CAPITALISM I

MPA 612: Economy, Society, and Public Policy

January 7, 2019

PLAN FOR TODAY

Technology, growth, and capitalism

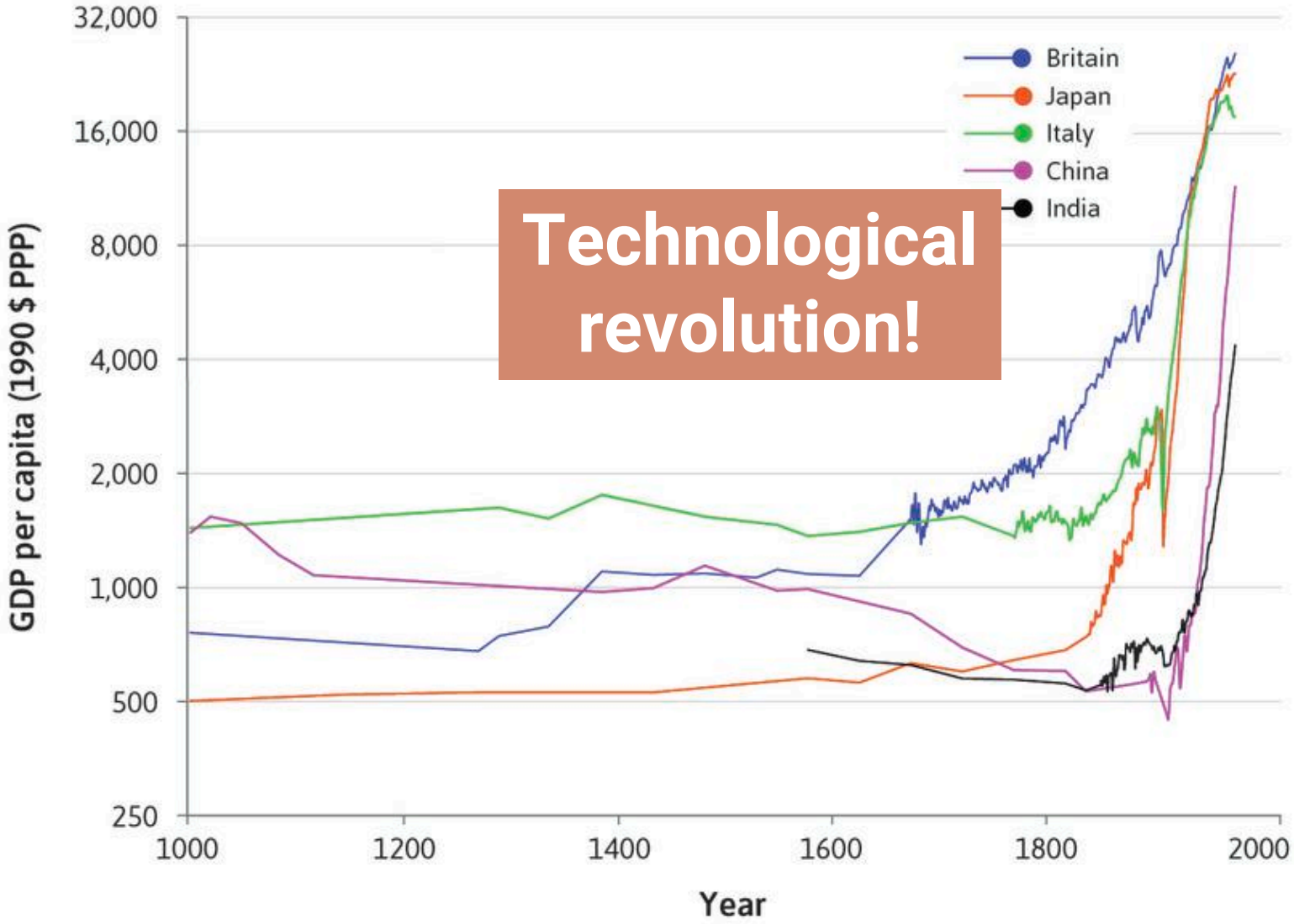
Institutions and coordination

Why do we make you take this class?

Class details

TECHNOLOGY, GROWTH, AND CAPITALISM

WHAT HAPPENED?



