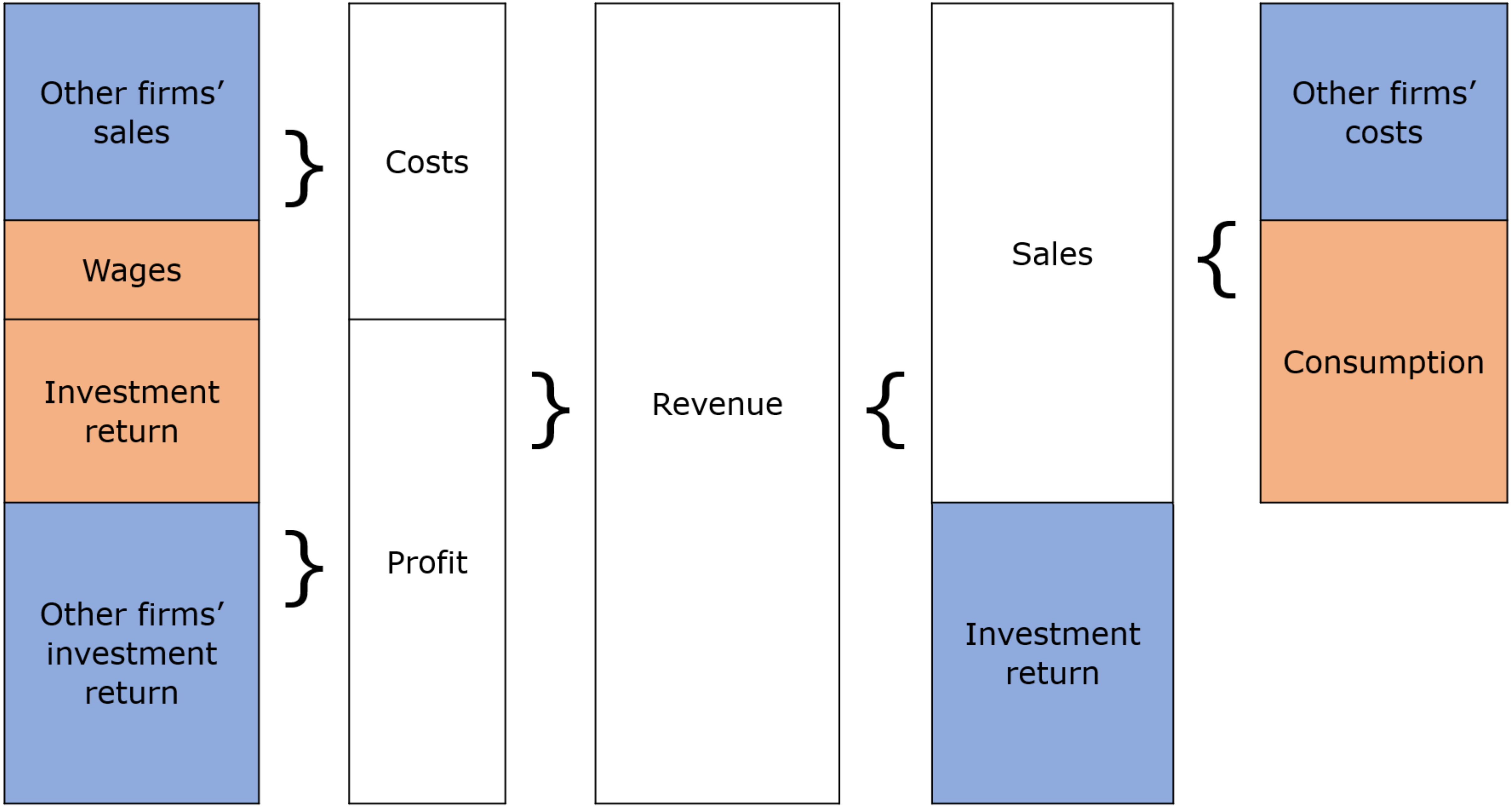
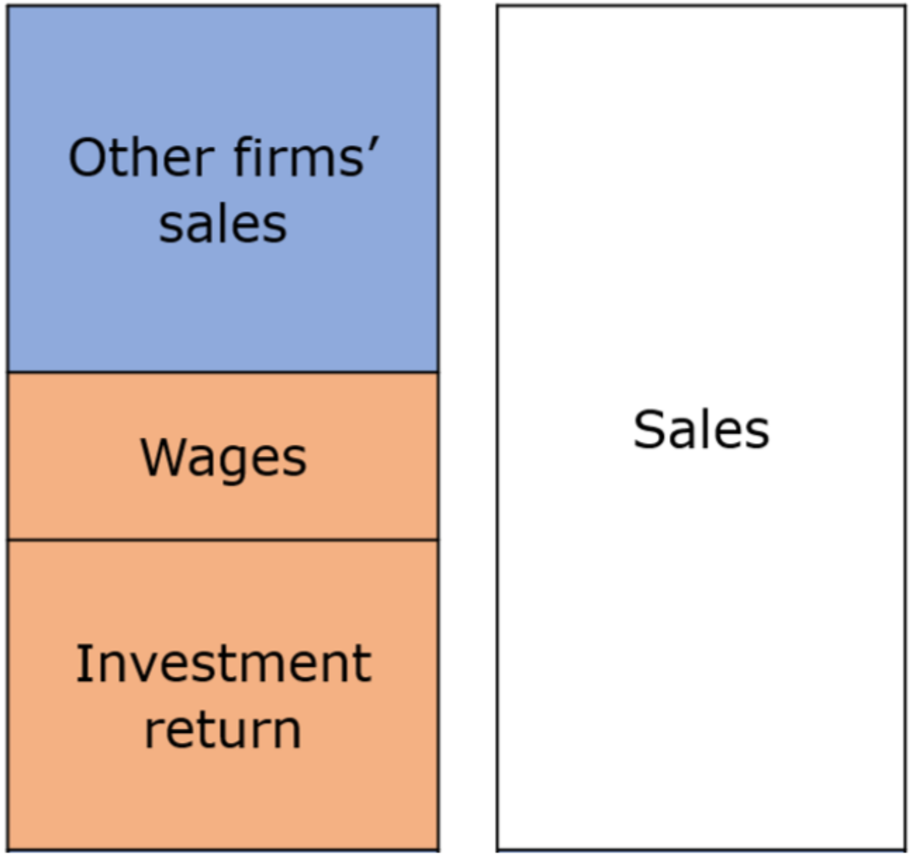
Another DWL

