PHILOSOPHY OF ECONOMICS

Matthias Brinkmann
matthias.brinkmann@philosophy.ox.ac.uk

Structure

	Historical Views
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Today's Lecture

1. Ceteris Paribus Laws
2. CP Laws in Economics
3. Experiments
4. Concluding Remarks

CETERIS PARIBUS LAWS

Ceteris Paribus Laws

1. Introduction
2. Distinctions
3. Implications
4. The Vector Case

Introduction

- Why are laws important?
  - Laws seem central to scientific explanation
  - Laws might “carve nature at its joints”
  - All the “hard” sciences seem to focus around laws
- Ceteris Paribus Laws
  - One kind of law
  - Many laws, esp. those in economics, are guarded by ceteris paribus clauses
- Some Questions
  - What kind of laws are CP laws?
  - Can CP laws explain? (how?)

Ceteris Paribus Laws

"Ceteris paribus" = "other things being equal"

- "Ceteris paribus, agents prefer a larger bundle of goods over a smaller bundle of goods"
- "Ceteris paribus, an increase in the quantity of money will lead to inflation"
- "Ceteris paribus, two competitors competing in some product or geographical space will move towards each other"

CP laws are laws, not merely accidental generalisations

- Ceteris paribus, Germans aren't funny

Ceteris Paribus Laws

1. Introduction
2. **Distinctions**
3. Implications
4. The Vector Case

Comparative versus Exclusive (SEP)

- **Comparative CP-laws** require that factors not mentioned in the antecedent or the consequent of the law remain unchanged. ("other things being equal")
  - Ceteris paribus, an increase of the blood alcohol level of a driver leads to an increased probability of a car accident.
- **Exclusive CP-laws** assert that a one factor causes another, provided disturbing factors or influences are absent. ("disturbing factors being absent")
  - Ceteris paribus, planets have elliptical orbits.
- CP laws might be both; indeed, in economics, we should expect them to be both
  - Ceteris paribus, an increase of demand leads to an increase of prices.

Definite versus Indefinite (SEP)

- In **Definite CP-laws** there is a specified (or specifiable) list of the disturbing factors
  - If A, B, C factors remain equal, and D, E, F are absent, then G will lead to an increase in H ... = Ceteris paribus, G will lead to an increase in H
- For **Indefinite CP-laws** there is no such list

- Definite CP-laws are a form of lazily stating something we know
- Economic CP-laws tend to be indefinite, though there might be some implicit laziness

CP laws in Economics

"Ceteris paribus, rising prices lower demand"

might be a lazy formulation of

"If (1) preferences remain unchanged, (2) prices of substitutes and other goods remain unchanged, and (3) the budgets of consumers remain unchanged, then rising prices lower demand"

but usually, CP-laws in economics tend to be open-ended

"Ceteris paribus, two competitors will move towards each other in a product or geographical space" (Hotelling's Law)

is a lazy formulation of ... ?

Ceteris Paribus Laws

1. Introduction
2. Distinctions
3. **Implications**
4. The Vector Case

CP-laws are everywhere

- **Cartwright**: All laws in physics are implicitly restricted by CP clauses
- There are no universal laws which cover everything
- CP laws reveal causal capacities

J. S. Mill

[…] in any tolerably advanced science there is properly no such thing as an exception. What is thought to be an exception to a principle is always some other and distinct principle cutting into the former: some other force which impinges against the first force, and deflects it from its direction. There are not a *law* and an *exception* to that law—the law acting in ninety-nine cases, and the exception in one. […] Thus if it were stated to be a law of nature, that all heavy bodies fall to the ground, it would probably be said that the resistance of the atmosphere, which prevents a balloon from falling, constitutes the balloon as an exception to that pretended law of nature. But the real law is that all heavy bodies *tend* to fall […].

Falsificationist Challenge

1. Ceteris paribus, X causes Y (indefinite CP clause: we do not know what in principle goes into the CP)
2. We observe X
3. We observe the opposite of Y
4. But that does not contradict our law—not all things were equal!

Falsificationist Worry: the CP law is unfalsifiable or trivial (sometimes X causes Y, sometimes it doesn't)

