

CAPITALISM II

MPA 612: Economy, Society, and Public Policy

January 9, 2019

*Fill out your reading report
on Learning Suite*

PLAN FOR TODAY

Class minutia

Importance of institutions

Downsides of capitalism

Measuring stuff correctly

CLASS MINUTIA

MAIN ASSIGNMENTS

Readings

Podcasts

Labs

Problem sets

Economic briefing

Exams

Final project

COURSE POLICIES

Class conduct and expectations

On the first day of class, will come up with rules, expectations, and policies regarding late work, laptop use, and other issues. Those will be listed here.

COURSE WEBSITE



MPA 612: ECONOMY, SOCIETY, AND PUBLIC POLICY

[SYLLABUS](#) [SCHEDULE](#) [ASSIGNMENTS](#) [REFERENCE](#) [RSTUDIO.CLOUD](#) [SLACK](#)

ECONOMY, SOCIETY, AND PUBLIC POLICY

THIS SITE CONTAINS the syllabus, schedule, and assignments for MPA 612: Economy, Society, and Public Policy, held during Winter 2019 at Brigham Young University.

By the end of this course, you will (1) be literate in fundamental economic principles, (2) understand the limits of economic theory and free markets, (3) justify government and nonprofit intervention in the economy, and (4) make informed policy recommendations by analyzing and evaluating public sector policies.

Capitalism, markets, and public policy

Growth Social dilemmas
Measurement Fairness



Scarcity, power, and inequality

Preferences Institutions Rights



ECONOMY, SOCIETY, AND PUBLIC POLICY

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

INSTRUCTOR

[Dr. Andrew Heiss](#)

639 TNRB

andrew_heiss@byu.edu

[@andrewheiss](#)

Office hours: [Sign up here](#).

E-mail is the best way to get in contact with me—I will try to respond to all course-related e-mails within 24 hours (*really*).

COURSE

MW; F (lab)

January 7–April 17, 2019

9:30–10:45 AM (§1); 8:00–9:15 AM (§2);

12:30–1:45 PM (lab)

230 TNRB

[Slack](#)

IMPORTANCE OF INSTITUTIONS

WHAT ARE INSTITUTIONS?

Rules

Formal

Informal

CAPITALIST INSTITUTIONS

Private property



Markets



Firms



WHAT HAPPENS IF...

Private property is not secure?

Markets are not competitive?

