

# An Analysis of the Relationship Between Theoretical Economics and Applied Economics

Luyue Wu

Curtin Singapore, Singapore

**Abstract.** With the increasing enhancement of China's economic strength, various theoretical aspects related to economics have garnered widespread attention from all sectors of society. Clarifying the concepts of theoretical economics and applied economics, and understanding the relationship between the two, has become a primary focus in numerous developmental fields today. Comparatively, any theoretical research requires consideration of practical outcomes. However, during the study of economic theories, deviations inevitably arise due to multiple influencing factors, and the content related to theoretical economics has not been highly emphasized, ultimately leading to problems in economic activities. Therefore, mastering the relationship between theoretical economics and applied economics to promote orderly economic activities has become an important direction for economic endeavors. This paper delves into the relationship between theoretical economics and applied economics, analyzes their significance within the field of economics, identifies current issues, and proposes effective strategies to promote the balanced development of both, aiming to provide valuable references for economic research and practice.

**Keywords:** Theoretical Economics, Applied Economics, Relationship.

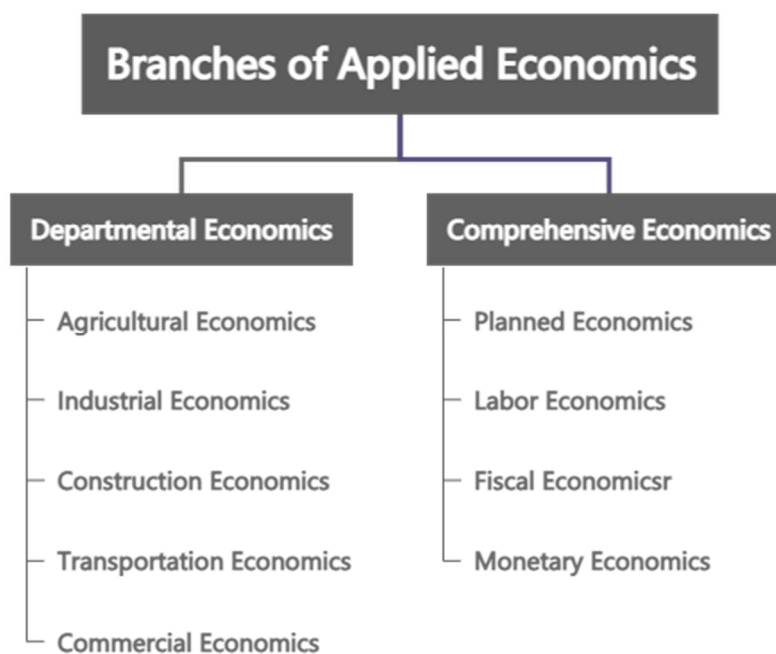
## 1. A Brief Explanation of Theoretical Economics and Applied Economics

### 1.1. Theoretical Economics

Theoretical economics comprises a system of theories built from basic economic concepts, categories, and category systems, including general theoretical economics and specific theoretical economics. General theoretical economics includes human economics and scientific economics, while political economics is a form of specific theoretical economics. Theoretical economics provides the theoretical foundation for branch economics. Scientific theoretical economics reflects the general laws of human economic development and consists of economic axioms, theorems, and theorem systems<sup>[1-2]</sup>. Scientific theoretical economics not only includes the basic theories of economics but also the fundamental principles of economics. Political economics contains only the basic theories of economics without the true fundamental principles. Political economics is divided into macroeconomics and microeconomics; scientific theoretical economics is holistic economics, unifying macroeconomics and microeconomics. Political economics is the disciplinary normative name for theoretical economics, but there is a significant difference between them: political economics also involves practical applications. In other words, political economics pursues the overall occurrence of human actions.

### 1.2. Applied Economics

Applied economics primarily refers to the various economic disciplines established by applying the fundamental principles of theoretical economics to study the regularities of economic activities and economic relationships in various sectors and professional fields of the national economy, or to analyze the economic and social benefits in non-economic activity areas. Applied economics can be broadly divided into several branches, as shown in Figure 1.



**Figure 1.** Branches of Applied Economics

Applied economics has a very wide scope and can further supplement the content of theoretical economics, fully exerting its practical utility.