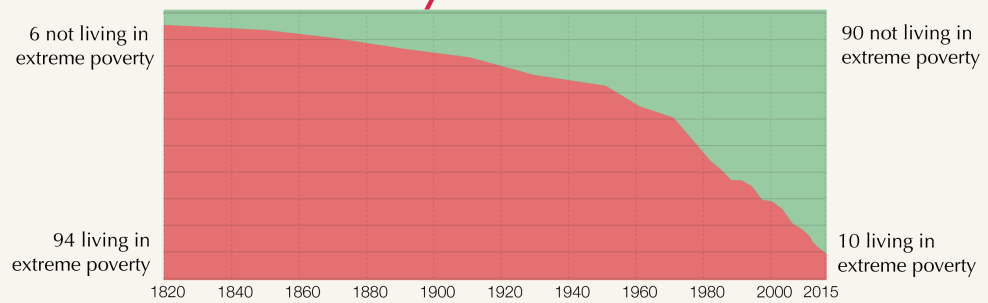
TECHNOLOGICAL REVOLUTION

As the time to produce stuff decreases, living standards increase

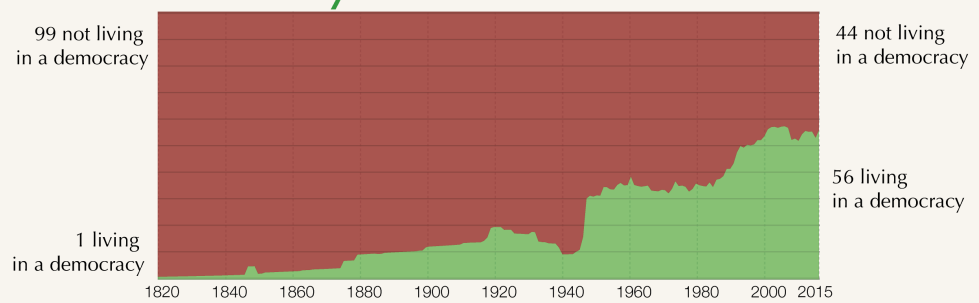
The World as 100 People
over the last two centuries

