

Collective Action Problems

1. Objectives
2. Administrivia
3. Collective action problem

Objectives:

By the end of this lecture you should be able to:

1. Articulate the general form of collective action problems.
2. Explain what it means to be rational

1. Rubrics due Wednesday
2. Rubric group discussion Wednesday
3. Lecture June 24th cancelled! Office hours instead.

June 2015

| Sunday | Monday | Tuesday | Wednesday | Thursday | Friday | Saturday |
|--------|--------|---------|-----------|----------|--------|----------|
| | 1 | 2 | 3 | 4 | 5 | 6 |
| 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| | 22 | 23 | 24 | 25 | 26 | 27 |
| 28 | 29 | 30 | | | | |

Outlines Back

Essay Due



PHIL 110B Office Hour Sign-up

File Edit View Insert Format Data Tools Add-ons Help Last edit was made 3 days ago

Print Refresh Undo Redo $\text{\$}$ % .0 .00 123 Arial 10 B I $\text{\$}$ A

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| | A | B | C | D | E |
|----|--------------|---|----------------------|-------------------|---|
| 1 | | Instructions: Choose a time that works for you and enter your student number into the space. First come first serve. If there is already a student number in the time-slot, that time-slot is taken. I will only see 1 person per time-slot. If you remove a student number from a time-slot, you forfeit your right to talk to me. | | | |
| 2 | | | | | |
| 3 | | | | | |
| 4 | | | | | |
| 5 | | Tuesday, June 23rd | Wednesday, June 24th | Friday, June 26th | |
| 6 | 10:00 | | | | |
| 7 | 10:15 | | | | |
| 8 | 10:30 | | | | |
| 9 | 10:45 | | | | |
| 10 | 11:00 | | | | |
| 11 | 11:15 | | | | |
| 12 | 11:30 - 1:00 | OFF | OFF | OFF | |
| 13 | 1:00 | | | | |
| 14 | 1:15 | | | | |
| 15 | 1:30 | | | | |
| 16 | 1:45 | | | | |
| 17 | 2:00 | | | | |
| 18 | 2:15 | | | | |
| 19 | | | | | |
| 20 | | | | | |

Sign up for a time-slot
in google docs



Click on the icon to
be taken to google docs

Anything Else? Anyone?

