

## [Is economics a science?](#) [1]

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There should be no Nobel Prize in Economic Science, [says economist Liam Halligan](#) [3], because economics is not a science. It was, of course, only added (by the Swedish central bank) some 75 years after Alfred Nobel's death; but recipients get the same grand medal and scroll, get to shake hands with the King, and give a lecture.

Halligan cites this year's award to Eugene Fama and Lars Hansen of Chicago University, and Robert Shiller of Yale, jointly honoured for "laying the foundations for the current understanding of asset prices". Understanding? As Halligan says, "You may be forgiven for thinking that no one truly understands asset prices. The global stock market turmoil of recent years is surely testament to that."

The sad thing is that economists are so keen that their subject should be thought of as a science that they have infused it with many of the tools and approaches of the physical sciences ? making it look more like applied mathematics than the study of (decidedly non-mathematical) human beings that it really is. I often say that, through their intense application of mathematics, the mainstream economists of today pride themselves on a more and more precise understanding of things that the rest of us know are complete tosh.

Under all the equations and algorithms, Fama's 'rational markets' idea is quite simple: markets quickly price in all new information. And since information itself can change quickly, the short-term movement of markets can be hard to predict.

That is plainly true: people in markets would soon find themselves losing money if they did not take account of the facts. However, there is more to human life (and therefore to markets) than mere facts ? as both Hayek and Keynes knew. Halligan sums up this point with a phrase that should be engraved onto the computer screen of every supposed economist:

"...it obviously makes sense that share prices reflect all available information.... But they also clearly reflect rumours, supposition, herd-instinct, prejudice, hubris, pessimism and a myriad of other immeasurable qualitative factors, including occasional madness...." That's humanity for you. Good luck trying to model that.

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[3] <http://www.telegraph.co.uk/finance/comment/10390981/Time-to-stop-this-pretence-economics-is-not-science.html>

[4] [http://disqus.com/?ref\\_noscript](http://disqus.com/?ref_noscript)

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