Our World in Data

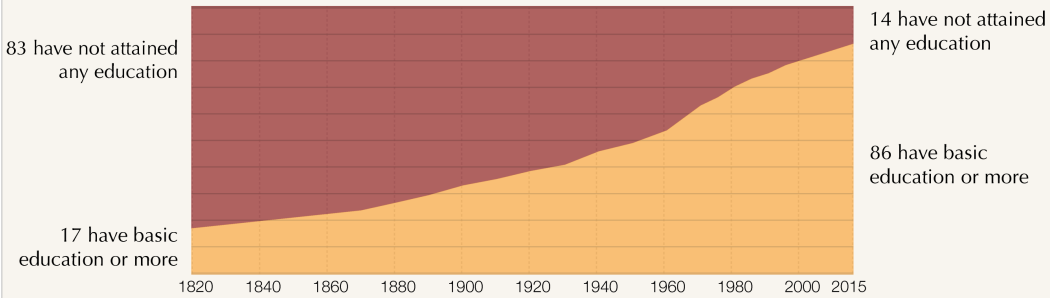
Extreme Poverty



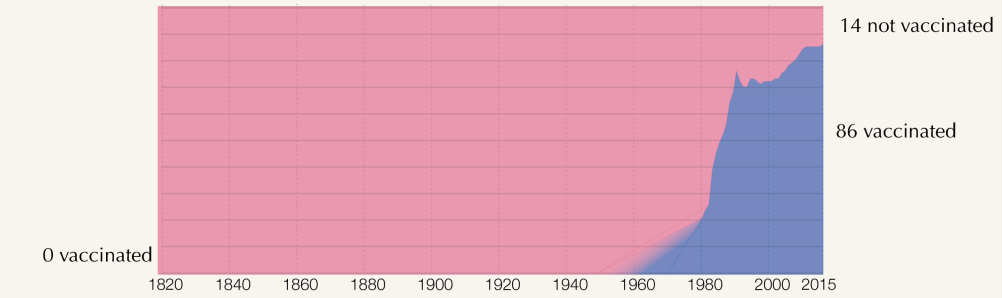
Democracy



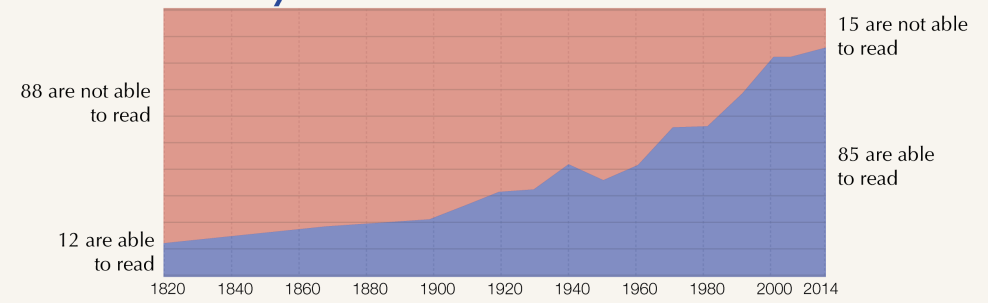
Basic Education



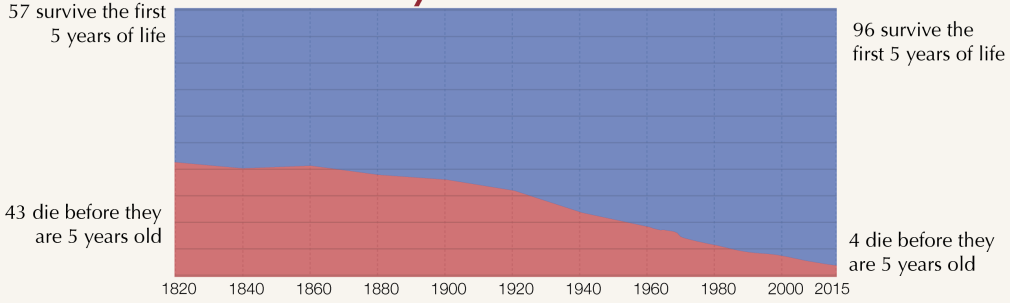
Vaccination against diphtheria, pertussis (whooping cough), and tetanus



Literacy

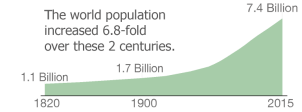


Child Mortality



Data sources:

Extreme Poverty: Bourguignon & Morrison (2002) up to 1970 – World Bank 1981 and later (2015 is a projection).
Vaccination: WHO (Global data are available for 1980 to 2015 – the DPT3 vaccination was licenced in 1949)
Education: OECD for the period 1820 to 1960. IIASA for the time thereafter.
Literacy: OECD for the period 1820 to 1990. UNESCO for 2004 and later.
Democracy: Politiy IV index (own calcluation of global population share)
Colonialism: Wimmer and Min (own calcluation of global population share)
Continent: HYDE database
Child mortality: up to 1960 own caluclations based on Gapminder; World Bank thereafter



All these visualizations are from OurWorldInData.org an online publication that presents the empirical evidence on how the world is changing.

SYSTEMS & INSTITUTIONS

Economic system

Method for producing and distributing goods and services

Institutions

Rules for the system

CAPITALIST INSTITUTIONS

Private property

The right and expectation that you can use your stuff how you want

CAPITALIST INSTITUTIONS

Markets

A way of connecting people who may mutually benefit by exchanging goods or services through a process of buying and selling

Specialization

CAPITALIST INSTITUTIONS

Firms

Organizations that use labor (people) and capital (inputs) to produce goods and services to make a profit

