

Think like an Economist

Investigating Cause and Consequence Relationships to Support Hypothesis Testing

Parents constantly remind their children that actions (including doing nothing) have consequences. This reality is only magnified in the economic world, which contains many interacting stakeholders with diverse interests. Choices lead to actions (often to protect the interests of decision makers), and these actions or events cause change. The results of an action and the impact (or significance) of an event or happening can be seen as the consequences. These consequences may impact different stakeholders in different ways, causing problems for some and benefits for others. Unbalanced results often trigger a new cycle of economic thinking to prioritize choices and actions to address new problems. (See Figure 5.2.) Serious economic problems are not politically or economically sustainable. Economic thinking must clearly distinguish between causes and consequences.

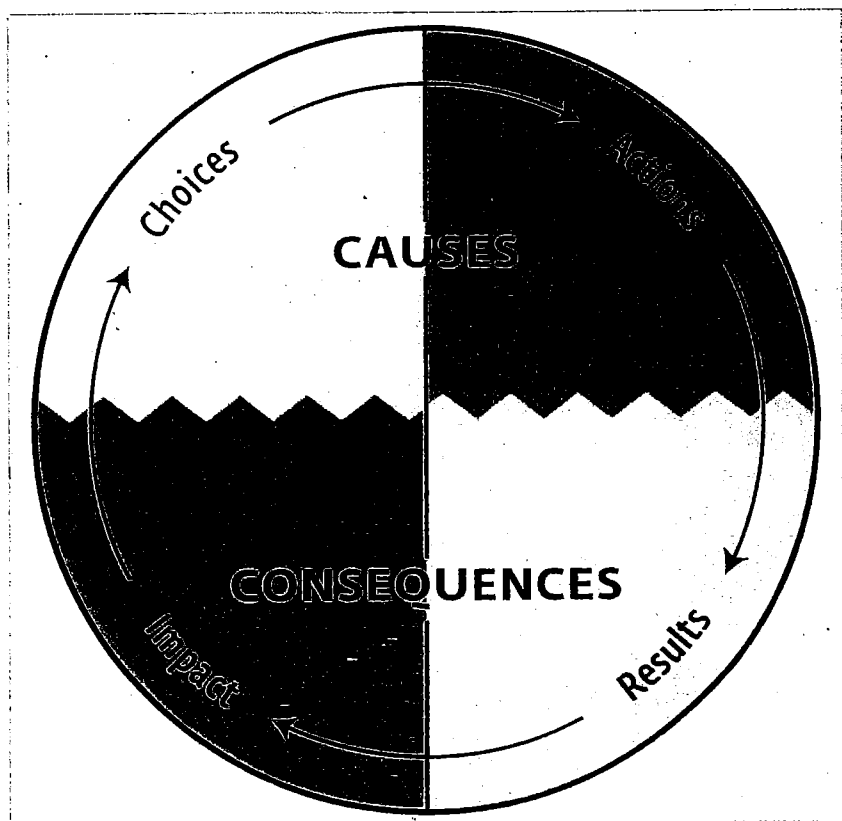
Economists are sometimes called upon to identify patterns and relationships in a set of data or facts and to use this information to gain insight into an economic problem in need of appropriate attention. To better understand the problem being addressed, economists must identify the consequences most in need of attention. Doing so will reveal evidence of a problem's harmful nature and extent. Next, economic analysis must determine the causes of the problem. Once this cause and consequence relationship is established, options can be hypothesized as potential remedies to improve the situation by addressing the causes.

A **hypothesis** is a speculative theory that requires proof or verification. Supporting evidence is required to confirm a hypothesis as viable. Let's work with some hypotheses to practise the economic thinking

FIGURE 5.2

A cyclical pattern of causes and consequences in economic decision making

As this diagram shows, *choices* are driven by interests, *actions* reflect priorities, *results* are determined by outcomes, and *impact* reflects the significance of consequences.



hypothesis

A speculative theory requiring proof or verification.

required. What cause and consequence patterns have you noticed so far in the evolution of economic thought? Use the information in this chapter, and any additional information that you have researched, as supporting evidence to assess each of the following hypotheses:

- **Hypothesis A:** Prosperous times create great economists.
- **Hypothesis B:** The advancement of economic thought reinforces the pattern of economic trade-offs. Very often, solving one economic problem creates another.
- **Hypothesis C:** A great economic thinker is more of a reactionary than a visionary.

APPLYING ECONOMIC THINKING

- 1 Do the facts about the evolution of economic thought provide sufficient evidence to support Hypothesis A? What is the most important evidence you have to validate or refute this theoretical statement?
- 2 Do the facts about the evolution of economic thought provide sufficient evidence to support Hypothesis B? What is the most important evidence you have to validate or refute this theoretical statement?
- 3 Do the facts about the evolution of economic thought provide sufficient evidence to support Hypothesis C? What is the most important evidence you have to validate or refute this theoretical statement?

The colonists of New England loved their tea, consuming some 544 000 kg each year. So why did they raid British ships, disguised as Indigenous Americans, to dump 342 chests (40 800 kg) of fine tea in Boston Harbour on December 16, 1773? This protest became known as the "Boston Tea Party." How did the British parliament respond to this defiance, and what happened in 1775 to change the course of North American history?

