

CAPITALISM

PMAP 8141: Economy, Society, and Public Policy

August 29, 2019

No iCollege reading quiz today

PLAN FOR TODAY (PART I)

Technology, growth, and capitalism

Institutions and coordination

Why do we make you take this class?

Class details

PLAN FOR TODAY (PART II)

Importance of institutions

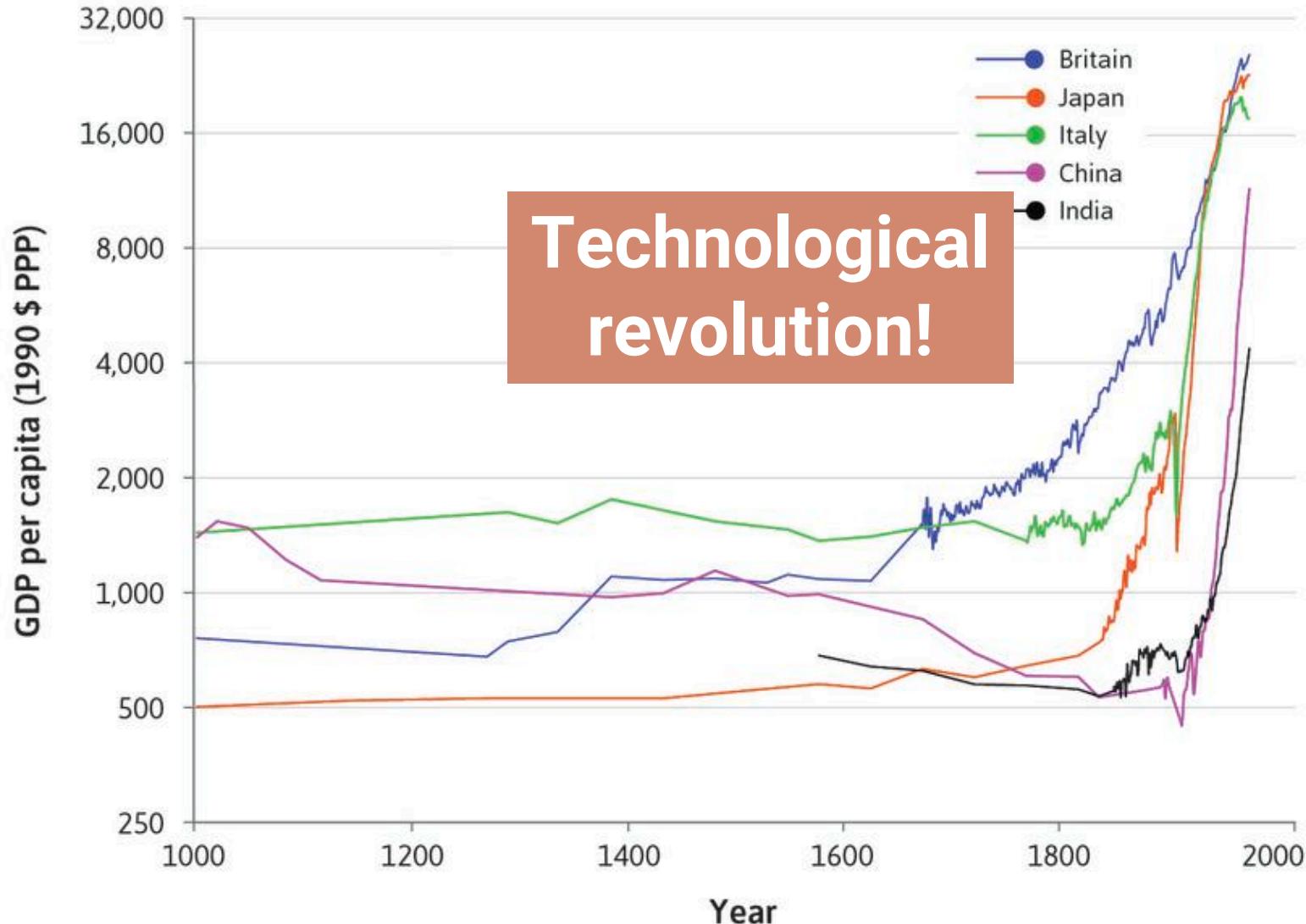
Downsides of capitalism

Measuring stuff correctly

WHO IS EVERYONE?

TECHNOLOGY, GROWTH, AND CAPITALISM

WHAT HAPPENED?



TECHNOLOGICAL REVOLUTION

As the time to produce
stuff decreases, living
standards increase

ASSESSING THE “ENGINES OF LIBERATION”: HOME APPLIANCES AND FEMALE LABOR FORCE PARTICIPATION

Tiago V. de V. Cavalcanti and José Tavares*

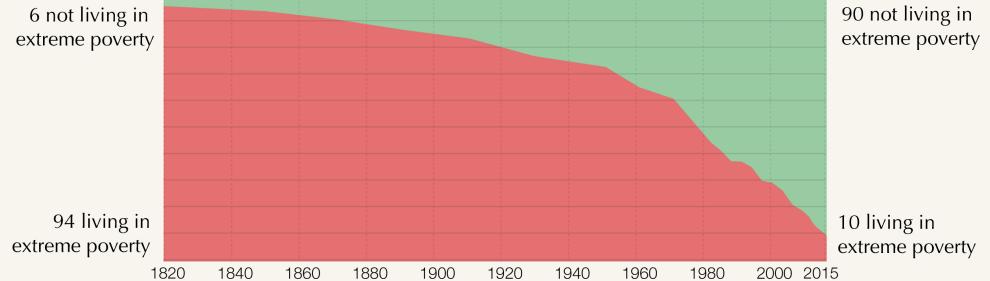
Abstract—The secular rise in female labor force participation, highlighted in the recent macroeconomics literature on growth and structural change, has been associated with the declining price and wider availability of home appliances. This paper uses a new and unique country data set on the price of home appliances to test its impact on female labor supply. We assess the role of the price of appliances in raising participation by comparing it to other structural determinants such as average male income. A decrease in the relative price of appliances—the ratio of the price of appliances to the consumer price index—leads to a statistically significant increase in female labor force participation in the United Kingdom, for instance, the decline in the relative

important.³ The marked decrease in fertility rates, both *cause and result* of the increase in female labor supply, is an important factor.⁴ Less obvious candidates have been put forward as well.⁵ Economic factors also play a role. The increase in average real wages over time that accompanies economic growth has led to a rise in the opportunity cost of staying at home and encouraged labor force participation as

