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Economic Theory

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Abstract: *Economic theory, a social science, studies resource allocation to achieve goals amidst scarcity. Dominating modern economic thought is the neoclassical school, although the "mainstream" encompasses diverse elements like classical political economy, Keynesianism, and game theory. Divided into micro- and macroeconomics, economic theory's models underpin fields like growth economics, international trade, and public sector economics. Grounded in rational choice theory, refined by behavioral and experimental economics, and utilizing game theory, it employs methodological individualism and mathematical modeling. Key methods include analysis and synthesis, induction and deduction, systems approach, and scientific abstraction. Hypotheses are tested empirically using econometrics, leading to model revision or rejection. Economic theory serves theoretical, ideological, critical, methodological, and prognostic functions. Within the system of economic sciences, fundamental (e.g., economic theory) and applied (e.g., industrial economics) branches are distinguished, with the former focusing on understanding economic laws and the latter on solving practical problems.*

Keywords: *Mainstream economics, basic models of economics, Keynesianism, monetarism, game theory, new institutionalism, methodological holism, induction, deduction.*

Introduction. Economic theory or theoretical economics is a social science that studies the problem of choice to achieve a goal in the context of limited resources. Various economic theories seek to put forward assumptions (models) that, based on relatively small sets of data, could predict economic results with sufficient accuracy and allow for additional research [1].

In modern economic theory, a fairly homogeneous current (economic mainstream) dominates, the core of which is the neoclassical school, but these are not synonyms. The boundaries of the Mainstream are gradually changing, covering both old elements (classical political economy, Keynesianism, monetarism) and new (game theory, rational expectations theory, new institutionalism) directions [2].

Economic theory consists of two main sections: microeconomics and macroeconomics. Its basic models and concepts are used in narrower fields of science: in the theory of economic growth, development economics, international economics (the theory of international trade and the theory of international finance), public sector economics, the theory of industrial markets, auction theory and other areas.

The foundation of modern economic views is the theory of rational choice, which is refined and adjusted by research in the fields of behavioral and experimental economics. Game theory is also used to model economic processes.

The methodology of economic science (econometrics) and the history of economic doctrines are directly related to economic theory. In addition, a large number of studies are conducted at the intersection of other social sciences: history, jurisprudence, criminology, sociology, political science, as well as neurobiology and psychology (neuroeconomics).

Subject of economic theory. The main task of economic theory is to explain events occurring in economic life using models of reality [3]. Therefore, it is customary to distinguish between positive

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economic theory, the purpose of which is to study the behavior of economic agents, and normative economic theory, the purpose of which is to develop economic policy [4]. The subject of study of economic theory is the behavior of an economic agent in a certain economic system. An "Economic Agent" does not mean a real person or group of people, but a simplified (idealized) model that is convenient for analysis. To study behavior, economics models the process of individual choice from a certain set of options under the condition of limited resources (see Optimal allocation of resources). All economic processes at the group and macro levels are interpreted as the result of many individual decisions (see Microeconomic justifications). Correct aggregation of individual decisions is an independent problem.

Methods of economic theory. Economic theory is based on methodological individualism: the subject of decision-making is a certain agent, considered as an indivisible whole [5]. When examining the decision-making process in detail, the integral agent can in turn be considered as a set of individuals. An example is the analysis of decision-making within a household or a firm. Methodological individualism is opposed to methodological holism. Economic models are often a mathematical description of the analyzed situation. Sometimes a verbal (word) description can be used. The construction of the model is based on initial hypotheses and premises. The task of modeling is to abstract from unnecessary details and identify the essential factors that shape the result. The use of mathematics allows to reduce the number of interpretations of the same model.

Methods of Economic Theory

1. The method of analysis and synthesis — analysis involves dividing the object or phenomenon under consideration into separate parts and determining the properties of a separate element. With the help of synthesis, a complete picture of the phenomenon as a whole is obtained.
2. The method of induction and deduction — with the induction method, individual facts and principles are studied and general theoretical concepts are formed based on the results (from the particular to the general). The deduction method involves research from general principles and laws, when the provisions of the theory are distributed among individual phenomena.
3. The method of a systems approach — considers an individual phenomenon or process as a system consisting of a certain number of interconnected elements that interact and influence the efficiency of the entire system as a whole.
4. The method of mathematical modeling — represents the construction of graphical, formalized models that characterize individual economic phenomena or processes in a simplified form.
5. The method of scientific abstraction — allows you to exclude from consideration individual insignificant relationships between economic entities and focus on considering several entities.

Empirical testing of hypotheses

Theoretical models are built on the basis of hypotheses and allow the formulation of testable consequences. The consequences of the models are tested for compliance with the observed data. Econometrics deals with the development of data analysis methods. If the tested consequences do not correspond to the observed data, then the hypothesis and the model based on it are subject to revision, and may be completely rejected.

Functions of economic theory

1. Theoretical — studies and explains the processes and phenomena of the economic life of society.
2. Ideological — formation of a systemic, scientific worldview.

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3. Critical — based on the knowledge of the laws governing economic processes and phenomena, a management mechanism, its structure and elements are developed that actively influence the subjects of the market economy and determine their appropriate behavior.
4. Methodological — acts as a theoretical foundation for industry sciences, functional sciences and a number of economic sciences located at the junction of various branches of knowledge.
5. Prognostic — scientific forecasts of economic development, identification of prospects for social development.

Economic sciences

In the system of economic sciences, a distinction is made between fundamental (general) and applied. particular). General: economic theory, history of economic doctrines, economic statistics, accounting. Particular: inter-industry (finance, credit, labor management); industry (industrial economics, agricultural economics, trade economics, transport economics); regional (global economy, regional economy, economy of individual countries). The task of fundamental sciences is to understand economic laws and justify ways of their effective use. Applied sciences use the results of fundamental research to solve particular and specific practical problems.

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