

# CAPITALISM

MPA 612: Economy, Society, and Public Policy

January 9, 2019

**Fill out your reading report  
on Learning Suite**

# PLAN FOR TODAY (PART I)

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Technology, growth, and capitalism

Institutions and coordination

Why do we make you take this class?

Class details

# PLAN FOR TODAY (PART II)

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**Importance of institutions**

**Downsides of capitalism**

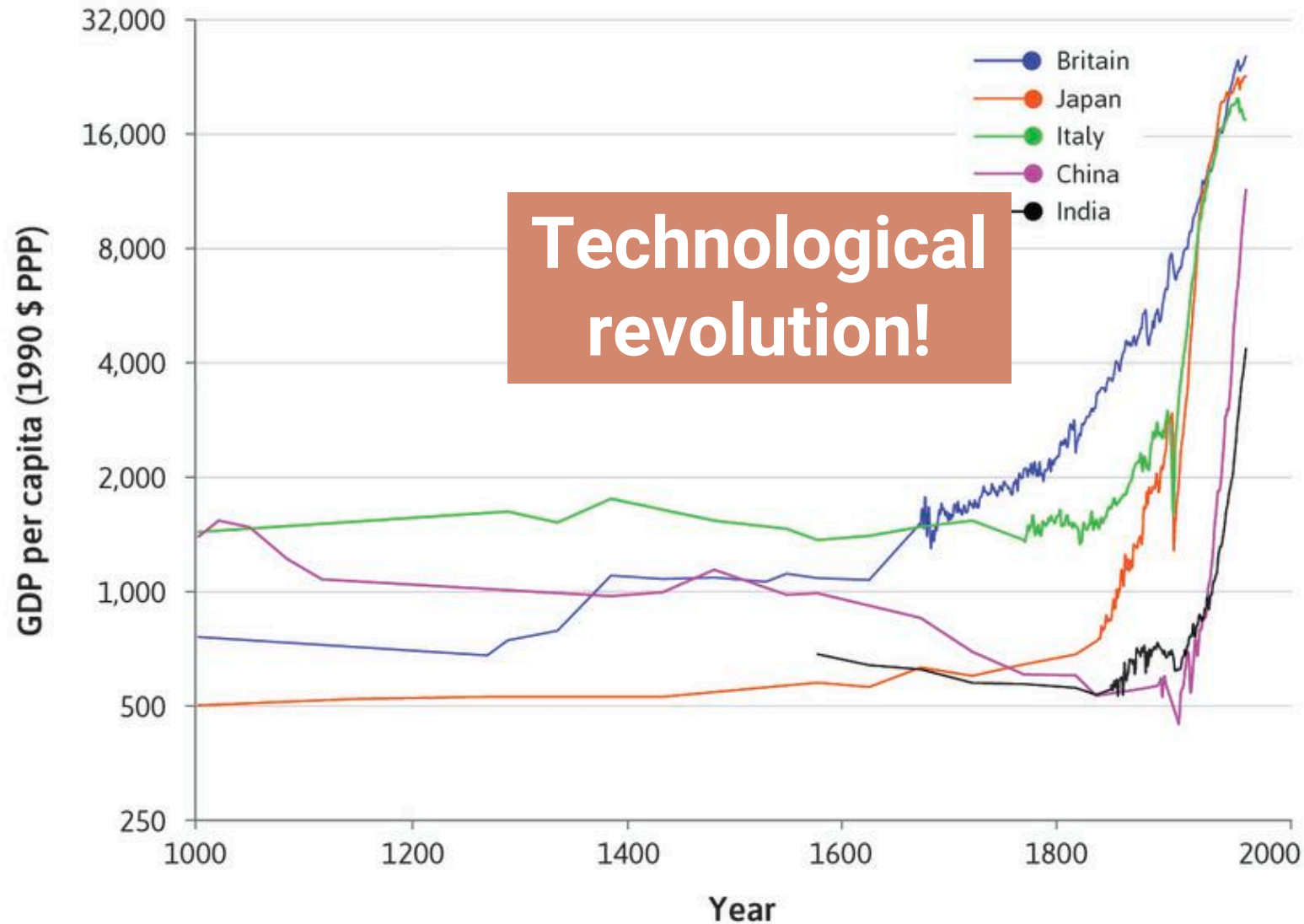
**Measuring stuff correctly**

# TECHNOLOGY, GROWTH, AND CAPITALISM



# WHAT HAPPENED?

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# TECHNOLOGICAL REVOLUTION

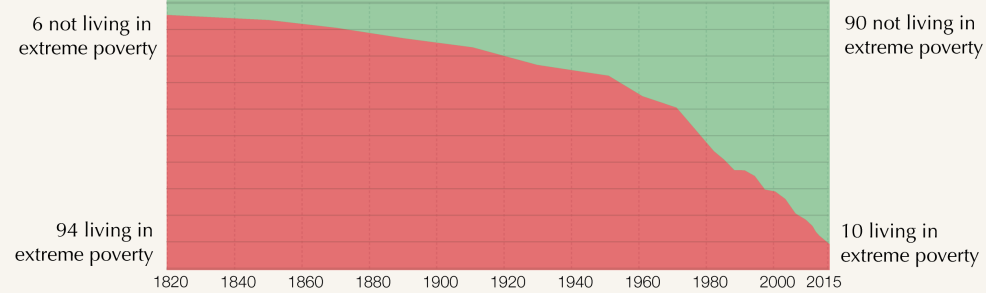
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**As the time to produce  
stuff decreases, living  
standards increase**

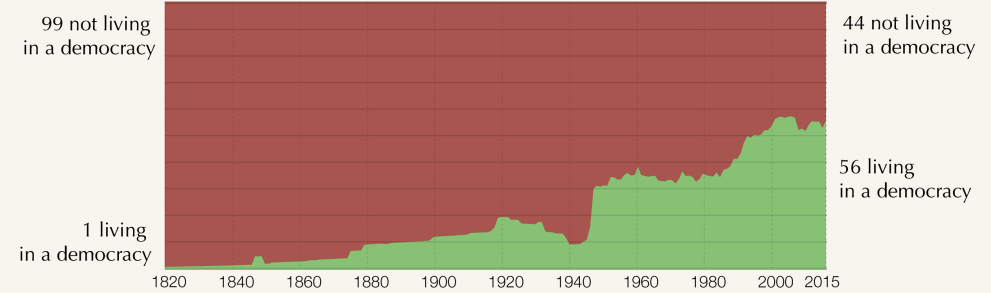
# The World as 100 People over the last two centuries

