

1.1 – Choosing in Groups

ECON 410 • Public Economics • Spring 2022

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 [ryansafner/publicS22](https://github.com/ryansafner/publicS22)

 publicS22.classes.ryansafner.com



Outline



Review: The Benefits of Markets

When We Must Choose in Groups

About This Course

About Me



- Ph.D (Economics) – George Mason University, 2015
- B.A. (Economics) – University of Connecticut, 2011
- Specializations:
 - Law and Economics
 - Austrian Economics
- Research interests
 - modeling innovation & economic growth
 - political economy & economic history of intellectual property

Edinburgh, 2019

About Me



My face without a mask, 2021

- Ph.D (Economics) – George Mason University, 2015
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The Reason I am Busy AF Behind the Scenes



And why I wear a mask.

Public Economics



- **How do we choose in groups?**
 - Going to dinner together
 - Electing a president of the United States
- **“Public choice”:** application of **economic tools** to the study of **politics**
 - “Non-market decision-making”

Economics as a *Way of Thinking*



- Economics is a **way of thinking** based on a few core ideas:

Economics as a *Way of Thinking*



- Economics is a **way of thinking** based on a few core ideas:
- **People respond to incentives**
 - Money, punishment, taxes and subsidies, risk of injury, reputation, profits, sex, effort, morals



Economics as a *Way of Thinking*



- Economics is a **way of thinking** based on a few core ideas:
- **People respond to incentives**
 - Money, punishment, taxes and subsidies, risk of injury, reputation, profits, sex, effort, morals
- **Environments adjust until they are in equilibrium**
 - People make adjustments until their choices are optimal given others'



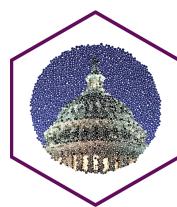
Optimization and Equilibrium



- If people can *learn* and *change* their behavior, they will always switch to a higher-valued option
- If there are no alternatives that are better, people are at an **optimum**
- If **everyone** is at an optimum, the system is in **equilibrium**



The Two Major Models of Economics as a "Science"



Optimization

- Agents have **objectives** they value
- Agents face **constraints**
- Make **tradeoffs** to maximize objectives within constraints

Equilibrium

- Agents **compete** with others over **scarce** resources
- Agents **adjust** behaviors based on prices
- **Stable outcomes** when adjustments stop

Economics Is Broader Than You Think





Review: The Benefits of Markets

Economics



- **Economics** begins with **interaction** between *multiple* people
- Recognizing **mutual gains from cooperation**
 - Specialization
 - Exchange
 - Team production



The Origins of Exchange I



- Why do we trade?
- **Resources are in the wrong place!**
- People have *better* uses of resources than they are currently being used!



The Origins of Exchange II



- *Why* are resources in the wrong place?
- **We have the same stuff but different preferences**



The Origins of Exchange III



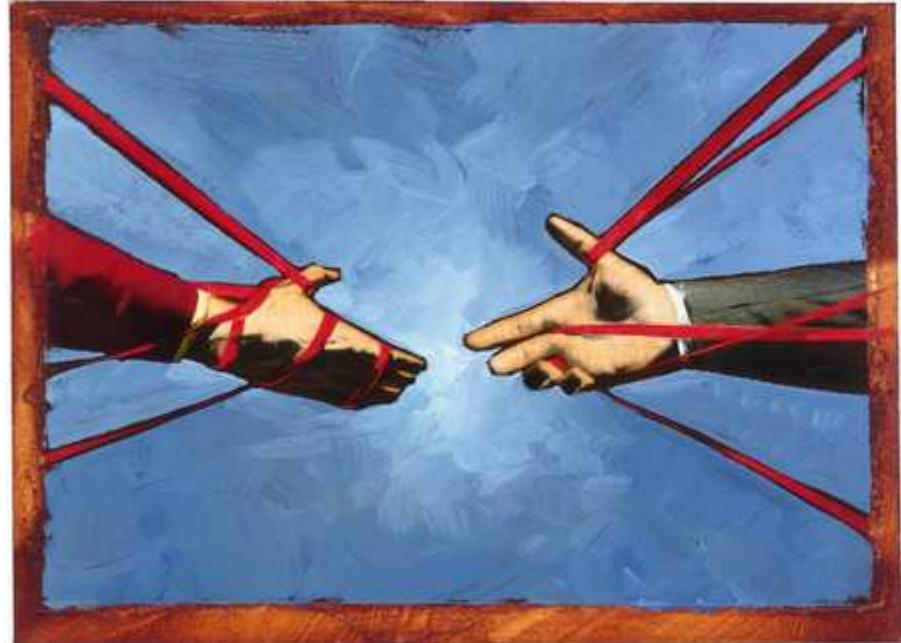
- *Why* are resources in the wrong place?
- **We have different stuff and same/different preferences**



Transaction Costs and Exchange I



- But **Transaction costs** make exchange costly!
 - **Search costs**
 - **Bargaining costs**
 - **Enforcement costs**



Transaction Costs and Exchange II



- With high transaction costs, resources **cannot** be traded
- Resources **cannot** be moved to higher-valued uses
- If other people value goods higher than their current owners, resources are **inefficiently** used!