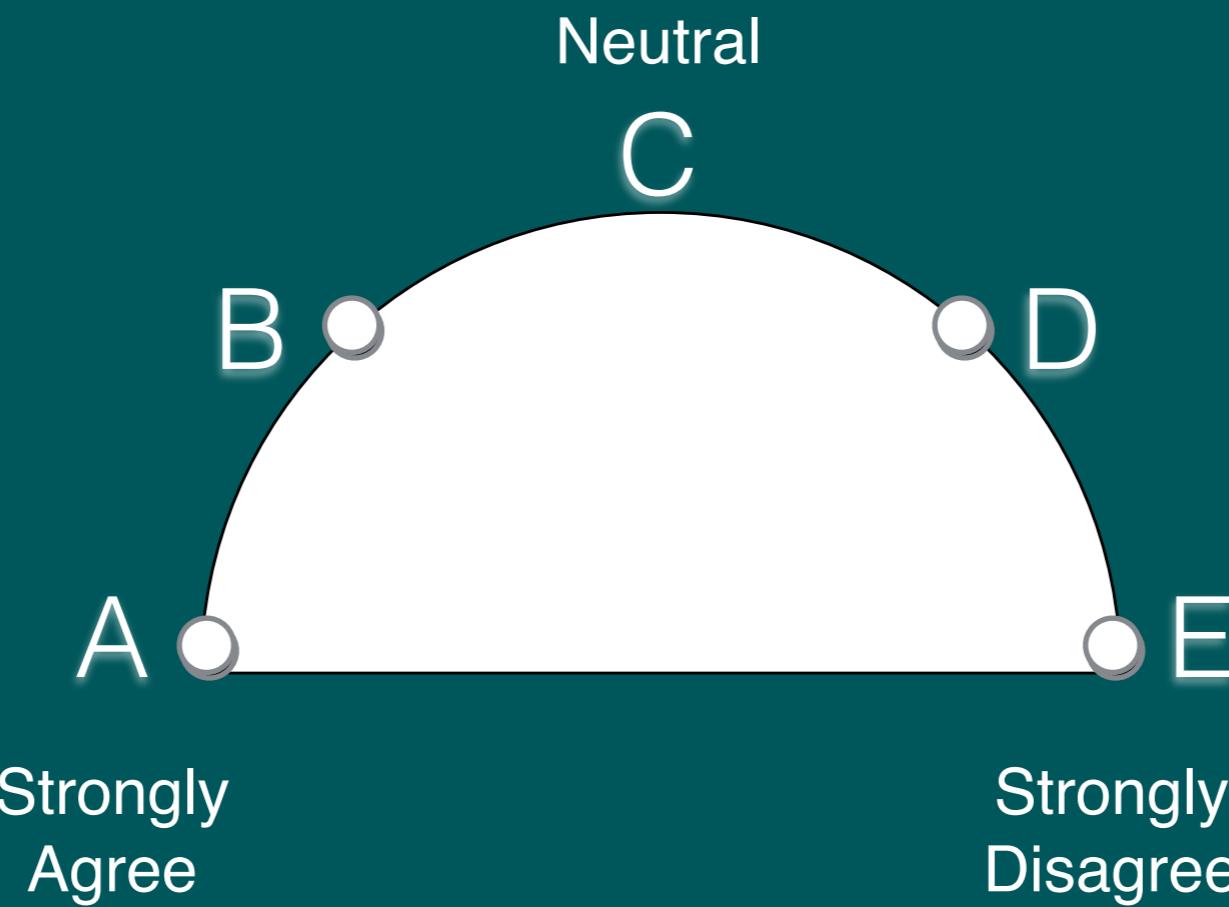




Poll

Question

Everyone is better off when everyone pursues their own self-interest



Psychological Egoism

Ethical Egoism

The Self-Reliance Argument

- P1 The most effective way of making everyone better off is for each person to mind her own business, and tend only to her own needs
- P2 We ought to take the most effective path to making everyone better off
- C Therefore, we each ought to mind our own business and tend only to our own needs

P1

The most effective way of making everyone better off is for each person to mind her own business, and tend only to her own needs

P2

We ought to take the most effective path to making everyone better off

C

Therefore, we each ought to mind our own business and tend only to our own needs

The problem is...

P1 is demonstrably false



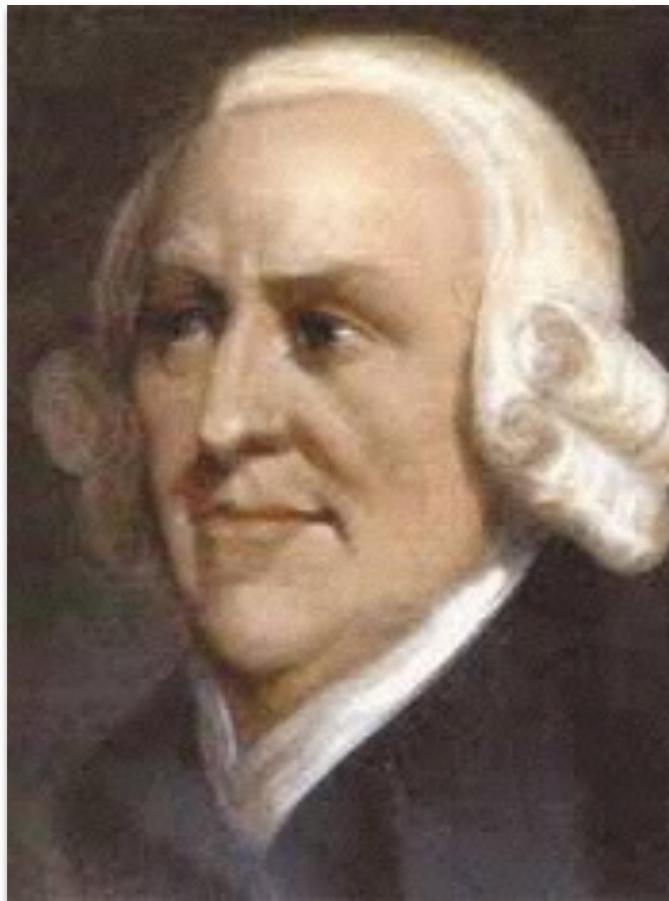
Mark Blaug

“

To the classical economists, rationality...meant preferring more to less, choosing the highest rate of return, minimizing unit costs and, above all, pursuing one's self-interest without explicit regard to the welfare of others.