Our World  
in Data

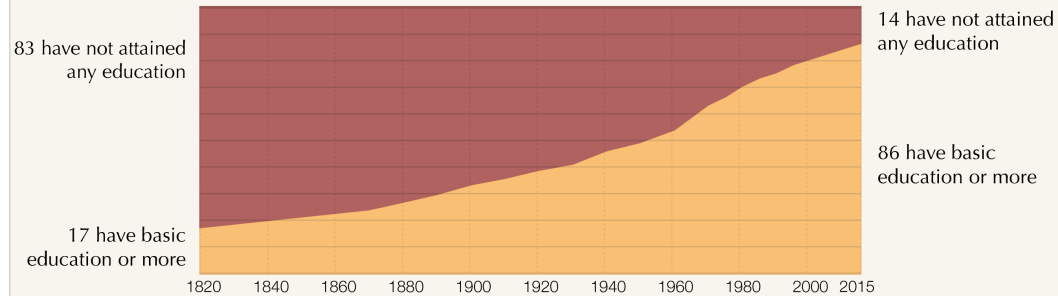
## Extreme Poverty



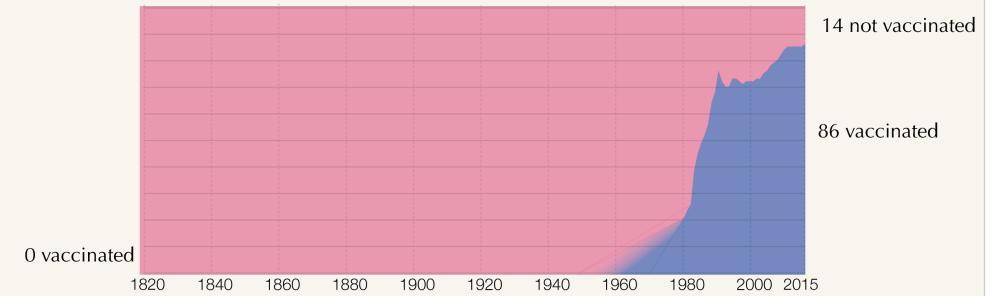
## Democracy



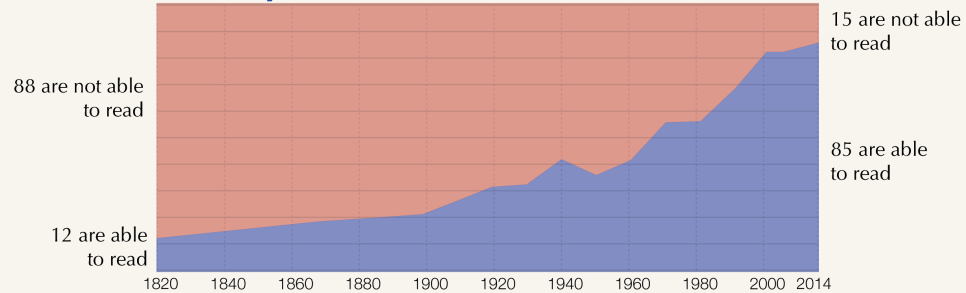
## Basic Education



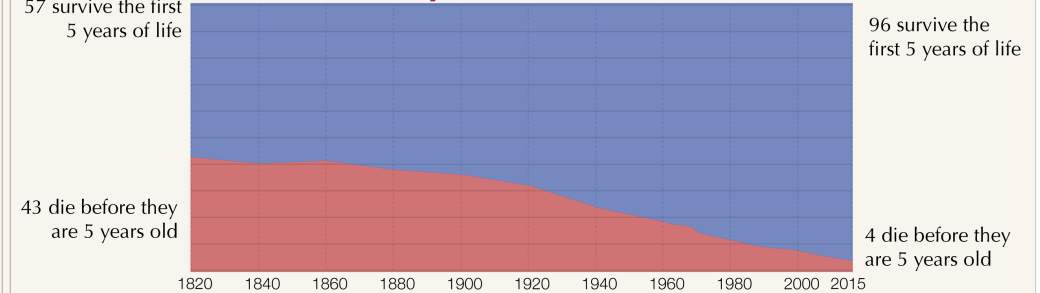
## Vaccination against diphtheria, pertussis (whooping cough), and tetanus



## Literacy



## Child Mortality

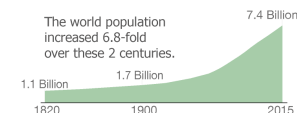


### Data sources:

Extreme Poverty: Bourguignon & Morrison (2002) up to 1970 – World Bank 1981 and later (2015 is a projection).  
Vaccination: WHO (Global data are available for 1980 to 2015 – the DPT3 vaccination was licenced in 1949)  
Education: OECD for the period 1820 to 1960. ITASA for the time thereafter.  
Literacy: OECD for the period 1820 to 1990. UNESCO for 2004 and later.

Democracy: Polity IV index (own calculation of global population share)  
Colonialism: Wimmer and Min (own calculation of global population share)  
Continent: HYDE database

Child mortality: up to 1960 own calculations based on Gapminder; World Bank thereafter



All these visualizations are from [OurWorldInData.org](https://ourworldindata.org) an online publication that presents the empirical evidence on how the world is changing.

