

INSTITUTIONS, POWER, AND INEQUALITY I

MPA 612: Economy, Society, and Public Policy

February 11, 2019

*Fill out your reading report
on Learning Suite*

PLAN FOR TODAY

Preferences and tradeoffs

**Work, consumption,
and social dilemmas**

Institutions

PREFERENCES & TRADEOFFS

Normal goods

As income increases, you buy more

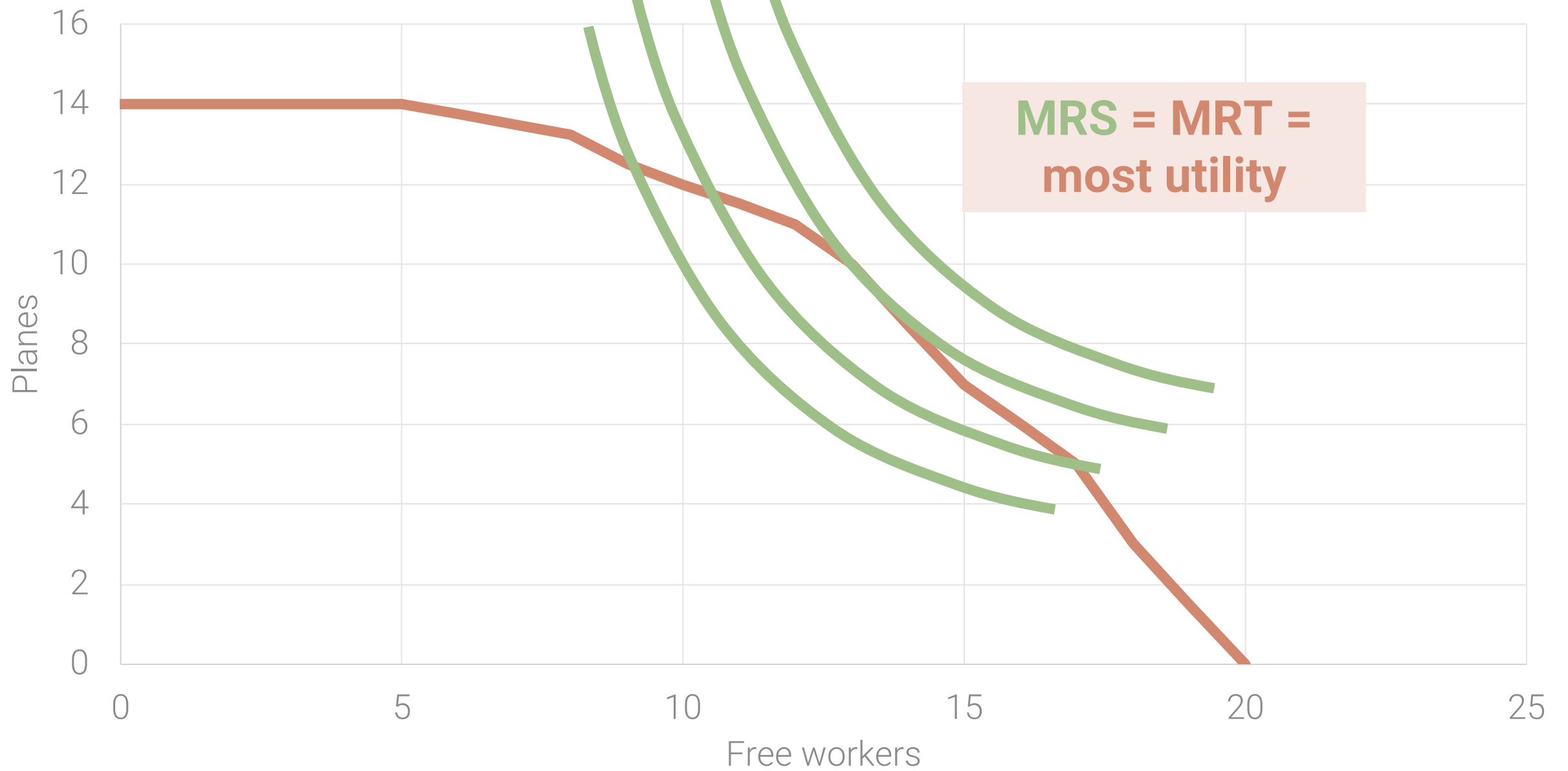
Inferior goods

As income increases, you buy less

Why do we even care about indifference curves?