- Blaug, *The Methodology of Economics*, p. 229.

”



Adam Smith

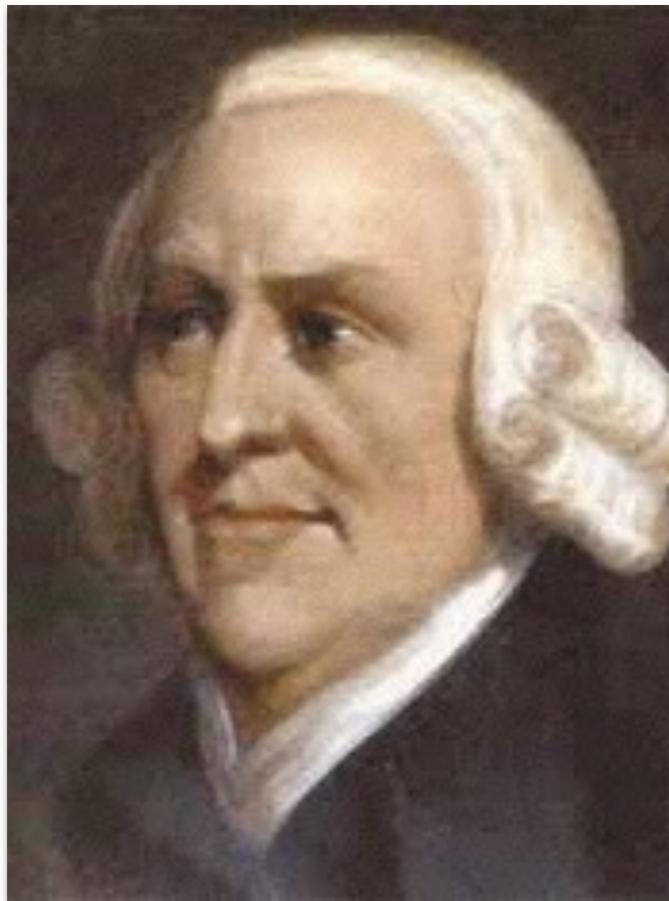
“

Man has almost constant occasion for the help of his brethren, and it is vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour...

- Smith, Wealth of Nations

”

