Philosophy of Economics
A Contemporary Introduction

Julian Reiss
# Contents

List of Figures xiv  
List of Tables xv  
Acknowledgments xvi  

1 The Why, What and How of Philosophy of Economics 1  
Overview 1  
Two Opposing Paradigms, 2  
The Philosophy of Economics: Interpreting Theory, Methodology and Ethics 6  
The Aims of Economics and the Problem of Purpose 8  
Study Questions 11  
Suggested Readings 11  

PART I  
Interpreting Economic Theory 13  

2 Explaining Economic Phenomena 15  
Overview 15  
Explanation as an Aim of Economics 16  
Phenomena 17  
Why-Questions, Explanandum and Explanans 19  
Scientific Laws 21  
The D-N Model and Its Discontents 23  
Conclusions 25  
Study Questions 26  
Suggested Readings 26
PART IA
Rationality

3 Rational-Choice Theory
Overview
Folk Psychology
Ordinal-Choice Theory
Cardinal-Choice Theory
Stability, Invariance and Justifiers
Conclusions
Study Questions
Suggested Readings

4 Game Theory
Overview
Whither the Euro?
Some Games and Some Formalism
Game Theory's Payoffs
Game Theory and Rationality
Game Theory as Explanatory Theory
Study Questions
Suggested Readings

PART IB
Causality

5 Causation and Causal Tendencies
Overview
The Rise of Causal Talk in Economics
Correlation Is Not Causation: So What Is Causation?
Causal Tendencies
Conclusions
Study Questions
Suggested Readings

6 Mechanisms
Overview
Hume on Money
Four Notions of Causal Mechanism
Mechanisms as Underlying Structures or Processes
Mechanisms, Methodological Individualism and Micro-Foundations
Mechanistic Explanation
Conclusions
<table>
<thead>
<tr>
<th>PART IC</th>
<th>Models</th>
<th>117</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 Models, Idealization, Explanation</td>
<td>119</td>
<td></td>
</tr>
<tr>
<td>Overview</td>
<td>119</td>
<td></td>
</tr>
<tr>
<td>Causal Explanation</td>
<td>120</td>
<td></td>
</tr>
<tr>
<td>Economic Models</td>
<td>121</td>
<td></td>
</tr>
<tr>
<td>Idealizations</td>
<td>124</td>
<td></td>
</tr>
<tr>
<td>Explanation</td>
<td>127</td>
<td></td>
</tr>
<tr>
<td>Conclusions</td>
<td>141</td>
<td></td>
</tr>
<tr>
<td>Study Questions</td>
<td>141</td>
<td></td>
</tr>
<tr>
<td>Suggested Readings</td>
<td>141</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PART II</th>
<th>Methodology</th>
<th>143</th>
</tr>
</thead>
<tbody>
<tr>
<td>8 Measurement</td>
<td>145</td>
<td></td>
</tr>
<tr>
<td>Overview</td>
<td>145</td>
<td></td>
</tr>
<tr>
<td>Observation</td>
<td>146</td>
<td></td>
</tr>
<tr>
<td>Consumer Price Inflation</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td>Unemployment and GDP</td>
<td>157</td>
<td></td>
</tr>
<tr>
<td>Conclusions</td>
<td>158</td>
<td></td>
</tr>
<tr>
<td>Study Questions</td>
<td>159</td>
<td></td>
</tr>
<tr>
<td>Suggested Readings</td>
<td>159</td>
<td></td>
</tr>
</tbody>
</table>

| 9 Econometrics | 161 |
| Overview | 161 |
| Induction, Deduction and All That | 162 |
| Mostly Harmless Econometrics? | 166 |
| Conclusions | 172 |
| Study Questions | 173 |
| Suggested Readings | 173 |

| 10 Experiments | 174 |
| Overview | 174 |
| Speaking to Theorists | 175 |
| Searching for Facts | 177 |
| Whispering into the Ears of Princes | 180 |
| Methodological Issues | 182 |
# Contents

Conclusions
Study Questions
Suggested Readings

## 11 Evidence-Based Policy

Overview
What Is Evidence-Based Policy?
What Is an RCT, and What Are Its Virtues?
What, Then, Is Wrong with Evidence-Based Policy?
Conclusions
Study Questions
Suggested Readings

## PART III

**Ethics**

### 12 Welfare and Well-Being

Overview
Welfare Economics
Well-Being
The Evidential View of Preferences
Conclusions
Study Questions
Suggested Readings

### 13 Markets and Morals

Overview
Market Failure
Transaction Costs and the Coase Theorem
Intellectual Property Rights
Commodification: What Money Can’t Buy
Study Questions
Suggested Readings

### 14 Inequality and Distributive Justice

Overview
Inequality
Principles of Distributive Justice
Conclusions
Study Questions
Suggested Readings
## 15 Behavioral Economics and Nudge

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overview</td>
<td>278</td>
</tr>
<tr>
<td>Behavioral Economics</td>
<td>279</td>
</tr>
<tr>
<td>Libertarian Paternalism</td>
<td>286</td>
</tr>
<tr>
<td>Philosophical Issues in Libertarian Paternalism</td>
<td>293</td>
</tr>
<tr>
<td>Conclusions</td>
<td>301</td>
</tr>
<tr>
<td>Study Questions</td>
<td>301</td>
</tr>
<tr>
<td>Suggested Readings</td>
<td>302</td>
</tr>
</tbody>
</table>

- **References**
- **Index**