Social Problems that Markets Solve Well



- **Problem 1:** Resources have multiple uses and are rivalrous
- **Problem 2:** Different people have different subjective valuations for uses of resources
- **It is inefficient (immoral?) to use a resource in a way that prevents someone else who values it more from using it!**



Social Problems that Markets Solve Well I



- **Markets** are institutions that facilitate voluntary *impersonal* exchange and reduce transaction costs
- **Prices** measure **opportunity cost** of a particular use of a resource



Social Problems that Markets Solve Well II



- **Property rights** provide a pattern of ownership
- **Prices** give us information about how to use scarce resources
- **Profits** incentivize production and **Losses** discipline waste



Prices are Signals



- Markets are social *processes* that generate information via prices
- Prices are never "given", prices **emerge** dynamically from negotiation and market decisions of entrepreneurs and consumers
- **Competition:** is a *discovery process* which *discovers* what consumer preferences are and what technologies are lowest cost, and how to allocate resources accordingly

The Social Functions of Prices I



A relatively high price:

- **Conveys information:** good is relatively scarce
- **Creates incentives for:**
 - **Buyers:** conserve use of this good, seek substitutes
 - **Sellers:** produce more of this good
 - **Entrepreneurs:** find substitutes and innovations to satisfy this unmet need

The Social Functions of Prices II



A relatively low price

- **Conveys information:** good is relatively abundant
- **Creates incentives for:**
 - **Buyers:** substitute away from expensive goods towards this good
 - **Sellers:** Produce less of this good, talents better served elsewhere
 - **Entrepreneurs:** talents better served elsewhere: find more severe unmet needs



When We Must Choose in Groups

When We Must Choose in Groups I



- Markets allocate resources by **individual choices** between **strangers**
- Possibilities of **market failure**
 - Externalities
 - Public Goods



When We Must Choose in Groups II



- Circumstances where people must make a **collective choice** or **know each other**
 - Justice, fairness, equality
 - Team production, public goods



When We Must Choose in Groups III



- Construct a **framework** for markets to operate within
 - Property rights
 - Transaction costs
 - Regulation



Methodological Individualism



- Only individual people act
- The individual is the base unit of all economic analysis
- *"How will action / choice / policy / institution [X] affect each individual's well-being?"*



Groups Don't Choose



- “**Society**” is not a choosing-agent or an optimization problem
- Individuals have **different interests** in their different capacities
 - Consumers
 - Producers
 - Voters
 - Interest groups
 - Elected officials
 - Bureaus



They Must Choose In a Unique Environment



- No **property rights**
- No **prices**
- No **profits or losses**



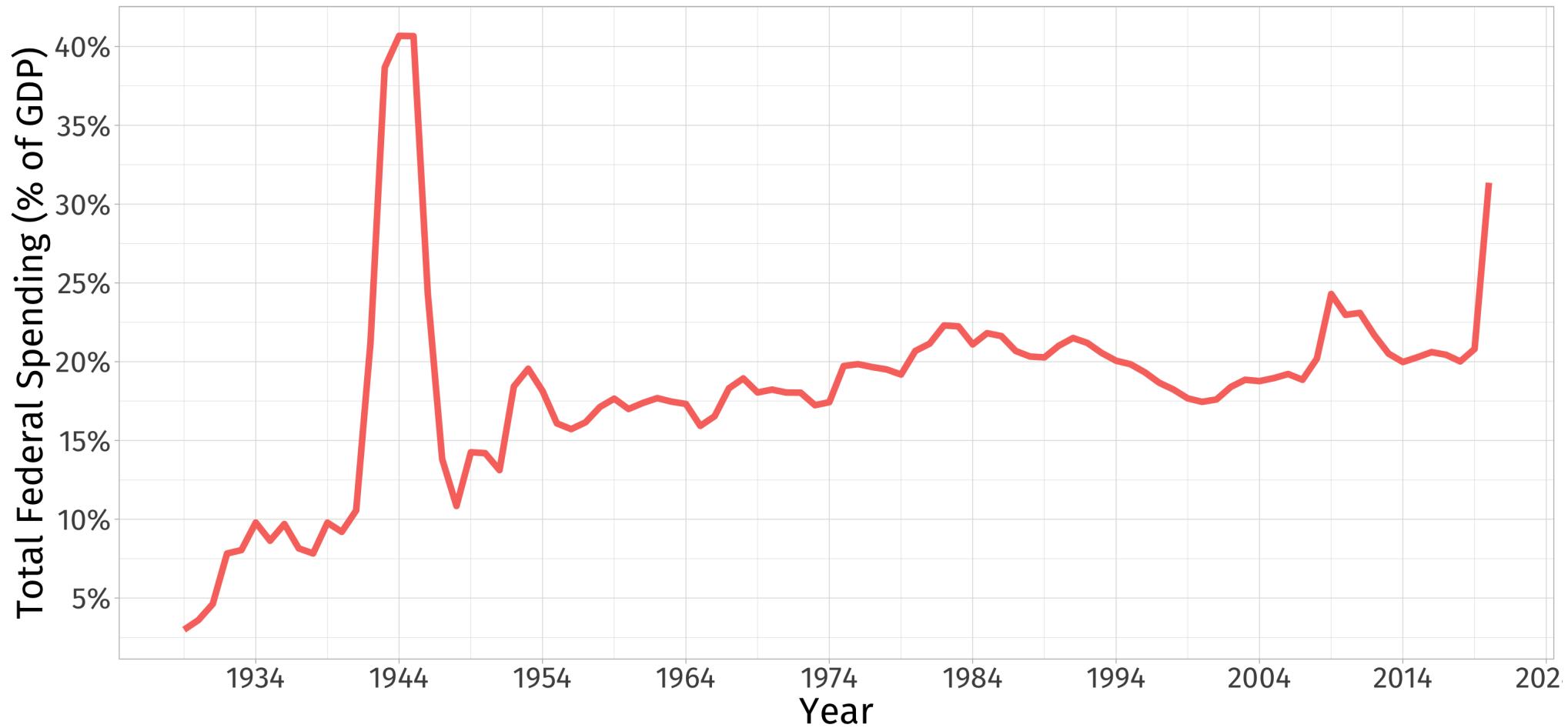
The "Public Sector"



