

Contradicting Concepts & Theories in Real Life

A syllabus-based report — M.A. Economics (CBCS), Madurai Kamaraj University (2018–19 revised syllabus)

Economics is a discipline of rival explanations. Across the M.A. syllabus — Micro, Macro, Mathematical, Welfare, Agricultural, Insurance, Behavioural and Econometrics — competing theories often prescribe opposite actions for the same real-world problem. This report pairs the contradictions found in the syllabus with contemporary situations where the tension is visible.

1. Positive vs Normative Economics (Micro Core-1, Unit I)

The contradiction: Positive economics asks *what is*; normative asks *what ought to be*.

Real-life situation: The 2024 debate on India's free-ration scheme (PMGKAY extension) is positive when economists estimate its effect on rural consumption; it turns normative the moment the same data is used to argue whether 'freebies' are morally justified — the same numbers, opposite conclusions.

2. Cardinal vs Ordinal Utility (Micro Core-1, Unit II)

The contradiction: Marshall measured utility in utils; Hicks–Allen said satisfaction can only be ranked.

Real-life situation: Streaming platforms rate movies 1–5 stars (cardinal) yet Netflix switched to thumbs-up/down (ordinal) because users cannot honestly quantify pleasure — the industry itself flip-flops between the two schools.

3. Revealed Preference vs Behavioural 'Satisficing' (Micro-1 Unit II & Behavioural Elective)

The contradiction: Samuelson: choices reveal consistent, rational preferences. Simon/Kahneman: people satisfice and are biased.

Real-life situation: Online shoppers routinely abandon carts, buy on flash-sale FOMO, or pick the middle-priced plan — violating transitivity that revealed preference assumes.

4. Say's Law vs Keynes' Effective Demand (Macro Core-2, Unit I)

The contradiction: Classicals: *supply creates its own demand*. Keynes: demand deficiency causes unemployment.

Real-life situation: Post-COVID 2020: factories could produce, but with jobs lost, demand collapsed. Governments worldwide chose Keynesian stimulus (US CARES Act, India's Atmanirbhar package) — a live rejection of Say's Law.

5. Absolute vs Relative vs Permanent Income vs Life-Cycle Hypothesis (Macro-2, Unit II)

The contradiction: Four rival consumption theories: current income (Keynes), neighbours' income (Duesenberry), lifetime average (Friedman), age-profile saving (Modigliani).

Real-life situation: An IT employee getting a one-time Diwali bonus: Keynes predicts a spending spree, Friedman predicts saving, Duesenberry predicts an iPhone upgrade to match peers, Modigliani predicts an SIP top-up. All four happen in different households — no single theory wins.

6. Classical vs Keynesian vs Post-Keynesian Demand for Money (Macro-2, Unit III)

The contradiction: Fisher's $MV=PT$ (transactions), Keynes' liquidity preference (also speculative), Baumol–Tobin (inventory).

Real-life situation: During India's 2016 demonetisation, transactions demand collapsed but speculative hoarding of new ₹2000 notes surged — Fisher's identity and Keynes' motive coexisted and contradicted each other in weeks.

7. Monetarist vs Fiscalist Policy Effectiveness (Macro-2, Unit V)

The contradiction: Friedman: money supply is king. Keynesians: fiscal multiplier is stronger in slumps.

Real-life situation: The RBI's 2020 rate cuts (monetarist) barely moved private investment; the same year's capex-led Budget (fiscal) revived construction. Real economies rarely obey one camp.

8. Perfect Competition vs Monopoly / Oligopoly (Cournot–Bertrand–Stackelberg) (Micro-1, Unit V)

The contradiction: Textbook perfect competition assumes many small price-takers; reality is dominated by 2–3 firms.

Real-life situation: Indian telecom after 2016: Jio's Stackelberg-leader pricing wiped out 8 competitors — the market moved from near-perfect competition to a 3-firm oligopoly, contradicting the textbook default.

9. Profit Maximisation vs Baumol's Sales Maximisation (Micro-1, Unit V)

The contradiction: Classical firm maximises profit; Baumol argues managers maximise revenue subject to a profit floor.

Real-life situation: Amazon operated at near-zero profit for two decades to maximise market share — a real-world Baumol firm that would be 'irrational' under classical theory.

10. Walrasian vs Marshallian Stability (Mathematical Economics, Unit)

The contradiction: Walras adjusts price when quantity is off; Marshall adjusts quantity when price is off.

Real-life situation: In a stock-market flash crash, prices adjust in milliseconds (Walrasian). In agriculture, farmers adjust next season's acreage instead (Marshallian cobweb) — the same commodity space, two dynamics.

11. Private Cost vs Social Cost — Pigou vs Coase (Welfare Economics, Module 5)

The contradiction: Pigou: tax the polluter. Coase: assign property rights and let parties bargain.

Real-life situation: Delhi's winter smog: Pigouvian stubble-burning fines vs Coasean carbon-credit trading pilots. Both are tried simultaneously with opposite philosophies.

12. Kaldor–Hicks vs Scitovsky vs Arrow (Welfare Economics, Modules 3–4)

The contradiction: Kaldor–Hicks: a change is good if winners *could* compensate losers. Scitovsky adds a reversal test. Arrow proves no fair aggregation rule exists.

Real-life situation: Farm-law repeal (2021): reform passed a Kaldor test on paper but failed Scitovsky once protests revealed losers wouldn't accept compensation — Arrow's impossibility in action.

13. Rational Expectations vs Adaptive Expectations (Applied Macro / Behavioural)

The contradiction: Muth/Lucas: agents use all information. Cagan/Friedman: agents extrapolate from the past.

Real-life situation: Indian households in 2022 kept expecting 6% inflation because they had seen 6% (adaptive), while bond traders instantly priced in the Ukraine-war oil shock (rational). Same economy, two expectation regimes.

14. Free-Market vs State Intervention in Agriculture (Agricultural Economics, Units IV–V)

The contradiction: WTO/globalisation logic vs MSP, PDS and input subsidies.

Real-life situation: India simultaneously signs WTO commitments to cut subsidies and expands MSP procurement and free food for 80 crore people — two contradictory policy stacks running in parallel.

15. Pure Risk vs Speculative Risk (Economics of Insurance, Unit II)

The contradiction: Insurance handles pure (loss-only) risk; markets handle speculative (loss-or-gain) risk.

Real-life situation: Crypto 'insurance' products (e.g. cover for exchange hacks) blur the line — the underlying asset is speculative, yet buyers demand pure-risk cover, a category error the syllabus warns against.

16. Neoclassical Rationality vs Behavioural Economics (Behavioural Elective)

The contradiction: Homo economicus vs prospect theory, framing, nudges.

Real-life situation: India's 2014 Jan Dhan zero-balance accounts succeeded because of a *default nudge*, not because the unbanked did an expected-utility calculation — a real-world defeat for the rational-agent model.

Takeaway

Every unit of the M.A. Economics syllabus contains at least one theoretical rivalry that plays out in current Indian and global policy. Mastery of the course means knowing *when* each competing theory applies — not choosing one and dismissing the other.