“

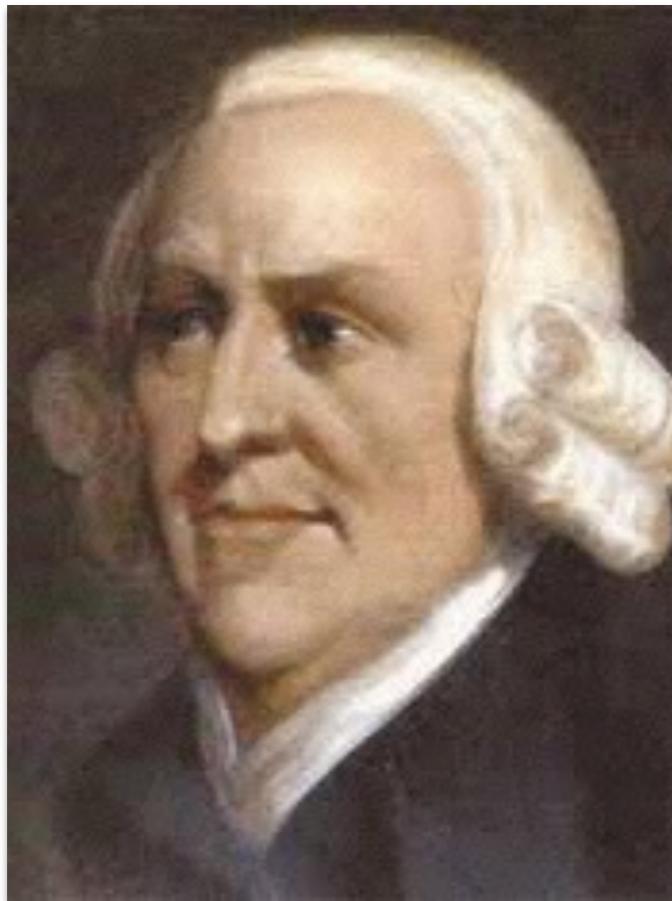


Adam Smith

...It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest...

- Smith, Wealth of Nations





Adam Smith

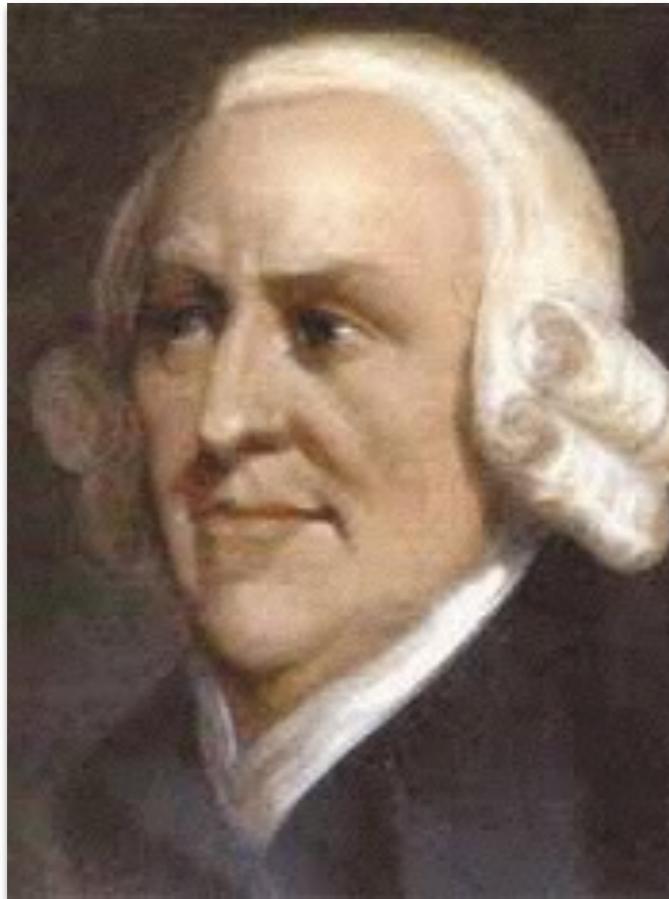
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Every individual...neither intends to promote the public interest, nor knows how much he is promoting it...

- Smith, Wealth of Nations

”