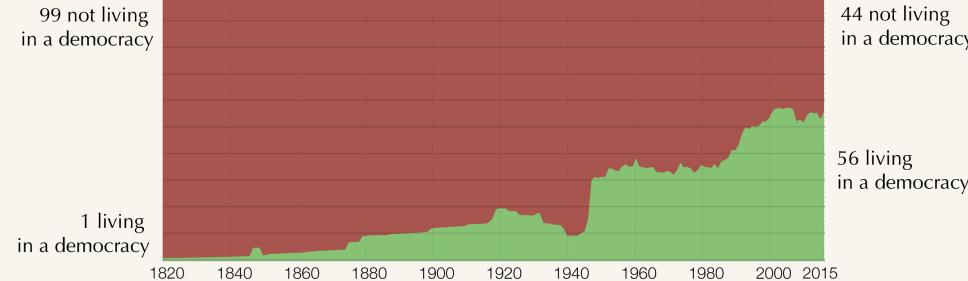
The Review of Economics and Statistics, February 2008, 90(1): 81–88

The World as 100 People over the last two centuries

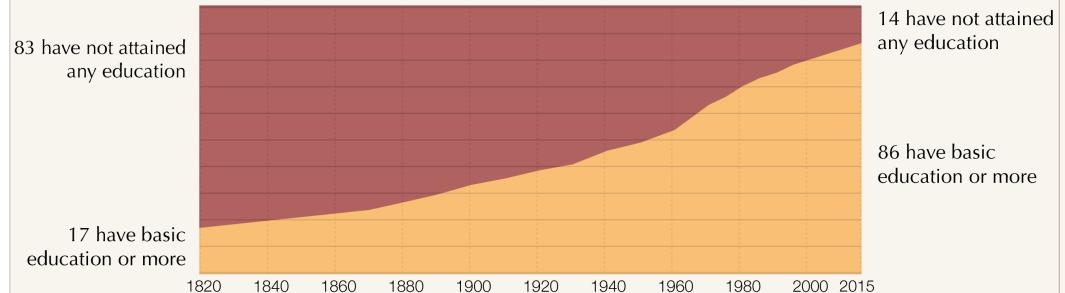
Extreme Poverty



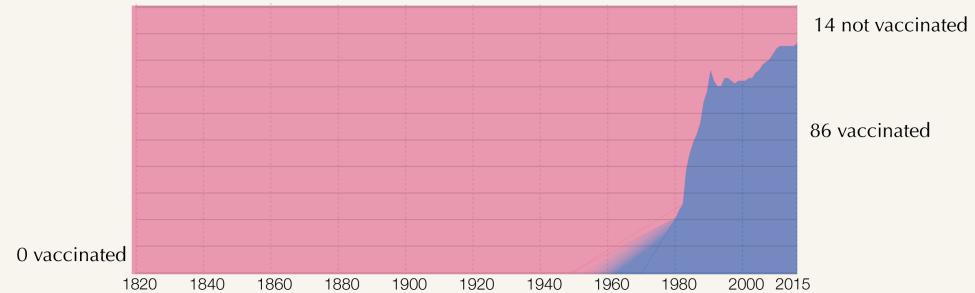
Democracy



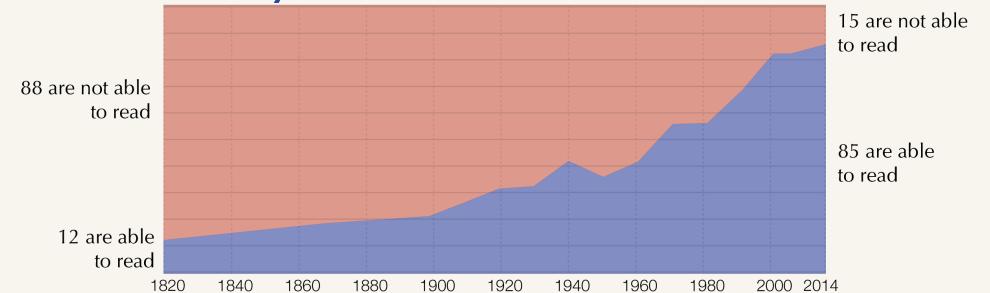
Basic Education



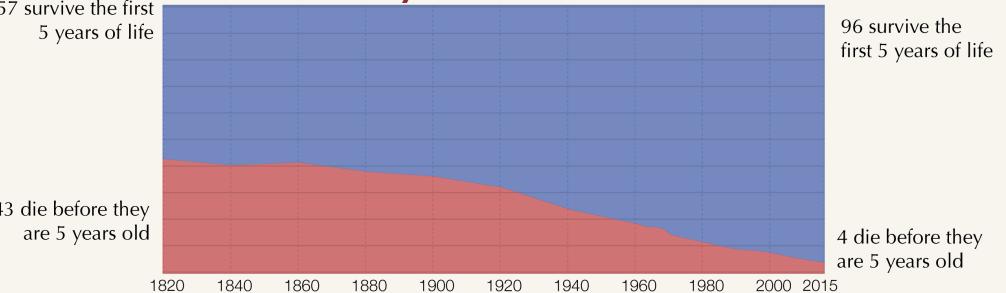
Vaccination against diphtheria, pertussis (whooping cough), and tetanus



Literacy



Child Mortality



Data sources:

Extreme Poverty: Bourguignon & Morrison (2002) up to 1970 – World Bank 1981 and later (2015 is a projection)

Democracy: Polity IV index (own calculation of global population share)

Vaccination: WHO (Global data are available for 1980 to 2015 – the DPT3 vaccination was licenced in 1949)

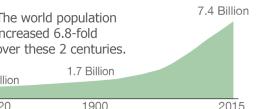
Colonialism: Wimmer and Min (own calculation of global population share)

Education: OECD for the period 1820 to 1960. IIASA for the time thereafter.

Continent: HYDE database

Literacy: OECD for the period 1820 to 1990. UNESCO for 2004 and later.

Child mortality: up to 1960 own calculations based on Gapminder; World Bank thereafter



All these visualizations are from OurWorldInData.org an online publication that presents the empirical evidence on how the world is changing.

Licensed under CC-BY-SA by the author Max Roser.

