at LUMS, my place of study. It is a place of vibrancy and diversity, and plays host to around 250 courses every semester. The courses offered belong to a wide breadth of fields, that include accounting, finance, management, economics, anthropology, sociology, philosophy, literature, history, psychology, physics, chemistry, mathematics, engineering, and of course, economics – all in the confines of two buildings. The existentialist crisis, incessant comparison of each field, and critical analysis of its techniques is, hence, unsurprising. The pertinence and relevance of the issues mentioned above may vary considerably across individuals or groups, but cannot be ignored altogether.

A Harvard Professor visiting LUMS, broadly and informally ranked the forms of existence for academics, as widely considered in the knowledge circles. Mathematicians hover at the top with surety and abstraction; physicists, holding firmly to the mathematicians and sturdy at their business, follow close behind; and the other natural sciences, members of the same gang but perhaps slightly less cooler, come next. Next on the knowledge ladder is economics, huddled with the social sciences but quite overtly facing math, attempting to attract its attention. Political science, and then the other social sciences such as anthropology and sociology, follow suit.⁴

While surely the categorization is debatable and would be disagreeable for many, important and interesting observations can be drawn out of it. It seems that the ranking parameters are the certainty, verifiability, and predicting power boasted by branch of academics. Again, while

⁴ The rankings are those as described by the professor, the illustrative description are solely the product of author's imagination.

the choice of parameter is debatable, their immense relevance cannot be undermined, given their basis in the concept of scientific methodology, the corner stone of scientific knowledge. It is most interesting that the categorization be used by an economist - a hint towards the aspired course of economics as a discipline.

Having described some symptoms at the start, we now move towards possible explanations. The explanation of the curious case of economics resides in the fact of its inevitable roots as a social science and the simultaneous inroads into quantification of its predictions and techniques. Highly intensive in terms of its use of data and rigorously developed econometric techniques, it is far more quantitative than most social sciences. However, by definition its object of study is human behavior – as individuals and in social institutions such as markets. It is hence an uncomfortable pedestal when economics aims to, or is expected to produce perfect equations and models that predict, or accurately and precisely explain, hardcore results in real life akin to the natural sciences. Its ability to produce predictable results is widely criticized. Let us try to demystify that criticism.

For example, a physicist can tell the speed with which a ball shall hit the ground if he lets it fall from a certain height. Can an economist predict what would happen to the price of chicken if mutton exports got banned? Well he can make a pretty good guess. He now has tools with which, given the exact data, he can set up quantitative estimates about preferred production and consumption behaviors in each market. He will have to assume that those preferences do not change, and that nothing else that affects the markets of chicken and mutton changes, such as incomes and income distributions of consumers and supply side conditions associated with livestock. Given the data and assuming certain conditions, the

economist can make all the required estimates. He would need the data about trade volumes of mutton, demand and supply sizes in each market, consumers' overall demand for meat, and ideally an estimate of the cross elasticity between chicken and mutton (which is assumed constant across all consumers). He would then, yes, be able to tell you the new price of chicken as a result of that simple policy of export ban.

Too simplistic? Unrealistic assumptions? Useless result, since the conditions are highly unlikely to hold in real life? Right. And Wrong. Well, think again. *It is not the fault of the economist that his object of study is a part of an extremely dynamic system of forces!* The falling of a ball is not synonymously simplistic vis-à-vis the ban on mutton exports, because the motion of the ball is governed primarily by the forces of gravity and air resistance, or perhaps some other that I may be unaware of. What if the world were so that the falling ball was likely to come across a whirlpool, or to be struck by a tennis racket, or to be faced by the possibility of alterations to its shape on its merry way down to the earth -or maybe all of these? The predictive power would come under serious challenge – similar challenges faced by economist when they go about their business. Similar assumptions would then be required. Or, if the exact dynamics of these multiple forces were made known, complex calculations could actually solve the whole problem. But that holds true for the economic forces as well.

It is now that we try to decompose and discover the underpinning source of alleged failure of economics to concretely predict or explain many phenomena with the certainty of natural sciences. It lies firstly in the subjectivity of human nature – whereas the entire premise of natural sciences is to discover the objective patterns and rules that govern the physical functioning of universe. It lies, secondly, in the extremely intricate and highly conditional dynamics that contribute to our output variable

of interest. These considerations do not occur naturally to undergraduate students – frustration at economics does, which is largely a result of the way they are taught and evaluated in economics.

Perhaps for some readers, this article has raised more questions than provided answers. Indeed, it has touched upon just one aspect of only *one* of the many questions and criticism one popularly hears regarding economics. Much can be talked about the techniques and tools of economics, the large involvement of mathematics, and the issue of teaching methods in economics. It is hoped that more discussions on such issues would not only attract a larger and better student body towards the subject, but also encourage ownership, association and earnest perusal in current students of economics.

Overvaluing What We Own!

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Economics traditionally identifies the world as inhabited by cunning, dispassionate maximizers that have been called Homo economicus. The standard economic framework, that people were so used to, never took into account the studies concerning behavior by cognitive and social psychologists. This “un behavioral” economic agent was fortified by many, sometimes claiming the model to be just “right” or sometimes arguing that the model formalized was more appropriate. Behavioral

economists, who integrated study of human behavior while studying their economic interactions, arrived at the fact that neither point of view was correct.

Behavioral economists try and find out cases where they can show how irrational human behavior can be. One such example is that, when we own something, we value it more. In a simple experiment on exchange of two goods (candy & coffee mug), Jack Knetsch in his research found that preferences were not independent of the direction of the exchanges, as is commonly assumed. Rather they exhibited asymmetry; he called “A case of Non-reversible indifference curves”, where participants favored to keep their initial entitlements, whatever it be.

So Dan Ariely, a well-known behavioral economist, decided to find out the truth. He takes the example of Duke & says that life there revolves around basket-ball. The colors, the festivities, the rituals, everything is centered on basketball, and it’s pretty splendid too. However, there is a whole convention about which student gets to see the match and which doesn’t. So, it’s not just about the desire and passion, it’s also about stamina, persistence and spirit. Now what’s fascinating there is that since the basket ball stadium is undersized, it does not have enough seats to accommodate all fans. And sometimes, for national titles, even footing in line for a few days, camping outside the arena and all is just not enough because the tickets are distributed through a lottery process and when it gets over, some would own tickets, while some won’t.

Because a research by Jack Knetsch & Dick Thaler on the “endowment effect,” concludes