

## The epistemic goal of economics



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The title of Adam Smith's 1776 treatise contains  
epistemic goals of economics:

*An Inquiry into the Nature and Causes of the Wealth of Nations*

And David Ricardo supplemented:

*„...To clarify the laws which regulate this distribution, (of the  
wealth; V.C.) is the principal problem of Political Economy.“*

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I distinguish three types of questions:

1. „What“ is ....
  - the GDP, inflation, unemployment,....?
2. „Why“ is/are/does ....
  - do the growth rates of GDP differ between different countries?
  - an oligopolistic market lead to an inefficient allocation of resources?
3. „How“ can, how should ....
  - How can we reduce unemployment, inflation,....
  - Should we foster competition???

## Methods to assess the validity of an argument



- What – questions
  - Usefulness of definitions, appropriateness,
  - Accounting methods, statistical measurement (description)
- Why – questions
  - Explanatory hypotheses are derived from economic theory and then tested by econometric methods
- How – questions
  - Clarifying the ends – designing the instruments
  - Simulation of the outcomes produced by different instruments
  - Assessment of the instruments and outcomes

## Legal rules and institutions



- Legal framework (and habit and custom) fostering economic processes
  - E.g. the legal framework which protects exchange, borrowing and lending, etc.
  
- Legal framework constraining economic processes
  - E.g. antitrust laws leading to more competition
  
- Legal framework restricting economic processes
  - Efficiency (economics) versus justice (law); e.g. unisex tariffs, European Court, March 2011.

## The „export potential“ of economics?



- Not so bad, look at the „more economic approach“ of the EU antitrust commission.
  
- A sad example was the deregulation of the electricity producing sector in Germany (EnGW) which has led to an oligopolistic market (4 firms own the complete network)
  
- So it depends....
  - On the interests of the different groups within a market
  - On the basic knowledge about economics
  - On ideological prejudices concerning economics