CAPITALIST INSTITUTIONS

Private property

Self sufficient family based production

Markets

Market economy with family based production

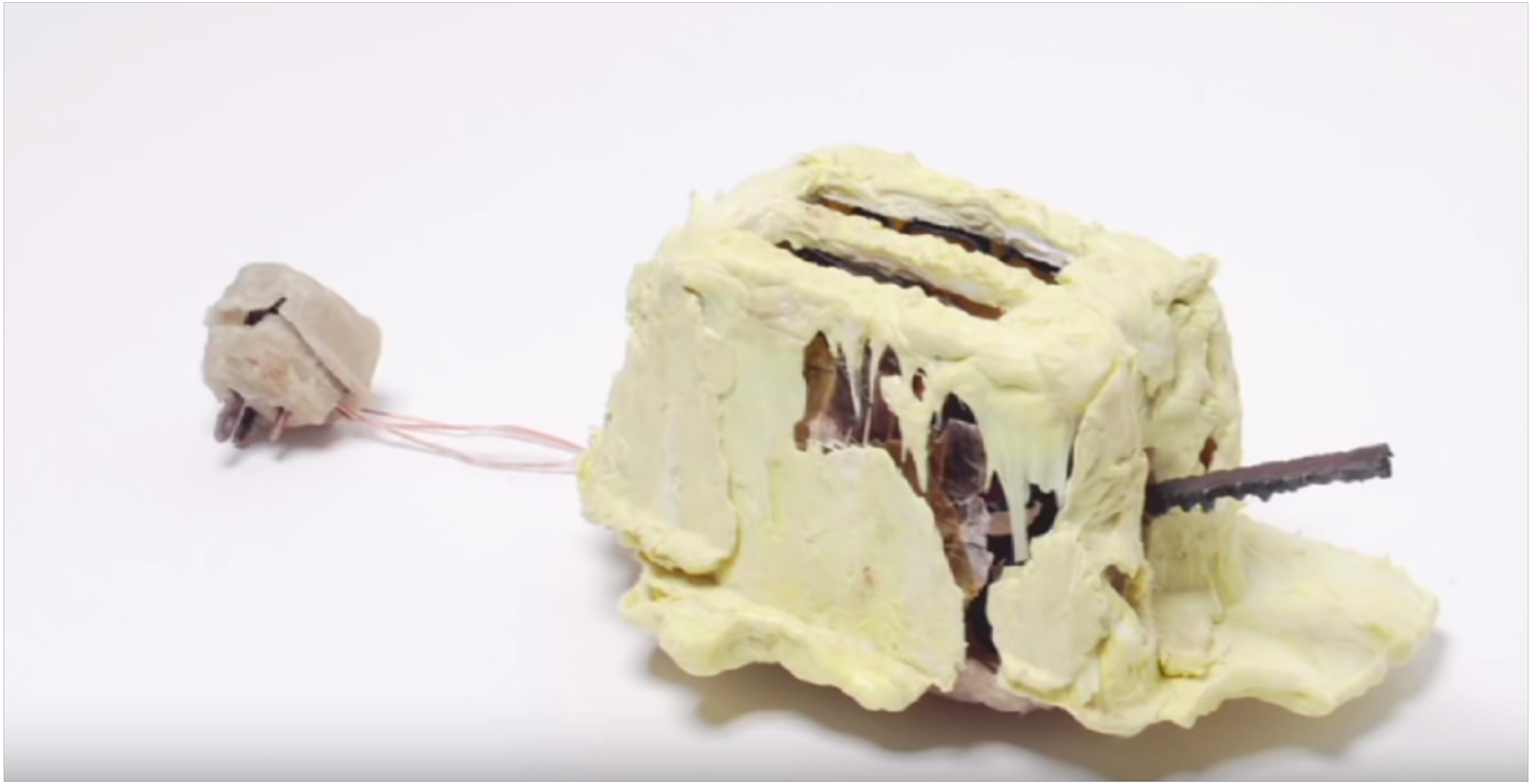
Firms

Capitalist economic system

INSTITUTIONS AND COORDINATION

CAPITALISM & TECHNOLOGY

CAPITALISM & TECHNOLOGY



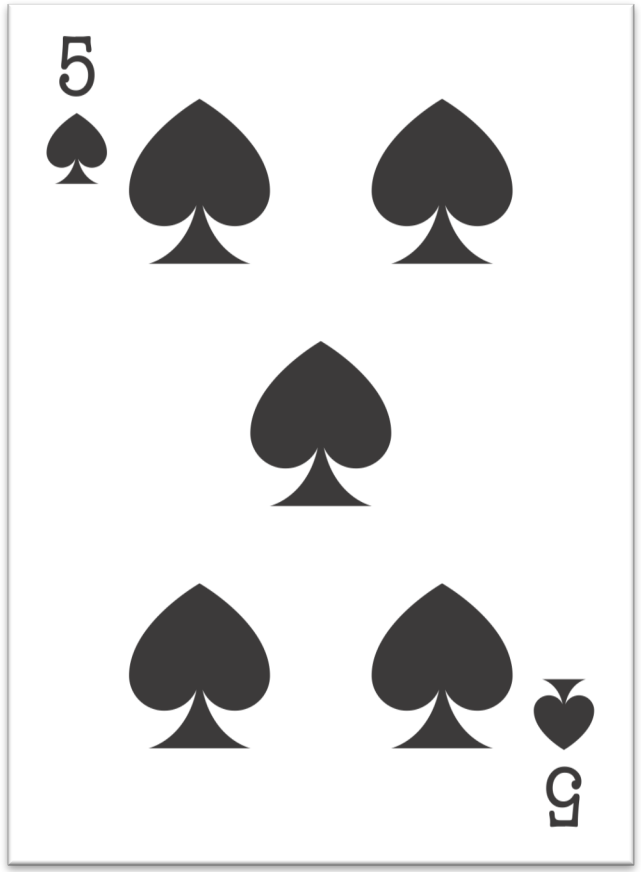
Who coordinates the Provo Skittles market?

Who coordinates the cheap plastic toaster market?

Sellers

Sell your paperclip for the highest possible price.

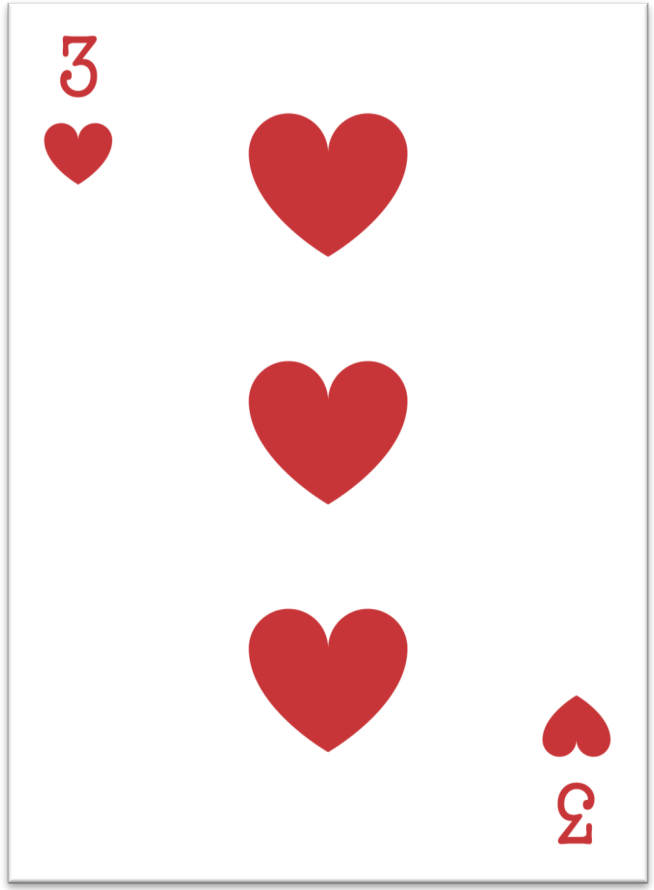
You cannot sell below this number.



