Philosophy of Economics – Overview

	Title	Topics	Area of Economics	Example
1	Explaining through Models	Falsification, Instrumentalism vs Realism, Models & Unrealistic Assumptions, Explanation	Microeconomics	Hotelling
2	Macroeconomics and Crisis	Scientific Programmes, Auxiliary Assumptions, Paradigms & Revolutions, Financial Crisis	Macroeconomics	Friedman
3	Economics in Practice	Causation, Capacities, Ceteris Paribus, Instrumental Variables, Experiments	Empirical Economics Experimental Economics	Acemoglu et al.
4	Rational and Animal Spirits	Rationality, Irrationality, Nudging	Decision/Game Theory Behavioural Economics	Harsanyi
5	Individual and Common Good	Fact-Value Distinction, Utility, Preferences, Welfare, Happiness, GDP and Alternatives	Welfare Economics	Easterlin

8 Take-Aways

1. *The different areas of economics, and the methods different economists use, are diverse*. Hotelling's unrealistic model building, Friedman's macroeconomic predictions, Acemoglu et al.'s instrumental variables, the experimental approach of behavioural economics, Harsanyi's theory of rationality, Easterlin's approach to happiness.
2. *There isn't one philosophical model of science*. Popper vs Putnam, instrumentalism vs realism, Lakatos' gradual progress vs Kuhn's revolutions, Cartwright's causal capacities vs universal laws of nature.
3. *Because of (1) and (2), there isn't a general case for or against economics.* Don't trust people who criticise (or praise) economics in general, without delving into the details of specific areas or theories.
4. *Economists rarely reflect philosophically on the methods they use*. And when they do, their philosophical views tend to be relatively crude or out-of-date.
5. *Philosophical assumptions of economists have real-world implications*. E.g., the assumption that DSGE models represent best methodology, the assumption that welfare consists in preference-satisfaction, or the use of behavioural economics for nudging.
6. *Philosophy can learn from economics*. Philosophers tend to think from the armchair, ignoring important practical questions (e.g., how can welfare be practically measured?). Economics also offers formal, more precise ways to think about certain ideas (e.g., rationality).
7. *Philosophical critique of economics doesn't mean that economics doesn't work*. Something might work, even if we do not fully understand why it works. Get used to the idea of "science without foundations".
8. *Many areas of economics rely on implicit philosophical and moral premises*. The simplistic idea that economics "merely deals with facts" cannot be upheld.

Week-by-Week Summary

1 Explaining through Models	
2	Hotelling: Spatial Market Model. *A simple model predicts that competitors in a two-dimensional space move towards each other.*
3	Popper: Falsificationism. *Science is distinguished from pseudo-science by its falsifiable predictions, and should be focussed on severe testing of these predictions.*
4	Putnam: Troubles for Falsificationism. *Against falsificationism, no scientific theory is testable by itself, as we can only test theories together with auxiliary hypotheses.*
5	Friedman: Instrumentalism. *The most important feature of an economic model is its predictive power, not the realism of its assumptions.*
6	Musgrave: Types of Unrealistic Assumptions. *Friedman improperly mixes up three types of unrealistic assumptions: negligibility, domain, and heuristic.*
7	Reiss: Explanation Paradox. *The following three claims form a paradox: Economic models are false, economic models explain, and explanation requires truth.*
2 Macroeconomics and Crisis	
8	Lakatos: Research Programmes. *Instead of single theories, we should focus on changes in research programmes which consist of a hard core and a protective belt.*
9	Friedman: Against Phillips Curve. *There is no long-run exploitable relationship between inflation and unemployment, because people adjust their expectations.*
10	Kuhn: Paradigms and Scientific Revolutions. *Science does not progress in a neat, linear way, but through violent revolutions between incommensurable paradigms.*
11	Korinek: DSGE models. *Highly mathematical DSGE models dominate contemporary macroeconomics, but the discipline needs more diverse methods to progress.*
12	Various Authors: Financial Crisis. *Some partially blame economists for the financial crisis, because they failed to disclose shortcomings of their models; others reply that the problem was in economic engineering, not economic theory.*
3 Economics in Practice	
13	Reiss: Causation. *There are five main philosophical approaches to causality: regularity, probability, process, counterfactual, and interventionist. Each of them runs into counterexamples.*
14	Acemoglu et al.: Comparative Development & Instrumental Variables. *We can use settler mortality as an instrumental variable for the quality of political institutions. We can then see that good political institutions cause economic growth.*
15	Cartwright: Causal Capacities. *There are no universal laws of nature. Scientists investigate the causal capacities of particular entities.*
16	Smith: Experiments. *In a public goods classroom experiment, more public goods are contributed than economic theory suggests, although contribution decays over time.*
17	Guala: Economic Engineering. *The FCC auctions are a success story for economics, but their design wasn't a straight application of economic theory.*
4 Rational and Animal Spirits	
18	Harsanyi: Rationality. *Rational choice theory is a formal, mathematical theory that models the most rational means to people's chosen ends, subject to consistency axioms. Utility represents preferences under these assumptions.*
19	Thaler: Behavioural Economics. *People's actual behaviour deviates from the predictions of rational choice theory in a wide variety of ways.*
20	Sunstein/Thaler: Nudging. *If we design choice architecture cleverly, we can "nudge" people in the right direction without diminishing their autonomy.*
5 Individual and Common Good	
21	Hausman/McPherson: Values in Economics. *There are various implicit value assumptions that enter into the judgments of mainstream economists.*
22	Angner: Welfare in Economics. *There are three theories of welfare (mental-state, preference, objective-list) which correspond to three areas of economics.*
23	Welfare Cases. *Each major theory of welfare suffers from various problems (e.g., the experience machine for hedonism, adaptive preferences for the preference theory, the problem of disengagement for the objective list theory).*
24	Nussbaum: Adaptive Preferences. *Preference theorists who try to deal with adaptive preferences smuggle in objectivist assumptions about welfare.*
25	Easterlin: Happiness vs Growth. *It seems that, beyond a certain threshold, higher average income does not raise average happiness.*
26	Various Authors: Criticism of GDP. *Various extensions of, and alternatives to, GDP have been proposed, but none measures everything we want.*
27	Debate: Market-value vs social vs happiness indicators