Indifference curve meeting budget line =
where happiness meets reality

Policies change individual budget lines and move people to different indifference curves

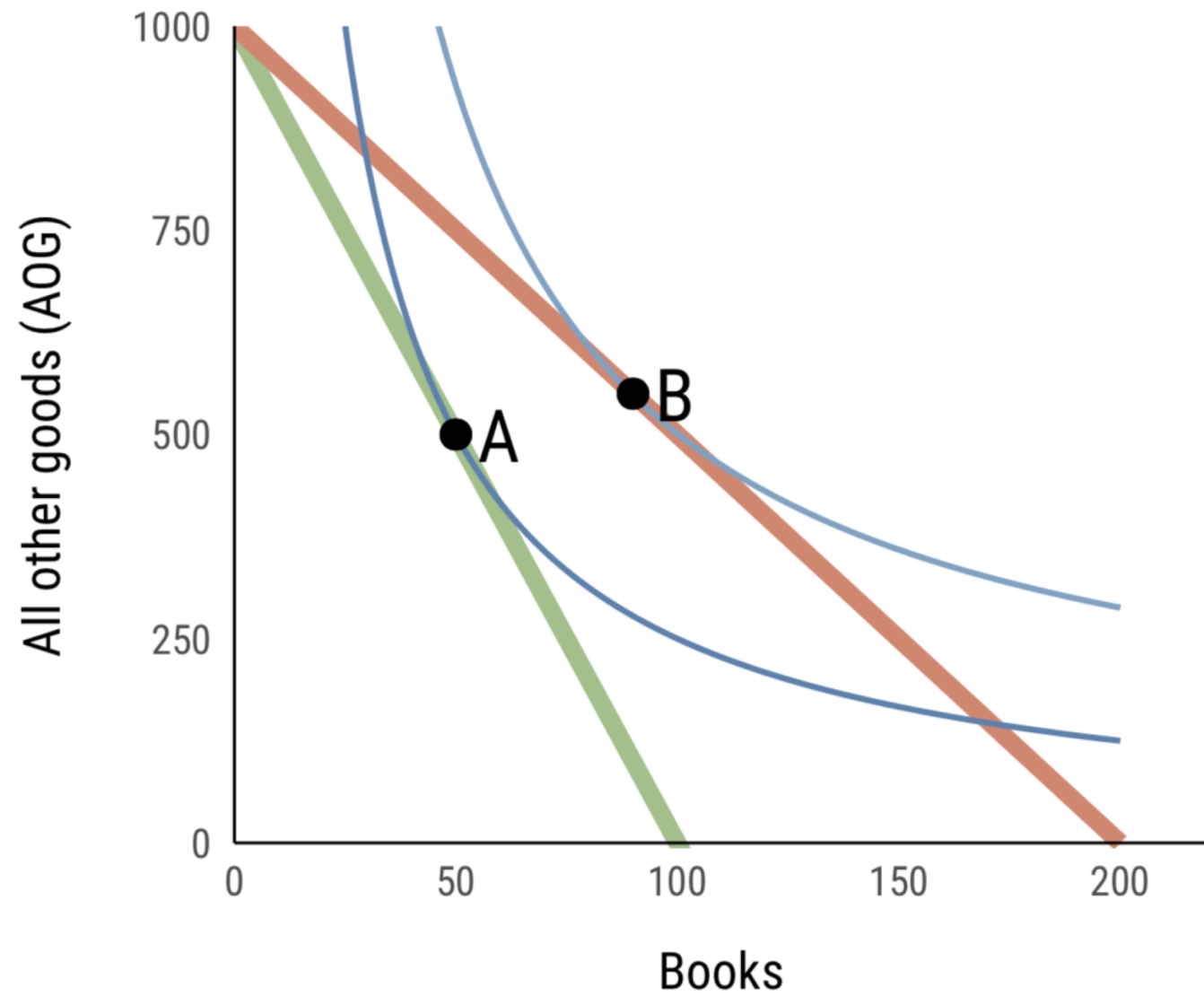


Income effect