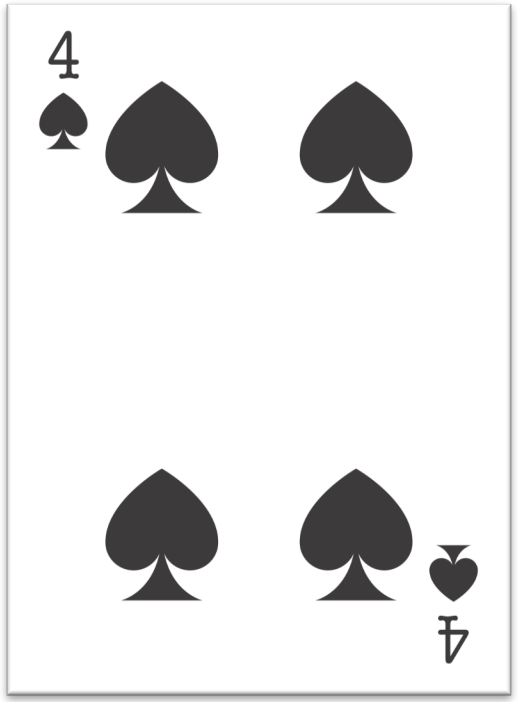
Buyers

Buy a paperclip for the lowest possible price.

You cannot pay above this number.

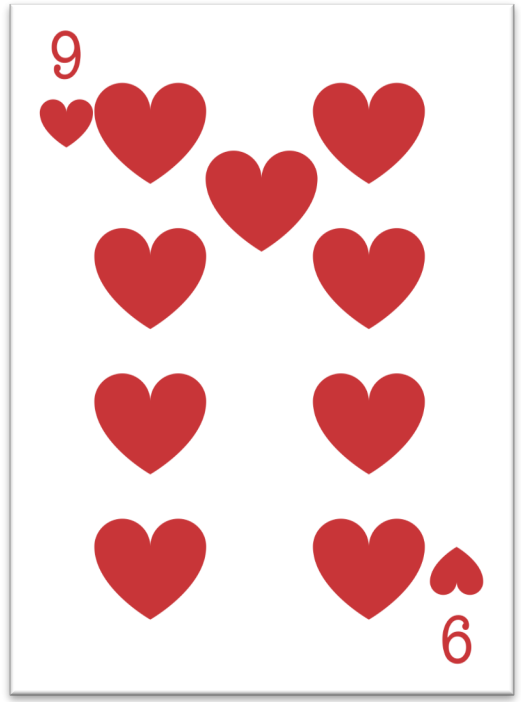


Seller



$8

Buyer



4 pieces of candy

1 piece of candy

oh noes taxes

The government has imposed a tax of $2 per paperclip, to be paid by sellers

Sellers who don’t sell don’t pay tax

Price must be at least $2 above number on seller’s card

If your card says 4, it’s really a 6

Zoinks! Price ceilings!

The government has imposed a price ceiling: no paperclip can be sold for more than $4

How’d we do?

