Quizlet

Seltec - Undercover Economist Chapter

Lerne online unter quizlet.com/_3l4qj0

1.	**1. Who Pays for Your Coffee?**	Introducing the concepts of scarcity and bargaining power, we learn that the premium price we pay for coffee on our morning commute to work has nothing to do with the quality of the coffee and everything to do with location, location, location. **scarcity power:** limited amount of attractive goods. The person in possession of the desired ressource is in power and can define the price. bargaining strength comes through scarcity. **Soviet offical:** Nobody is in really in charge. there is a free market without any central control. There is a system of competitor which compete in delivering the bread to as many people as possible. **good meadow, scrubland, grassland** the price is always relative to that marginal land. (the cheapest available). Premium land is more expensive. **Coffee Location** Nobody cares to find a cheaper coffe shop, because we can afford. Therefore the location is crucial! Coffee producer can only afford the location because customer are always in a hurry and therefore price blind. (people want coffee - they provide coffee) **Ricardo's model of economics:** The power of scarcity. When you are a monopoly you can dictate the price but if you have a competitor you have to adapt the price. **Green Belt:** To artificially regulate the amount of available resources (space).
2.	**2. What Supermarkets Don't Want You to Know**	In a discussion on price-targeting policies, we see that the difference between Whole Foods Market and Safeway has very little to do with the relative price of goods and a lot to do with who the shoppers are. **customer targeting strategies:** - individual targeting: to evaluate each customer as an individual and charge according to how much he or she is willing to pay. companies try to find out as much as possible about you. - group targeting: certain segments like student, family, children, senior discounts - self targeting: each customer decides in which price bracket he would put himself. airplane classes, special treatment according to your standards **large range of products:** To give the customer every opportunity to buy something they don't need. And offer a product for the needs of each unique customer **Café Costa's fair trade coffee:** They charge to much for the fair trade label, but forward only a small part of the surplus to the farmers. **Invisible cappuchino:** It is a cappuccino that is smaller and cheaper than the normal one. It is not listed on the menu because the shop doesn't want you to sell it. They want you to sell the more expensive option.

3.	**3. Perfect Markets and the 'World of Truth'**	What does truth mean in economic terms and how does it lead to perfect market efficiency? We see where efficiency is good, where it may fall short, and why it's not always fair. **"truth" in prices in the free market:** The price tells the truth, if the value to the customer is equal to the cost of the manufacturer. If prices are too high, customers are hardly never forced to pay them. The value of the product to the customer is equal to or higher than the price; and the cost to the producer equal to or lower than the price. **marginal costs:** Cost without profit. (minimum price) In a perfectly competitive marked, the price of coffee would equal the marginal cost of coffee. **perfectly competitive marked** is perfectly efficient, because only the best succeed. **The two representations of prices** To customer it is a representation of value and to the firm it is a representation of cost. **problem of taxation:** We cannot choose whether or not to pay them. Prices are optional and reveal information, whereas taxes are not. we don't know where taxes are spent on. Due to taxation, you lose the transparency of the price. **head start theorem:** To give smaller companies an equal chance in the market. Small companies get a head start over large companies.
4.	**4. Crosstown Traffic**	Introducing 'externalities' and how they help deal with some of the major blights on our society: pollution, congestion, and fights with neighbours. **average and marginal price** average price: price a driver pays for the whole year, which is quite high marginal price: the price for an extra trip, which is then low **main objection to the current car taxation:** The drivers pay for the wrong thing. The tax is fixed depending on the car. When you drive your car more, you will pay less additional tax per kilometer. So, if you pay more fixed tax but drive your car more (pay less additional tax) you will pay less in the end. Solution: scrap the upfront fee and charge people for the trips they drive (externality charge) **Externality and externality charges:** Externalities: side effects (pollution, danger) that affect bystanders. Externality charge: price for causing externalities (pollution tax, etc.) **The London solution** They introduced a congestion-charging zone to drive into the city centre. This drastically reduced the traffic and people switched to other modes of transport (bicycle, public transport) -> alternatives