## **2. The Importance of Theoretical Economics and Applied Economics in Economics**

### **2.1. Building the Foundation of Economics**

In the field of economics, theoretical economics, as a crucial branch, plays a pivotal role. It utilizes rigorous mathematical models and in-depth theoretical analysis to reveal the fundamental laws and principles hidden behind economic phenomena. These laws and principles form the cornerstone of economic theory, providing the entire discipline with a unified and robust analytical framework and explanatory tools. In comparison, theoretical economics has a broad and profound research background, involving the overall operation of the macroeconomy and focusing on the economic behavior of micro-individuals<sup>[3-4]</sup>. By systematically summarizing these complex economic phenomena, theoretical economics is able to distill universally applicable economic laws, laying a solid foundation for the development of economics.

### **2.2. Solving Practical Problems**

In the field of economics, applied economics skillfully applies the principles and methods of theoretical economics to analyze and solve specific economic problems, providing valuable decision-making bases for policymakers and businesses through empirical research. The research background of applied economics covers industries, regional economies, financial economics, and other fields. By leveraging rich data and case studies, it delves deeply into economic phenomena, reveals economic laws, provides scientific bases for policy formulation, and assists businesses in making informed decisions. Through empirical research in applied economics, we can more accurately grasp the pulse of economic development, predict economic trends, and thus formulate more scientific and reasonable economic policies, promoting sustained and healthy economic development.

### 3. The Relationship Between Theoretical Economics and Applied Economics

#### 3.1. Differences

Theoretical economics and applied economics both fall under the umbrella of economics, but their research directions differ, exhibiting clear distinctions as shown in Table 1. From a purely literal perspective, theoretical economics focuses more on the study of economic concepts and principles, summarizing related laws based on the development of the market economy to provide theoretical guidance for practical applications. Typically, theoretical economics can be further divided into micro and macro levels due to different research objects, resulting in differing focal points. Applied economics, on the other hand, is based on theoretical knowledge and applies it to actual applications, deriving certain laws from market economic activities to improve application effectiveness. Thus, theoretical economics has a higher degree of practicality. In the context of global economic integration and increasingly fierce market competition, the coordinated development of theoretical economics and applied economics is of significant importance for promoting theoretical innovation and practical application in economics<sup>[5]</sup>.

**Table 1.** Differences Between Theoretical Economics and Applied Economics

	Theoretical economics	Applied economics	Notes
Research Direction	Research on concepts and principles	Practical application Research	Theoretical economics focuses on the exploration of basic concepts and principles of economics, while applied economics focuses on the application of these theories in real economic activities
Object of study	Market economy situation	Market economic activities	Theoretical economics takes the overall situation of the market economy as the research object and summarizes the economic laws. Applied economics focuses on specific market economic activities and obtains application rules from them
Focus	Summarize economic laws	Improve application effectiveness	Theoretical economics focuses on the summarization and induction of economic laws to provide theoretical guidance for practice. Applied economics pays more attention to improving the effect of theory in practical application

#### 3.2. Interrelation

There exists a close and inseparable relationship between theory and practice. Practice is the source and foundation of theory; any theory detached from practice will fall into metaphysical abstraction. Conversely, theory plays an important guiding role in practice. The two complement each other, jointly promoting the progress of things. However, some people hold a biased view of theoretical economics, believing it only has academic value, lacks practical value, and cannot solve real economic problems. They consider applied economics more important due to its higher practical value, capable of effectively solving existing economic issues in society, even without theoretical economics as guidance, thereby assisting managers in scientifically managing enterprises and handling socio-economic problems, promoting social progress. This narrow perspective lacks comprehensiveness. In a market economy system, it is essential to use dialectics to view theoretical economics and applied economics. Every development has its inherent laws, and theoretical

economics is no exception. Without a foundational theory as a base, practical applications will encounter problems that cannot be promptly resolved.

