

Tutorial 01 Ten Principles of Economics

(1.2.2) FYI | Adam Smith & the Invisible Hand

- “Household & firms interacting in markets act as if they are guided by an ‘invisible hand’ that leads them to desirable market outcomes.” (Adam Smith, 1776, *An Inquiry into the Nature and Causes of the Wealth of Nations*)
- Individuals are usually best left to their own devices, without the heavy hand of government guiding their actions.
 - This political philosophy provides the intellectual basis for the market economy and for free society more generally.

(1.2.2) Case | Adam Smith Would Have Loved Uber

- In many cities, the local government imposes strict controls in the market for taxis.
 - Beyond regulation of insurance and safety
 - Limit taxi medallions/permits to a certain number
- Uber allows drivers to raise their prices significantly when there is a surge in demand
 - E.g. During a sudden rainstorm or late on New Year’s Eve, when numerous tipsy partiers are looking for a safe way to get home
- Uber drivers respond to incentives, it also increases the quantity of car services supplied when they are most needed.