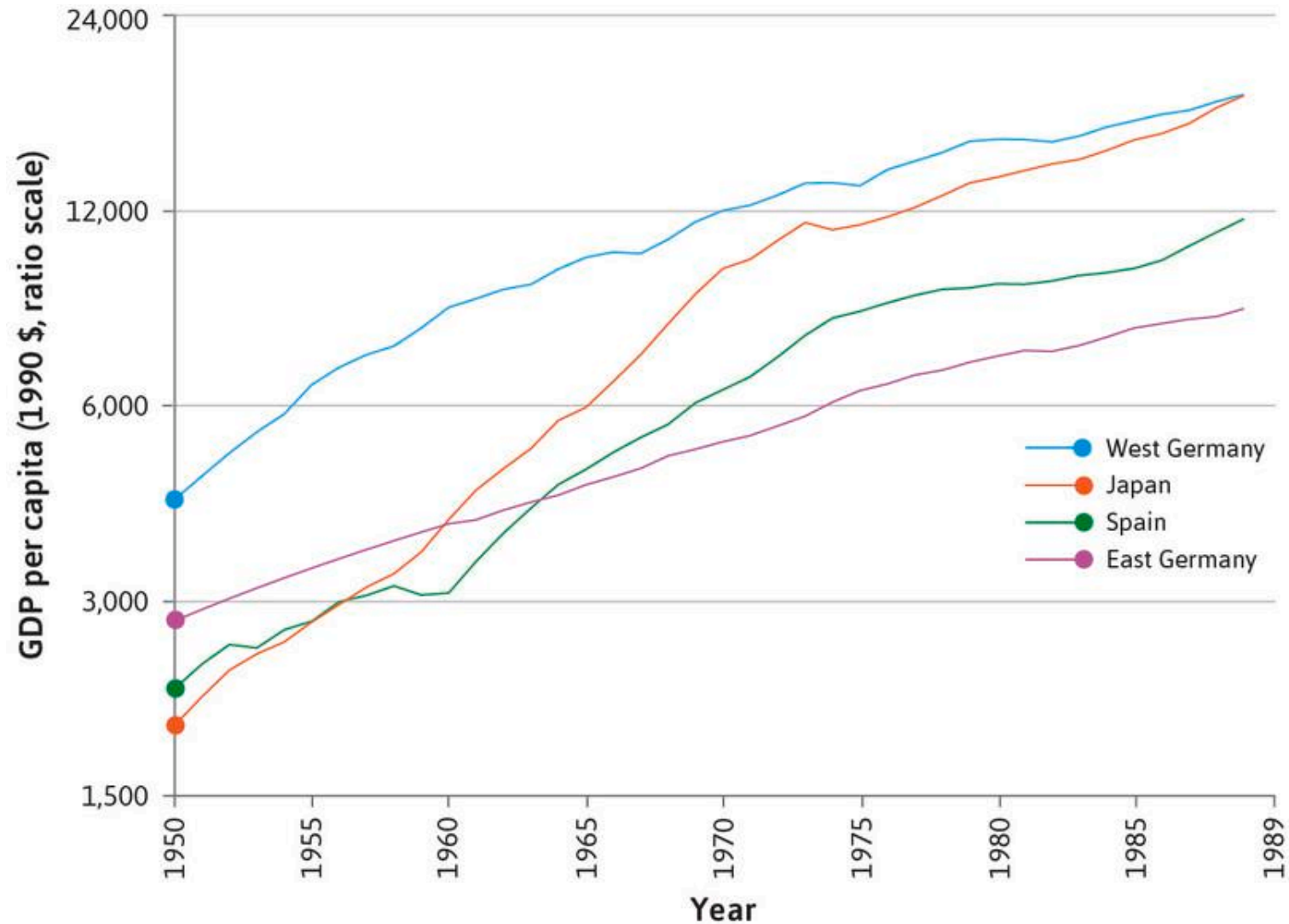
**Firms are run by
entrenched interests?**

IF INSTITUTIONS ARE BROKEN...

**It's better to not directly
create economic value**

Individuals and groups have
more to gain in lobbying and
crime to shift distribution of
income for themselves

DO INSTITUTIONS MATTER?