5.	**5. The Inside Story**	George Akerlof's revolutionary 1970 paper reveals how inside information dramatically affects markets and why this means it's virtually impossible to buy a decent second hand car. **Asymmetric information** Uneven distribution of information between supplier and customer. The sellers know a lot more about the car than you. They try to sell you a car for a high price. **Effect of asymmetric information** Imbalance in information (lack of information) that can destroy the perfect market or cause a market failure **Why do free market does not always work?** 1. scarcity power: if you are the only person selling something (monopoly) 2. asymmetric information: lack of information 3. externalities: compensating for the effect
6.	**8. Why Poor Countries Are Poor**	Self interest and ambition are often the cause of wastefulness in developing countries but a visit to the world's worst library in Cameroon shows that the real tragedy occurs when there is no law, press or democratic opposition to restrain the actions of powerful people. **Red Tape** Inefficient and corrupt governments and institutions is the core reason for poverty in many countries. **Why poor countries stay poor** Corruption! (red tapes, dysfunctional institutions) **Economic wealth comes from** - man-made resources (roads, factories, machines, telephone systems) - human resources (hard work and education) - technological resources (technical know-how or high-tech machinery) **"diminishing and increasing returns" and the "big push" model/theory** The poorer countries should catch up quickly because in a country, which has very little in the way of infrastructure or education, new investments have the biggest rewards. - increasing returns: poor countries gain a lot from basic investments such as roads, telephones and schools (to make it work there needs to be a big push) - diminishing returns: rich countries don't gain much from further investment, whereas poor countries do, because in a country, which has very little in the way of infrastructure or education, new investments have the biggest rewards. - big push: make a number of complementary investments all at once (factories, roads, electricity and ports), to allow goods to be manufactured and exported.

7. **9. Beer, Chips and Globalisation**

A peek into the histories of Antwerp and Bruges suggest that if you want to be rich, it is a good idea to forge links with the rest of the world. A discussion on globalising trends illustrates how foreign investment is good for economic growth and why comparative advantage is controversial when it comes to trading with the Chinese.

Race to the bottom:
Companies rush overseas to produce goods under cheaper, more lenient environmental laws.

Trade barriers
Trade barriers will always cause more harm than good, not only to the country to which the barrier is erected but also to the country that established the barrier. Other countries may do the same -> nobody wins

5 features of globalisation:
1. trade of goods and services
2. immigration of people
3. exchange of technical knowledge
4. foreign direct investment (building or buying factories and companies abroad)
5. cross-border investments in financial assets like shares and bonds

Why globalisation might not increase pollution:
- Western factories automatically import better ecological standards and western values like gender equality.
- The local people get a higher incomes, which leads to better education and longer life expectancy.

South Korea
It illustrates that opening your country to multinational companies helps the country's development as it slowly gets richer (grow and get rich)

8.	**10. How China Grew Rich**	How did China grow from a mere minnow in the global trading scene to the fourth largest exporter in the world in less than 20 years? Incentives, education, investment and just a little bit of luck. **Under Mao:** - special aggriculture policies - the great leap forward: transform the country from an agrarian economy into a socialist society. Massive investment in heavy industry such as steel, plus application of special agricultural techniques - culture revolution -> modernize society, brainwash students **Under Deng Xiaoping:** He brought the "world of truth" into China. (economic reform) More incentive for producing crops (he raised the price that the state paid for crops, surplus crops and more) --> people incentivized to produce more. Not put money into savings but invest it. --> switch to market system - he allowed private businesses - liberalisation, farmers are allowed to keep the surplus and invest (free market) - he created incentives - Gradual transformation - slow introduction of market forces - rewarding economic initiative **Reason for Chinas growth** China produced the goods which were needed, for a good price.That brought stability and security for the workers. Companies who had extra demand on products invested and expanded. **Benefits for china if they are open to the world:** 1. China could tap into world markets for labour-intensive goods: toys, shoes and clothes. 2. foreign currency from these exports could be spent on raw materials and new technology to develop the economy. 3. from foreign investors, Chinese could learn modern production and business techniques from them **Justification for swetshops** Because there could be even worse conditions like illegal factories, the "Great Leap Forward" under Mao or "modern" North Korea
9.	**Marginal and Long Shot Innovations (BBC PopUp Store Speech)**	He distinguishes between long shots and marginal improvements and admits that we need both but at the same time he wishes that governments and institutions were more willing to invest in long term innovation. What are the two approaches to innovation? - marginal innovations (small) : improve existing innovations (heated pants) - long shot innovations (big) : one big new thing (smartphones, computer, penicillin) Harward sais there are too many marginal improvements -> to many intelligent people try to impress other intelligent people in a hurry