9/21 2020


Other firms' sales
Wages
Investment return
Other firms' investment return
Costs
Profit
Revenue
Sales
Investment return
Other firms' costs
Consumption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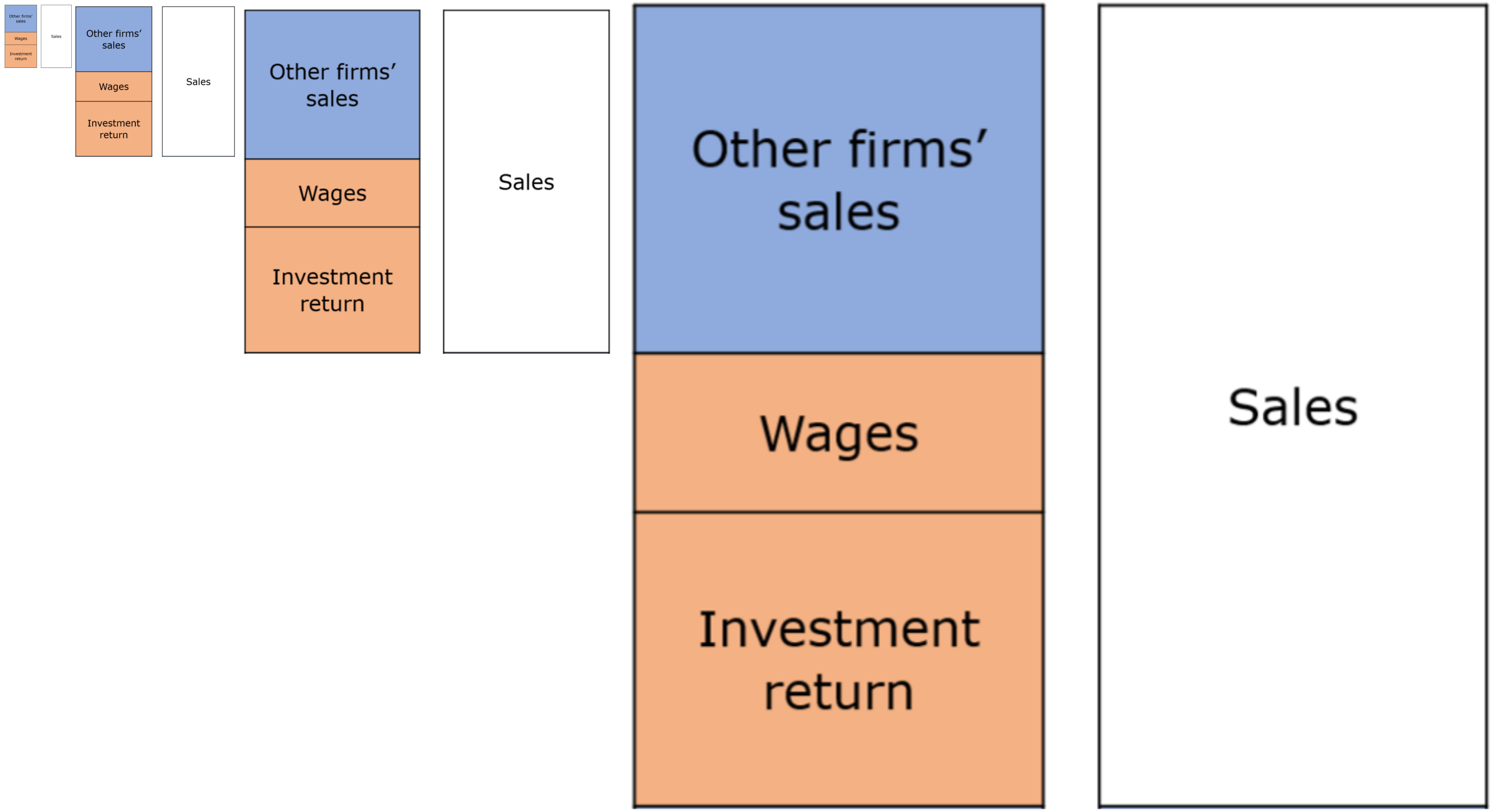
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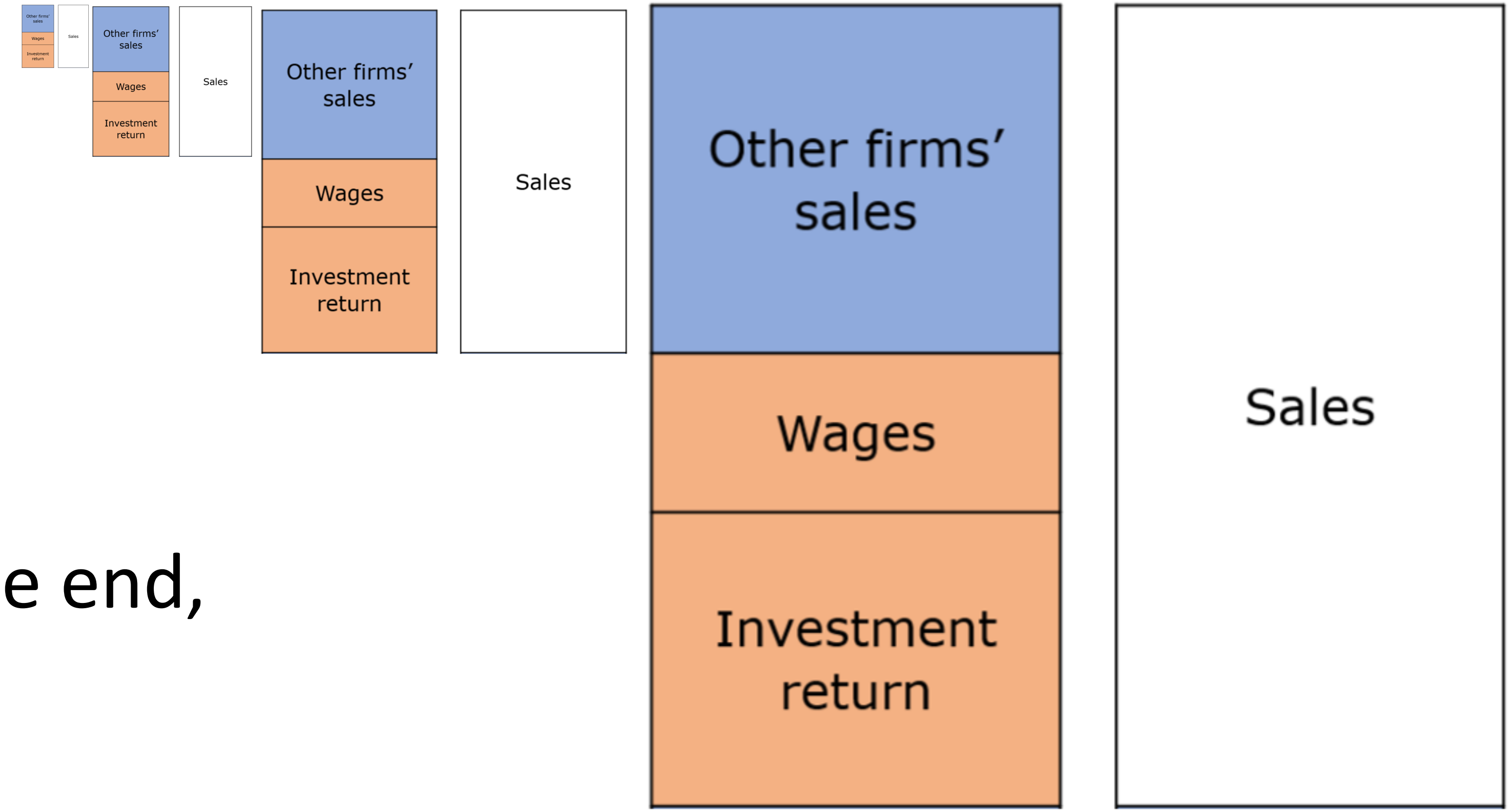


