

## K. Christ / History of Economic Thought

### 13: Economic Empiricism and Current Trends

#### Outline

#### I. Empirical Economics and Econometrics

- A “pre-history” of statistical analysis in economics – the Physiocrats, Petty, Thomas Tooke (1774 – 1858)
- Business cycle studies and the development of national income accounting techniques:
  - Wesley Mitchell (1874 – 1948)
  - Simon Kuznets (1901 – 1985)
  - Richard Stone (1913 – 1991) and James Meade (1907 – 1994) and the development of a standard system of national accounts in 1953.
- Establishment of the Econometric Society (1930) and the Cowles Commission (1932) – The Econometric Society was to be “an international society for the advancement of economic theory in its relation to statistics and mathematics.”
- Explosion of econometric techniques in the 1960s and 1970s.
- Development and use of large-scale macroeconomic forecasting models, and their use in policy formulation
- The Lucas Critique – “Econometric Policy Evaluation: A Critique” (1976).
- Further evolution of econometric techniques in the late 20<sup>th</sup> century.

#### II. Financial Economics

Financial economics is that branch of economics that deals with the workings of financial markets, focusing on topics such as stock markets and corporate finance.

#### III. Some Current Trends in Economic Research

- Experimental and Behavioral economics
  - Behavioral economics* uses facts and ideas from social sciences that are neighbors of economics (psychology, sociology, anthropology) to show how willpower, concern for other people, limits on calculating ability, and biology influence economic behavior. The field has reintroduced the use of laboratory experiments into economics, and has spawned alternative theories of market behaviors in finance (“behavioral finance”).
  - Important works:
    - Tversky, Amos, and Daniel Kahneman, “Rational Choice and the Framing of Decisions,” *Journal of Business* 59 (1986), S251 – S278.
- *Neuroeconomics* combines neuroscience, economics, and psychology to study how we make choices. It looks at the role of the brain when we evaluate decisions, categorize risks and rewards, and interact with each other. The field merges work in neuroscience, psychology, and economics.
- Complexity – Arthur, W. Brian, “Complexity and the Economy.” *Science* 284 (April 2, 1999), 107 – 109.