Upshot: we need some principled way to decide when the CP clause applies

Ceteris Paribus Laws

1. Introduction
2. Distinctions
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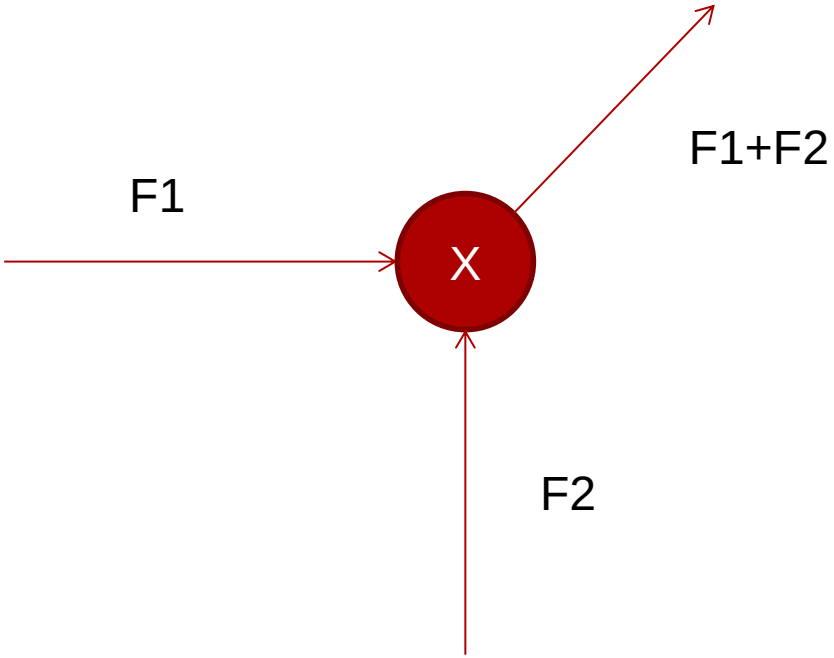
4. **The Vector Case**

The Vector Case

"Ceteris paribus, F1 pushes X towards the east"



Interactions

In the Vector Case,

1. each causal factor is **independent**. F1 has the same effect on X no matter what and how many other forces are at work
2. each causal factor is **homogenous**. F1 and F2 can be understood in the same way—differences are merely quantitative
3. each causal factor is **actually causally effective**. Each force is exerting energy on X.
4. there are **known laws of composition/interaction**. We know how changes in other factors will change the overall effect on X

Reasons for Optimism

- The Vector Case is the “best case” for a CP explanation
- The Vector Case promises to overcome the falsificationist and explanatory challenges against CP laws
- Question: are CP explanations in economics similar to this ideal case?

CP LAWS IN ECONOMICS

Mäki: Models as Isolation

- One interpretation of the Vector Case: we identify a true causal mechanisms (a “tendency”, a “capacity”)
- “In an isolation, something ... is ‘sealed off’ from the involvement or influence of everything else, a set Y of entities [...]” (p. 321)
- We achieve isolation by idealisation
  - Just as real experiments isolate one causal factor, so thought experiments isolate one causal mechanism
  - This is common in the natural sciences

Reiss's Trilemma (again)

1. Economic models are false

   No: while economic models contain false assumptions, they identify (isolate) true causal mechanisms which operate in reality

2. Economic models are explanatory
3. Only true accounts can explain

Problems

Hotelling's Law: Ceteris Paribus, two competitors competing in a product or geographical space will move towards each other.

Some Assumptions:

- Individuals move on a one-dimensional line
- Individuals have perfect information
- Individuals are utility-maximizers

- Do these assumptions really isolate?
- Do they work at all like in the Vector Case?

EXPERIMENTS IN ECONOMICS

Types of Experiments

- Lab experiments
  - e.g., in behavioural economics
- Field experiments
- Natural experiments and Instrumental Variables (IV)
  - e.g., Acemoglu et al., “The Colonial Origins of Comparative Development”

LOOKING BACK

Overview

History of Philosophy of Economics

Popper
Falsificationism

severe testing

Friedman
Instrumentalism

instrumentalism vs realism

unrealistic assumptions

Lakatos
Research Programmes

Contemporary Issues

Reiss
Explanatory Trilemma

(DN model of) Explanation

Sugden
Credible Worlds

Economics as a giant Sudoku puzzle

Mäki/Cartwright
Models as Isolations

CP phrases

Experiments

Topics

Laws | Models | Explanation | Aims of Science

Some Concluding Remarks

1. Questions I Did Not Tackle

- Value-Neutrality of Economics
- Economics as a *Social* Science
- Methodological Individualism
- Nature of Utility
- ...

Some Concluding Remarks

2. Different Foci

- Economics as a Unitary Discipline vs Economics as Various Separate Endeavours vs Individual Approaches and Papers
- We can criticise (or praise) economics on these different levels
- Philosophers tend to go for (global) criticism
  - because it‘s more interesting
  - because it requires less specific knowledge
- But the levels are independent to a degree

Some Concluding Remarks

3. Philosophy vs Practice

- The General Problem: what we do seems philosophically problematic (or at least unexplained), but we do it nonetheless
- Two (Extreme) Strategies
  - *Listen to the Philosophers* Strategy: philosophical worries express difficult problems for economics, and should be given priority attention
  - *Trust the Practicioners* Strategy: philosophical worries are interesting, but economists usually know what they‘re doing

Thanks!