In this presentation, we will discuss the concept of underlying assumptions and will go over the approach you should take to analyze the case for this module. At the end, we will cover the questions you should address for your mini-case write-up.

The best way to think of an underlying assumption is to consider it a missing link. When there is not enough evidence to support an argument’s validity, the missing link is considered an underlying or implied assumption. Think about the following claim: McDonald’s wastes money on research into healthier food items. The evidence is: McDonald’s spends millions of dollars annually on research into food, but its menu items are still unhealthy. What do you think are some underlying assumptions here? Take a few minutes to think about them.

By itself, the evidence presented does not make the claim valid. Perhaps additional evidence that showed how much of McDonald’s food budget was spent on research into the nutritional content of food is needed. Or evidence that indicated that the nutritional content of its menu items had not changed significantly over the years. These are just a couple of examples, but the key to understanding the concept of underlying assumptions is to consider what evidence needs to be put forth to make the claim valid.

There are two different types of assumptions we need to consider. The first is a reality assumption. A reality assumption is a belief about something that has taken place, an event, what exists, how things work in the real world, etc. These are relatively easy to change by presenting adequate evidence.

The other type of assumption is a bit more difficult to change: it is based on our values or ideals, our standards of right and wrong, or our ideas about the way things should ideally be. Value conflict is quite common and must be considered…think of the concept of social responsibility. Some people may hold this very high, while others may feel less strongly.

Let’s go through a couple more examples of locating assumptions. The claim made is that smokers who continue smoking against doctors’ advice should have to wait longer than non-smokers for medical treatment. The evidence provided is that both the British health system gives lower priority to smokers for coronary operations, and that also the Canadian health system is over extended. Pause this presentation and try to identify some underlying assumptions.

There are a number of underlying assumptions that can support the validity of the claim. For example, smokers are sicker than non-smokers and need more health care; sick smokers who continue to smoke should be punished for it; doctors’ advice should be obeyed; British doctors are role models for Canadians; the way to deal with an over-extended health system is to prioritize care. Did you think of any others?

Let’s look at another example. The claim is a cashless society is a bad idea. The evidence provided is that the disruption of power supply would create havoc for customers and businesses. Consider the biggest underlying reality assumption.

The main rationale that is provided here is that electronic transactions cannot be completed if there is no power. Is this assumption warranted? Is it valid? These are some other questions to think of when you are looking at underlying assumptions.
What if for the same claim, the evidence provided was that the informal economy depends on cash transactions. What does that do to the main underlying value assumption? Consider the main assumption again.

The main assumption here is that the informal economy needs to be protected. Since the informal economy depends on cash transactions, if we eliminated cash transactions, then the informal economy will disappear. What are some other assumptions that come into play when we identify this value assumption? The informal economy cannot transition to cashless transactions? Are these assumptions valid? Are they warranted? Do you hold the same value about protecting the informal economy?

As you can see from our prior discussion, different people may identify different underlying assumptions based on their individual belief structures. The key is that you adequately discuss the assumptions that you identify. Many times there are no exact right or wrong answers…especially if it boils down to values, we may get a variety of differing views. When you disagree with the claims being made, you need to clearly state your evidence to support your disagreement. As with our earlier discussion on discussing evidence where we indicated that it is not enough just to present the evidence, you must discuss it as well; here, you can’t just disagree with the claims, you need to discuss why you disagree with them. When you agree with a claim, you should also get into the habit of elaborating on why you agree…add your own insights or additional evidence.

For the case study in this module, we will examine the Federal Reserve and its approach to quantitative easing (QE) during the recent recession and the impact it had on financial markets. Give some thought to the underlying assumptions that were made by the FED with regards to its policy. What were the claims made? What evidence was provided to support those claims? What were some underlying assumptions that were held by the FED? Did those assumptions end up being true?

From an economic perspective, think about the mechanism by which QE would stimulate the economy. How would it impact different economic sectors? What about its impact on different economic variables?

Finally, think about the impact of QE on a company’s financial status. What impact will it have on a company’s cost of capital and capital structure? What about the valuation and price of its stock?