Licensed under CC-BY-SA by the author Max Roser.

# SYSTEMS & INSTITUTIONS

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## **Economic system**

Method for producing and distributing goods and services

## **Institutions**

Rules for the system

# CAPITALIST INSTITUTIONS

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## Private property

The right and expectation  
that you can use your stuff  
how you want

# CAPITALIST INSTITUTIONS

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## Markets

A way of connecting people who may mutually benefit by exchanging goods or services through a process of buying and selling

Specialization

# CAPITALIST INSTITUTIONS

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## Firms

Organizations that use labor (people) and capital (inputs) to produce goods and services to make a profit

# CAPITALIST INSTITUTIONS

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**Private property**



Self sufficient family based production

**Markets**



Market economy with family based production

**Firms**



Capitalist economic system



# INSTITUTIONS AND COORDINATION

# CAPITALISM & TECHNOLOGY

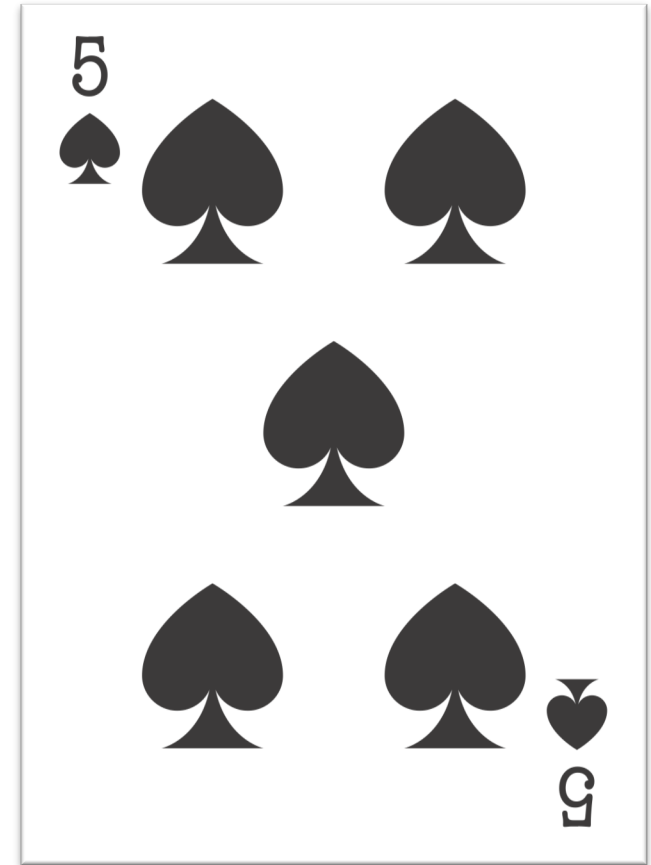
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# Sellers

Sell your paperclip for the highest possible price.

