

Lecture: 0.3.3. Dasgupta on Doing Economics

Why would one want to “think like an economist”?:

- What is “thinking like an economist”?:
 - Cost-benefit
 - Opportunity cost
 - System equilibrium
 - Marginality
- This turns out to be useful for thinking about the *economy*:
 - (Other things too: but mostly the *economy*)



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What Is the *Economy*?

And why is thinking like an economist the best way to analyze it?:

- These are the questions Dasgupta sets out to answer by example in his book
- It is a game theorist's introduction to economics
- The book won't teach you how to calculate price and quantity changes in response to demand shocks.
- The book will teach you why figuring out price and quantity changes is a worthwhile thing to do.
- This is worth getting into your frontal brain lobes:
 - We are going to spend the semester studying the growth of the human economy
 - And we are going to do so by thinking like economists.
- Anthology intelligence; division of labor, mechanism design; societal calculating machine



2:45 audio

Questions

Preface

- How different do you think the lives of Becky and Desta are?
- How would you go about explaining why the lives of Becky and Desta are different?
- How would an economist go about explaining why the lives of Becky and Desta are different?
- What are the costs and benefits of thinking like an economist?
- What kind of person would start an analysis by asking: "What are the costs and benefits of thinking like an economist?"

Prologue

- Why does Becky's household live outside of Chicago and earn money by having the father work all day outside of the house doing transactions processing rather than, say, living 100 miles further west and growing corn in DeKalb County?
- How different would Becky's life be if her father (and mother) were corn-growing farmers in DeKalb County?
- Why did they choose to become suburban Chicago yuppies?
- Why does Desta's household live in rural Ethiopia and grow their own corn rather than, say, living in Addis Ababa and earn money by having the father work all day outside of the house doing transactions processing?
- How different would Desta's life be if her father were an Addis Ababa lawyer?
- Why did they choose to become rural Ethiopian subsistence farmers?

Macroeconomic history

- In the long sweep of human history, is Becky very lucky, lucky, unlucky, or very unlucky?
- In the long sweep of human history, is Desta very lucky, lucky, unlucky, or very unlucky?
- How much richer is the world today than it was in the long centuries from 5000 BC to 1800?
- How much richer are the world's rich today than the world's poor today?
- What would count as an explanation of this divergence across space and time—that is, what kinds of things would count as "causes" and make you happy that you understood what was going on?
- How many useful "hierarchies of causation" can you imagine here?

Trust:

- About what fraction of our wealth is the result of—or, perhaps, is enabled by—our collective ability to engage in a very large distribution of labor (rather than requiring that each extended household be close to self-sufficient)?
- What are the possible ways of creating the "trust" needed for a small-scale—within the village or within the herding band, say—distribution of labor?
- What are the possible ways of creating the "trust" needed for a large-scale division of labor?
- What, in the world we see around us, turn out to be the most important ways of creating the "trust" needed to maintain a large-scale division of labor?

Questions II

Communities:

- Suppose that we have the norm (or the strategy) that a failure to share in any case leads to the end of the sharing relationship forever. How much of a large-scale social distribution of labor can be supported by tied engagements of this type?
- What are the advantages to having an economic network built out of "weak ties"?
- What are the difficulties in creating and maintaining an economic network built out of "weak ties"?

Sustainable Development:

- Why are we destroying our fisheries? Why are we rapidly using up our atmosphere's capacity to absorb carbon dioxide without substantial increases in temperature? Why is such a large chunk of our population potentially short of fresh water?
- Why have we been able to successfully capture and use 40% of the photosynthesis on earth without already severely disrupting our planet?
- How have we managed to become so much more numerous and rich since 1800 without rapidly-rising prices of pretty much all natural resources?

Science and Technology as Institutions:

- Given that knowledge is non-rival—if I teach it to you, I don't have any less of it than I did before—what justification could there possibly be for charging people for access to knowledge and its uses?
- If people weren't allowed to charge others for access to knowledge and its uses, would there be any reason to think that society would be putting a properly-large share of our resources into creating and disseminating knowledge?
- Why can contests and the rule of priority be good ways to spur the creation and dissemination of knowledge?
- How well do contests and the rule of priority fit with a private-property market economy?

Markets:

- How is having access to an ideal market the same as or different from having an economic network of ties (strong or weak) extending over the entire world?
- In what sense is what Dasgupta calls an "ideal market" ideal?
- Why did Friedrich von Hayek deserve his Nobel Prize?
- How can a central planner nevertheless add value for society, even though Friedrich von Hayek did deserve his Nobel Prize?
- Why should we worry about each of the four kinds of market failure that Dasgupta sees: distributional, free-riding, market power, and macroeconomic?

Questions III

Households and Firms:

- Where have all the women gone?
- Why do we think that Africa's population is likely to grow much faster than India's population over the next fifty years?
- How does Desta's household react to the fact that GEICO does not sell insurance policies in their neighborhood?
- How does Becky's family react to the fact that they can borrow from Umpqua Bank and invest in the Vanguard Funds—rather than having to deal with the local moneylender?
- Why does Becky's world have large-scale firms?
- Why does Becky's world have joint-stock limited-liability companies?
- Why does Becky's world have tradable financial assets?

Social Welfare and Democratic Government:

- What are T.H. Marshall's "three revolutions"?
- Why is each of them important?
- How does a government based on T.H. Marshall's "three revolutions" tend to promote a prosperous market economy?
- Does a prosperous market economy tend to promote T.H. Marshall's "Three Revolutions"—and if it does, does it promote them all?

Epilogue:

- What distinction does Dasgupta draw between problems and challenges?
- Which—problems or challenges—is better suited for analysis with the tools of economics?
- What, after finishing this book, do you now think the most important tools of economics are?