“



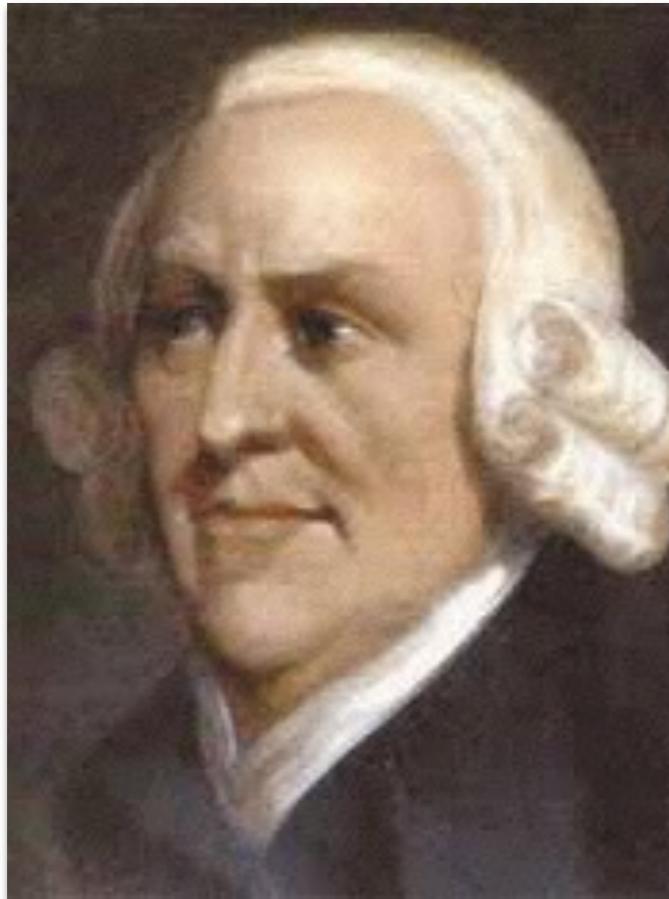
Adam Smith

He intends only his own gain,
and he is in this, as in many
other cases, led by an invisible
hand to promote an end which
was no part of his intention...

- Smith, Wealth of Nations

”

First...Rationality



Adam Smith

“

By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.

- Smith, Wealth of Nations

”



Paul Weirich

“

Modern utility theory generalizes maximization of self-interest to maximization of personal utility. It takes utility broadly enough to accommodate all goals, not just self-interest

- Weirich, Economic Rationality, p.383

”

First...Rationality



Mark Blaug

“

For the economist...rationality means choosing in accordance with a preference ordering that is complete and transitive, subject to perfect and costlessly acquired information...

- Blaug, *The Methodology of Economics*, p. 229.

”



Ultimatum Game

“



Paul Weirich

...rationality requires only being consistent in seeking one's goals, which demands consistency between preferences and acts.

- Weirich, Economic Rationality, p.385

”

- Crossed the border 24 times
- No cars were unloaded
- Cost 2.6 million in shipping fees
- Company earned between 6 and 12 million dollars

CBCnews | Canada

IN THE NEWS

- Olympic medals
- Rob Ford
- Senate expenses
- Stephen Harper

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Biofuel credits behind mystery cross-border train shipments

Back and forth shipments prompt accusation of fraud, EPA and CBSA probes

By John Nicol and Dave Seglins, CBC News Posted: Dec 19, 2012 4:58 AM ET | Last Updated: Dec 20, 2012 5:54 PM ET □ 327



REGIONS

| | |
|------------------|-------------------------|
| British Columbia | Kitchener-Waterloo |
| Kamloops | Hamilton |
| Calgary | Toronto |
| Edmonton | Ottawa |
| Saskatchewan | Montreal |
| Saskatoon | New Brunswick |
| Manitoba | Prince Edward Island |
| Thunder Bay | Nova Scotia |
| Sudbury | Newfoundland & Labrador |
| Windsor | North |

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Because RINs can be generated through import, the 12 trainloads that crossed into Michigan would have contained enough biodiesel to create close to 12 million RINs. In the summer of 2010, biodiesel RINs were selling for 50 cents each, but the price soon fluctuated to more than \$1 per credit.

A CN freight train is shown leaving Sarnia for Port Huron in Michigan. (Dave Seglins/CBC)

Man leaves phone at break-in, calls to ask for it back, South Fla. authorities say

Wayne Bradley Wade arrested on burglary, grand theft charges

Author: Jeff Tavss, Executive Producer, jtavss@local10.com

Report: Smiling woman poses for pic with stolen credit card at beauty supply store

August 5, 2014 | From the Web

Oklahoma Teacher Accused of Showing Up Drunk, Pantless on First Day at Work, Police Say

