

# Economic Systems for Resource Allocation

EVNS 1006

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Lecture 2

# The Lecture will cover

What are economic systems?

What is the relationship between social rules, human agency and discretion?

What is a centrally planned economy,

What is free-market economy?

What is a mixed economy?

# Understanding systems

Designing a traffic system for London

Three options for road intersections:

- Intersections with no traffic signs
- Roundabouts
- Traffic Signal Intersection

## Intersection with no traffic sign



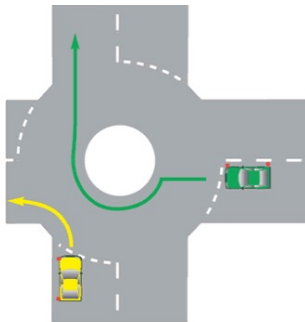
# Intersection with no traffic sign

What do the drivers do?

What do the traffic planners do?

What are the rules and what is left up to discretion?

# Roundabouts



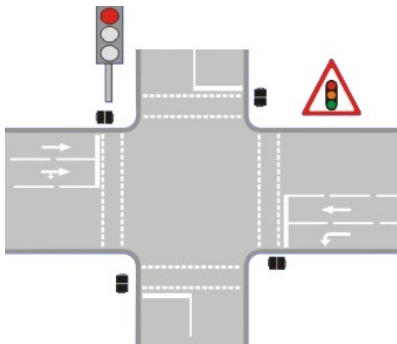
# Roundabouts

What do the drivers do?

What do the traffic planners do?

What are the rules and what is left up to discretion?

# Traffic Signal Intersection





# Traffic Signal Intersection

What do the drivers do?

What do the traffic planners do?

What are the rules and what is left up to discretion?

# Comparing the three systems

	No signals	Roundabouts	Traffic Signal
Driver's burden			
Rules			
Initiative			
Planner's burden			
Ex-ante planning			
Ex-post effort			

# Understanding a system

De facto rules:

Informal social rules that spontaneously emerge in the society

De jure rules:

Designing the formal rules?

# De facto and De jure rules

“I’ve discovered the fundamental difference between the English and the French and the Americans ... The fundamental difference is this.

The English obey **all** laws, good, bad or indifferent.

The French obey **no** laws, good, bad, or indifferent.

The Americans obey **only** the goods laws.”

– George Stigler quoted in Friedman 2016

# Different kinds of Economic Systems

Rules and initiative?

Family

Firm

University

# Different kinds of Economic Systems

Rules and initiative?

Religion

Region

Country

# Examining the Economic system

Inside the economic system

Boundary of the economic system

Outside the economic system

# Examining the firm

What should it produce **inside**?

What are the **boundaries** of the firm?

What should it buy from the **outside**?

Car manufacturer:

Tyres, windshields, windshield wipers,  
body, seats, steering wheel ...



# Messy economy

Complication of designing a

- traffic system
- economic system

Role of leap of faith and beliefs in  
designing an economic system

# Centrally Planned Economy

Government planning committee

Who should produce what?

What should be the price of each good?

Does everyone gets jobs they want and  
earn enough to buy what they want?

# Free Market Economy

People desire things

People want to produce things

Let people sort out how to produce things and exchange things

No government role

Does everyone gets jobs they want  
and earn enough to buy what they want?

# Mixed Economy

Deal with activities on ad hoc basis?

Goods and services

Markets with no government role

Government makes the market work

Government provides them, market never provides it

# Mixed Economy

What should the government do in the following sectors:

- Health
- Education
- Televisions
- Environment
- Internet
- Taxis
- Sale of acid