

**MGT 104**

**Microeconomics**



## 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.



# 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."

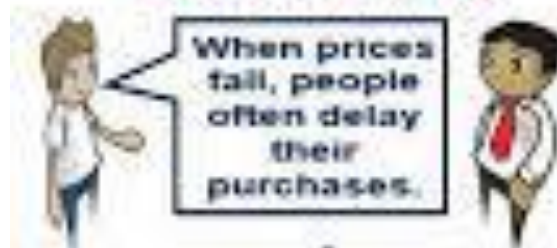
# Normative Economics

# Positive

# Normative

*is, was, will be*

*ought to, should*



**Can be  
proved**

**Cannot be  
proved**

Connects cause  
& effects

Makes recommendations

Descriptive

Not based on facts

Based on facts

Tells you should be/have  
been

Tells you what is

Prescriptive

Objective

Subjective

# Positive vs. Normative Economics

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- ❑ **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.

# Economic Law

Economic law is a set of legal rules for regulating economic activity.

Economics can be defined as "a social science concerned with the production, distribution, and consumption of goods and services.

# Economic Law

Economic laws are nothing more than careful conclusions and inferences drawn with the help of reasoning or by the aid of observation of human and physical nature.

In everyday life, we see that human being is always busy satisfying his unlimited wants with limited means. In doing so, it acts upon certain principles.

# Economic Law

“Economic laws, or statements of economic tendencies, are those social laws, which relate to those branches of conduct in which the strength of the motives chiefly concerned can be measured by money price.”

**Marshall**

# Economic Law

**“Economic laws are statements of uniformities about human behavior concerning the disposal of scarce means with alternative uses for the achievement of ends that are unlimited.”**

**Robbins**

# Features of Economic Law

## ❑ Are not Commands:

Economic laws are not orders of the state (government) and do not command. They formulate based on people's behavior in the real world.

## ❑ Are not Exact:

Since economic laws deal with the actions of human beings having free will. They are not as exact as the laws of the natural sciences. They are statements that are true only in general.

# Features of Economic Law

## □ Statements of Cause and Effect:

Economic laws, like scientific laws, are statements of cause and effect. They attempt to state the effects that will follow from particular causes. Unfortunately, in economic affairs, many factors operate simultaneously.

And it is impossible to isolate each factor to find out its effects separately. The qualifying clause “other things remaining the same” (*ceteris paribus*), uses to get over this difficulty. But in economic life, other things generally do not remain the same. Hence, economic laws are never exact enough to enable accurate predictions or prophecies existing made.

# Features of Economic Law

## □ Hypothetical:

Economic laws are hypothetical Economic laws are also hypothetical, i.e. They are conclusions drawn from certain assumptions or hypotheses.

But in this, economic laws do not differ from other scientific laws. The laws of science also start from certain hypotheses and deduce certain consequences.

# Features of Economic Law

## □ Predictions are Difficult:

As regards making predictions the following example may note. The simple and exact laws of gravitation enable astronomers to make accurate forecasts.

But in the case of tides, the level of water depends on so many factors (e.g., the strength of the attracting force, geographical features of the country, etc.) that it is impossible to forecast the level accurately.

Marshall, therefore, says, "The laws of economics are to compare with the laws of tides rather than with the simple and exact laws of gravitation".

# Features of Economic Law

**There are the Same Physical Laws:**

**Some laws dealt with in books of economics deal with inanimate nature, e.g., the Law of Diminishing Returns. These laws borrow from other sciences.**

# Nature of Economic Law

The nature of economic laws is that they are less exact as compared to the laws of natural sciences like Physics, Chemistry, Astronomy, etc.

An economist cannot predict with surety what will happen in the future in the economic domain. He can only say what is likely to happen shortly. The reasons why economic laws are not as exact as that of natural sciences are as follows:

# Nature of Economic Law

## □ First

Natural sciences deal with the lifeless matter. While economics, we are concerned with the man who endows with the freedom of or may act in whatever manner he likes.

Nobody can predict with certainty his future actions. This element of uncertainty in human behavior results in making the laws of economics less exact than the laws of natural sciences.

# Nature of Economic Law

## Secondly

In economics, it is very difficult to collect factual data on which economic laws are to be based. Even if the data stands collected it may change at any moment due to sudden changes in the tastes of the people or their attitudes.

# Nature of Economic Law

## Thirdly

Many unknown factors affect the expected course of action and thus can easily falsify economic predictions. Dr. Marshall has devoted one chapter in his famous book "Principles of Economics" to discussing the nature of economic laws. He writes, that laws of economics are to compare with the laws of tides rather than with the simple and exact law of gravitation.

# Nature of Economic Law

The reason for comparing the laws of economics with the laws of tides by Marshall is that the laws of tides are also not exact. The rise of tides cannot be accurately predicted.

It can only say that the tide expects to rise at a certain time. It may or may not rise. Strong wind may change its direction to the opposite side. Instead of rising may fall. So is the case with the laws of economics.