

Perspective

Applied economic theories of empirical studies

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DESCRIPTION

Applied economics is a branch of economics that applies the findings of economic theories and empirical studies to real-world circumstances with the goal of guiding economic decisions and forecasting future consequences. The goal of applied economics is to enhance the quality of practise in industry, government, and everyday life by thoroughly considering costs and benefits, incentives, and human behaviour. Case studies and econometrics, which is the application of real-world data to statistical models and comparing the findings to the theories being evaluated, are examples of applied economics.

The use of economic theory to assess the expected results associated with various conceivable courses of action in the actual world is known as applied economics. We can assist people, corporations, and policymakers in making better decisions by better understanding the potential ramifications of their decisions. If economics is the science of examining how individuals utilise the limited resources at their disposal to achieve certain goals, then applied economics is the instrument for determining the best way to attain those goals. As a result, applied economics can result in "to do" lists for actions that can be made to improve the likelihood of favourable outcomes in real-world occurrences.

Exploring economic theories to produce questions about a setting or situation, then drawing on data resources and other frames of reference to build a reasonable solution to that question, is an example of how applied economics may be used. The goal is to come up with a hypothetical conclusion based on the current situation and recognised implications of broad economic laws and models.

Individual financial decisions can have a variety of results, which can be shown using applied economics. If a customer wants to acquire a luxury item but has limited financial means, an analysis of the cost and long-term impact of such a purchase on assets can be compared against the predicted benefit of the item. This can assist in determining whether or not such an investment

is beneficial. Understanding the meaning of economic theories like rational choice and game theory, as well as the results of behavioural and evolutionary economics, may help a person make better decisions and prepare for success in their personal life and relationships.

A person who wishes to stop smoking, for example, could know that they are prone to hyperbolic discounting and use precommitment tactics to help them stick to their long-term goals to give up smoking over more intense short-term desires to do so. Similarly, a group of friends eating a huge bowl of popcorn may agree, expressly or tacitly, on limitations or shares on how much popcorn each of them will consume in order to maintain order to avert a tragedy of the commons.

Applied economics may also aid in the decision-making process for firms. Understanding the ramifications of supply and demand economic principles, as well as prior sales data and marketing research on their target market, may assist a company in making pricing and production decisions. Economic leading indicators, as well as their link to a company's industry and markets, can aid operational planning and business strategy. Understanding economic concepts like principal-agent dilemmas, transaction costs, and firm theory may help organisations create more effective pay plans, contracts, and corporate strategy.

For policymakers, applied economics is a priceless instrument. Many economists are hired to forecast the macroeconomic and microeconomic repercussions of various policy ideas, as well as to assess the effects of current policy. At the national, regional, and state levels, applied macroeconomic modelling is frequently used to forecast changes in unemployment, economic growth, and inflation. Understanding how public policy's economic incentives and compensatory behaviours affect real-world trends like employment growth, migration, and crime rates is crucial to enacting successful policy and avoiding unforeseen consequences. Understanding what the application of supply and demand laws implies about the consequences of price floors, for example, may influence improved minimum wage policies, as can case studies and empirical research.

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