THE INVISIBLE HAND

Everyone working in their own self interest drives the collective market

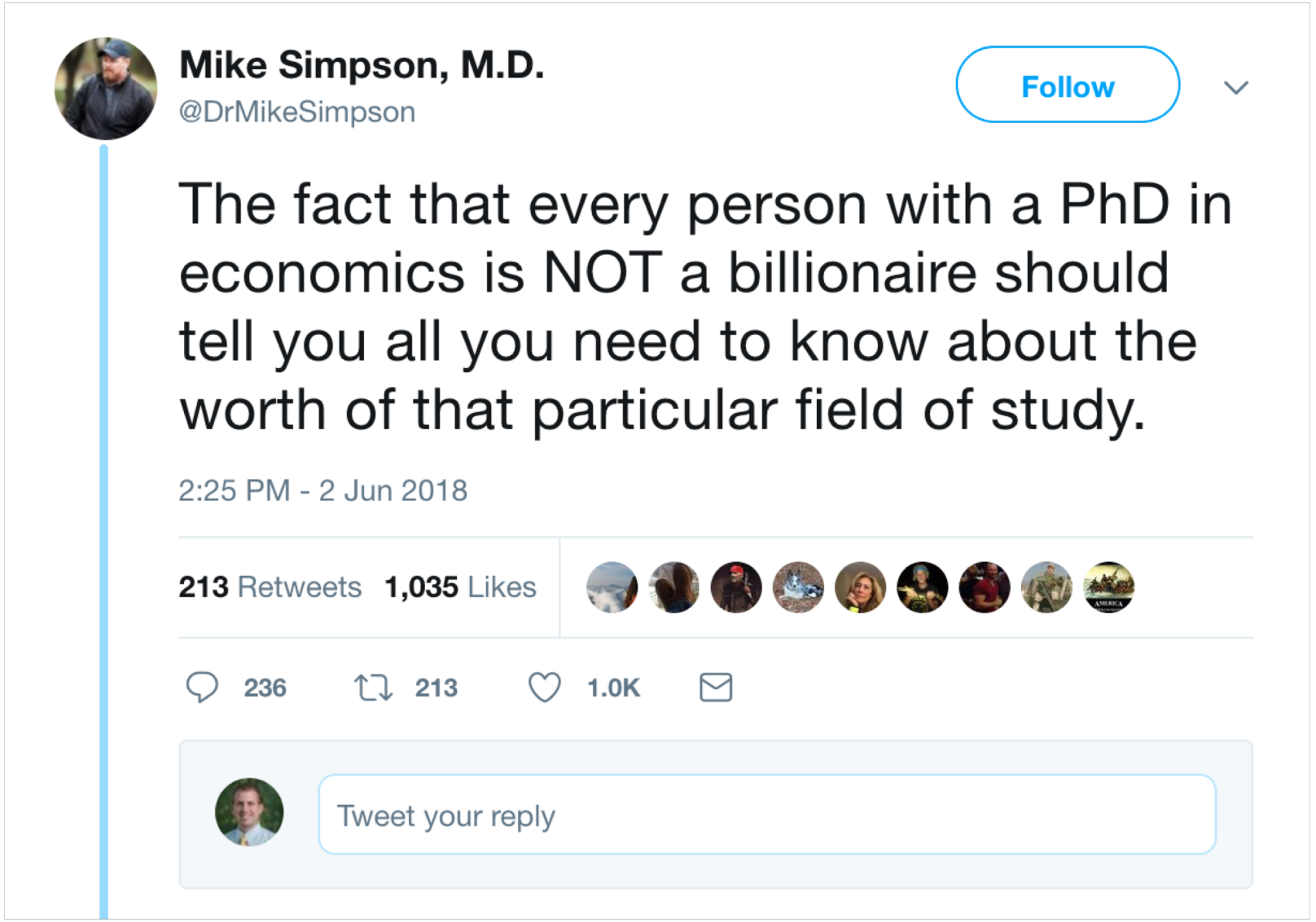
"It is not from the benevolence of the butcher, brewer, or the baker that we expect our dinner, but from regard for their own self interest"

WHY DO WE MAKE YOU TAKE THIS CLASS?

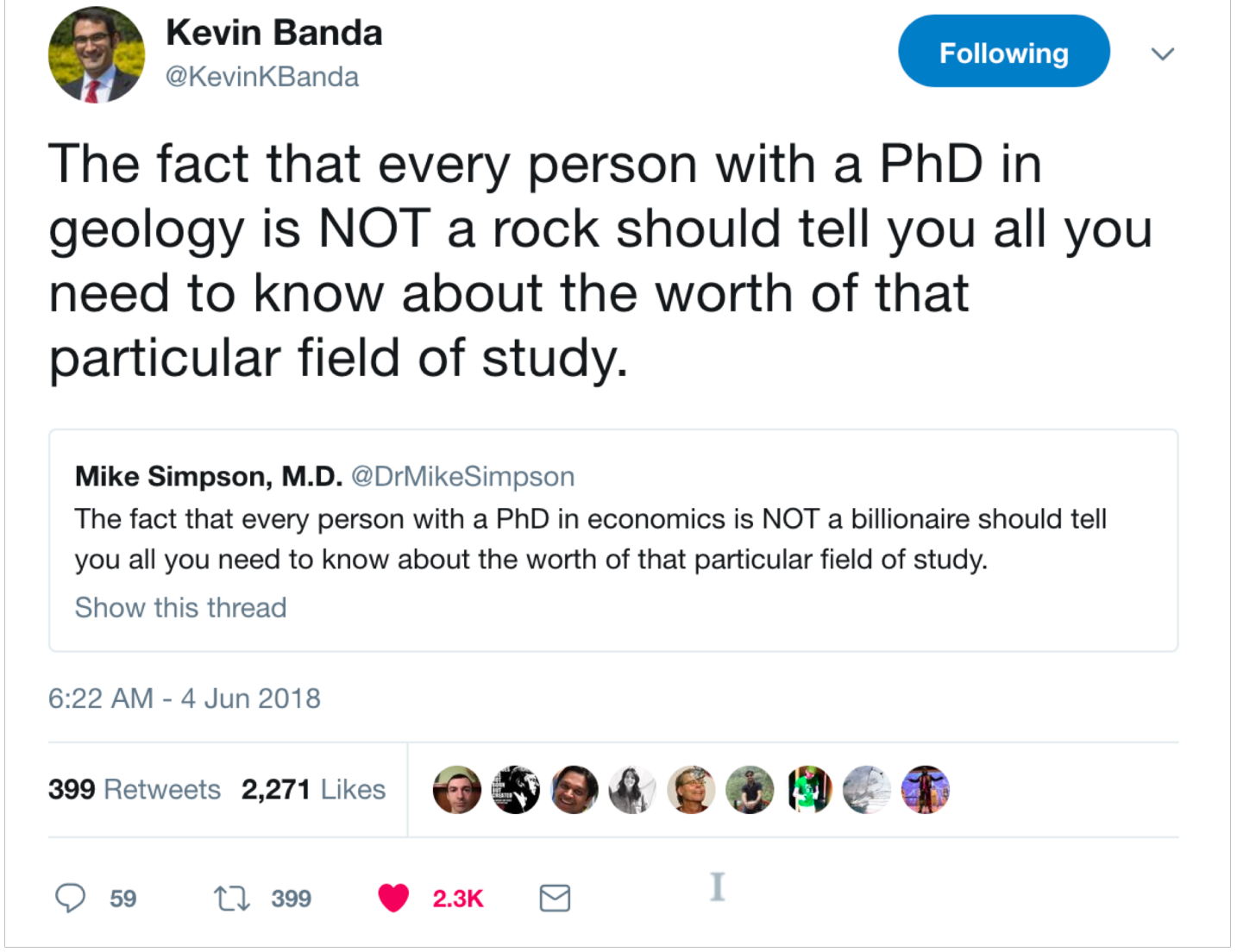
WHAT IS ECONOMICS?

