

MGT 104

Micro Economics



POSITIVE vs NORMATIVE ECONOMICS

Basiss	<u>Positive Economics</u>	<u>Normative Economics</u>
Meaning	Based on actual data, facts, and numbers.	Based on opinion & value of the interpreter.
Verification	Results can be verified.	Verification isn't possible.
Application	Safe & beyond doubt & can be proved scientifically.	No way to test feasibility & applicability in various field
Scope of result	Results & statements are descriptive & objective.	Results & statements are prescriptive & subjective.
Approach to problems	Doesn't intend to solve any problems of economy.	It strives to find solutions to problems.

Positive Economics

Examples

#1 - The law of demand – “If other factors remain constant, if price rises, demand declines; and if price decreases, demand inclines.”



#2 - Income isn't equal in all countries



#3 - When Government levies more taxes on tobacco, people started smoking less.



WallStreetMojo

Normative Economics

Example

Workers' wages is \$5 per hour



Positive Economics

If workers' wages should be more than \$10 per hour



Normative Economics

Positive Economics

"There should be no homeless, poor people or sick people in our country. The privileged rich ought to care more about the poor. It is wrong to drive around so selfishly in our fancy cars."

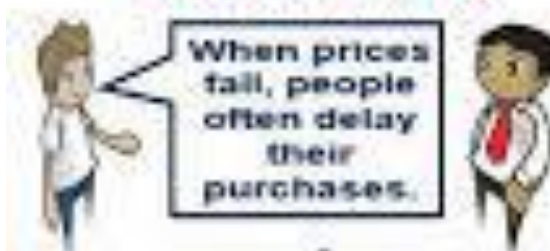


"If we raise taxes on the rich, the increased revenue for the government is no enough to pay for services. We need to tax everybody more, otherwise the government will run out of money."

Normative Economics

Positive

is, was, will be



**Can be
proved**

*Connects cause
& effects*

Descriptive

Based on facts

Tells you what is

Objective

Normative

ought to, should



**Cannot be
proved**

Makes recommendations

Not based on facts

*Tells you should be/have
been*

Prescriptive

Subjective

Positive vs. Normative Economics

- ❑ **Positive economics** is the branch of economic analysis that describes the way the economy actually works.
 - ❑ Statement of fact
 - ❑ 'what is'

- ❑ **Normative economics** makes prescriptions about the way the economy *should* work.
 - ❑ Statement of opinion
 - ❑ 'what ought to be'

- ❑ A **forecast** is a simple prediction of the future.