

mybiology

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Preface

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1 Reasons

Alchian (1950) submits that there is a double reason to ask for a new economic analysis. These are an incomplete information in the functioning of the economic system and uncertain foresight. The latter recognizes the role of prediction that every economic analysis must play if it's to be good.

This vision proposed by Alchian in 1954 moves away from the typical axiom of “profit maximization” and the prediction of the individual behavior of the firm as primary means for understanding the behavior of the firm. Instead, Alchian provides a solution by suggesting the adoption of biological evolution and natural selection as thinking paradigms. The introduction of this new approach allows Alchian to treat an economic system as an adaptive “mechanism” able to choose among those “(...) exploratory actions generated by the adaptive pursuit of”success” or “profits”.”

A valuable benefit of this new perspective is that economic analysts can, according to Alchian, now confront problems that were previously considered aberrant or that required an ad-hoc analytical apparatus. Ultimately, it is an approach that widens the capabilities of economic analysis and prevents the analyst from having to introduce unrealistic assumptions to reach any coherent result.

However, Alchian’s innovative approach remains half-finished because he assumes that he will continue using the same conceptual apparatus of his analytical predecessors. That is to say, the same concepts used in the type of analysis based on profit maximization seem to continue serving under its new perspective.

2 Introduction

The main problem that trigger the need to search for a new analytical approach is the strongly established position of “profit maximization” as a fundamental concept that drives our understanding of the behavior of the firm.

According to the conceptualization of “profit maximization” decisions are made in a strictly rational manner by units that seek to maximize the benefits obtained.

The economic analysis literature of the first half of the 20th century is full of references to these profit-maximizing bases (Robinson 1969), a way of thinking about economics that reaches its zenith in Samuelson’s famous quote “The very name of my subject, economics, suggests economizing or maximizing” (Samuelson 1972).

This does not mean that throughout this period of time there have been no authors who have questioned the entire conceptual and analytical apparatus around “profit maximization”. In fact, there are a plethora of them.

Authors like Tintner (1941) who go so far as to state outright that maximization makes no sense in an environment full of uncertainties (a precondition for profits) that are produced by the inability of human beings to solve complex problems involving a host of variables, and imperfect foresight. According to the author, maximization cannot be used as the basis for selecting the action that will produce the result with the greatest profits over all other actions.

2.1 Individual vs system decisions

Alchian (1950) proposes an alternative method to solve this whole problem. It consists of treating decisions and selection criteria at the level of the economic system as more important than those made by individuals within it. This allows us to look at the interrelationship that exists between the environment and the individual behaviors that arise as a consequence of a process of natural selection.

The decision criterion in the firm’s behavior is now the realization of profits, which in turn acts as a (natural) selection mechanism that allows some firms to survive while others disappear. This decision and selection process takes place in impersonal markets, which are completely separate from individual decisions, from the capabilities and motivations of the units that

decide, and even from their awareness of the functioning of this criterion. Simply realizing positive profits is enough to make a firm survive, no matter how, who or why it is achieved.

Alchian (1950) recognizes that the realization of positive benefits may go to the most daring or lucky, not necessarily to those who are best prepared or carry out a process of strong reasoning, preparation and execution. Therefore, a specific motivation is not strictly necessary for the firm to survive, since “as in a race, the award goes to the relatively fastest, even if all the competitors loaf”.

2.2 Chance or Luck as a means for success

Luck and chance can act in two ways: first when choosing an action to apply and its viability to realize benefits, second when deciding on a specific method of adaptation to a particular environment (Alchian 1950).

In this discussion, the debate arises about to what extent it is the survivor who manages to adapt to the environment, or whether it is the environment that actually adopts the survivor. In the first case, the adaptation process is something conscious. In the second, the survivor does not carry out any motivated or conscious process of change in search of adaptation, but rather it is the environment that adopts him.

In reality, it is the environment that determines the possible paths to success, or in other words, the path that a survivor must follow to become one. These paths are constantly changing, and what at a given moment in time made some individuals successful and others not, some time later it will make those who were previously unlucky now successful and able to survive (Alchian 1950).

In the context of adoption by the environment, the individual doesn't really need to do anything, other than want to play this game (that is, making a decision when it is necessary to make it). According to Alchian himself, this somewhat random behavior that individuals may have does not eliminate the possibility that the decision made by one of them is appropriate for survival. In terms of economic analysis, the analyst will only need some circumstances (economic environment) and some participants (firms) to diagnose the conditions under which they will be most likely to be successful.

3 Summary

In summary, this book has no content whatsoever.

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References

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