

Unit 1: Introduction to Economics

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Assessment Objectives

SL/HL Content: Learning Objectives	
AO2	distinguish between positive and normative economics
AO2	explain the use of logic, hypotheses, models and theories in positive economics
AO2	Explain the role of the ceteris paribus assumption
AO2	Explain the roles of empirical evidence and refutation in positive economics
AO2	Explain the role of value judgements in policy-making in normative economics
AO2	Distinguish between equity and equality

Positive versus normative economics

Question: Imagine that you are an economic advisor to the Premier of Ontario. What kinds of questions might the Premier ask you to answer?

- **Question 1:** How much would the revenue of Harmonized Sales Tax (HST) increase if the tax were raised by 1%?
- **Question 2:** Should the government increase the tax?

There is a difference between the above two questions.

- The first question is about facts and can be validated by analysing the data.
- The second question is a matter of opinion. Two people who agree on the effects of higher HST could still disagree about whether raising the tax is a good idea.

The above example highlights a key distinction between two roles of economic analysis.

Positive versus normative economics

Positive economics is the body of economics based on positive statements, which are about things that are, were or will be.

- Positive statements may be true or false and can be verified by observation.
- Positive statements form the basis of theories and models that try to explain economic events.
- **Example(s):** The current unemployment rate in Canada is 5.6%.

Normative economics is the body of economics based on normative statements, which involve beliefs, or value judgements about what ought to be.

- Normative statements cannot be true or false; they can only be assessed relative to beliefs and value judgements.
- Normative economics forms the basis of economic policies.
- **Example(s):** We should raise the minimum wage in Ontario.

Test your understanding

Question: Classify the following statements as normative statements or positive statements.

1. Economics is a Social Sciences discipline.
2. Provinces to the east of Quebec have lower provincial income tax rates than those to the west of Quebec.
3. The federal government should be made to balance its budget.
4. The inflation rate in Canada is 2%.
5. If the interest rate goes up, history has shown it is likely that the value of the Canadian dollar will increase.