

VISUAL 8.1 POSITIVE VERSUS NORMATIVE ECONOMICS

POSITIVE ECONOMICS involves statements of fact.

Fact: If cigarettes are taxed, fewer teenagers will be able to afford to buy cigarettes.

NORMATIVE ECONOMICS involves judgments of value.

Judgment: Parents should discourage teenagers from smoking.

PUBLIC POLICY involves both positive and normative analyses.

Fact and Judgment: Public-policy recommendations involve the desire to achieve the normative goal (fewer teenagers who smoke) and a positive model (facts) that predicts how a tax might achieve the desired goal.

VISUAL 8.2

WHAT IS EFFICIENCY?

1. DEFINING THE GOAL: What is most important?

Society has many possible goals. These include preserving freedom, maintaining national security, improving standards of living and providing opportunities for all citizens. In addition, economists often focus specifically on the goal of enhancing “welfare.”

Consumer welfare means the ability of an economy to satisfy individual consumer preferences.

2. MEASURING SUCCESS: How do we know we have achieved the goal of enhancing consumer welfare?

Allocative efficiency means that consumers are able to obtain the goods and services that best satisfy their individual preferences, given their income constraints.