SYSTEMS & INSTITUTIONS

Economic system

Method for producing and distributing goods and services

Institutions

Rules for the system

CAPITALIST INSTITUTIONS

Private property

The right and expectation
that you can use your stuff
how you want

CAPITALIST INSTITUTIONS

Markets

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

Specialization

CAPITALIST INSTITUTIONS

Firms

Organizations that use labor (people) and capital (inputs) to produce goods and services to make a profit

CAPITALIST INSTITUTIONS

Private property

Markets

Firms

An economic system with private property

and markets

and firms

Self sufficient family based production

Market economy with family based production

Capitalist economic system

INSTITUTIONS AND COORDINATION

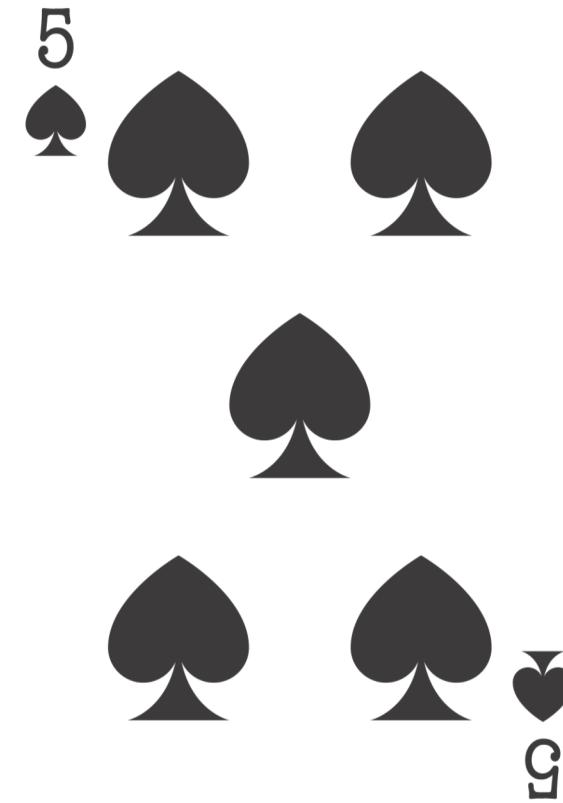
CAPITALISM & TECHNOLOGY



Sellers

Sell your paperclip for the highest possible price.

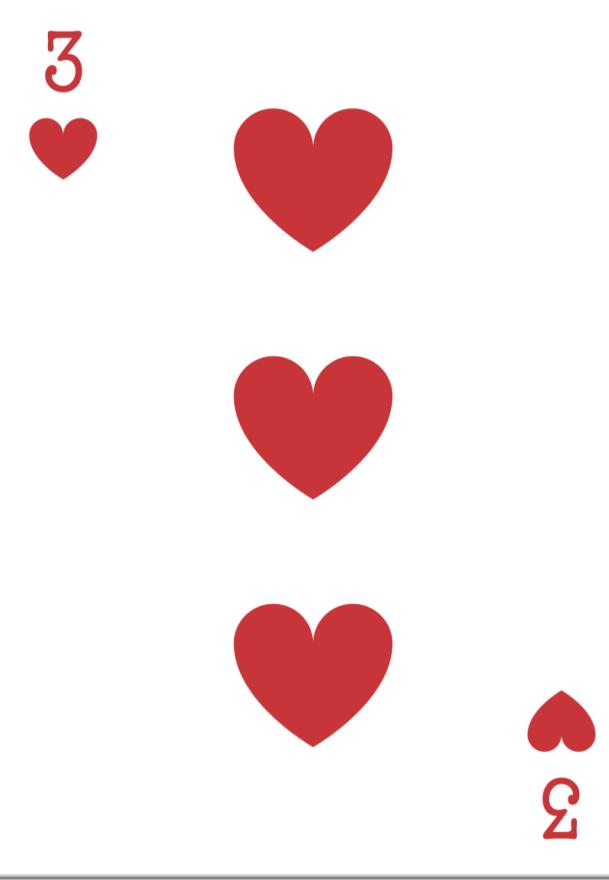
You cannot sell below this number.



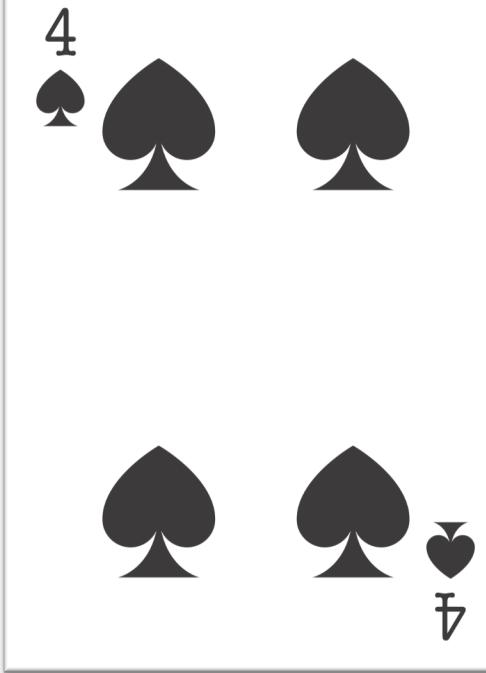
Buyers

Buy a paperclip for the lowest possible price.

You cannot pay above this number.



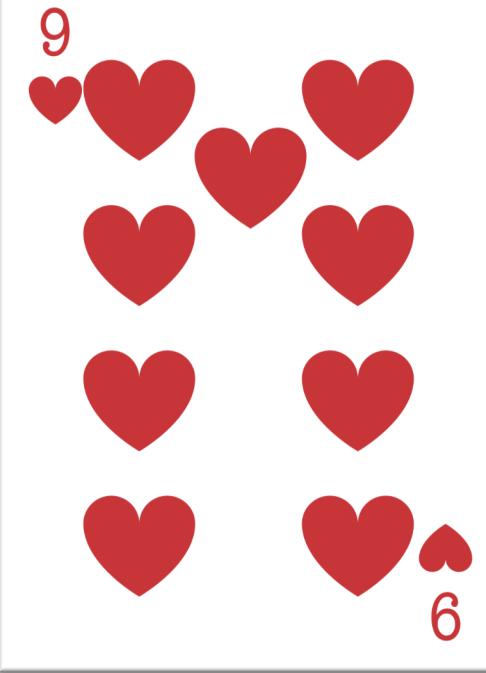
Seller



\$8

4 pieces of candy

Buyer



1 piece of candy

oh noes taxes

The government has imposed a tax of \$2 per paperclip, to be paid by sellers

Sellers who don't sell don't pay tax

Price must be at least \$2 above number on seller's card

If your card says 4, it's really a 6

Zoinks! Price ceilings!

The government has imposed
a price ceiling: no paperclip can
be sold for more than \$4

How'd we do?