All expenses, in the end, go to households

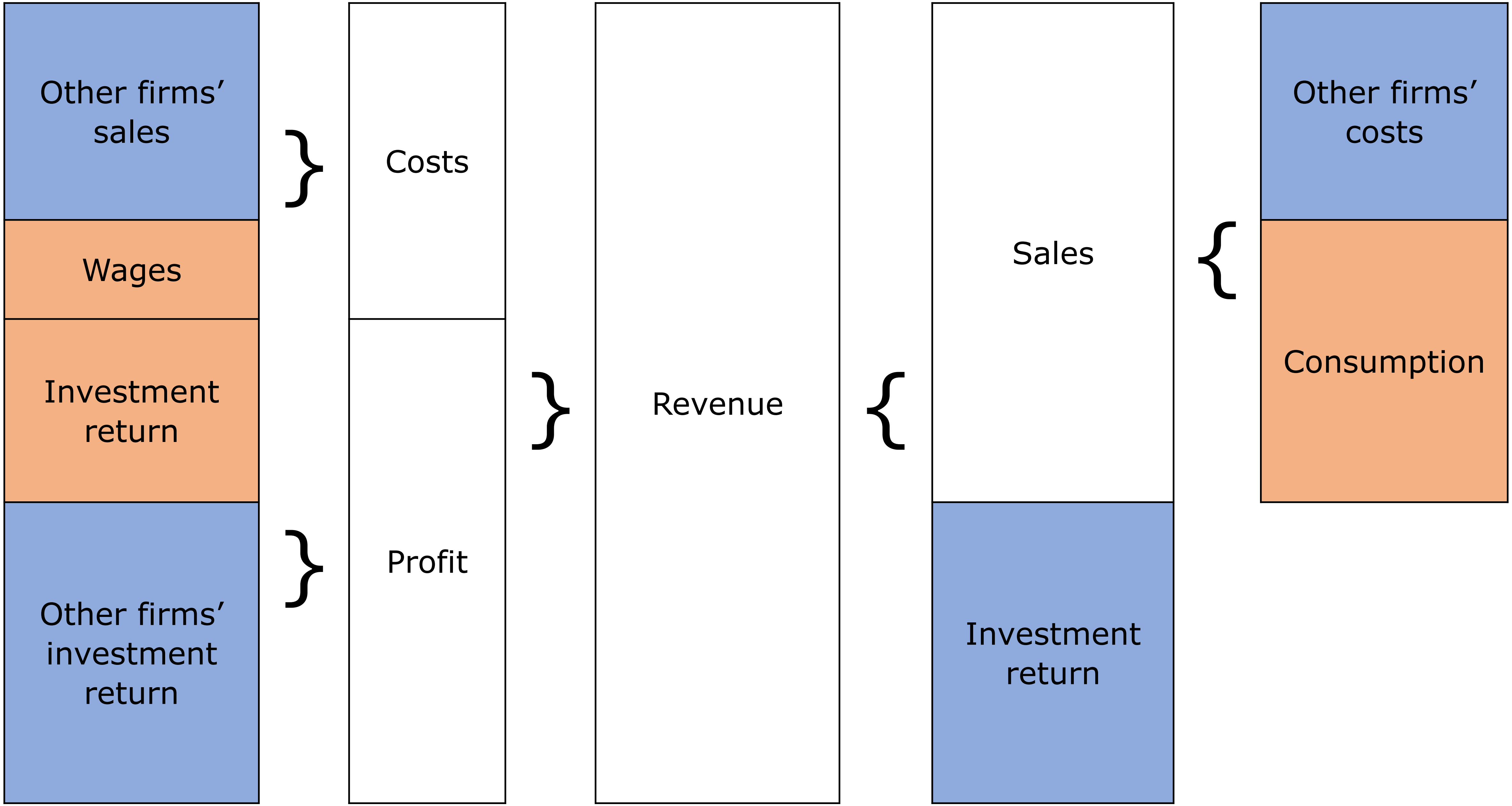
A firm’s costs

=

Salary expenses of (this firm and all its suppliers)