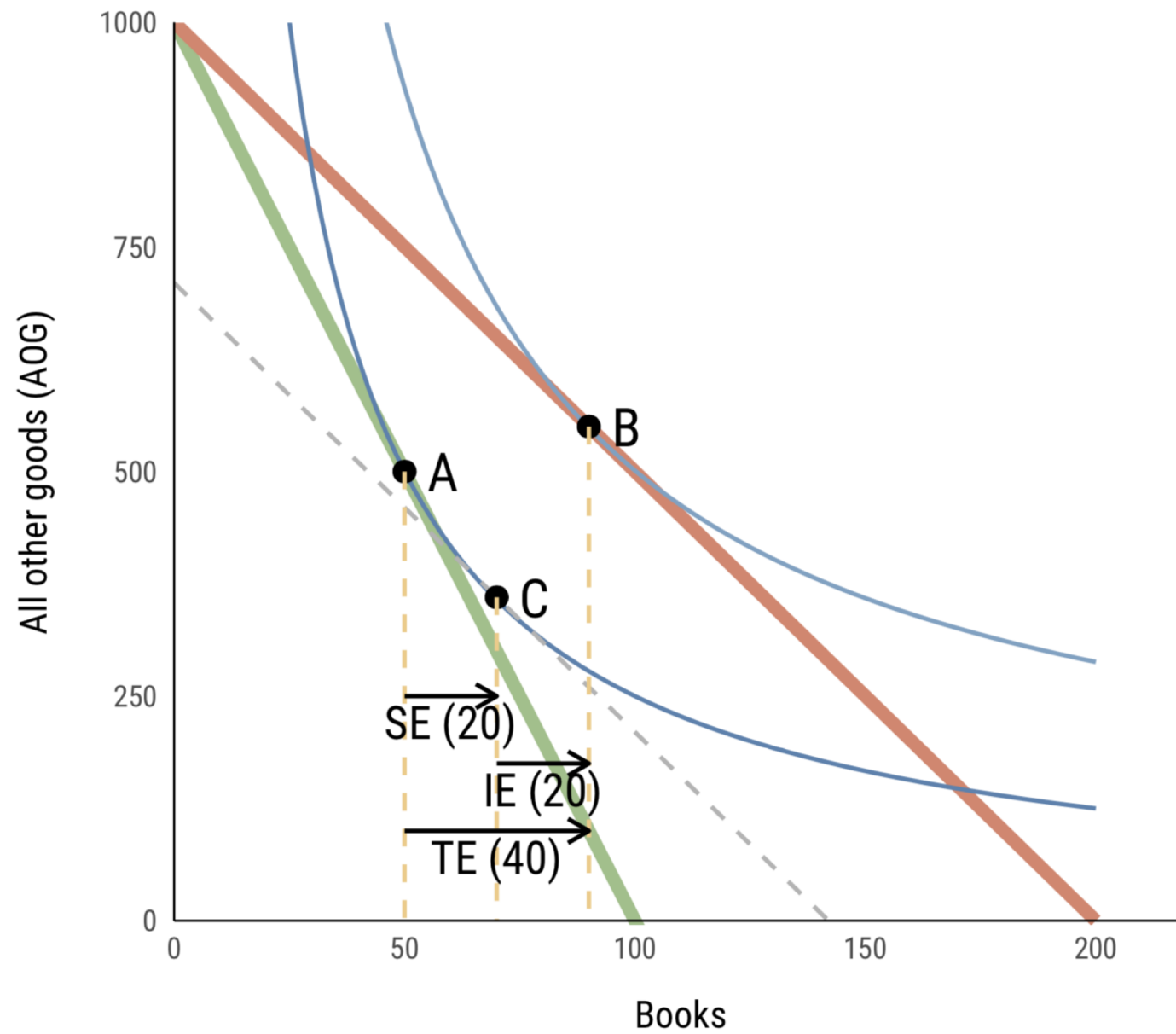
Movement **to** a new indifference curve because of a change in income or feasibility

Substitution effect

Movement **along** the same indifference curve because of a change in the mix of inputs