THE INVISIBLE HAND

**Everyone working in their
own self interest drives the
collective market**

“It is not from the benevolence of the butcher, brewer, or the baker that we expect our dinner, but from regard for their own self interest”

**WHY DO WE MAKE YOU
TAKE THIS CLASS?**

WHAT IS ECONOMICS?

The study of how people interact with each other and with their natural surroundings in providing their livelihoods, and how this changes over time.



ECONOMICS ≠ MONEY



Mike Simpson, M.D.

@DrMikeSimpson

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The fact that every person with a PhD in economics is NOT a billionaire should tell you all you need to know about the worth of that particular field of study.

2:25 PM - 2 Jun 2018

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236

213

1.0K



Tweet your reply

ECONOMICS ≠ MONEY



Kevin Banda

@KevinKBand

Following



The fact that every person with a PhD in geology is NOT a rock should tell you all you need to know about the worth of that particular field of study.

Mike Simpson, M.D. @DrMikeSimpson

The fact that every person with a PhD in economics is NOT a billionaire should tell you all you need to know about the worth of that particular field of study.

Show this thread

6:22 AM - 4 Jun 2018

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59

399

2.3K



Homo economicus and crystal ball math

vs.

**Data + models
+ analysis =
decisions**

WHY ECON IN AN MPA / MPP PROGRAM?

It's the language of policy

You have to speak that language

Markets need referees

You are those current/future referees

LANGUAGE OF POLICY



NIH Public Access Author Manuscript

N Engl J Med. Author manuscript; available in PMC 2013 November 02.

Published in final edited form as:
N Engl J Med. 2013 May 2; 368(18): 1713–1722. doi:10.1056/NEJMsa1212321.

The Oregon Experiment — Effects of Medicaid on Clinical Outcomes

Katherine Baicker, Ph.D., Sarah L. Taubman, Sc.D., Heidi L. Allen, Ph.D., Mira Bernstein, Ph.D., Jonathan H. Gruber, Ph.D., Joseph P. Newhouse, Ph.D., Eric C. Schneider, M.D., Bill J. Wright, Ph.D., Alan M. Zaslavsky, Ph.D., and Amy N. Finkelstein, Ph.D. for the Oregon Health Study Group*

Department of Health Policy and Management, Harvard School of Public Health (K.B., J.P.N., E.C.S.), the Department of Health Care Policy, Harvard Medical School (J.P.N., E.C.S., A.M.Z.), and RAND Corporation (E.C.S.) — all in Boston; the National Bureau of Economic Research (K.B., S.L.T., M.B., J.H.G., J.P.N., A.N.F.), the Harvard Kennedy School (J.P.N.), and the Department of Economics, Massachusetts Institute of Technology (J.H.G., A.N.F.) — all in Cambridge, MA; Columbia University School of Social Work, New York (H.L.A.); and the Center for Outcomes Research and Education, Providence Portland Medical Center, Portland, OR (B.J.W.)

Abstract

BACKGROUND—Despite the imminent expansion of Medicaid coverage for low-income adults, the effects of expanding coverage are unclear. The 2008 Medicaid expansion in Oregon based on lottery drawings from a waiting list provided an opportunity to evaluate these effects.

Preliminary Cost-Benefit Analysis of Ultrasonic and Camera Backup Systems

Table 2
Net Lifetime Benefits of Various Backup Systems
On a Per Vehicle Basis (\$2006)

	3% discount rate	50 % Driver Factor	80% Driver Factor
Ultrasonic			
At low speeds, 10 % are backing up crashes		-\$82.73	-\$75.34
At low speeds, 25 % are backing up crashes		-\$64.26	-\$45.78
Camera			
At low speeds, 10 % are backing up crashes		-\$375.21	-\$365.20
At low speeds, 25 % are backing up crashes		-\$350.19	-\$325.16
Both			
At low speeds, 10 % are backing up crashes		-\$468.57	-\$457.54
At low speeds, 25 % are backing up crashes		-\$441.00	-\$413.43

	7% discount rate	50 % Driver Factor	80% Driver Factor
Ultrasonic			
At low speeds, 10 % are backing up crashes		-\$74.23	-\$68.35
At low speeds, 25 % are backing up crashes		-\$59.53	-\$44.83
Camera			
At low speeds, 10 % are backing up crashes		-\$365.11	-\$357.14
At low speeds, 25 % are backing up crashes		-\$345.19	-\$325.28
Both			
At low speeds, 10 % backing up		-\$447.80	-\$439.02
At low speeds, 25 % backing up		-\$425.86	-\$403.92

WHAT HAPPENS IF...

Private property is not secure?

Markets are not competitive?

Firms are run by
entrenched interests?