- Activities by government(s) occupy a large part of the economy
- A major function of economists is to analyze and suggest public policy
- Positive vs. normative economics

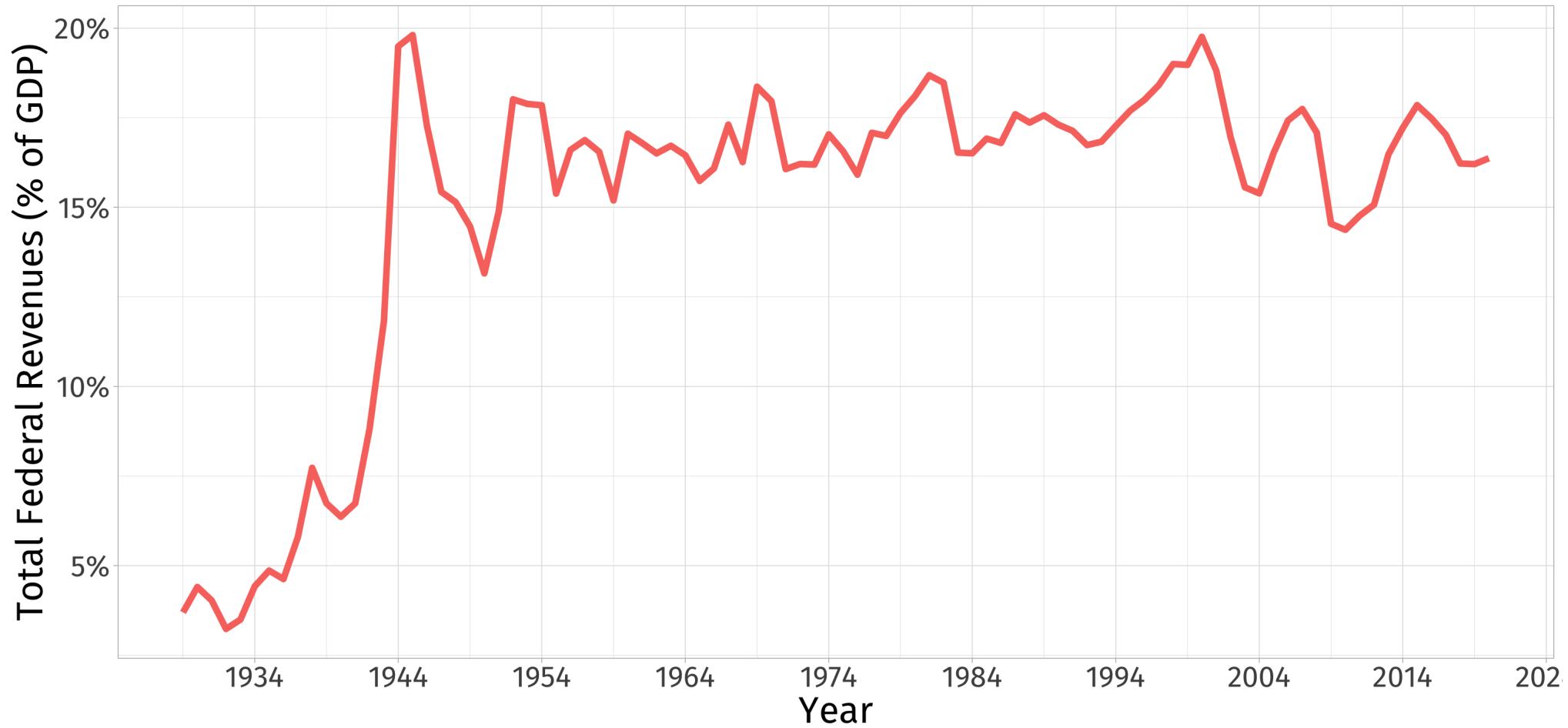


U.S. Federal Spending as % of GDP



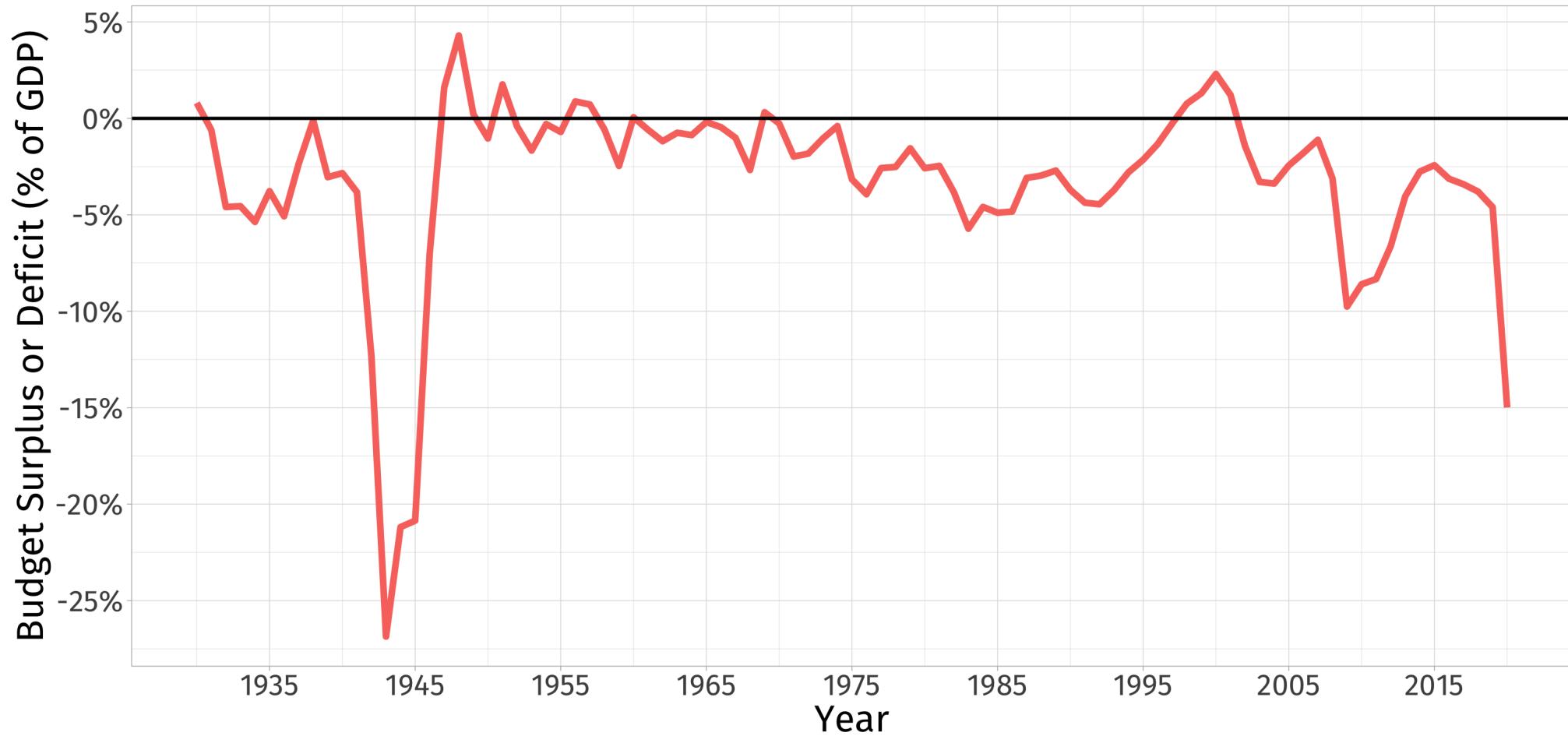
Source: FRED

U.S. Federal Revenues as % of GDP



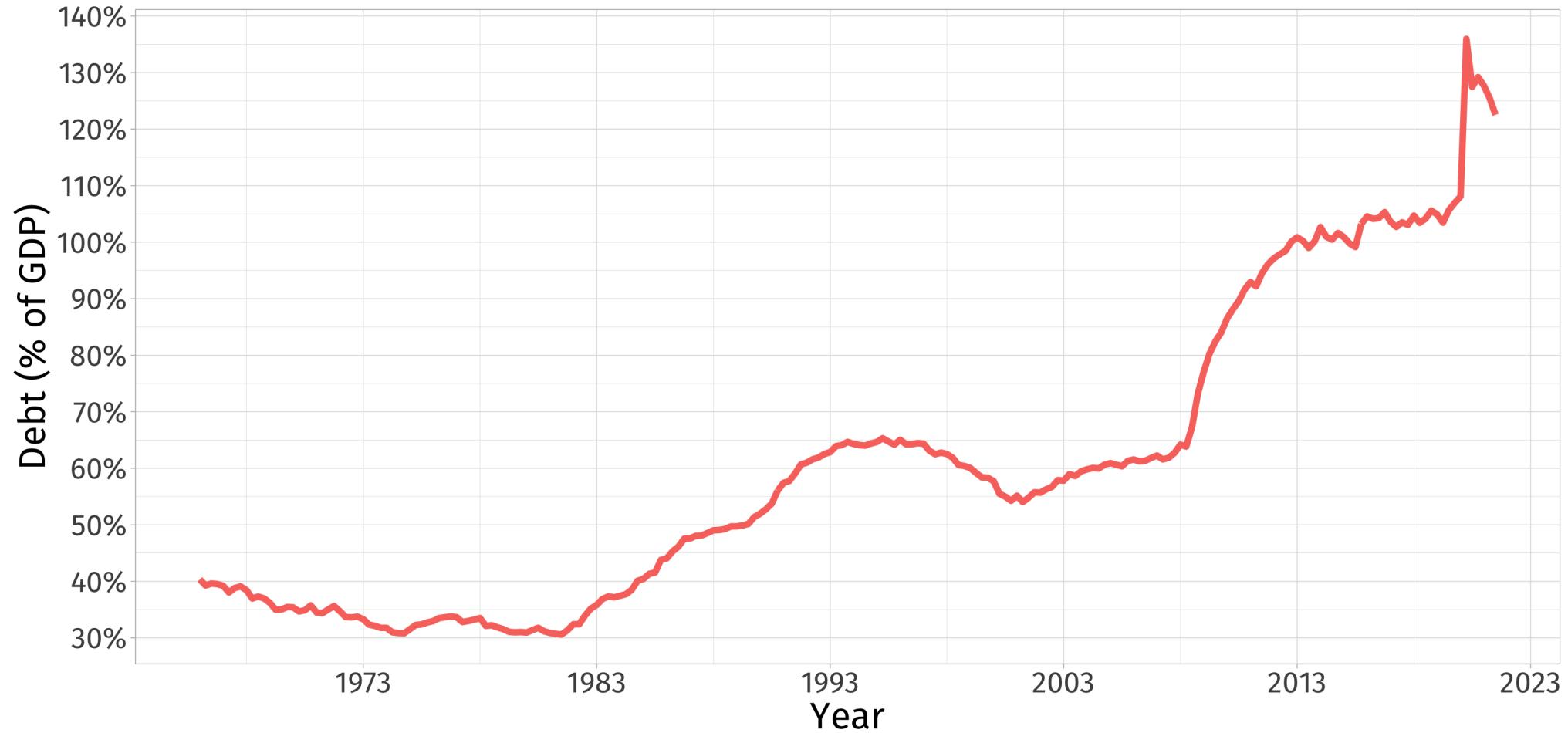
Source: FRED

U.S. Federal Budget Surplus/Deficit as % of GDP



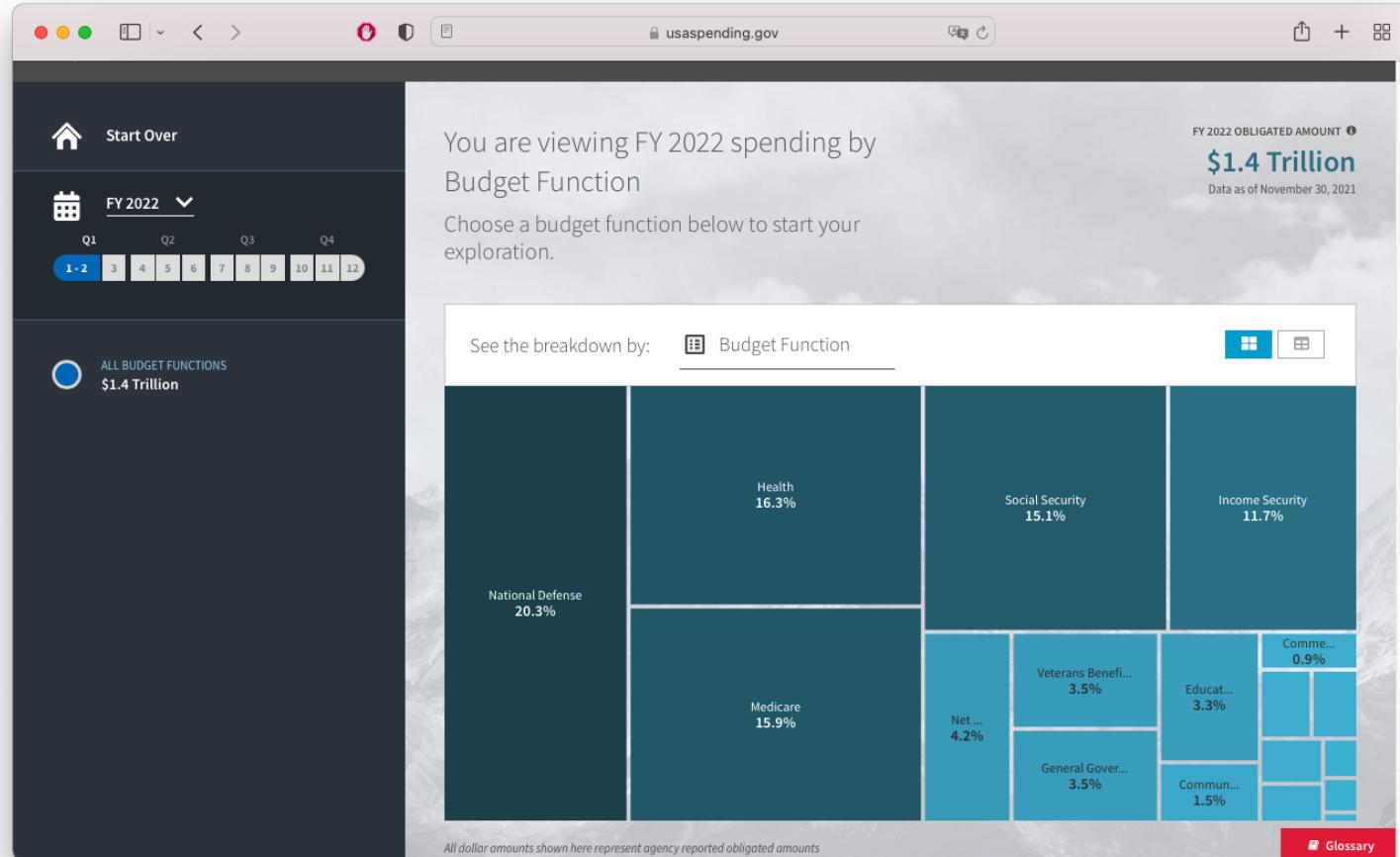
Source: FRED

U.S. Total Public Debt as % of GDP



Source: FRED

