

# Normative and positive economics economics essay



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Neoclassic economics is an economic approach that focuses on determining revenue distributions, output, and prices in a market through the principles of supply and demand. The supply and demand capability of the market is mediated through a theorized maximization of utility by individuals who face economic difficulties, such as a constrain in their revenue base, and companies whose production costs are high, and therefore affects their productivity. In making their decisions, these individuals and companies use information available in the public, and factors that affect the production of goods and services through the application of the rationale choice theory. Neo Classical economics is an aspect of normative economics, because it gives out judgments based on economic viability and values (Parkin, 26).

Normative statements usually arouse arguments because it is always difficult to prove them. An example of a normative statement is; Government should increase taxes to all non-essential commodities. This statement emanates from the opinion of economists in regard to the role of government in the regulation of business activities. Behavioral economics on the other hand is an economic approach that analyzes the economic decisions of people and organizations by studying how their emotional, social and cognitive factors influence them. The main concerns of this type of economics are how resources are shared within a given market, the likely percentage of returns in investments, and the prices of goods in a market (Mosini, 28).

This branch uses the neoclassical approach of economics and psychological behavior of human beings to build upon its main tenets. Behavioral economics has three main thematic connotations, namely market inefficiencies, framing and heuristics. By analyzing market in-inefficiencies,  
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economists study the policies on non-rational decisional making, and the price mechanism operating in the market. Heuristics concerns itself with how people make decisions, and its main focus is through the use of rule of thumb, instead of rational decision making (Parkin, 43). Framing concerns itself with the emotional aspect of individuals, and how stereotyping affects these emotions, contributing to their behavior in the market place.

Behavioral economics is an aspect of positive economics, and this is because positivists analyze an economic situation, by studying the emotional, cognitive and social behavior of an individual or organization (Mosini, 17). These are attributes of behavioral economics.

The positivists analyze the causes of a specific economic phenomenon, and its effect in relation to the behavior of people and organizations in a specific market. For example, positive economics would describe the effects of a shortage in coffee production in a market. It will analyze the behavior of people in a market because of limited supply of coffee (Parkin, 51). On this note therefore, positive economics is objective, and makes its assumptions on the available information and facts. It is therefore possible to test their statements and prove them. An example of a positive statement is;

Unemployment rate in United States of America increases its crime rate. It is possible to prove this statement by analyzing facts and data concerning unemployment and the kind of people who engage in criminal activities (Mosini, 32).

An economic policy under review is the increase of cigarette taxes by the Obama administration through the 2009 act of the Reauthorization program for children's health insurance. The act allowed the Federal government to <https://assignbuster.com/normative-and-positive-economics-economics-essay/>

increase the tax rate of cigarettes from 0.39 to 1.01 per pack. The Normative statement in regard to this is; The Federal Government should further increase the tax rate of a pack of cigarette from 1.01 to 2.01. This statement denotes the role of the government in regulating the consumption and production of tobacco. The neoclassic are concerned with studying the supply and demand characteristics of the markets, and determining how these characteristics affect the revenue distribution, output and prices of the products in the market (Parkin, 27). The completeness aspect of neo-classics denotes that when a consumer has a choice between the two products.

He ranks these products in terms of quality, preferences and affordability and thereafter makes a choice. When the federal government increases the taxes of cigarette packs, their prices will automatically increase. In relation to this, a consumer examines the costs of the cigarettes, and if he is unable to afford it, he or she will definitely avoid it. An example of a positive statement in regard to the Federal taxation policy is; An increase in the tax rate of a cigarette pack would result to a decrease in the consumption and use of cigarettes (Parkin, 31).

This statement denotes the behavior of an individual concerning a specific government policy. An aspect of behavioral economics that can explain the reaction of consumers in terms of an increase in cigarette taxes is the loss aversion theory. According to this concept, the behavior of people is determined by their desire to avoid losses (Parkin, 27). An increase in taxes would most likely increase the prices of cigarettes leading to a reduction in their demand. People would tend to avoid spending more on cigarettes because of their higher costs.

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In conclusion, neo classic and behavioral economics are similar in some aspects. One similarity of the two concepts is that they give certain economic behaviors and norms without putting them to an empirical inquiry. For example, these theories cannot explain the economic losses of people who make irrational economic choices. For example, these theories cannot explain what economic losses that an individual who buys cigarettes at higher price than normal faces. Another similarity is that these branches of economics are concerned with the economic choices that people make in regard to particular services/ goods within a market.