








AQA Economics A-level **Microeconomics**




Topic 1: Economic Methodology and the Economic Problem


1.1 Economic methodology


Notes

-  Economists need to make assumptions. A key assumption that is made is assuming that events occur with *ceteris paribus*. This assumption is that other things are being held equal or constant, so nothing else changes.
-  Economists cannot conduct scientific experiments, like in the natural sciences, so models are devised. Economists then use real-life scenarios to build these models upon, and assumptions are made with the models.
-  It is important to be able to distinguish between fact and fiction in current affairs.

-  Positive statements are **objective**. They can be tested with factual evidence, and can consequently be rejected or accepted.
-  Look for words such as 'will', 'is'.
-  For example, "Raising the tax on alcohol will lead to a fall in the demand of alcohol and a fall in the profits of pub landlords" is a positive statement. "Higher temperatures will lead to an increase in the demand for sun cream" is also a positive statement.
-  The key thing here is that these statements can be tested, the results can be examined and the statement can then be rejected or accepted.

-  Normative statements are based on **value judgements**. These are subjective and based on opinion rather than factual evidence.
-  Look for words such as 'should', and if the statement is suggesting one action is more credible than another.
-  For example, "The free market is the best way to allocate resources" is a normative statement, because it is based on opinion and suggests one method of resource allocation is better than another. "The government should increase the tax on alcohol" is another normative statement.

-  Value judgements can influence economic decision making and policy. Different economists may make different judgements from the same statistic. For example, the rate of inflation can give rise to different conclusions.

-  People's views concerning the best option are influenced by the positive consequences of different decisions and by moral and political judgements.