U.S. Federal Spending Breakdown



Motivations I



Bernie

Meet Bernie Issues Volunteer Events Store En Español More

ISSUES

Tax on Extreme Wealth

In order to reduce the outrageous level of inequality that exists in America today and to rebuild the disappearing middle class, we must establish an annual tax on the extreme wealth of the top 0.1%.

Bernie

Key Points

- Establish an annual tax on the extreme wealth of the top 0.1%
- Only apply to net worth of over \$32 million and anyone who

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NEWS ARTS & LIFE MUSIC SHOWS & PODCASTS SEARCH

HOURLY NEWS LISTEN LIVE PLAYLIST

POLITICS How Would A Wealth Tax Work?

December 5, 2019 · 5:00 AM ET

DANIELLE KURTZLEBEN



Make calls now: The most important thing you can do to help Elizabeth win — talk with voters now! CALL VOTERS FROM HOME! X

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ULTRA-MILLIONAIRE TAX

Share f t

If more than \$50 million can bring in nearly class. Add your name if you agree: It's time pay their fair share.

SUBMIT

Motivations II



the balance

US ECONOMY AND NEWS ▶ GLOSSARY

Universal Basic Income, Its Pros and Cons With Examples

Should Everyone Get a Guaranteed Income?

ARTICLE TABLE OF CONTENTS Skip to section

- Purpose of Universal Basic Income
- Detailed Disadvantages
- Current Examples

BY KIMBERLY AMADEO | Updated December 13, 2019

A universal basic income is a government guarantee that each citizen receives a minimum income. It is also known as a guaranteed minimum income.

The intention behind the payment is to provide a basic income that covers the basic cost of living and provides financial security.

