

Why do economists use models?

Taken from Rodrik – emphasis in red added

Economists build models to capture salient aspects of social interactions. ... But what are economic models? The easiest way to understand them is as **simplifications designed to show how specific mechanisms work** by isolating them from other, confounding effects. A model focuses on particular causes and seeks to show how they work their effects through the system. (12)

For **critics**, economists' reliance on models captures almost everything that is wrong with the profession: the **reduction of the complexities** of social life to a few simplistic relationships, the willingness to make patently **untrue assumptions**, the obsession with mathematical rigor over realism, the frequent jump from stylized abstraction to policy conclusions. (10)

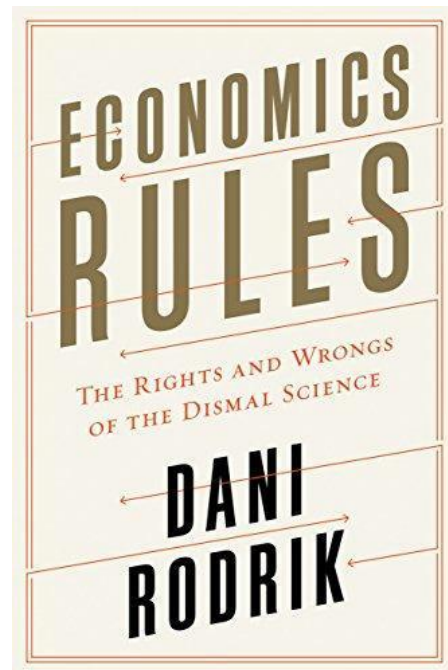
What makes a model **useful** is that **it captures an aspect of reality**. What makes it indispensable, when used well, is that it captures the most relevant aspect of reality in a given context. Different contexts—different markets, social settings, countries, time periods, and so on, require different models. (11)

When models are selected judiciously, they are a source of illumination. When used dogmatically, they lead to hubris and errors in policy. (11)

Consider what a lab experiment really is. The lab is an artificial environment built to insulate the materials involved in the experiments from the environment of the real world. The researcher designs experimental conditions that seek to highlight a hypothesized causal chain, isolating the process from other potentially important influences. (22)

The main difference is that the lab experiment purposely manipulates the physical environment to achieve the isolation needed to observe the causal effect, whereas a model does this by manipulating the assumptions that go into it. Models build mental environments to test hypotheses. (22)

... the argument that models need to be made more complex to make them more useful gets it backward. **Economic models are relevant and teach us about the world because they are simple**. Relevance does not require complexity, and complexity may impede relevance. ... **Models are never true; but there is truth in models. We can understand the world only by simplifying it.** (43–44)



1. In your own words, describe what a 'model' is	
2. Take a guess and make short list of the things you think economists try to model	

Works Cited

Rodrik, Dani. *Economics Rules: The Rights and Wrongs of the Dismal Science*. W. W. Norton Company, 2015.