

# GOVERNMENT INSTITUTIONS I

MPA 612: Economy, Society, and Public Policy

March 25, 2019

*Fill out your reading report  
on Learning Suite*

# PLAN FOR TODAY

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**Markets and institutions**

**Trading and prices**

## Problem set 8

Problem set 7 public good?

26 people turned it in

Requirement was 24

People who did it =

23

# MARKETS AND INSTITUTIONS

# What is a market?

An institution used for organizing society

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

**What is the  
free market?**

# Can markets be used to govern anything?

Firms?

Governments?

Nonprofits?

Families?

The Church?

# Neoliberalism

“an ideology that rests on the assumption that individualized, arms-length market exchange can serve as a metaphor for all forms of human interaction”

<https://tompepinsky.com/2013/12/04/defining-neoliberalism/>



**Should markets do everything?**

# ARGUMENTS AGAINST MARKETS

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**Other institutions more effective and equitable**

**Intrinsic crowding out**

**Repugnant markets**

# REPUGNANT MARKETS

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Stuff that shouldn't be exchanged in a market because doing so violates norms

Organs

Babies

People

Votes

Cadavers

Horse meat

# ARGUMENTS AGAINST MARKETS

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Other institutions more effective and equitable

Intrinsic crowding out

Repugnant markets

Merit goods

# MERIT GOODS

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Stuff that everyone should get automatically outside of markets because of norms

Education

Security

Healthcare

Transportation

Culture

# ARGUMENTS AGAINST MARKETS

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Other institutions more effective and equitable

Intrinsic crowding out

Repugnant markets

Merit goods

# TRADING AND PRICES

# ARGUMENTS FOR MARKETS

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**They are great at producing and distributing goods and services**

**They are great at allowing for specialization**



# **Avocados and olive oil**

# SPECIALIZATION + TRADE

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## **Comparative advantage**

Opportunity cost is lower than other party's

## **Absolute advantage**

Cost is lower for one party

# GAINS FROM TRADE

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**Expanded PPF**

Both parties can do more; allows for more growth

**Fairness though...**

# ARGUMENTS FOR MARKETS

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**They are great at producing and distributing goods and services**

**They are great at allowing for specialization**

**Through prices, markets send signals about scarcity**

# PRICES ARE MESSAGES

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**“When markets work well, prices send messages about the real scarcity of goods and services”**

Prices coordinate activity and behavior among complete strangers

# PRICES ARE MESSAGES

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Friedrich Hayek

**We all make decisions  
based on information**

**Markets produce prices**

**Prices guide our decisions**

**We don't need to know about all  
global economic and political trends!**

**Prices are all someone needs to know to take action in an economy**

# MESSAGES OF WHAT?

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**Prices shape what we consume**

Seasonal fruit; droughts, floods, wars

**Prices shape production  
and innovation**

US Civil War and cotton

McRib, Extra Most Bestest, HFCS



**How should  
prices be set?**

**What happens if prices  
are systematically wrong?**

# When prices do not capture the effects of individual actions, markets fail

Public goods

Externalities

Monopolies

Missing markets

Asymmetric information