The Role of Models

The Test of a Model
- We never know whether models are true or false.
- Some models fit the facts better than others.
- But what about a simple model that “pretty much fits the facts”?

Simple vs. Complicated Models
- The economic models we use in this course are necessarily simple.
- But sometimes a simple model is quite useful.

Two Examples
- Is the world flat or round?
Two Examples

• Is the world flat or round?
  – Driving around Ohio
  – Flying to Asia

• How to drive to San Francisco
  – Take I-80
  – We miss details, but we better have the general model in mind.

In Summary

• Models can be powerful and useful
• The ultimate test is “does it fit the facts”.

End

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