Original indifference New indifference
Original budget New budget



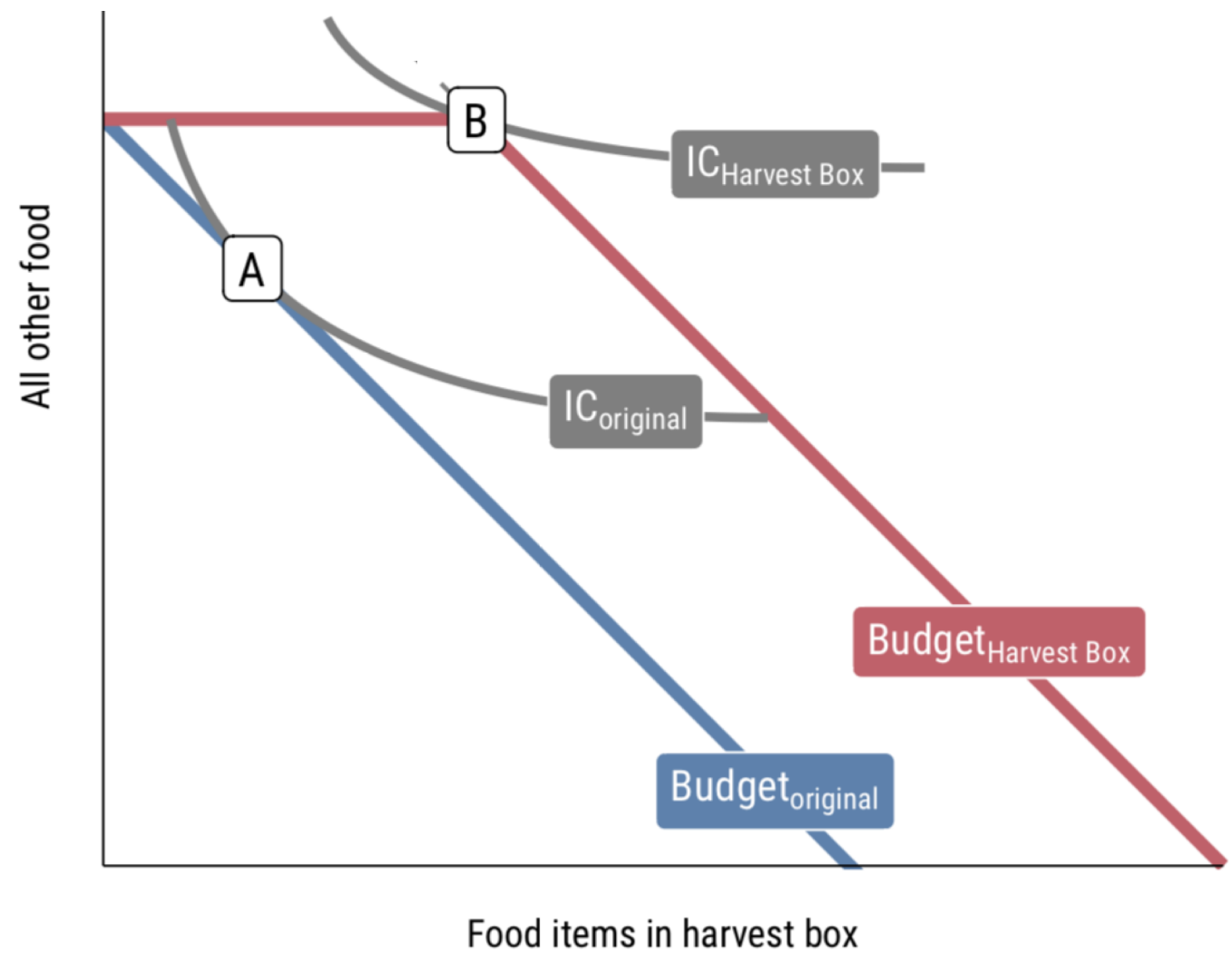
Original indifference New indifference
Original budget New budget

