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CORE CONCEPT OF

BUSINESS ECONOMICS & ENVIRONMENT

1. Point out the Demerits of Deductive Method?
2. Briefly explain the Merits of Deductive Method.
3. What is Unrealistic Assumption? Briefly explain.
4. Illustrate the Static Method?
5. What do you mean by Indispensable?

Merits of Deductive Method:

The deductive method has many advantages.

(1) Real: It is the method of “intellectual experiment,” according to Boulding. Since the actual world is very complicated, “what we do is to postulate in our own minds economic systems which are simpler than reality but more easy to grasp. We then work out the relationship in these simplified systems and by introducing more and more complete assumptions, finally work up to the consideration of reality itself.” Thus, this method is nearer to reality.

(2) Simple: The deductive method is simple because it is analytical. It involves abstraction and simplifies a complex problem by dividing it into component parts. Further, the hypothetical conditions are so chosen as to make the problem very simple, and then inferences are deduced from them.

(3) Powerful: It is a powerful method of analysis for deducing conclusions from certain facts. As pointed out by Cairnes, The method of deduction is incomparably, when conducted under proper checks, the most powerful instrument of discovery ever wielded by human intelligence.

(4) Exact: The use of statistics, mathematics and econometrics in deduction brings exactness and clarity in economic analysis. The mathematically trained economist is able to deduce inferences in a short time and make analogies with other generalisations and theories. Further, the use of the mathematical-deductive method helps in revealing inconsistencies in economic analysis.



(5) Indispensable: The use of deductive method is indispensable in sciences like economics where experimentation is not possible. As pointed out by Gide and Rist, “In a science like political economy, where experiment is practically impossible, abstraction and analysis afford the only means of escape from those other influences which complicate the problem so much.”

(6) Universal: The deductive method helps in drawing inferences which are of universal validity because they are based on general principles, such as the law of diminishing returns.

Demerits of Deductive Method: Despite these merits, much criticism has been levelled against this method by the Historical School which flourished in Germany.

1. Unrealistic Assumption: Every hypothesis is based on a set of assumptions. When a hypothesis is tested, assumptions are indirectly tested by comparing their implications with facts. But when facts refute the theory based on the tested hypothesis, the assumptions are also indirectly refuted. So deduction depends upon the nature of assumptions. If they are unrealistic, in this method, economists use the ceteris paribus assumption. But other things seldom remain the same which tend to refute theories.

2. Not Universally Applicable: Often the conclusions derived from deductive reasoning are not applicable universally because the premises from which they are deduced may not hold good at all time and places. For instance, the classicists assumed in their reasoning that particular conditions prevailing in England of their times were valid universally. This supposition was wrong. Prof. Lerner, therefore, points out that the deductive method is simply “armchair analysis” which cannot be regarded as universal.

3. Incorrect Verification: The verification of theories, generalisations or laws in economics is based on observation. And right observation depends upon data which must be correct and adequate. If a hypothesis is deduced from wrong or inadequate data, the theory will not correspond with facts and will be refuted. For instance, the generalisations of the classicists were based on inadequate data and their theories were refuted. As pointed out by ircholson, “the great danger of the deductive method lies in the natural aversion to the labour of verification.”

4. Abstract Method: The deductive method is highly abstract and requires great skill in drawing inferences for various premises. Due to the complexity of certain economic problems, it becomes difficult to apply this method even at the hands of an expert researcher. More so, when he uses mathematics or econometrics.



5. Static Method: This method of analysis is based on the assumption that economic conditions remain constant. But economic conditions are continuously changing. Thus this is a static method which fails to make correct analysis.

6. Intellectually: The chief defect of the deductive method “lies in the fact that those who follow this method may be absorbed in the framing of intellectual toys and the real world may be forgotten in the intellectual gymnastics and mathematical treatment.”

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