reasoning that a first event causes a second event because the first occurred before the second. Suppose you are a visitor from a far-off world. You observe lots of people shopping in early December, and then you see them opening gifts and partying in the holiday season. "Does the shopping cause the holiday season?," you wonder. After a deeper study, you discover that the holiday season causes the shopping. A later event causes an earlier event.

Unraveling cause and effect is difficult in economics. And just looking at the timing of events often doesn’t help. For example, the stock market booms, and some months later the economy expands — jobs and incomes grow. Did the stock market boom cause the economy to expand? Possibly, but perhaps businesses started to plan the expansion of production because a new technology that lowered costs had become available. As knowledge of the plans spread, the stock market reacted to anticipate the economic expansion. To disentangle cause and effect, economists use economic models and data and, to the extent that they can, perform experiments.

Economics is a challenging science. Does the difficulty of getting answers in economics mean that anything goes and that economists disagree on most questions? Perhaps you’ve heard the joke “If you laid all the economists in the world end to end, they still wouldn’t reach agreement.” Surprisingly, perhaps, the joke does not describe reality.

Agreement and Disagreement

Economists agree on a remarkably wide range of questions. And often the agreed-upon view of economists disagrees with the popular and sometimes politically correct view. When Federal Reserve Chairman Alan Greenspan testifies before the Senate Banking Committee, his words are rarely controversial among economists, even when they generate endless debate in the press and Congress.

Here are 12 propositions with which at least 7 out of every 10 economists broadly agree:

- Cash payments to welfare recipients make them better off than do transfers-in-kind of equal cash value.
- A tax cut can help to lower unemployment when the unemployment rate is high.
- The distribution of income in the United States should be more equal.
- Inflation is primarily caused by a rapid rate of money creation.
- The government should restructure welfare along the lines of a "negative income tax."
- Rent ceilings cut the availability of housing.
- Pollution taxes are more effective than pollution limits.
- The redistribution of income is a legitimate role for the U.S. government.
- The federal budget should be balanced on the average over the business cycle but not every year.

Which of these propositions are positive and which are normative? Notice that economists are willing to offer their opinions on normative issues as well as their professional views on positive questions. Be on the lookout for normative propositions dressed up as positive propositions.

REVIEW QUIZ

1 What is the distinction between a positive statement and a normative statement? Provide an example (different from those in the chapter) of each type of statement.
2 What is a model? Can you think of a model that you might use (probably without thinking of it as a model) in your everyday life?
3 What is a theory? Why is the statement “It might work in theory, but it doesn’t work in practice” a silly statement?
4 What is the ceteris paribus assumption and how is it used?
5 Try to think of some everyday examples of the fallacy of composition and the post hoc fallacy.