The study of how people interact with each other and with their natural surroundings in providing their livelihoods, and how this changes over time.

ECONOMICS ≠ MONEY



ECONOMICS ≠ MONEY



Kevin Banda
@KevinKBanda

Following

The fact that every person with a PhD in geology is NOT a rock should tell you all you need to know about the worth of that particular field of study.

> **Mike Simpson, M.D.** @DrMikeSimpson
> The fact that every person with a PhD in economics is NOT a billionaire should tell you all you need to know about the worth of that particular field of study.
> Show this thread

6:22 AM - 4 Jun 2018

399 Retweets **2,271** Likes

59 399 2.3K

***Homo economicus* and crystal ball math**

vs.

Data + models + analysis = decisions

WHY ECON IN AN MPA PROGRAM?

Markets need referees

You are those future referees

It's the language of policy

You have to speak that language

We need experts

Democratic institutions need smart people

WHAT HAPPENS IF...

Private property is not secure?

Markets are not competitive?

Firms are run by entrenched interests?

INSTITUTIONS MATTER

The public sector provides the backdrop for capitalist institutions

LANGUAGE OF POLICY

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N Engl J Med. 2013 May 2; 368(18): 1713–1722. doi:10.1056/NEJMsa1212321.

The Oregon Experiment — Effects of Medicaid on Clinical Outcomes

Katherine Baicker, Ph.D., **Sarah L. Taubman, Sc.D.**, **Heidi L. Allen, Ph.D.**, **Mira Bernstein, Ph.D.**, **Jonathan H. Gruber, Ph.D.**, **Joseph P. Newhouse, Ph.D.**, **Eric C. Schneider, M.D.**, **Bill J. Wright, Ph.D.**, **Alan M. Zaslavsky, Ph.D.**, and **Amy N. Finkelstein, Ph.D. for the Oregon Health Study Group***
Department of Health Policy and Management, Harvard School of Public Health (K.B., J.P.N., E.C.S.), the Department of Health Care Policy, Harvard Medical School (J.P.N., E.C.S., A.M.Z.), and RAND Corporation (E.C.S.) — all in Boston; the National Bureau of Economic Research (K.B., S.L.T., M.B., J.H.G., J.P.N., A.N.F.), the Harvard Kennedy School (J.P.N.), and the Department of Economics, Massachusetts Institute of Technology (J.H.G., A.N.F.) — all in Cambridge, MA; Columbia University School of Social Work, New York (H.L.A.); and the Center for Outcomes Research and Education, Providence Portland Medical Center, Portland, OR (B.J.W.)

Abstract

BACKGROUND—Despite the imminent expansion of Medicaid coverage for low-income adults, the effects of expanding coverage are unclear. The 2008 Medicaid expansion in Oregon based on lottery drawings from a waiting list provided an opportunity to evaluate these effects.

