

What is Economics as a Social Science?

Economics is a **social science** because it studies how individuals, firms, governments and other economic agents interact and make decisions within society.

Unlike natural sciences, human behaviour is complex and influenced by many different variables. This makes it difficult for economists to predict behaviour with complete certainty.

What are Economic Models?

Economic models are **simplified representations of reality**. Economists use them to understand and explain complex economic interactions.

Economic models usually make assumptions about:

- The **economic agents** involved, such as consumers and firms
- Their **objectives**, such as maximising utility or profit
- The **actions** they can take
- How different economic variables **interact**

Models can be relatively simple, such as **supply and demand**, or more complex. For example, the **circular flow of income** shows the interactions between households, firms, government, banks and the international economy.

All economic models rely on **assumptions**. These simplify complex human behaviour and allow economists to focus on the variables most relevant to what they are studying.

However, these assumptions should be considered when evaluating how **useful or realistic** an economic model is.

What is Ceteris Paribus?

Ceteris paribus means “**all other variables remain constant.**” It is a key assumption used in economic models.

It allows economists to isolate the relationship between two variables by assuming that other factors do not change. This makes it easier to identify **cause and effect**.

For example:

Interest rates ↑ → **borrowing becomes more expensive** → **consumption** ↓, **ceteris paribus**

In reality, other factors such as consumer confidence, income and government policy may change at the same time.

Therefore, ceteris paribus makes economic models easier to analyse, but may make them **less representative of the real world**.

Can We Conduct Scientific Experiments in Economics?

It is difficult to conduct **controlled scientific experiments** in economics.

In natural sciences, researchers can create a **fair test** by changing one variable while keeping other conditions constant. If the experiment is repeated under the same conditions, similar results should be produced.

In economics, this is much more difficult because **ceteris paribus rarely holds in the real world**. Human behaviour and economic conditions are constantly changing.

For example, suppose government spending increases and unemployment subsequently falls:

Government spending ↑ → **aggregate demand** ↑ → **demand for labour** ↑ → **unemployment** ↓

It is difficult to prove that higher government spending alone caused unemployment to fall. Other factors such as **interest rates, consumer confidence, business investment and global economic conditions** may have changed at the same time.

Economists therefore tend to use **empirical research**, such as observations, surveys and opinion polls, rather than relying solely on controlled experiments.

The same hypothesis may produce different results across different **time periods, countries and cultures**.