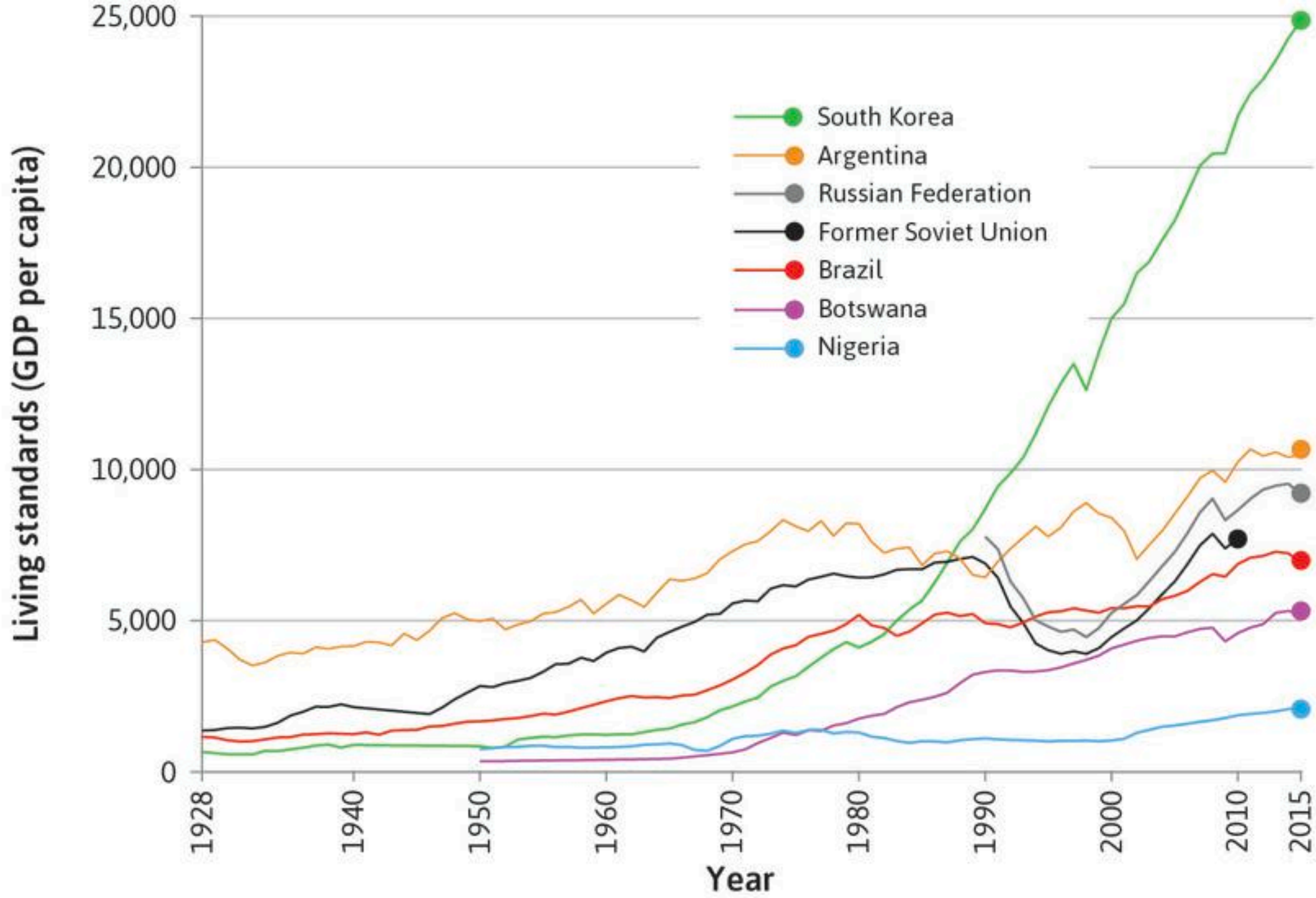


**Is democracy
necessary for
capitalism?**

1 We believe that governments were instituted of God for the benefit of man; and that he holds men accountable for their acts in relation to them, both in making laws and administering them, for the good and safety of society.

2 We believe that no government can exist in peace, except such laws are framed and held inviolate as will secure to each individual the free exercise of conscience, the right and control of property, and the protection of life.

3 We believe that all governments necessarily require civil officers and magistrates to enforce the laws of the same; and that such as will administer the law in equity and justice should be sought for and upheld by the voice of the people if a republic, or the will of the sovereign.



WHAT IS THE RIGHT INSTITUTIONAL MIX?

