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CORE CONCEPT OF

BUSINESS ECONOMICS & ENVIRONMENT

1. Point out the deductive method?
2. Briefly explain the theory of consumption.
3. What is inductive method? Briefly explain.
4. Illustrate the Selecting the problem?
5. What do you mean by Formulating Assumptions?

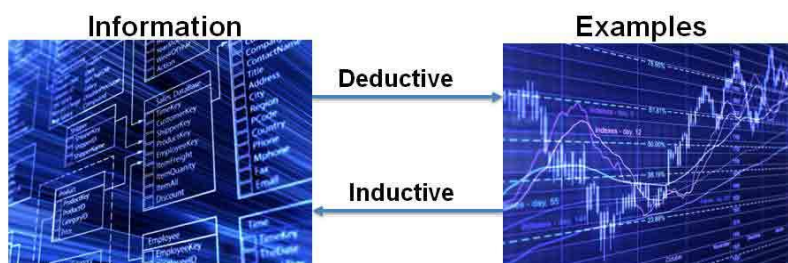
Methods of study of Economics

There are two method of reasoning in theoretical economics. They are the deductive and inductive methods. As a matter of fact, deduction and induction are the two forms of logic that help to establish the truth.

Deductive Method:

Deduction Means reasoning or inference from the general to the particular or from the universal to the individual. The deductive method derives new conclusions from fundamental assumptions or from truth established by other methods. It involves the process of reasoning from certain laws or principles, which are assumed to be true, to the analysis of facts. Then inferences are drawn which are verified against observed facts. Bacon described deduction as a “descending process” in which we

Deductive vs. Inductive





proceed from a general principle to its consequences. Mill characterised it as a priori method, while others called it abstract and analytical.

Deduction involves four steps: (1) Selecting the problem. (2) The formulation of assumptions on the basis of which the problem is to be explored. (3) The formulation of hypothesis through the process of logical reasoning whereby inferences are drawn. (4) Verifying the hypothesis. These steps are discussed as under.

(1) Selecting the problem: The problem which an investigator selects for enquiry must be stated clearly. It may be very wide like poverty, unemployment, inflation, etc. or narrow relating to an industry. The narrower the problem the better it would be to conduct the enquiry.

(2) Formulating Assumptions: The next step in deduction is the framing of assumptions which are the basis of hypothesis. To be fruitful for enquiry, the assumption must be general. In any economic enquiry, more than one set of assumptions should be made in terms of which a hypothesis may be formulated.

(3) Formulating Hypothesis: The next step is to formulate a hypothesis on the basis of logical reasoning where by conclusions are drawn from the propositions. This is done in two ways: First, through logical deduction. If and because relationships (p) and (q) all exist, then this necessarily implies that relationship (r) exists as well. Mathematics is mostly used in these methods of logical deduction.

(4) Testing and Verifying the Hypothesis: The final step in the deductive method is to test and verify the hypothesis. For this purpose, economists now use statistical and econometric methods. Verification consists in confirming whether the hypothesis is in agreement with facts. A hypothesis is true or not can be verified by observation and experiment. Since economics is concerned with human behaviour, there are problems in making observation and testing a hypothesis.

For example, the hypothesis that firms always attempt to maximise profits, rests upon the observation that some firms do behave in this way. This premise is based on a priori knowledge which will continue to be accepted so long as conclusions deduced from it are consistent with the facts. So the hypothesis stands verified. If the hypothesis is not confirmed, it can be argued that the hypothesis was correct but the results are contradictory due to special circumstances.

Under these conditions, the hypothesis may turn out to be wrong. In economics, most hypotheses remain unverified because of the complexity of factors involved in human behaviour



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which, in turn, depend upon social, political and economic factors. Moreover, controlled experiments in a laboratory are not possible in economics. So the majority of hypotheses remain untested and unverified in economics.

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