

The Use of Knowledge in Society

Hayek (/45, AER)

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A Rational Economic Order

- Economic Calculus: Preference + Complete Information + Rational + ...
- Facts: the dispersed bits of incomplete and frequently contradictory knowledge
- allocate resources v.s. secure the best allocation

Planning

- planning: design an efficient economic system
- Who? Decentralization v.s centralization
competition v.s. central authority
- Knowledge matters: scientific knowledge v.s. local knowledge
(particular circumstances of time and space)
- technology (and farsightedness) v.s. informativeness and
flexibility

Price System and Spontaneous Order

- planning: relative importance
- price system answers it: coordinate the separate actions of different agents with subjective values, beliefs and ...
- designed? (mechanism) : spontaneous order/system aggregate local/partial information

Further Readings: Economics

- organization design: knowledge structure (Garicano,2000), centralization and decentralization(Dessein, 2002; Alonso, 2008), delegation problem (Alonso, 2008)
- mechanism design as a way to aggregate partial information
- evolutionary game, correlated game, institution (Aoki,2003)
- philosophy: centralization is a misplaced pessimism