Aug 7, 2014, 4:39 PM ET



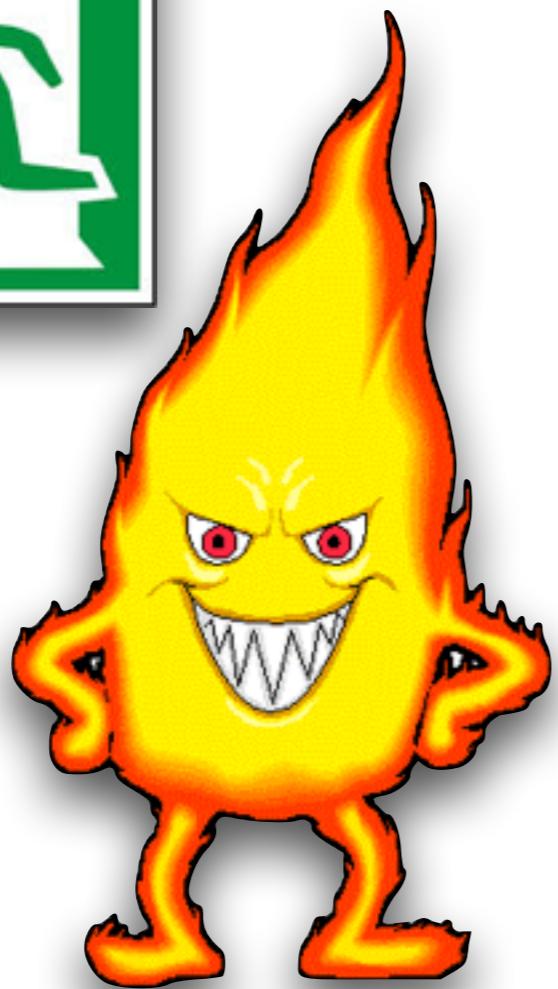




← Explain this as rational behaviour

Incentives & Rationality

People respond to incentives in predictable ways



Would you:

- (A) Wait
- (B) Rush

| | | Me |
|----------|--|------------------------|
| | | (A) Wait (B) Rush |
| | | (A) Wait (B) Rush |
| (A) Wait | | 0 , 0 |
| (B) Rush | | -5 , 6 |
| (A) Wait | | 6 , -5 |
| (B) Rush | | -2 , -2 |

Preference Ordering

6 Alive

0 Distressed

-2 Critically Injured

-5 Severely Burned

Social action problem

Everyone (individually) does what's in their self-interest, and everyone is (collectively) worse off for it.

Rush or Wait

| | | Me |
|-------------|--|-----------------------------|
| | | (A) Confess (B) Silent |
| | | (A) Confess (B) Silent |
| | | (A) Confess (B) Silent |
| (A) Confess | | -10, -10 -1, -25 |
| (B) Silent | | -25, -1 -2, -2 |

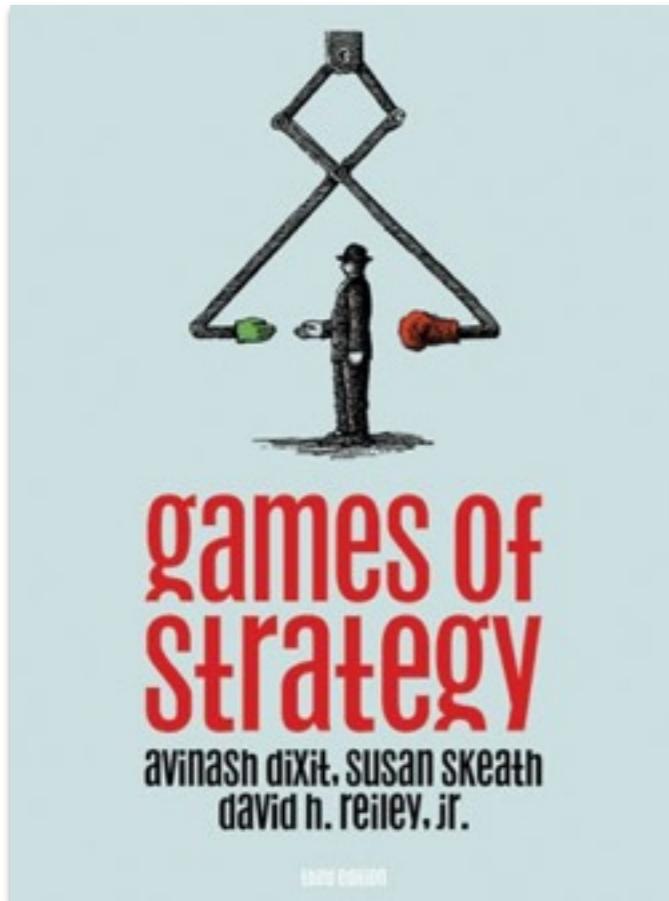
Preference Ordering

-1 1 Year

-2 2 Years

-10 10 Years

-25 25 Years



“

...the equilibrium outcome in the prisoner's dilemma is actually a bad outcome for the players. They could find another outcome that they both prefer to the equilibrium outcome; the problem is how to guarantee that someone will not cheat.