+

All its suppliers’ profits to shareholders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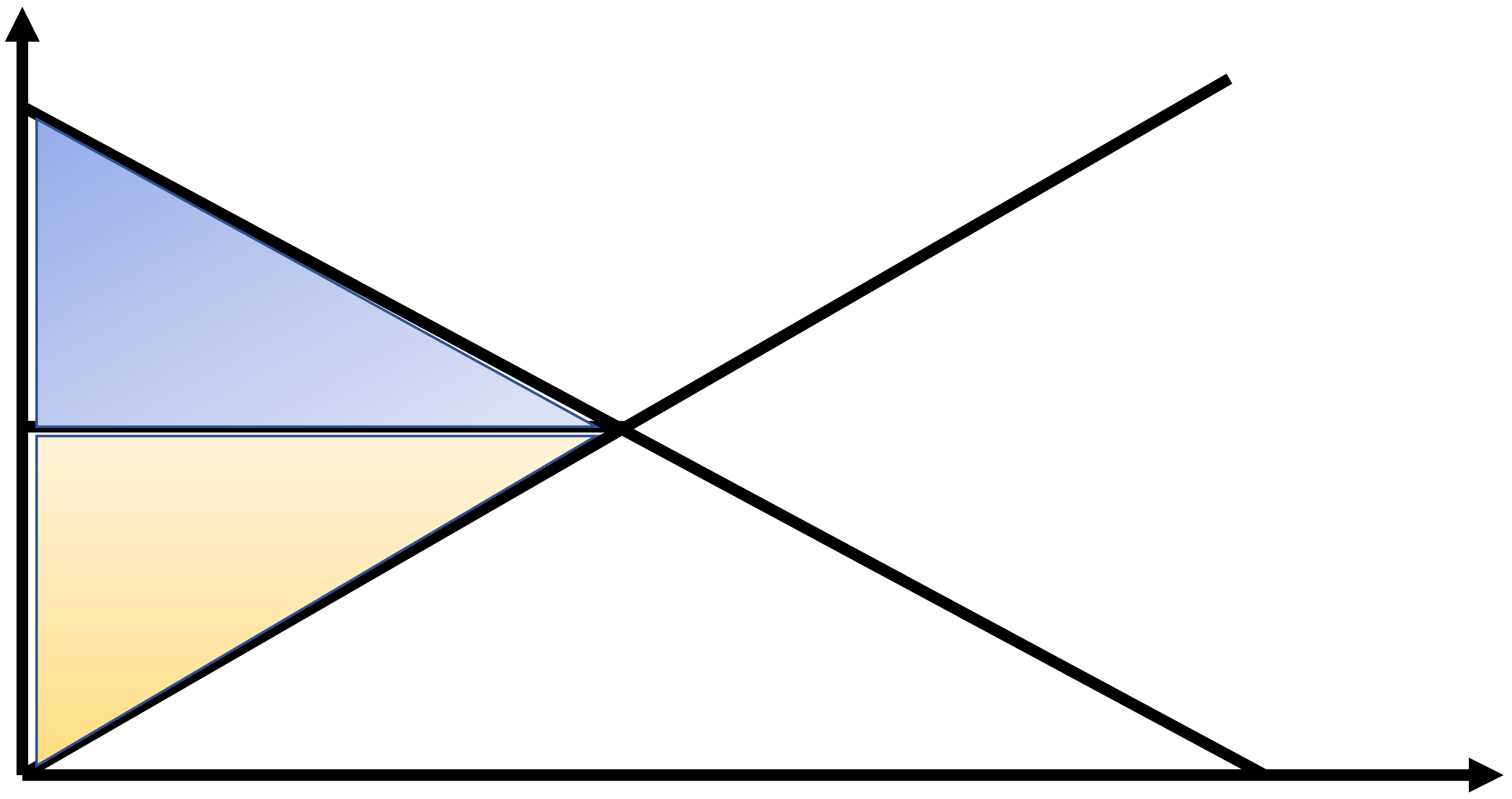