Incentives for innovation

Secure private property + competitive markets

Public policy

Government policies that foster these conditions

Efficient firms

Competent leadership → create goods at low cost

Public good provision

Governments fill in gaps missed by private sector

DOWNSIDES OF CAPITALISM

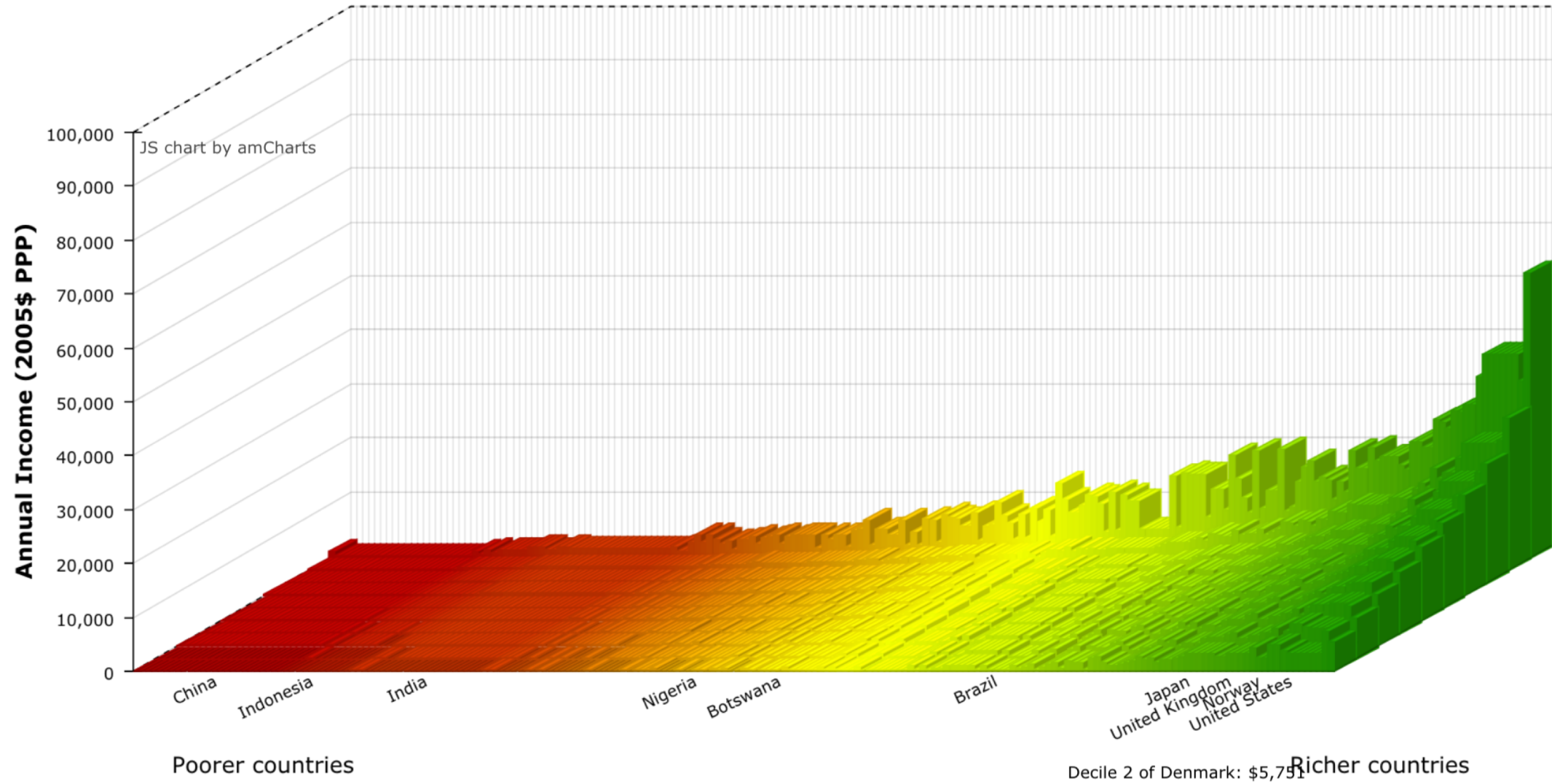


TWO CHEERS FOR CAPITALISM

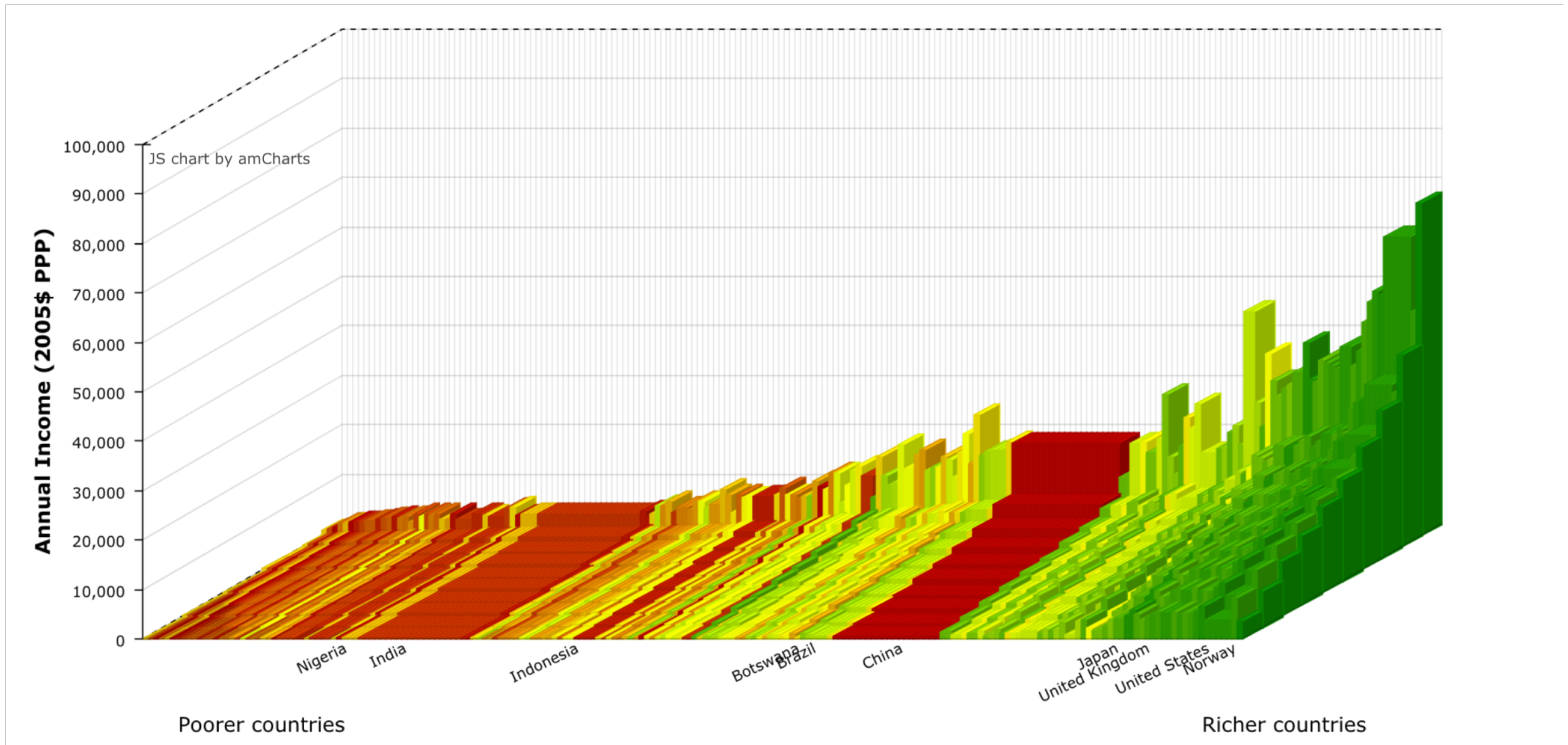
Inequality

Not all gains are spread equally
(within *and* between countries)