INSTITUTIONS MATTER

The public sector provides
the backdrop for capitalist
institutions

CLASS DETAILS

GOALS FOR THE CLASS

Talk like an economist

**Understand the role of the public
sector in capitalist markets**

Do public economic analysis

Capitalism, markets, and public policy

Growth Social dilemmas

Measurement Fairness Inequality



Economic models

Scarcity Firms and markets

Preferences Optimization Information

Evaluating and administering policies

Cost-benefit analysis Experiments

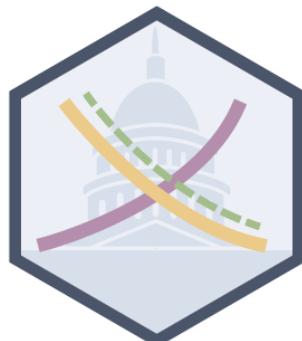
Causal inference Politics



Market failures, governments, and politics

Externalities Public goods Rent seeking

Monopolies Government intervention



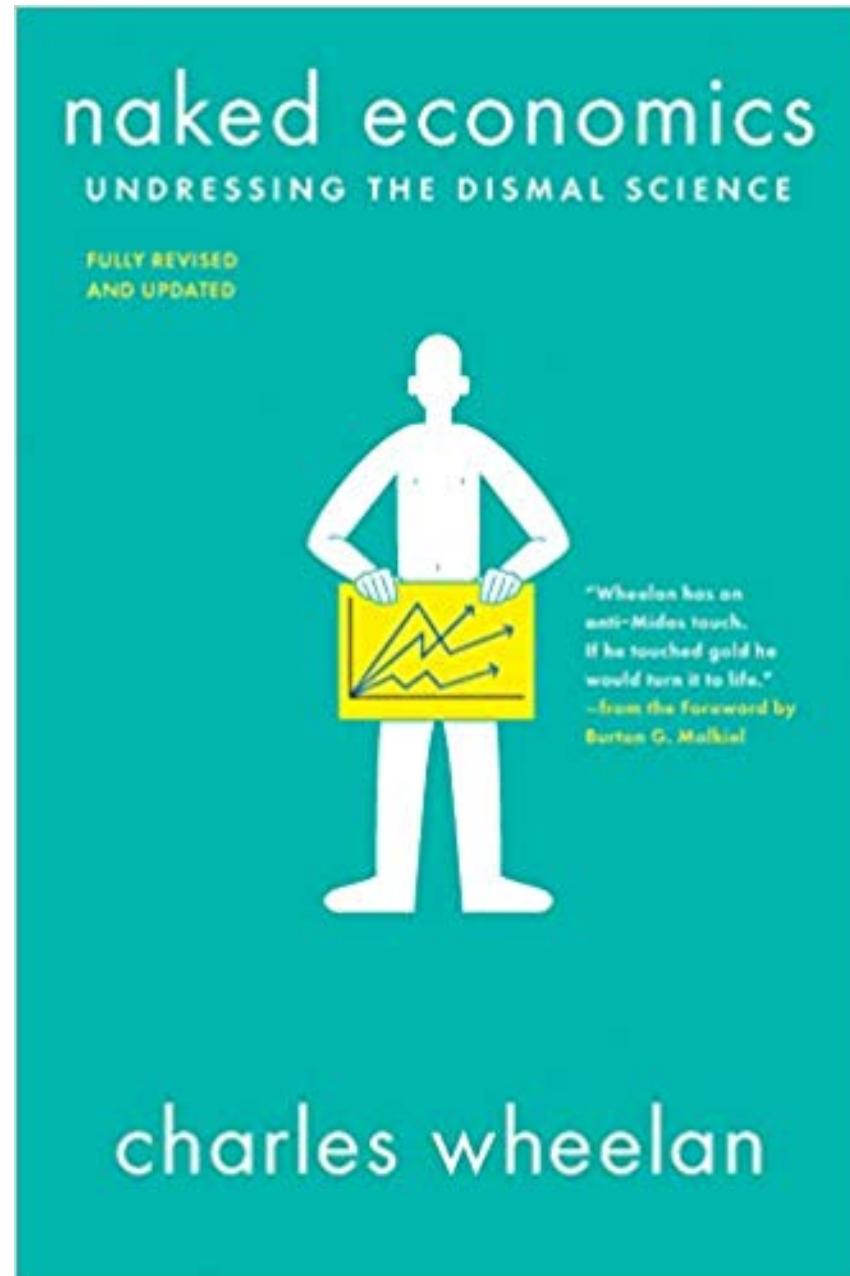
ECONOMY, SOCIETY, AND PUBLIC POLICY



THE CORE ESPP TEAM

ECONOMY, SOCIETY, AND PUBLIC POLICY

coreecon



"Wheelan has an
anti-Midas touch.
If he touched gold he
would turn it to life."
—from the Foreword by
Burton G. Malkiel

charles wheelan



SKILLS YOU'LL NEED



Algebra

Derivatives

MAIN ASSIGNMENTS

Readings

Podcasts

Problem sets

Economic briefing

Exams

Final project

COURSE POLICIES

Class conduct and expectations

On the first day of class, will come up with rules, expectations, and policies regarding late work, laptop use, and other issues. Those will be listed here.

COURSE WEBSITE



PMAP 8141: ECONOMY, SOCIETY, AND PUBLIC POLICY

[SYLLABUS](#) [SCHEDULE](#) [ASSIGNMENTS](#) [REFERENCE](#) [SLACK](#)

ECONOMY, SOCIETY, AND PUBLIC POLICY

THIS SITE CONTAINS the syllabus, schedule, and assignments for MPA 612: Economy, Society, and Public Policy, held during Winter 2019 at Brigham Young University.

By the end of this course, you will (1) be literate in fundamental economic principles, (2) understand the limits of economic theory and free markets, (3) justify government and nonprofit intervention in the economy, and (4) make informed policy recommendations by analyzing and evaluating public sector policies.

Capitalism, markets, and public policy

Growth Social dilemmas
Measurement Fairness Inequality

Evaluating and administering policies

Cost-benefit analysis Experiments
Causal inference Politics

Economic models

Scarcity Firms and markets
Preferences Optimization Information

Market failures, governments, and politics

Externalities Public goods Rent seeking
Monopolies Government intervention

ECONOMY, SOCIETY,
AND PUBLIC POLICY

INSTRUCTOR

👤 Dr. Andrew Heiss
🏛 357 Andrew Young School
✉ aheiss@gsu.edu
🐦 @andrewheiss
🕒 Office hours: [Sign up here](#).

E-mail is the best way to get in contact with me. I will try to respond to all course-related e-mails within 24 hours (*really*), but also remember that life can be busy and chaotic for everyone (including me!), so if I don't respond to your e-mail right away, don't worry!

COURSE

🕒 Thursdays
📅 August 29–December 4, 2019
⌚ 7:15–9:45 PM
🏛 Classroom South 301
✳ Slack

IMPORTANCE OF INSTITUTIONS

WHAT ARE INSTITUTIONS?