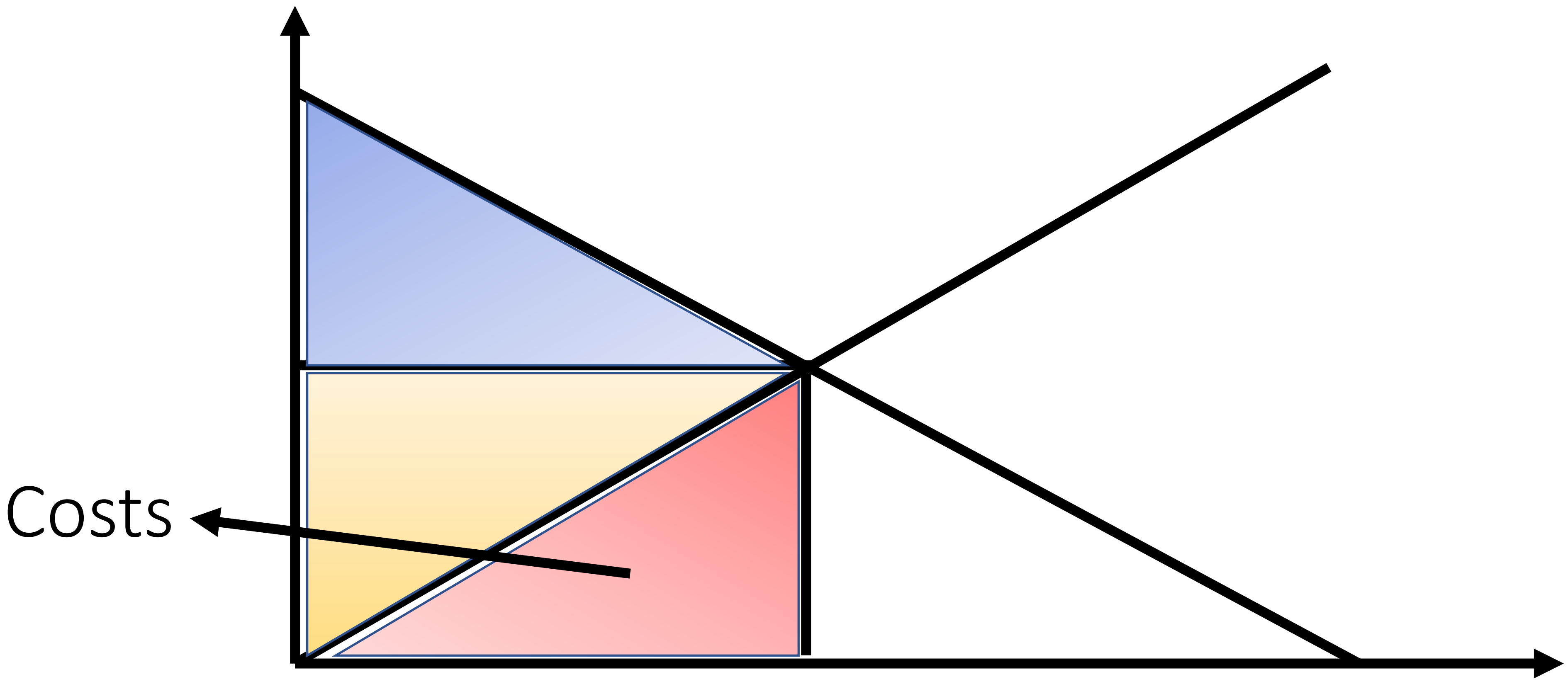
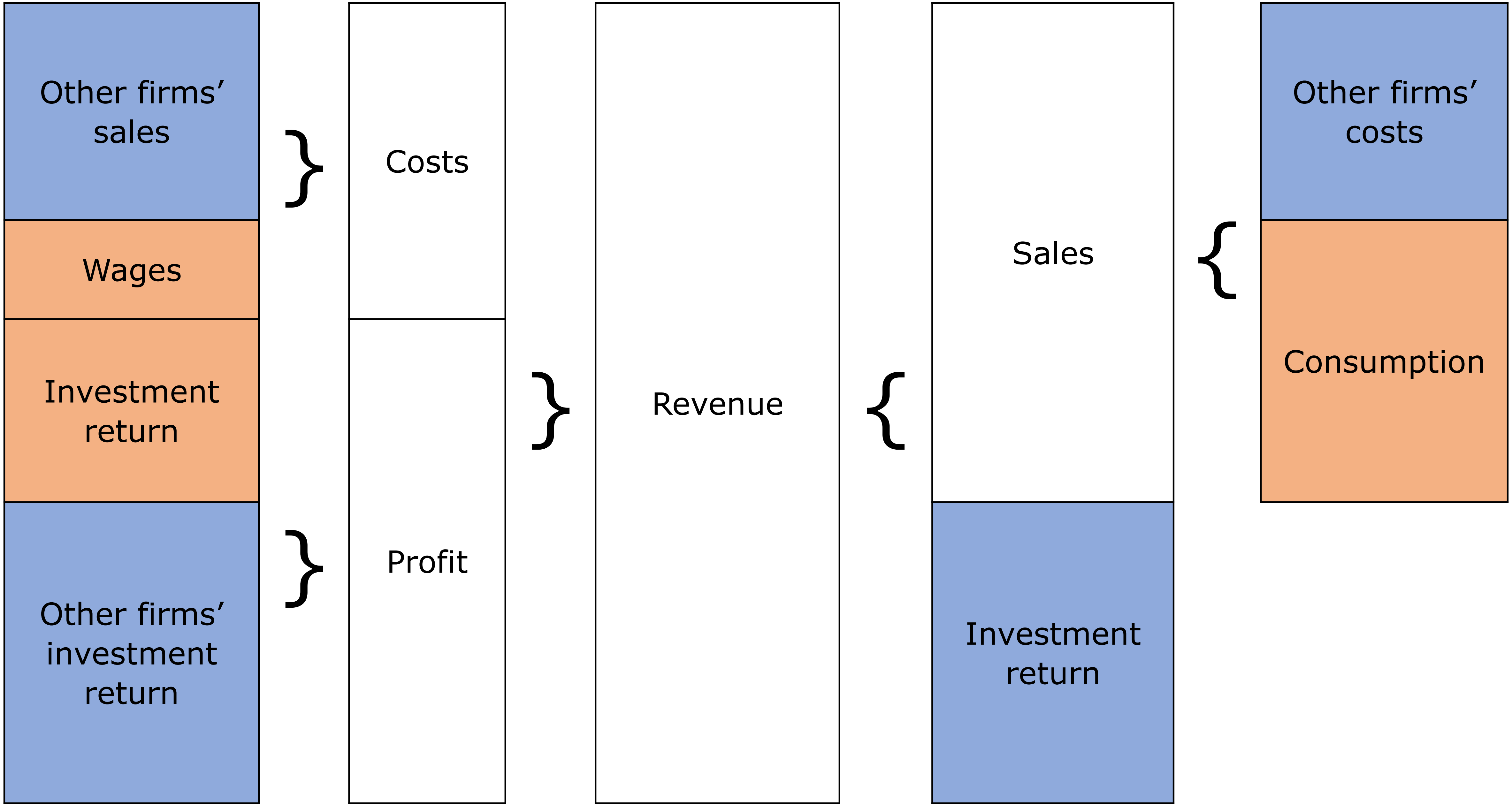
Social surplus