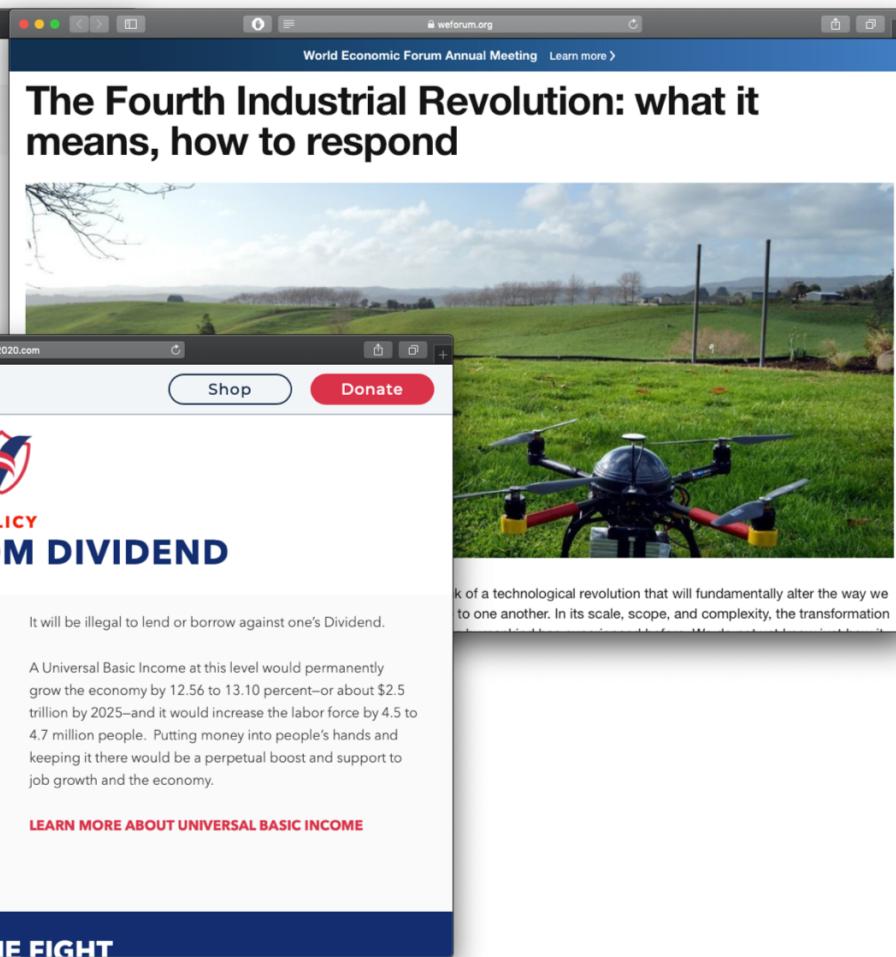
Andrew would implement the Freedom Dividend, a universal basic income of \$1,000/month, \$12,000 a year, for every American adult over the age of 18. This is independent of one's work status or any other factor. This would enable all Americans to pay their bills, educate themselves, start businesses, be more creative, stay healthy, relocate for work, spend time with their children, take care of loved ones, and have a real stake in the future.

Other than regular increases to keep up the cost of living, any change to the Freedom Dividend would require a constitutional amendment.

JOIN THE FIGHT

World Economic Forum Annual Meeting Learn more >

The Fourth Industrial Revolution: what it means, how to respond



Look of a technological revolution that will fundamentally alter the way we live, work, and relate to one another. In its scale, scope, and complexity, the transformation is like no other in human history.

Motivations III



THE HILL

Antitrust should be used to break up partisan tech giants like Facebook, Google

BY SELWYN DUKE - CONTRIBUTOR - 12/27/18 12:40 PM EST

Friday, January 10, 2020

Just In

Study: expansion of per capita health care spending

OPINION

Consumer doom: Both parties are pushing antitrust rules as a 2020 issue

by Ryan Young | April 24, 2019 03:23 PM

1,250

3 minutes ago You're a fraud!: Protester screams at El

Washington Examiner

Politics • Policy • News Opinion • Business MAGAZINE • Multimedia • Beltway Buzz

THE WALL STREET JOURNAL

The Antitrust Case Against Facebook, Google and Amazon

A few technology giants dominate their worlds just as Standard Oil and AT&T once did. Should they be broken up?

ECONOMY

Justice Department Is Preparing Antitrust Investigation of Google

Probe would closely examine Google's practices related to search, other businesses

The Justice Department is preparing to closely examine Google's practices in search and other businesses. PHOTO: CHARLES PLATIAU/REUTERS

By Brent Kendall and John D. McKinnon

Updated June 1, 2019 10:06 pm ET

SAVE PRINT TEXT

WASHINGTON—The Justice Department is gearing up for an antitrust investigation of Alphabet Inc.'s Google, a move that could present a

12 FOR \$12

Working with Congress, President Trump or his successor should come up with a plan to break up Google and other tech monopolies.

Live free or die is which state's motto?

Maine

An antimonopoly cartoon from 1899, "The Menace of the Hour," Universal History

Access more of The Times by creating a free account or logging in.