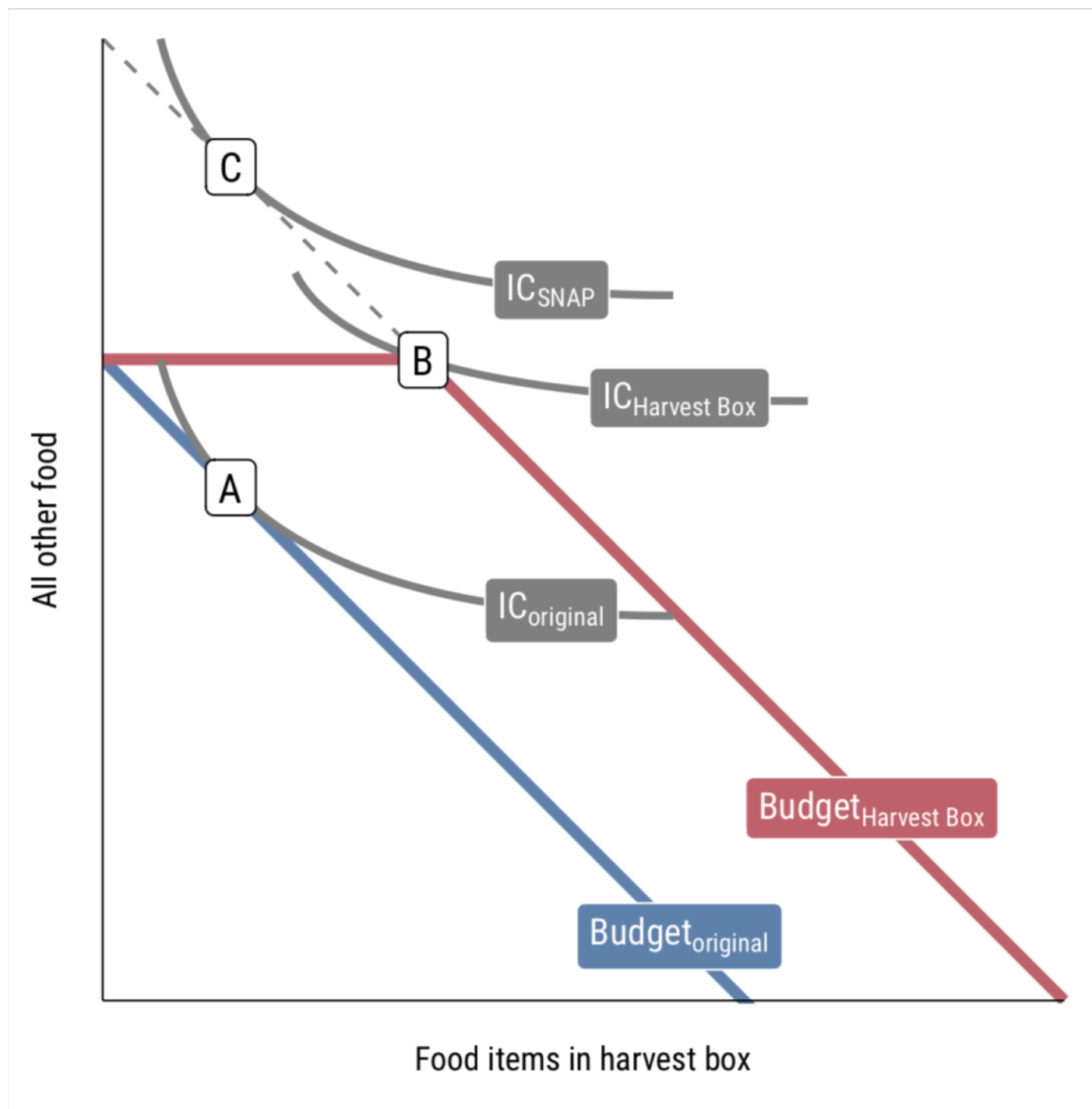
Trump wants to slash food stamps and replace them with a 'Blue Apron-type program'



White House budget director Mick Mulvaney explained on Feb. 12 how the Trump administration hopes to save money on food aid. (The Washington Post)

When announcing the program, Secretary of Agriculture Sonny Perdue stated that “It maintains the same level of food value as SNAP participants currently receive, provides states flexibility in administering the program, and is responsible to the taxpayers.” In response, Kathy Fisher, policy director at Philadelphia’s Coalition Against Hunger stated “We know SNAP works now, when people can choose what they need. How they would distribute foods to people with specialized diets, or [to people in] rural areas ... It’s very expensive and very complicated.”