Social surplus

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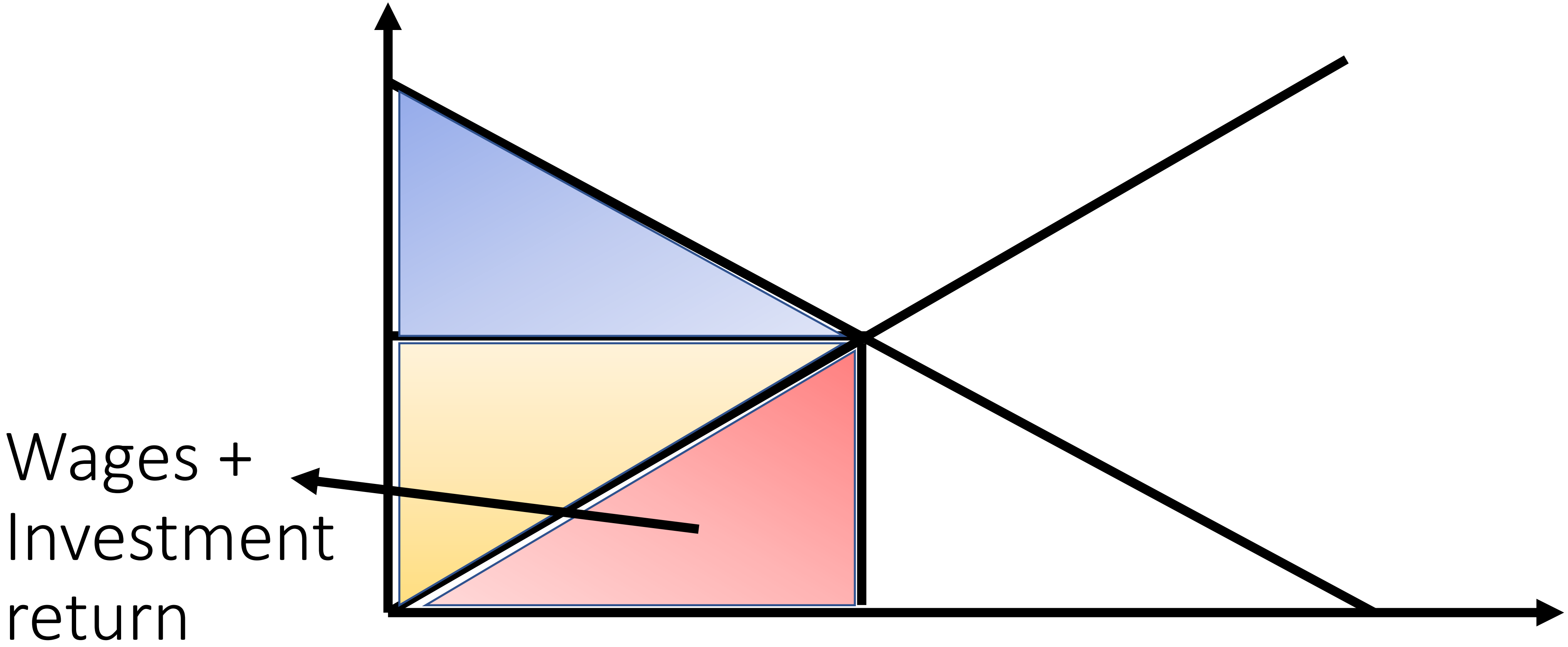
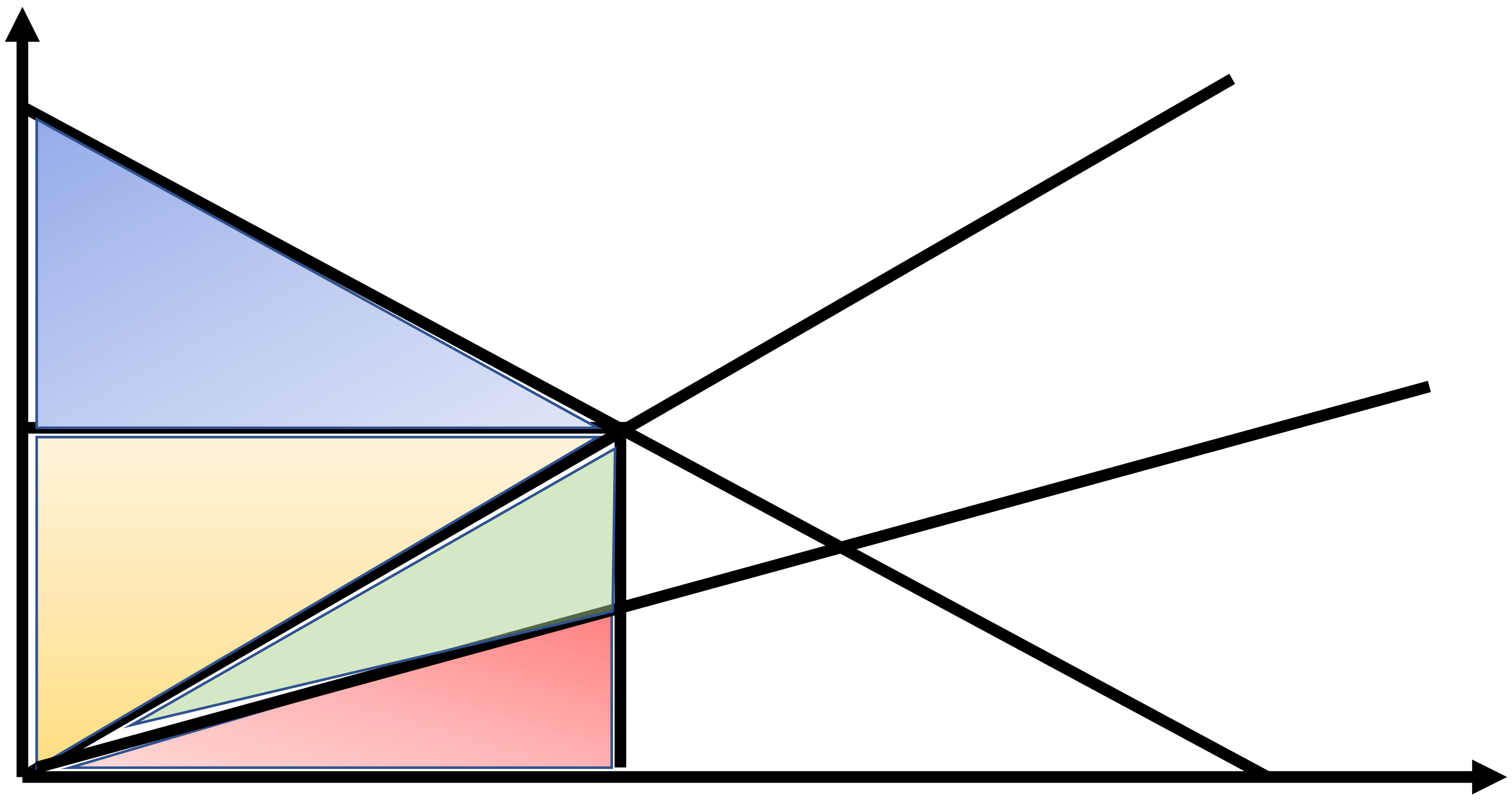


