

## **Methods of Economics | Methodology of Economics**

Economics employs various methods to understand and analyze economic phenomena. These methods provide economists with tools to study complex economic systems, make predictions, and formulate policies. In this article, we will explore the two key methods of economics in detail.

### **Methodology | Methods of Economics**

Economists have adopted two methods of investigation. Regardless of, whether they are natural or social. They are known as the deductive and inductive methods. Let's discuss these methods or methodology of economics in detail.

#### **1. Deductive Method of Economics**

Deductive comes from the word deduce, which means to infer by logical reasoning or in other words to conclude from known facts or general principles.

This method is also known as an analytical Abstract or a Prior method. According to deductive method, we start from general observations and end up at particular generalizations.

For example, the general, indisputable facts of human nature are that people buy more of a commodity from the market which sells at a lower price and sellers increase the supply of a commodity at a higher price.

These facts have led to particular inferences called laws of demand and supply. This method of investigation has been used by those who believe that free man is motivated by self-interest.

They are well reputed classical economists e.g. J.S. MILL, David Ricardo and Senior etc.

In brief, according to deductive method, we make use of indisputable facts of human nature and draw concrete inferences called Economic laws.

In order to use this method of Investigation, the following steps are taken.

- Selection of general indisputable facts of life
- To draw concrete inferences
- Testing the validity of the inferences
- To develop co-relationship between the facts and the inferences

Whereas the derivation of inferences from general truth is concerned, this method is the best. It is simple, precise and effective.

It saves a lot of time and therefore it can be considered Economical in one way or the other. However, it has its demerits too. This method is known as the abstract method. The word abstract means

- Existing only in concept and not in reality
- Concerned with or restricted to theories.

This means that the Method is concerned only with concept and theories based on certain assumptions which may not take place in reality.

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And even if they take place, in reality, they would possibly be obscure. We are now heading towards 21st century and to meet the Challenge of the century, the reality is far more important than assumptions and theories.

Hence, this method could be misleading. Moreover, the facts on the basis of inferences are drawn may be wholly or practically untrue. Who knows!!!

## 2. Inductive Method of Economics

As the deductive method leads to many false conclusions due to reliance on the imperfect and incorrect assumptions, this led' to the rise of a new method of an investigation known as the inductive method.

This was introduced by a famous Historical school of thought represented by economists like Roscher, Hildebrand and Frederick list.

The inductive or the realistic is just the opposite of the deductive method. According to this method, we move from particular facts to general principles as opposed to the where we move from general observation to particular conclusion /inferences.

Thus, according to this method of investigation, first of all, we collect facts figures of particular nature and then generalize the research finding.

For example, we collect samples of the prices and supplies of different commodities at different time periods.

We find that when the prices of cloth, meat and toothpaste etc increase sellers increase the supply of these products and vice-versa.

By the analysis of the correlation between the price and the supply of these

Commodities a conclusion is drawn and generalized. The generalization is that there is always a positive correlation between the price and the supply of a commodity, all other things being equal.

This is commonly known as the **law of supply** which is drawn through the inductive method. To apply this method of generalization an Economic investigator is required to take up the following steps.

1. Collection of facts and figures of a particular nature
2. Analysis of the facts and figures
3. To come up with some research findings
4. Generalization of the findings

The exponents of the inductive method says that the Economic phenomena are very complex and hence cannot be left to deductive or abstract reasoning.

They consider the inductive method more reliable because it is based on actual facts and figures and not on assumptions.

Moreover, they argue that the inductive method is useful for making Economic policies for a country in a particular situation as figures definitely lead to the right direction. But a question arises, how reliable are the facts that have been observed?

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The facts may be insufficient to make an actual conclusion or it is possible that the Economic investigation may have gone out of touch with some of the facts.

Besides these, figures may have a limited application in a science which deals with human beings and their Economic activities.

**Conclusion**

Each of these methods contributes to the diverse toolkit that economists employ to study and analyze economic phenomena. The choice of method depends on the research question, the availability of data, and the complexity of the economic issue at hand. By combining various methods, economists gain valuable insights into economic behavior, policy evaluation, and forecasting.

Modern economists hold that theories with facts carry no meaning while facts without theories don't yield any concrete results. Hence, it is imperative to correlate theories with facts for investigation.

This can be using both the inductive and deductive methods simultaneously because these methods at the cost of the other would, therefore, be misleading.

Professor Marshall says, "Induction and deduction are both needed for scientific thought as the right and left feet are both needed for walking."