## **4. Current Status of Theoretical Economics and Applied Economics**

### **4.1. Neglect of Theoretical Academic Research**

Currently, applied economics receives considerable attention in the academic field of economics, closely linked to the vigorous development of China's economy. However, during the glorious forty years of reform and opening up, the development of spiritual culture has not kept pace with economic prosperity, resulting in theoretical economics not receiving the attention it deserves. Some scholars, driven by interests and reputation, prefer to study applied economics, especially practical economic issues<sup>[6-7]</sup>. This phenomenon has become increasingly severe in the absence of effective supervision, negatively impacting the academic community of economics. Allowing this trend to continue will not only mislead young people in their professional choices but also result in a growing shortage of talents in theoretical research, limiting the development of economics. If platforms for theoretical research talents are not provided, it can easily dampen young people's confidence in theoretical research, causing them to switch to other fields. This not only wastes educational resources but also leads to imbalances in China's economic development, which is detrimental to the country's comprehensive progress. Therefore, as talents in the new era, it is essential to have farsightedness and adopt the correct perspective towards theoretical economics, highly valuing and recognizing theoretical academic achievements. Only in this way can theoretical research achieve fruitful results, laying a solid foundation for the development of applied economics and realizing balanced and sustainable economic development in China.

### **4.2. Publishing Sector's One-Sided Tendencies**

Currently, in economic journals, applied economics is favored due to its practical relevance and ease of application, with papers and journals being published relatively smoothly. In contrast, theoretical economics faces neglect from publishers. Many creators submit their work, but the staff's attitude is relatively indifferent. Some publishers even implement rigid regulations, requiring theoretical creators to provide their own funding for academic monographs, with the required funding amounts being relatively large, making it difficult for creators to afford. This results in new ideas and theories not being manifested, thereby limiting social progress. Even if some works are published, they often face poor sales, and many high-quality works are at risk of being lost, which is a serious loss for the field of economics. Compared to the awkward situation of theoretical research, applied research is more welcomed by publishers, but this also leads to the influx of some low-quality works, reducing their applied value. Theoretical scholars often lack financial support during their research, making it difficult to fully commit unless significant results are achieved, which restricts the production and quality of theoretical academic achievements.

### **4.3. Educational Sector's Bias**

In the current higher education system's economics education, applied economics undoubtedly occupies a mainstream position, highly sought after by schools, teachers, and students alike, while theoretical economics appears neglected. This trend is particularly evident in the choice of majors and the filling of preferences. Since the 1990s, China's finance and economics institutions have experienced a surge in admissions<sup>[8]</sup>. Majors such as finance, accounting, securities and futures, and foreign trade are booming, with their admission scores reaching new heights annually. These majors essentially fall under the category of applied economics, emphasizing practical skills. Their employment prospects and salary levels are also higher than those of theoretical economics research. In contrast, majors such as financial analysis and economic fundamentals, which lean towards theoretical economics, are less popular, especially evident in graduate admissions. The interest and enthusiasm of economics students also differ significantly between the two disciplines. Most students

find the dull theoretical studies and research tedious, showing greater interest in applied economics or more practice-oriented courses. Against this backdrop, some institutions adjust their curricula to cater to student demands by reducing theoretical economics courses and increasing applied economics courses. However, this approach is akin to abandoning the essence, lacking the support of theoretical economics knowledge, making it difficult for students to conduct in-depth research in applied economics and achieve comprehensive development.

## **5. Effective Strategies for the Balanced Development of Economic Theory and Application**

### **5.1. Transform Traditional Academic Concepts**

Currently, there is a prejudice against theoretical economics in the academic community, necessitating the establishment of correct perspectives and increased emphasis on theoretical research. To change this situation, platforms should be built to encourage capable individuals to publish academic achievements, thereby enhancing the visibility of theoretical economics, attracting young people to engage in theoretical research, and providing a solid theoretical foundation for applied economics. Firstly, research funds should be established to support theoretical research, allowing theoretical scholars to focus on their academic work, thereby providing a solid backing and injecting vitality into theoretical economics. At the same time, the current state of academic research should be effectively changed to enable a shift in thinking, allowing theoretical economics and applied economics to develop in balance. Secondly, educators must understand the role of theoretical economics and recognize that it coordinates with applied economics, maintaining a close relationship. To deeply practice applied economics, it must be rooted in theoretical research, which not only reflects the essential characteristics of economics but also plays a prerequisite role in practical applications. Therefore, researchers need to strengthen their study of fundamental theories, establish a new economic perspective, and consciously improve their theoretical knowledge levels, rather than merely studying for exams. Only in this way can we truly promote the comprehensive development of economics.