Rules

Formal

Informal

CAPITALIST INSTITUTIONS

Private property

Markets

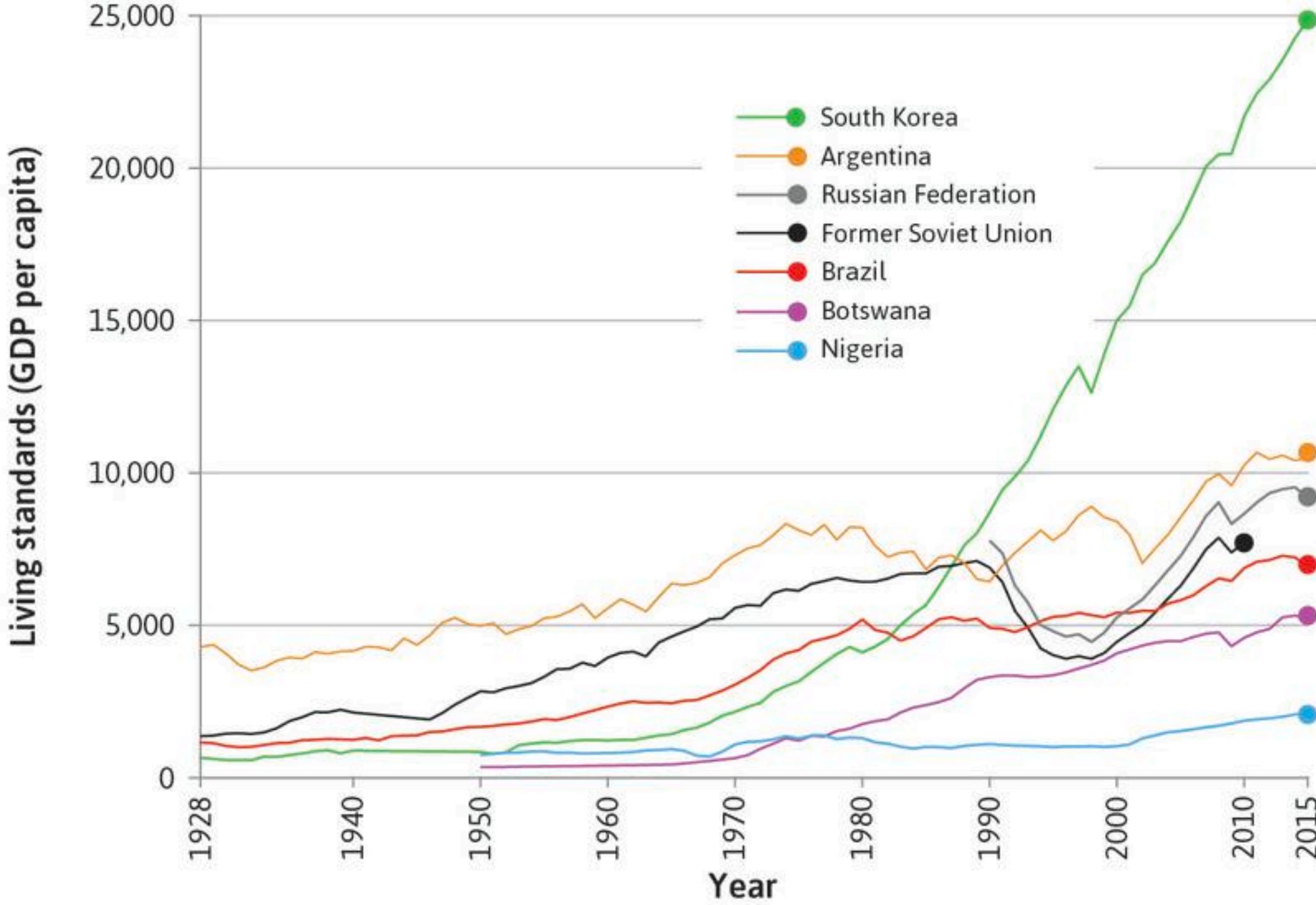
Firms

An economic system with private property

and markets

and firms

Is democracy
necessary for
capitalism?



WHAT IS THE RIGHT INSTITUTIONAL MIX?