WORK, CONSUMPTION, AND SOCIAL DILEMMAS

Why do we work so much?



Planet **Money** THE ECONOMY EXPLAINED



13:11

+ QUEUE

PLANET MONEY

Episode 641: Why We Work So Much

July 24, 2015 · 6:39 PM ET

Why are there so many McMansions?



INSTITUTIONS

INSTITUTIONS

Laws

Rules

Regulations

Customs

Norms

Moral injunctions

Earth 2.0: What Would Our Economy Look Like? (Ep. 283)

April 12, 2017 @ 11:00pm

by **Stephen J. Dubner**

Produced by: **Stephanie Tam**



LISTEN NOW:



ART19



00:00 / 42:53



Our latest Freakonomics Radio episode is called “Earth 2.0: What Would Our Economy Look Like? (Earth 2.0 Series)”. (You can subscribe to the podcast at [iTunes](#) or [elsewhere](#), get the [RSS feed](#), or listen via the media player above.)

If we could reboot the planet and create new systems and institutions



Jennifer Victor ✓

@jennifervictor

Following



Things that irk me #47: “Generous” drivers who violate right-of-way, in an effort to be kind to others, but who really disrupt the norms that keep our roads from being utter chaos. THE NORMS CREATE PREDICTABILITY; VIOLATING THEM ISN’T POLITE.

4:40 PM - 18 Sep 2018

59 Retweets 436 Likes



31



59



436





Jennifer Victor ✓

@jennifernvictor

Following



Replying to [@markchildress](#)

In a zipper-merge situation with a lane closure, **all** traffic moves more efficiently if drivers in the disappearing lane go all the way to the merge point, then alternate with the other lane. Getting in line further back, at random points, is Pareto suboptimal.

7:36 PM - 18 Sep 2018

4 Retweets 39 Likes



6



4



39



Economists used to hate institutions

Pragmatic reasons

Institutions change slowly; no reason to worry about them

Ideological reasons

Human progress is the emancipation from constraints on behavior. Liberty & freedom = no constraints

Adam Smith: if A wants to sell something to B, there shouldn't be any constraints

B U U U U U U U T

**The whole Smithean
premise falls apart in the
absence of constraints**

No property rights?
No right to transfer property?
No liability for contract breaches?