Learning Goals I



- Understand the incentives of different participants in a liberal democracy, particularly voters, politicians, bureaucrats, regulators, and special interest groups
- Understand the processes by which *actual* public policy gets made by *actual* people
- Understand the difference between constitutional-level rules and political rules and the importance of each

Learning Goals II



- Explain current events and public policies in terms of individuals accomplishing separate political goals through political exchanges
- Recognize the analytical and practical similarities and differences between individuals acting in markets and non-market institutions
- Understand and explain real world differences in outcomes and in operations between political, cultural, economic, and social institutions in different societies
- Overcome the nirvana fallacy

Politics Without Romance



- We will make your high school civics teacher proud

Politics Without Romance



- We will make your high school civics teacher proud and cry

Politics Without Romance



What's so great about democracy
other than its democratic? -
Gordon Tullock

Democracy is the worst form of
government, except for all the
other forms that have been tried
from time to time," - Winston
Churchill





About This Course

Format For the Course



- This is a 400-level seminar
- A conversation, not *just* a lecture
 - Lectures to introduce topic, give background and context
 - Readings-based discussions



Assignments



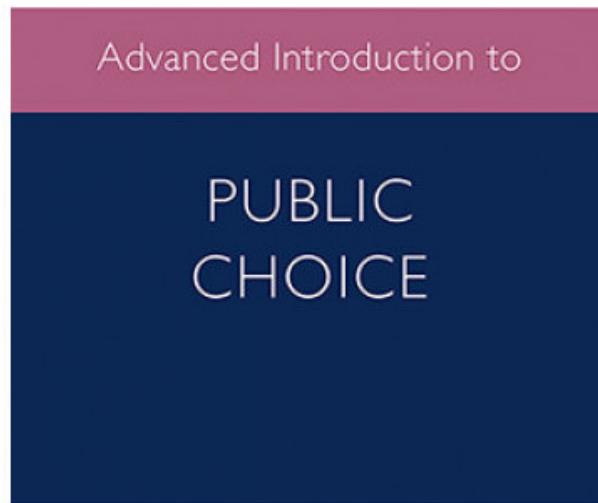
	Assignment	Percent
n	Participation (Average)	30%
1	Policy Paper	30%
1	Take-Home Midterm	20%
1	Take-Home Final	20%

See more details at the [assignments page](#)

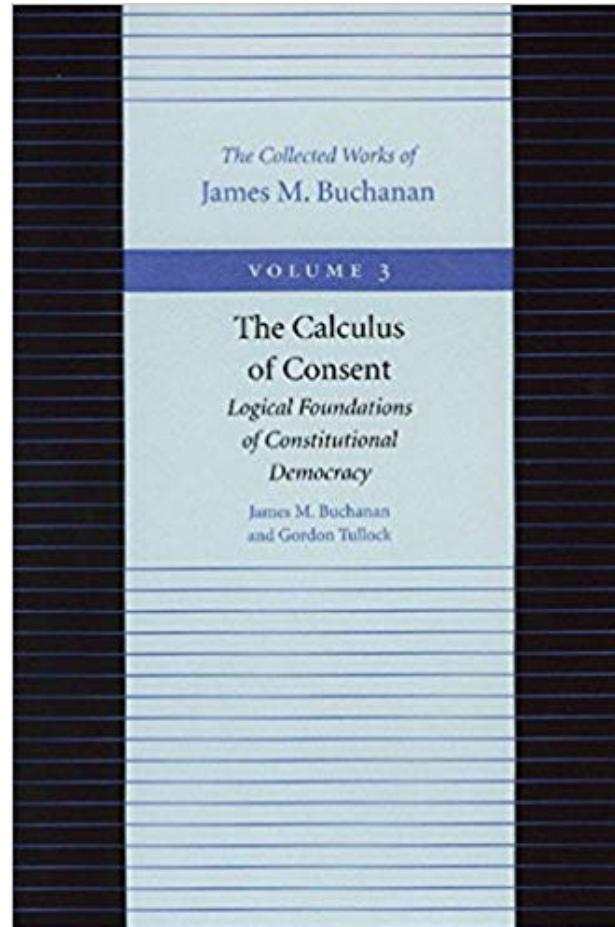
Your "Textbooks"



ELGAR ADVANCED INTRODUCTIONS



Elgar



Mechanics



- Office Hours: MW 3:30-5:00PM
- Email: safner@hood.edu
- *New Room Location:* Rosenstock 317?
- Readings pages on website
- **First reading** for next class (**Monday Jan 31**): Coase (1960)
 - Email 2-3 questions to me before class begins
 - See more about our discussions on [Assignments Page](#)

Course Website



ECON 410 — Public Economics

Syllabus Schedule Content Assignments Resources ☰ ☴

Public Economics

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Analyze and understand how *actual* public policy is made by *actual* governments by examining the incentives and constraints of individuals choosing in politics and other non-markets.

By the end of this course, you will:

1. Understand the incentives of different participants in a liberal democracy, particularly voters, politicians, bureaucrats, regulators, and special interest groups
2. Understand the processes by which *actual* public policy gets made by *actual* people
3. Understand the difference between constitutional-level rules



publicS22.classes.ryansafner.com

Logistics



- Office hours: TBD & by appt
 - Office: 110 Rosenstock
- Slack channel
 - [#c-econ-410-public](#)
- Covid/Zoom policy, attendance
- See the [resources page](#) for tips for success and more helpful resources



Roadmap for the Semester



Public Economics



Covid-19
Current Events