

# [Location of economic activity](https://assignbuster.com/location-of-economic-activity/)

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2004: Finn E. Kydland and Edward C. Prescott: They received the Noble Prize for their research on the effects of business cycles on international trade. They examined the driving forces behind business cycles and analyzed the temporal consistency of economic policy   
Area: Macroeconomics   
1998: Amartya Sen: Prof. Amartya Sen received the Noble prize for his work on welfare economics in case of famine, and suggestions to prevent it. His work focused on the human development theory, the underlying mechanism of poverty, and political liberalism.   
Area: Macroeconomics   
The Oxford English dictionary defines theory as “ an idea or set of ideas that is intended to explain something” (“ Theory”). Formulation of a theory is a step-by-step scientific process, starting from opinion to stating the final theory.   
The interest created by this observation then leads to the formulation of an opinion regarding the process. This opinion is based on the available information regarding the same process, and the researcher’s beliefs. These opinions are also a reflection of the researcher’s expectations regarding the outcome of the inquiry.   
These opinions and observations then lead to the formulation of hypotheses. The hypothesis is a possible theoretical explanation of the observation made by a researcher to fill the gaps in the research previously done on the subject matter. This is followed by the collection and classification of the data.   
Data collection is followed by the formulation of invariance hypotheses and theory hypotheses. The invariance hypotheses serve as the starting point for the logical deduction of the facts that are to be found. The later is useful in deducing tenable invariances.   
The hypotheses are tested to be true or false by the method of experimentation. This is done by confronting the hypotheses with the data. These experiments need to be reproducible or under the use of certain control environments. If the hypotheses fail in explaining the process with the available data, it is discarded or at least modified. When a sufficient number of experiments support the original hypotheses, it becomes a theory. This theory is then held to be a true explanation of the observation until it is proved wrong by some experiments.