### **5.2. Integrate Theory and Practice**

Emphasizing the importance of basic theoretical teaching does not mean severing it from the practical education of applied economics. Basic theory is not a castle in the air but is closely connected to economic and social realities. True education should ensure that students can apply what they have learned, avoiding the embarrassment of learning without practical use. If theory and practice lack connection, this mode of training has obvious drawbacks, hindering the growth and development of talents. Theory must serve economic practice to have value; the study of basic theory should be closely integrated with economic practice. By learning theory in conjunction with practical application and relating theory to practice, a deeper understanding of theory and a higher level of comprehension of practice can be achieved. This is an effective way to enhance students' ability to use their knowledge to analyze and solve problems. Such an educational model not only promotes the comprehensive development of students but also cultivates more talent in the field of economics with practical abilities<sup>[9]</sup>.

### **5.3. Innovate Teaching Methods**

Influenced by traditional teaching concepts, teaching methods are relatively dull and monotonous. In daily economic theory classes, single teaching methods fail to stimulate students' interest in learning, leading students to passively receive and memorize information, which is ineffective. In the process of teaching theoretical economics, students should be encouraged to read more, think more, and communicate more. Through mutual exchange and discussion, ideas can be inspired, and perspectives broadened. Additionally, students should be encouraged to write, whether it be learning

insights, reflections, critiques, or articles. Teachers should play a guiding role in students' autonomous learning, helping them balance their energy and time between studying theoretical economics and applied economics to achieve comprehensive development. Innovative learning methods can promote a deeper understanding of theoretical economics, provide valuable practice opportunities for applying theory to practice, and solving problems analytically, thereby truly enhancing learning outcomes<sup>[10]</sup>.

## 6. Conclusion

Theory is the foundation of practice, and practice is the guarantee of theory. Theoretical economics is the foundation of various applied economics. The emergence and development of theoretical economics provide strong momentum and support for applied economics. Without a solid foundation in theoretical economics, subsequent research in applied economics would be merely empty talk. Without the guidance of fundamental economics, applied economics cannot develop smoothly. However, influenced by objective factors, the situation of emphasizing application while neglecting theory still exists. Personnel in the field of economics should recognize the correlation between the two, ensure the balance of economics, and thereby promote the development of economic construction in China.

## References

- [1] Bruno, B., Faggini, M., & Parziale, A. (2018). Innovation policies: Strategy of growth in a complex perspective. In *Social Dynamics in a Systems Perspective* (pp. 65–84). Cham: Springer International Publishing.
- [2] Chakraborti, A., Sharma, H., & Pharasi, H. K. (2021). Phase separation and scaling in correlation structures of financial markets. *Journal of Physics: Complexity*, 2, 015002. [CrossRef]
- [3] Budd, L., Sancino, A., Pagani, M., Kristmundsson, Ó., Roncevic, B., & Steiner, M. (2017). Sport as a complex adaptive system for place-based leadership: Comparing five European cities with different administrative and socio-cultural traditions. *Local Economy*, 32, 316–335. [CrossRef]
- [4] Evans, J., Allan, N., & Cattle, N. (2017). A new insight into the World Economic Forum global risks. *Economic Papers: A Journal of Applied Economics and Policy*, 36, 185–197. [CrossRef]
- [5] Byrne, D., & Callaghan, G. (2013). *Complexity Theory and the Social Sciences: The State of the Art*. London: Routledge.
- [6] Espejo, R. (2018). Social dynamics in a systems perspective. In *Social Dynamics in a Systems Perspective* (pp. 121–135). Cham: Springer.
- [7] Chae, B. K. (2012). An evolutionary framework for service innovation: Insights of complexity theory for service science. *International Journal of Production Economics*, 135, 813–822. [CrossRef]
- [8] Stuart, M., Placona, A., Vece, G., Lindblad, K., Diallo, S., & Carrico, B. (2022). Perspective on macroscale complexity in the national transplant system. *Complexity*, 2022, 3221885. [CrossRef]
- [9] Farmer, J., & Sidorowich, J. J. (1987). Predicting chaotic time series. *Physical Review Letters*, 59, 845. [CrossRef] [PubMed]
- [10] Fontana, M. (2010). The Santa Fe perspective on economics: Emerging patterns in the science of complexity. *History of Economic Ideas XVIII*, 167–194.