Incentives for innovation

Secure private property +
competitive markets

Efficient firms

Competent leadership →
create goods at low cost

Public policy

Government policies that
foster these conditions

Public good provision

Governments fill in gaps
missed by private sector

DOWNSIDES OF CAPITALISM

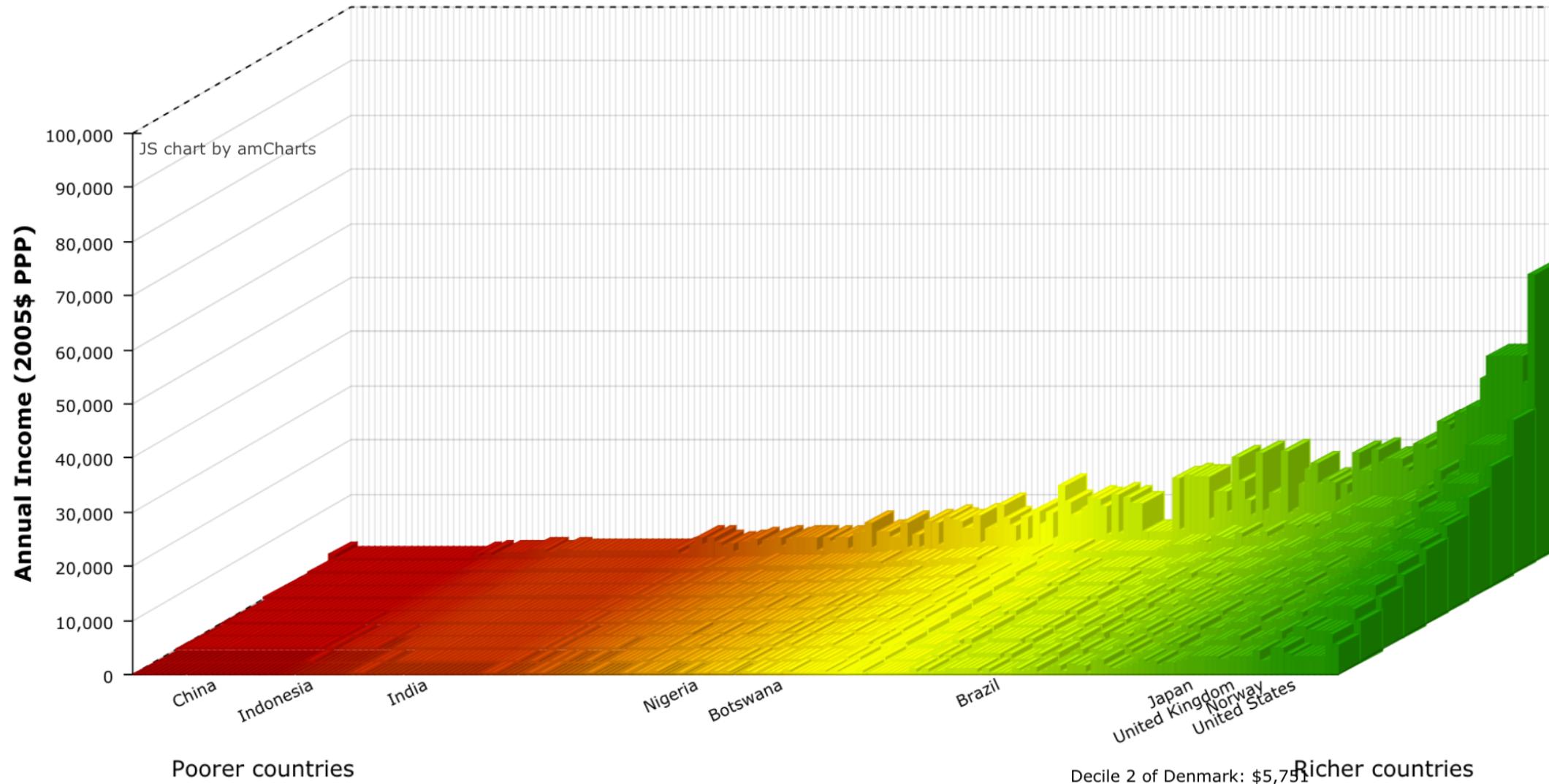


TWO CHEERS FOR CAPITALISM

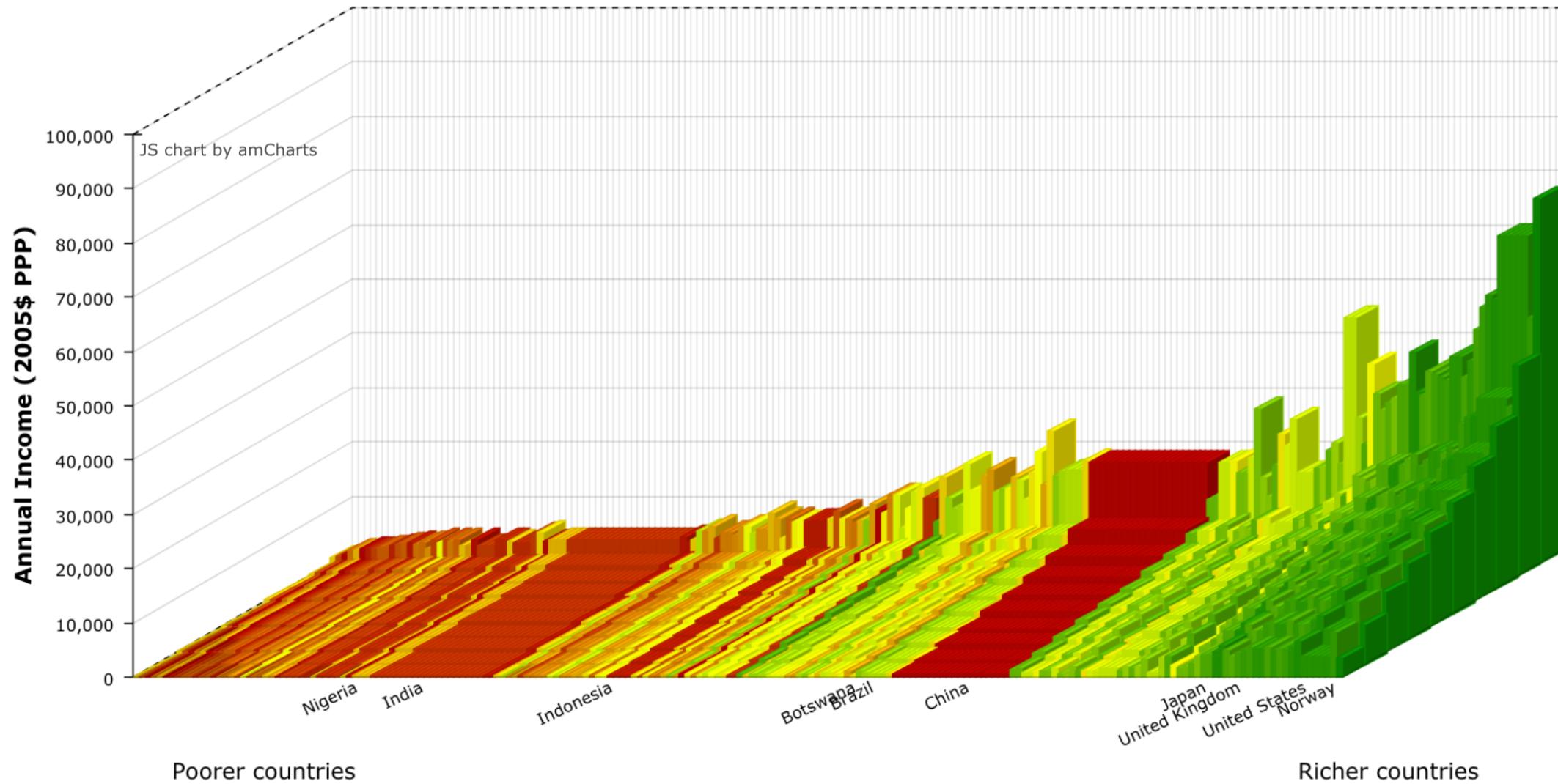
Inequality

Not all gains are spread equally
(within and between countries)

1980



2014

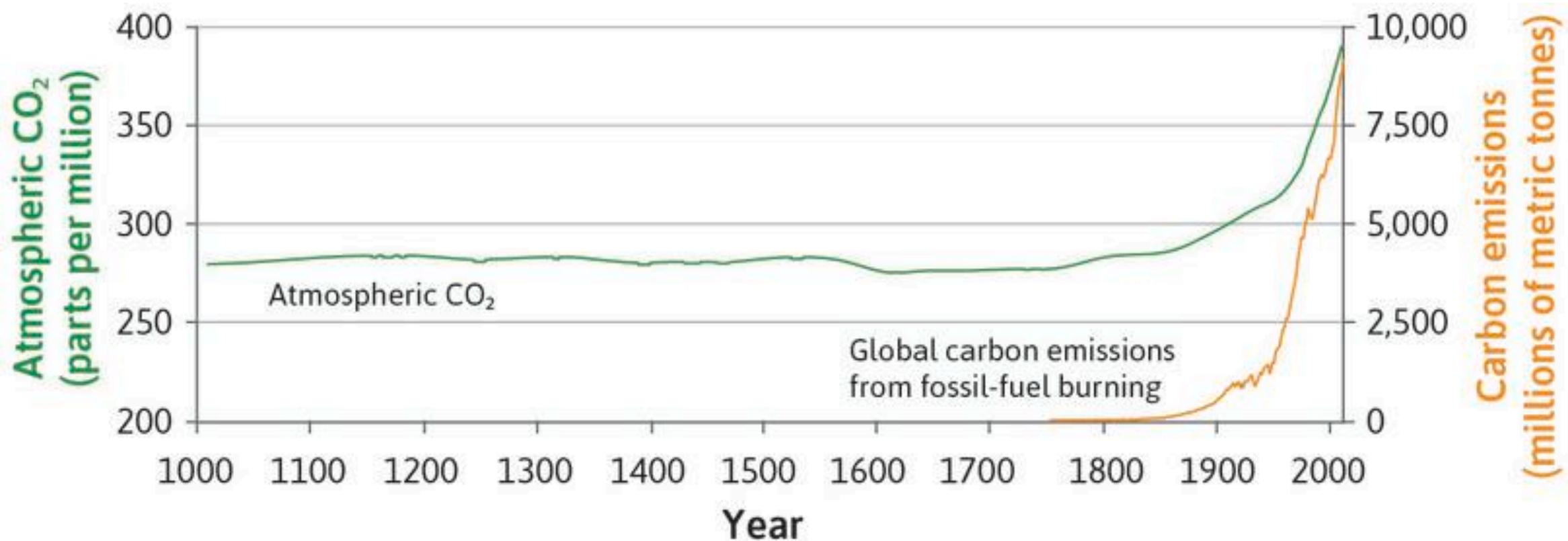


CAPITALISM AND INEQUALITY

Why is capitalism associated
with growing inequality?