1980



2014

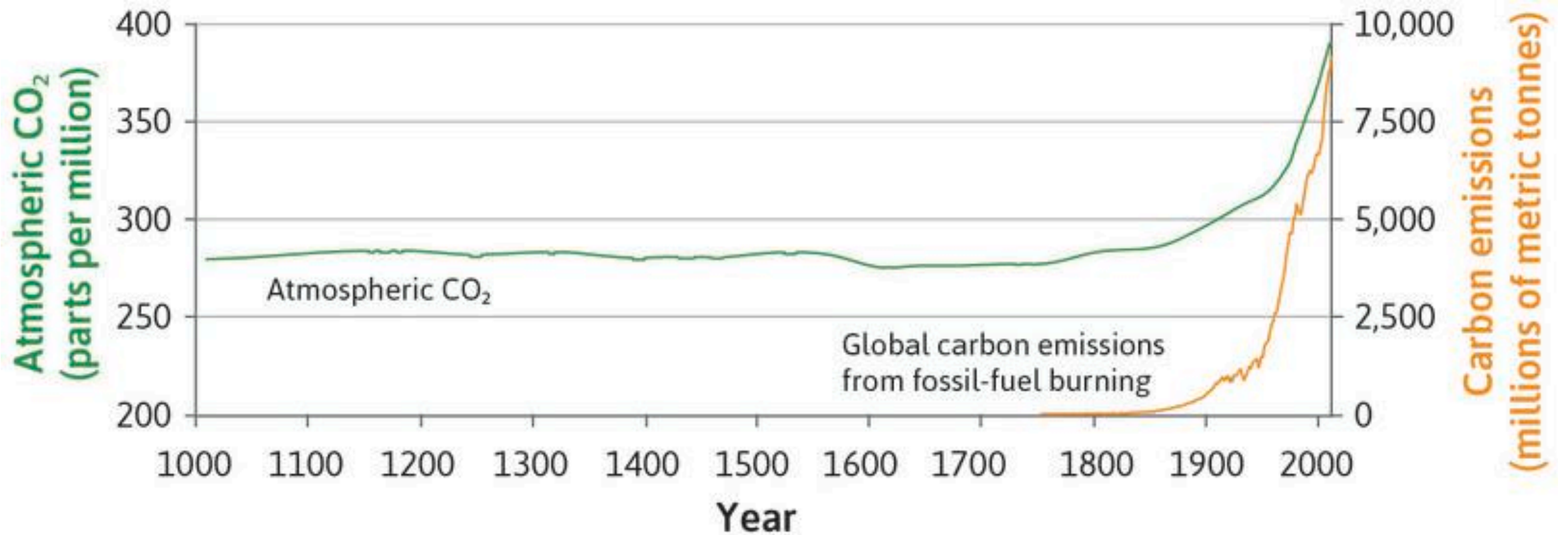


CAPITALISM AND INEQUALITY

Why is capitalism associated with growing inequality?

How can democracy ideally curtail this capitalist inequality?

CAPITALISM & CARBON



TWO CHEERS FOR CAPITALISM

Inequality

Not all gains are spread equally
(within *and* between countries)

Environmental damage

Gains have side effects

CAPITALISM AND CLIMATE

**Why is it so hard for democracies
to address climate change?**

MEASURING STUFF CORRECTLY

EVERYONE'S FAVORITE NUMBER

Gross Domestic Product (GDP)

Private consumption

Investment

Exports

Government expenditures

(Subtract imports)

Y T H O ?

**Why does everyone
love this number?**

PROBLEMS WITH GDP



GDP (+ \$ s) OVER TIME

Nominal numbers

What was written down at the time

Real numbers

The value in today's dollars (or another year's dollars)

$$\text{Real value} = \frac{\text{Nominal value}}{\text{Price index} / 100}$$

PRICE INDEXES

Compare the price of the same good
(or basket of goods) over time

Consumer Price Index (CPI)

What goods and services does the CPI cover?

The CPI represents all goods and services purchased for consumption by the reference population (U or W) BLS has classified all expenditure items into more than 200 categories, arranged into eight major groups. Major groups and examples of categories in each are as follows:

- FOOD AND BEVERAGES (breakfast cereal, milk, coffee, chicken, wine, full service meals, snacks)
- HOUSING (rent of primary residence, owners' equivalent rent, fuel oil, bedroom furniture)
- APPAREL (men's shirts and sweaters, women's dresses, jewelry)
- TRANSPORTATION (new vehicles, airline fares, gasoline, motor vehicle insurance)
- MEDICAL CARE (prescription drugs and medical supplies, physicians' services, eyeglasses and eye care, hospital services)
- RECREATION (televisions, toys, pets and pet products, sports equipment, admissions);
- EDUCATION AND COMMUNICATION (college tuition, postage, telephone services, computer software and accessories);
- OTHER GOODS AND SERVICES (tobacco and smoking products, haircuts and other personal services, funeral expenses).

HISTORICAL PRICES

What about iPhones?

How much would an iPhone
have cost in 1935?



Ernie's B&L mortgage in 1928 = \$5,000

\$72,843

George's salary in 1935 = \$45/week

\$43,365

Potter's offer in 1935 = \$20,000/year

\$370,644

Amount stolen by Potter in 1945 = \$8,000

\$113,275



 / [JANUARY 2013](#) / [THE FIVE-DOLLAR MIRACLE](#)

[< PREVIOUS](#)

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FOLLOW THE PROPHET

The Five-Dollar Miracle

By Heidi S. Swinton

Amount lost in jeans in 1939 = \$5

\$90.01