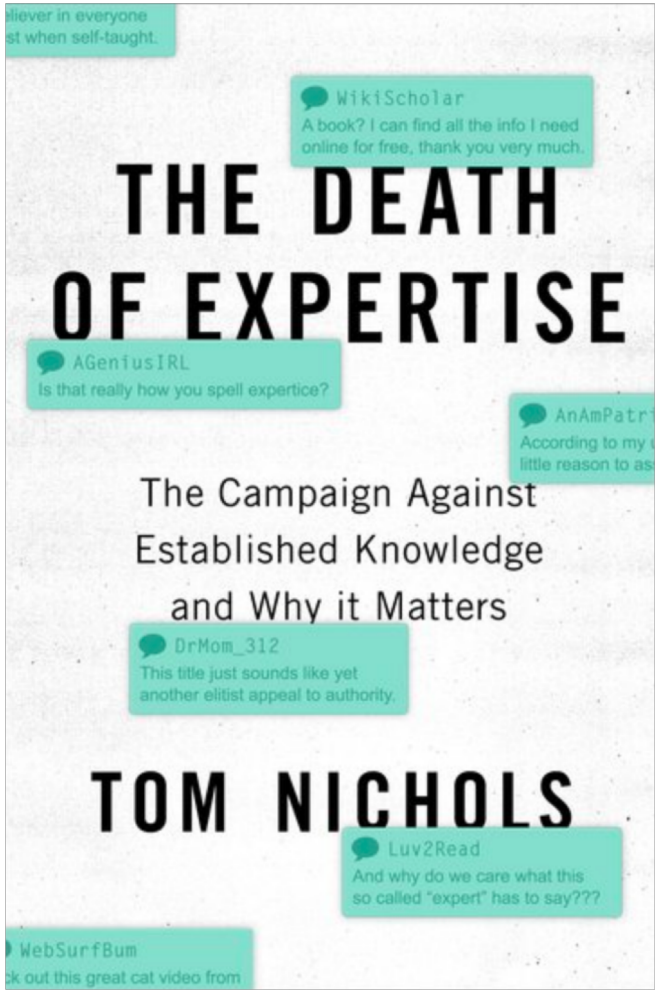
Preliminary Cost-Benefit Analysis of Ultrasonic and Camera Backup Systems

Table 2
Net Lifetime Benefits of Various Backup Systems
On a Per Vehicle Basis ($2006)

3% discount rate	50 % Driver Factor	80% Driver Factor
Ultrasonic		
At low speeds, 10 % are backing up crashes	-$82.73	-$75.34
At low speeds, 25 % are backing up crashes	-$64.26	-$45.78
Camera		
At low speeds, 10 % are backing up crashes	-$375.21	-$365.20
At low speeds, 25 % are backing up crashes	-$350.19	-$325.16
Both		
At low speeds, 10 % are backing up crashes	-$468.57	-$457.54
At low speeds, 25 % are backing up crashes	-$441.00	-$413.43

7% discount rate	50 % Driver Factor	80% Driver Factor
Ultrasonic		
At low speeds, 10 % are backing up crashes	-$74.23	-$68.35
At low speeds, 25 % are backing up crashes	-$59.53	-$44.83
Camera		
At low speeds, 10 % are backing up crashes	-$365.11	-$357.14
At low speeds, 25 % are backing up crashes	-$345.19	-$325.28
Both		
At low speeds, 10 % backing up	-$447.80	-$439.02
At low speeds, 25 % backing up	-$425.86	-$403.92

EXPERTS



When ordinary citizens believe that no one knows more than anyone else, democratic institutions are in danger

CLASS DETAILS

GOALS FOR THE CLASS

Talk like an economist

Understand the role of the public sector in capitalist markets

Do public economic analysis

Capitalism, markets, and public policy

Growth Social dilemmas

Measurement Fairness

Scarcity, power, and inequality

Preferences Institutions Rights

Evaluating and implementing policies

Cost-benefit analysis Experiments

Causal inference Politics

Market failures, governments, and politics

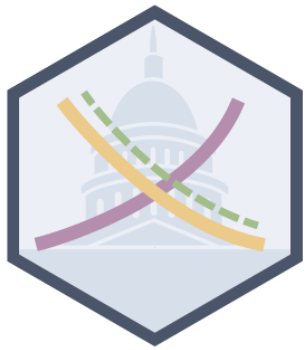
Externalities Public goods Rent seeking

Monopolies Government intervention

Economic models

Firms and markets Credit markets

Labor markets Macroeconomics



ECONOMY, SOCIETY, AND PUBLIC POLICY

THE CORE ESPP TEAM

ECONOMY, SOCIETY, AND PUBLIC POLICY

coreecon

naked economics

UNDRESSING THE DISMAL SCIENCE

fully revised and updated

Charles Wheelan

FOREWORD BY BURTON G. MALKIEL

"Clear, concise, informative, witty and, believe it or not, entertaining."
—*Chicago Tribune*

SKILLS YOU'LL NEED

Algebra

Derivatives

MAIN ASSIGNMENTS

- Readings
- Podcasts
- Labs
- Problem sets
- Economic briefing
- Exams
- Final project