- Dixit, et al, Games of Strategy, p. 98

”

The form of the problem

| | | (B) Confess | (B) Silent |
|-------------|-------------|-------------|------------|
| | | (A) Confess | (A) Silent |
| (A) Confess | (A) Confess | -10, -10 | -1, -25 |
| | (A) Silent | -25, -1 | -2, -2 |

- Each player has two strategies: defect or cooperate
- Each player has a dominant strategy
- Both players would be better off if they both chose their dominated strategy



Who is interested in
being protected by
national defence?

Who is willing to pay?



The general feature of the game is that it is better for you not to participate no matter what the other players do; the same logic holds for them.

Politics

Inside Politics Blog Photo Galleries

Canada pulls out of Kyoto Protocol

CBC News Posted: Dec 12, 2011 4:00 PM ET | Last Updated: Dec 13, 2011 7:57 AM ET 1732

| | | THEM | |
|----|---------------|---------------|-----------|
| | | Cut Emissions | Don't Cut |
| US | Cut Emissions | -1, -1 | -20, 0 |
| | Don't Cut | 0, -20 | -12, -12 |

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Easter egg hunt cancelled because of pushy parents

An Easter egg hunt in Colorado has been cancelled because of overzealous parents who do whatever it takes to make sure their kids get an egg.

ONE THOUGHT TO START YOUR DAY

Ending the Merit Scholarship Arms Race

September 25, 2014, [Alex Usher](#)

There is no durable way an institution can get out in front of the pack in such an arms race - others would always match the awards, and an equilibrium would be restored. All institutions are making themselves worse off because their net tuitions are all declining, yet no one can disengage because they are afraid they would lose share to others. And into the deal we get a complete devaluation of the word "merit" because institutions are giving these awards to about 70% of incoming freshmen.

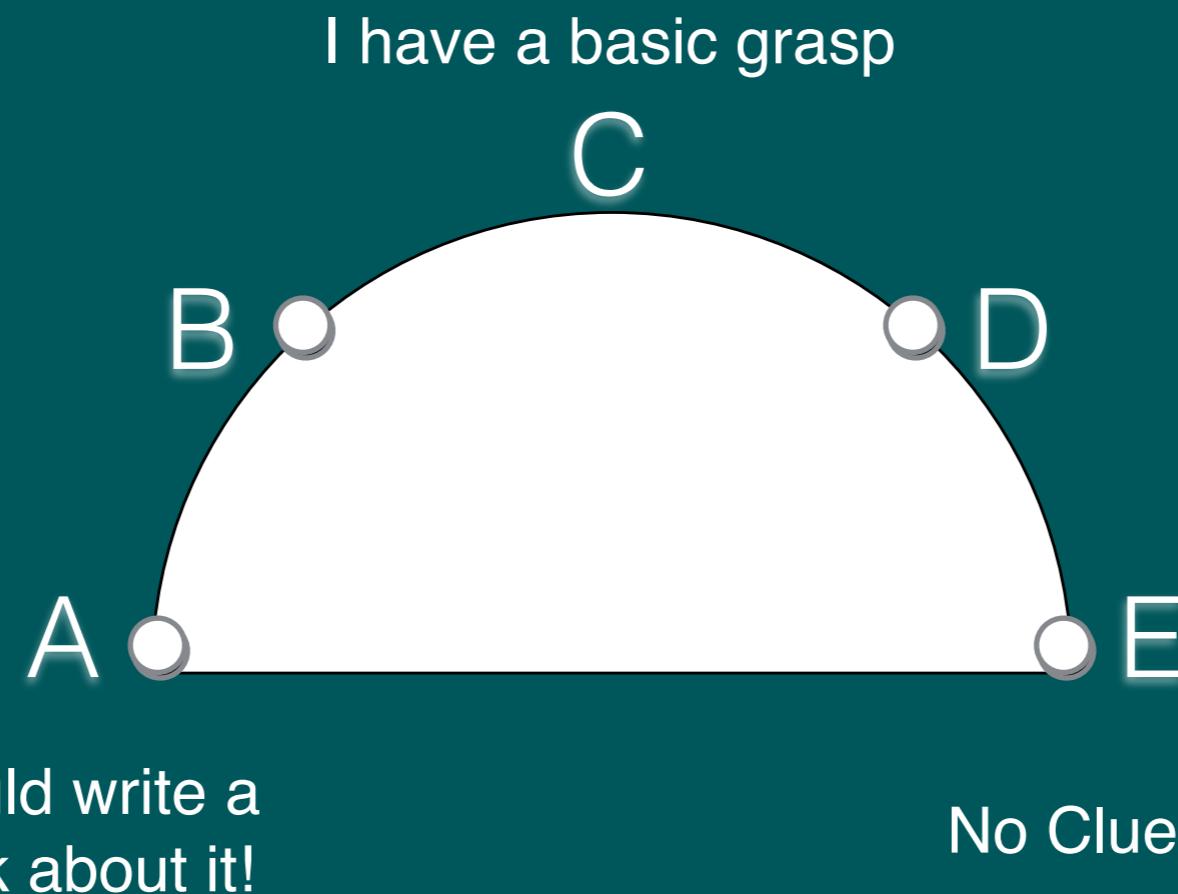
and there is every reason to think this amount has increased.