Social surplus



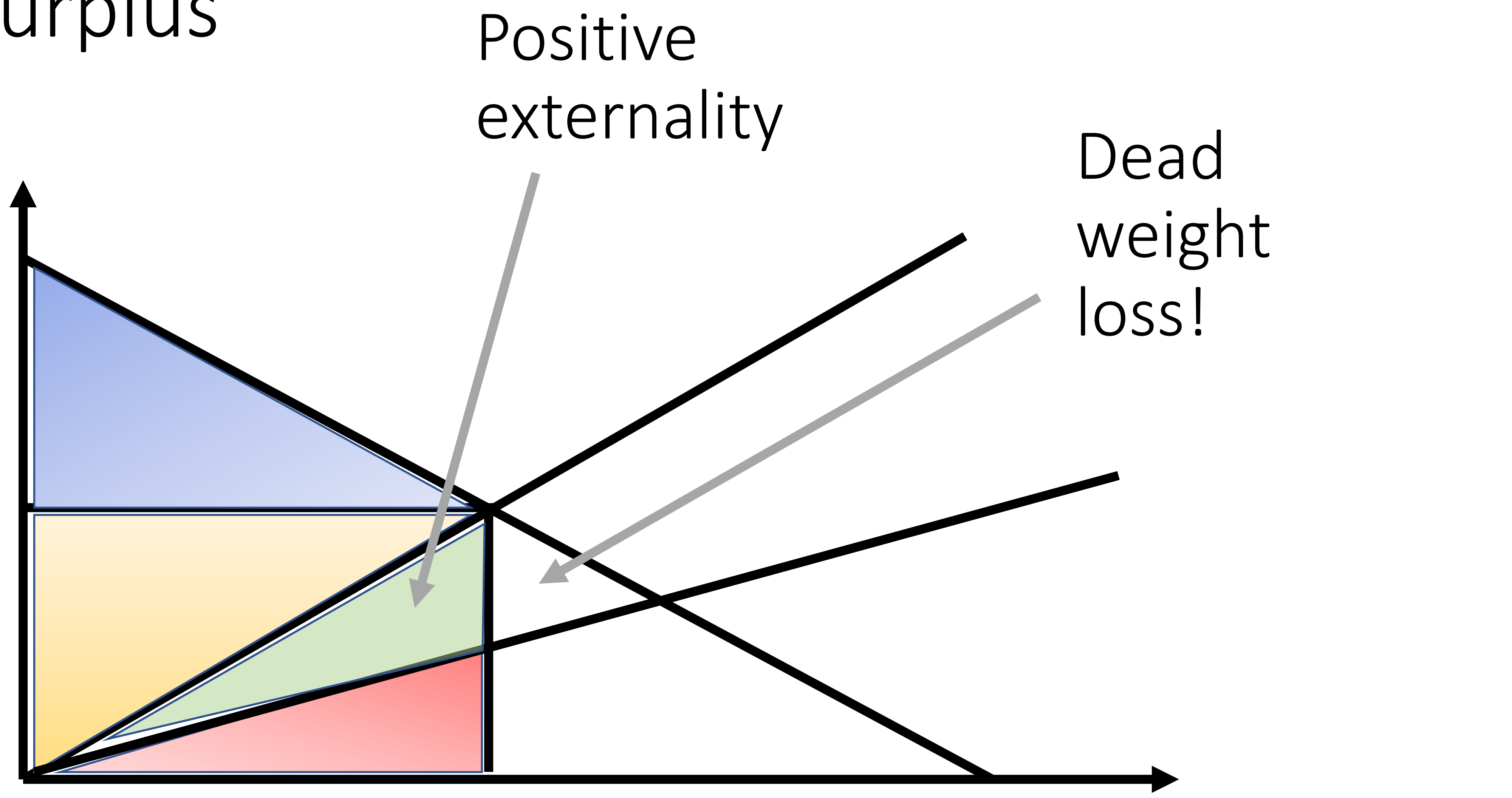
Perspective

- Let’s take an aggregate perspective
- Improve the sum of all people’s utility

- Wages are neutral[1], not cost: you get paid for your work
- Investment return is positive social surplus

- [1] wages are *at least* neutral. Positive if there is laborer surplus.

Social surplus



More thoughts

- The marginal unit should only be produced if the marginal consumer’s WTP is higher than the marginal labor required[1] to produce it.
- [1] All labor included. E.g. The labor used to produce the involved capital good is amortized.

- Connection to double marginalization?
  Could be a generalization.

- The logic presented here must have tremendous limitations (Natural resources? Gov’t? Savings…) Hence I want to do further research.
- Are you interested in supervising my research or some variation of it?
- If you see any connection with any work you are currently doing, I am glad to hear about it!
- Any comment or feedback on my thoughts will also be appreciated!

- Daniel, Nov. 2020