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B.COM. PART 1

CORE CONCEPT OF BUSINESS ECONOMICS

Merits of Inductive Method: The chief merits of this method are as follows:

(1) Realistic: The inductive method is realistic because it is based on facts and explains them as they actually are. It is concrete and synthetic because it deals with the subject as a whole and does not divide it into component parts artificially

(2) Future Enquiries: Induction helps in future enquiries. By discovering and providing general principles, induction helps future investigations. Once a generalisation is established, it becomes the starting point of future enquiries.

(3) Statistical Method: The inductive method makes use of the statistical method. This has made significant improvements in the application of induction for analysing economic problems of wide range. In particular, the collection of data by governmental and private agencies or macro variables, like national income, general prices, consumption, saving, total employment, etc., has increased the value of this method and helped governments to formulate economic policies pertaining to the removal of poverty, inequalities, underdevelopment, etc.

(4) Dynamic: The inductive method is dynamic. In this, changing economic phenomena can be analysed on the basis of experiences, conclusions can be drawn, and appropriate remedial measures can be taken. Thus, induction suggests new problems to pure theory for their solution from time to time.

(5) Historico-Relative: A generalisation drawn under the inductive method is often historico-relative in economics. Since it is drawn from a particular historical situation, it cannot be applied to all situations unless they are exactly similar. For instance, India and America differ in their factor endowments. Therefore, it would be wrong to apply the industrial policy which was followed in America in the late nineteenth century to present day India. Thus, the inductive method has the merit of applying generalisations only to related situations or phenomena.



Demerits of Inductive Method: However, the inductive method is not without its weaknesses which are discussed below.

(1) Misinterpretation of Data: Induction relies on statistical numbers for analysis that “can be misused and misinterpreted when the assumptions which are required for their use are forgotten.”

(2) Uncertain Conclusions: Boulding points out that “statistical information can only give us propositions whose truth is more or less probable it can never give us certainty.”

(3) Lacks Concreteness: Definitions, sources and methods used in statistical analysis differ from investigator to investigator even for the same problem, as for instance in the case of national income accounts. Thus, statistical techniques lack concreteness.

(4) Costly Method: The inductive method is not only time-consuming but also costly. It involves detailed and painstaking processes of collection, classification, analyses and interpretation of data on the part of trained and expert investigators and analysts

(5) Difficult to Prove Hypothesis: Again the use of statistics in induction cannot prove a hypothesis. It can only show that the hypothesis is not inconsistent with the known facts. In reality, collection of data is not illuminating unless it is related to a hypothesis.

(6) Controlled Experimentation not Possible in Economics: Besides the statistical method, the other method used in induction is of controlled experimentation. This method is extremely useful in natural and physical sciences which deal with matter. But unlike the natural sciences, there is little scope for experimentation in economics because economics deals with human behaviour which differs from person to person and from place to place.

Further, economic phenomena are very complex as they relate to man who does not act rationally. Some of his actions are also bound by the legal and social institutions of the society in which he lives. Thus, the scope for controlled experiments in inductive economics is very little. As pointed Out by Friendman, “The absence of controlled experiments in economics renders the weeding out of unsuccessful hypo-these slow and difficult.”

Conclusion: The above analysis reveals that independently neither deduction nor induction is helpful in scientific enquiry. In reality, both deduction and induction are related to each other because of some facts. They are the two forms of logic that are complementary and co-relative and help establish the truth. Marshall also supported the complementary nature of the two methods when he quoted



Schmoller: “Induction and deduction are both needed for scientific thought as the right and left foot are needed for walking.” And then Marshall stressed the need and use of integrating these methods.