WAYS OF SEEING INSTITUTIONS

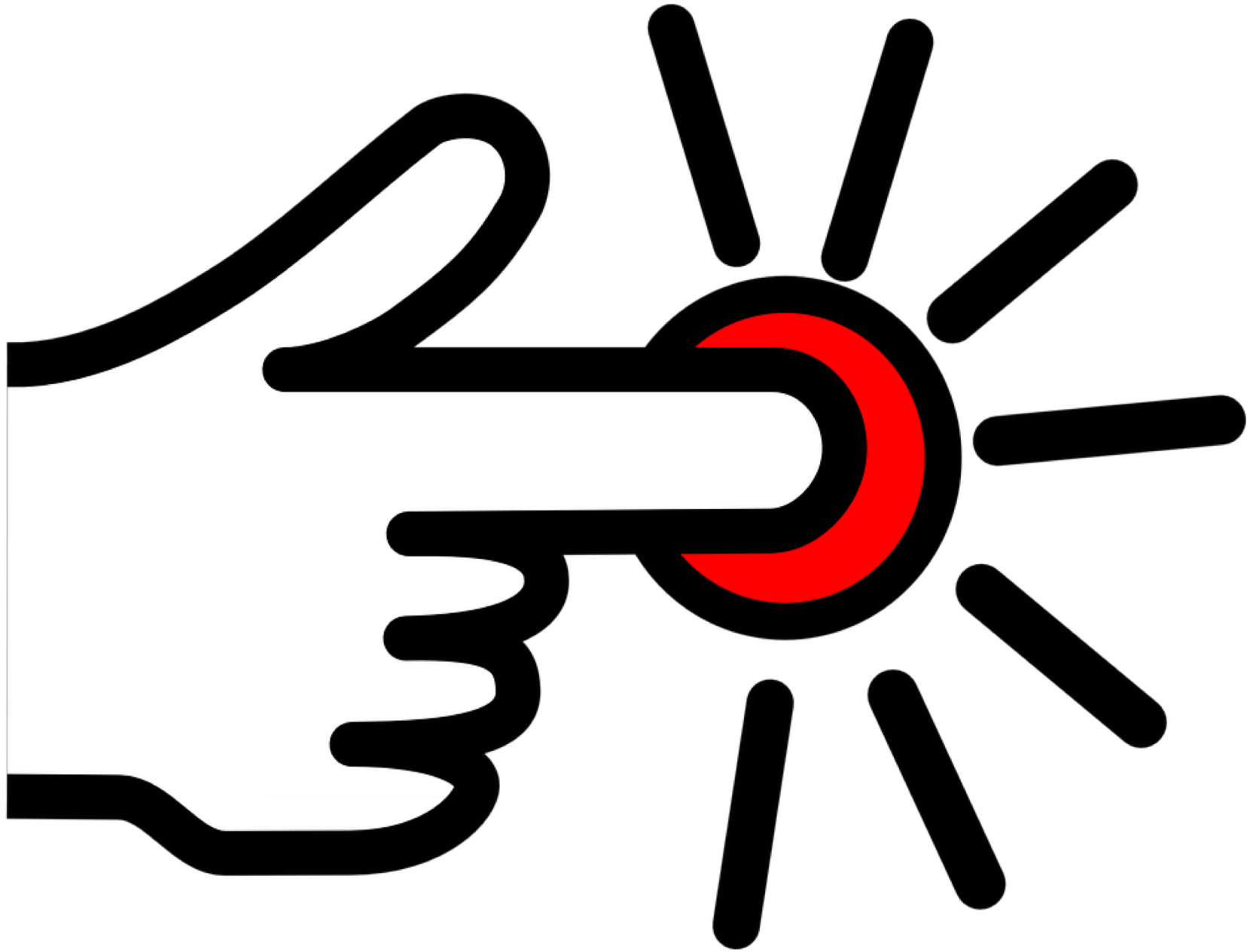
Rational behavior

Constraints

Temporary equilibria

INSTITUTIONS AS RATIONAL CHOICES

**People cooperate because of
their rational utility functions**





INSTITUTIONS AS CONSTRAINTS

**Socially imposed constraints
on human activity**

Rules and norms

**“Humanly devised constraints
that shape human interactions”**

INSTITUTIONAL FORMALITY

Formal institutions

Codified expectations backed by enforcement mechanisms; laws

Informal institutions

Expectations that aren't codified or backed with formal enforcement; etiquette, customs, conventions

Are formal or informal institutions more powerful?

There's no clear divide between formality and informality

INFORMAL LDS INSTITUTIONS

White shirts

First M. Last

President EQ vs. Sister RS

Sacrament handedness

1st counselor position on stand

Easter vs. Christmas

INSTITUTIONS AS TEMPORARY EQUILIBRIA

**Why do people follow some rules,
ignore other rules?**

Rules meet game theory



Institutions are the outcomes of games

Decisions based on
payoffs, repetition, etc.

Self-enforcing

Self-reinforcing

Self-undermining

SELF-ENFORCING INSTITUTIONS

Stable, Nash equilibrium

		Bala	
		Left	Right
Anil	Left	Live, Live	Die, Die
	Right	Die, Die	Live, Live

SELF-ENFORCING INSTITUTIONS

Not always life or death

**What's the norm for when
two people crash at a door?**

Older person first?

Woman first?

Repeat a lot = cultural norm emerges

SELF-REINFORCING INSTITUTIONS

**Institution/equilibrium
entrenches itself**

Codified road signs

More right-sided cars

Too hard and costly to change

SELF-UNDERMINING INSTITUTIONS

**Institution/equilibrium
deteriorates**

Tourists from other-sided
countries hate coming

Tourism industry suffers

People agitate for change

Self-enforcing

Self-reinforcing

Self-undermining



Coca-Cola

SUMMARY OF INSTITUTIONS

Rational choice

ignores external factors

Institutions-as-rules

doesn't explain changes or
emergence or uneven enforcement

Institutions-as-equilibria

saves the day

NEXT TIME

**Where do institutions
come from?**

**How are institutions related
to efficiency and fairness?**

Institutions and inequality