Poll

Question

How much do you know about the sub prime mortgage crash of 2007-2008?



Bill Clinton's drive to increase homeownership went way too far

Posted by: Peter Coy on February 27, 2008



Add President Clinton to the long list of people who deserve a share of the blame for the housing bubble and bust. A recently re-exposed document shows that his administration went to ridiculous lengths to increase the national homeownership rate. It promoted paper-thin downpayments and pushed for ways to get lenders to give mortgage loans to first-time buyers with shaky financing and incomes. It's clear now that the erosion of lending standards pushed prices up by increasing demand, and later led to waves of defaults by people who never should have bought a home in the first place.

Social action problem

Means:

Make it easier for people to access mortgages



Goal:

Homeownership for more middle-class families



Social action problem

Means:

So they turn around
and sell them to
investment banks

Banks won't want to
keep their money
tied up in mortgages



Social action problem

Means:

So they turn around
and sell mortgage
backed securities to
investors

Investment banks will
want to sell off this
debt to make money



Social action problem

- Banks were making NINJA loans: no income, no job or assets
- Investors were willing to take the bet. They were making a lot of money



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ET**

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Decision Table



| | Manageable Defaults | Widespread Defaults |
|------------------|---------------------|---------------------|
| (A) Don't Invest | 8 | 1 |
| (B) Invest | 9 | -1 |

Manageable
Defaults

Widespread
Defaults

Preference Ordering

| | |
|----|---------------------------|
| 9 | 7 digit salary with bonus |
| 8 | Stable investments |
| 1 | Financial pain |
| -1 | Financial Ruin |

Game Table

| | | Me |
|------------------------------------|--|----------------------------------|
| | | (A) Don't Invest (B) Invest |
| | | (A) Don't Invest (B) Invest |
| | | (A) Don't Invest (B) Invest |
| <p>You</p> <p>(A) Don't Invest</p> | | 8 , 8 -1 , 9 |
| <p>(B) Invest</p> | | 9 , -1 1 , 1 |

Preference Ordering

| | |
|----|---------------------------|
| 9 | 7 digit salary with bonus |
| 8 | Stable investments |
| 1 | Financial pain |
| -1 | Financial Ruin |



Poll

Question

What best describe social action problems

- A Everyone does what is in their self-interest, and everyone is worse off for it.
- B Everyone does what is in their self-interest, and everyone is better off for it
- C Everyone does what is in their self-interest, and the greater good just happens



Poll

Question

Everyone is better off when everyone pursues their own self-interest