How can democracy ideally
curtail this capitalist inequality?

CAPITALISM & CARBON



TWO CHEERS FOR CAPITALISM

Inequality

Not all gains are spread equally
(within *and* between countries)

Environmental damage

Gains have side effects

CAPITALISM AND CLIMATE

Why is it so hard for democracies
to address climate change?

**MEASURING STUFF
CORRECTLY**

EVERYONE'S FAVORITE NUMBER

Gross Domestic Product (GDP)

Private consumption

Investment

Exports

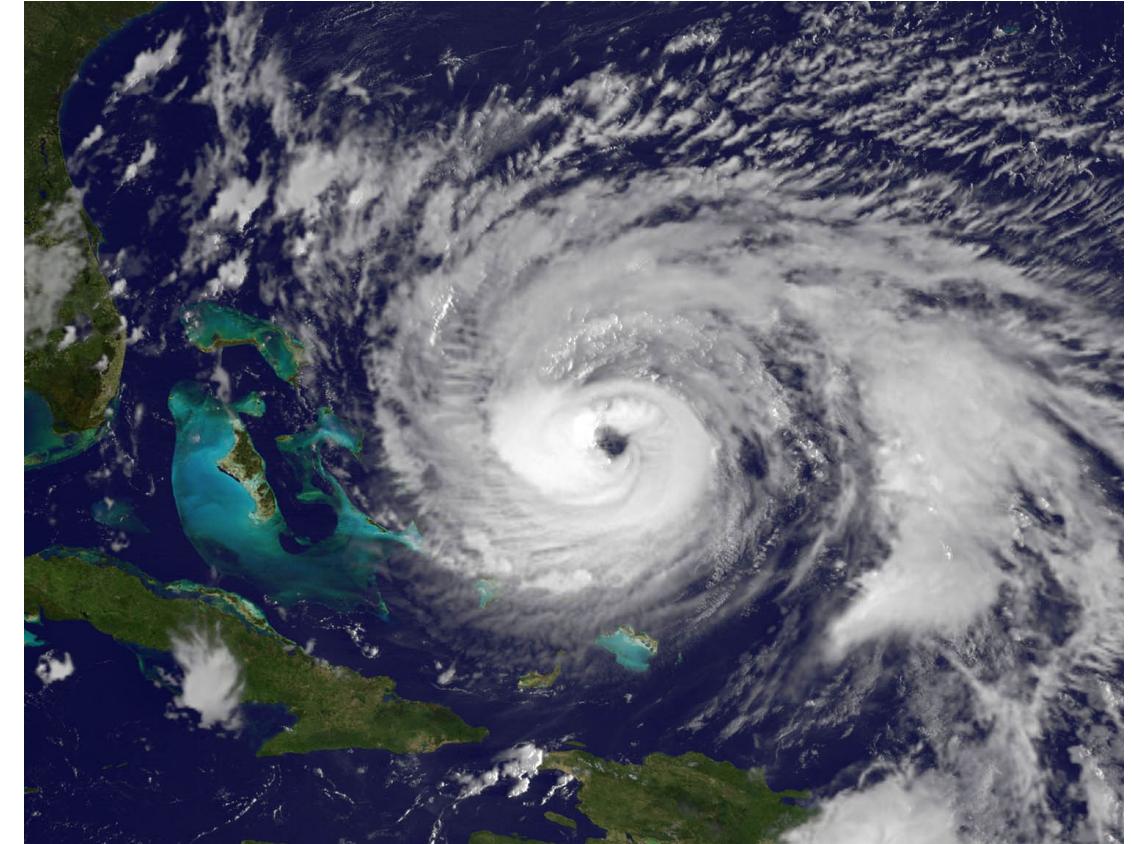
Government expenditures

(Subtract imports)

Y T H O ?

Why does everyone
love this number?

PROBLEMS WITH GDP



GDP (+\$s) ACROSS SPACE

Purchasing power parity (PPP)

Adjust value for how much the same good costs at the same time in different places

Big Mac Index

🇺🇸 \$5.51

🇨🇳 \$3

🇪🇺 \$4.63



G D P (+ \$ s) O V E R T I M E

Nominal numbers

What was written down at the time

Real numbers

The value in today's dollars (or another year's dollars)

$$\text{Real value} = \frac{\text{Nominal value}}{\text{Price index} / 100}$$

PRICE INDEXES

Compare the price of the same good
(or basket of goods) over time

Consumer Price Index (CPI)

What goods and services does the CPI cover?

The CPI represents all goods and services purchased for consumption by the reference population (U or W). BLS has classified all expenditure items into more than 200 categories, arranged into eight major groups. Major groups and examples of categories in each are as follows:

- FOOD AND BEVERAGES (breakfast cereal, milk, coffee, chicken, wine, full service meals, snacks)
- HOUSING (rent of primary residence, owners' equivalent rent, fuel oil, bedroom furniture)
- APPAREL (men's shirts and sweaters, women's dresses, jewelry)
- TRANSPORTATION (new vehicles, airline fares, gasoline, motor vehicle insurance)
- MEDICAL CARE (prescription drugs and medical supplies, physicians' services, eyeglasses and eye care, hospital services)
- RECREATION (televisions, toys, pets and pet products, sports equipment, admissions);
- EDUCATION AND COMMUNICATION (college tuition, postage, telephone services, computer software and accessories);
- OTHER GOODS AND SERVICES (tobacco and smoking products, haircuts and other personal services, funeral expenses).

HISTORICAL PRICES

What about iPhones?

How much would an iPhone
have cost in 1935?



Ernie's B&L mortgage in 1928 = \$5,000

\$72,843

George's salary in 1935 = \$45/week

\$43,365

Potter's offer in 1935 = \$20,000/year

\$370,644

Amount stolen by Potter in 1945 = \$8,000

\$113,275

Excel time!