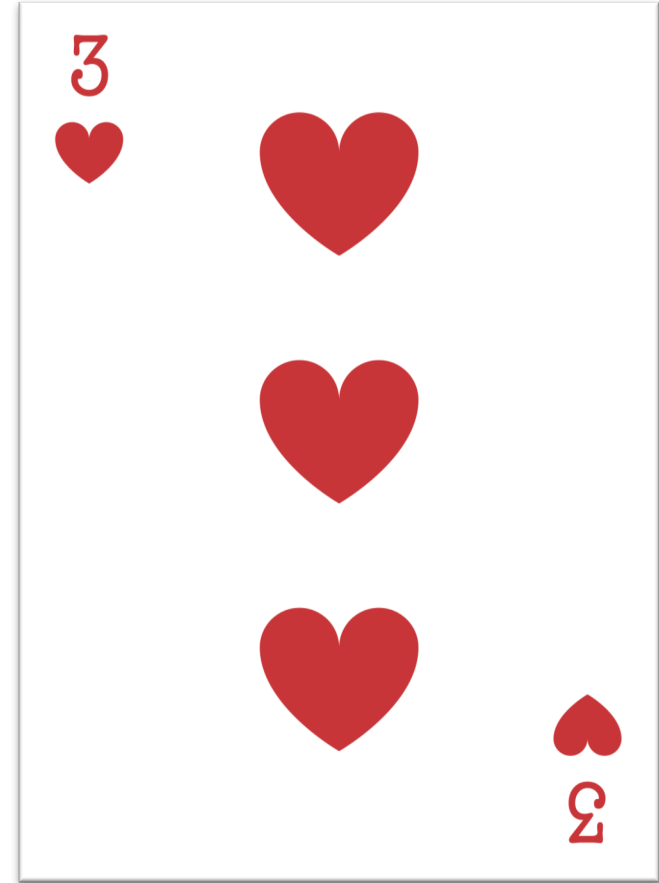
You cannot sell below this number.



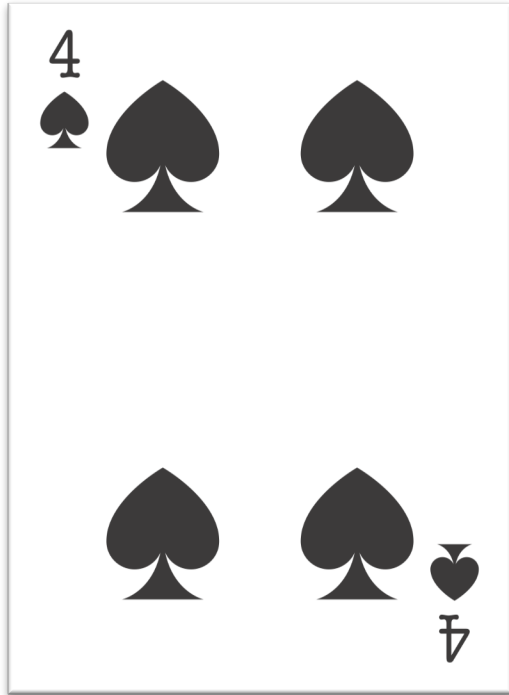
# Buyers

Buy a paperclip for the lowest possible price.

You cannot pay above this number.

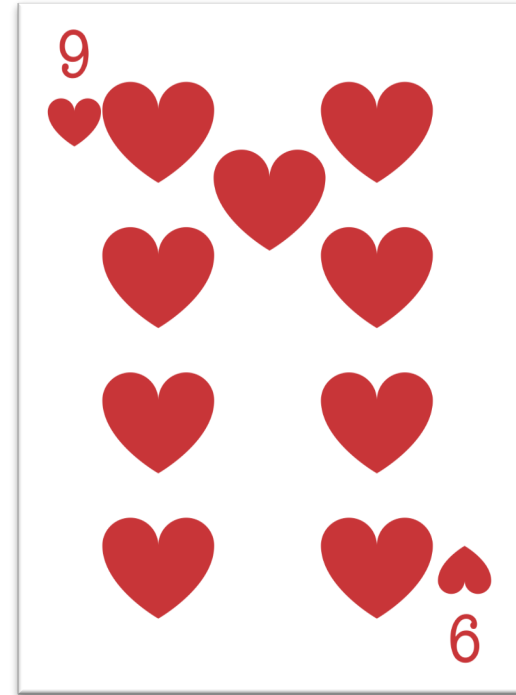


**Seller**



**Buyer**

**\$8**



4 pieces of candy

1 piece of candy

# oh noes taxes

The government has imposed a tax of \$2 per paperclip, to be paid by sellers

Sellers who don't sell don't pay tax

Price must be at least \$2 above  
number on seller's card

If your card says 4, it's really a 6

# Zoinks! Price ceilings!

The government has imposed a price ceiling: no paperclip can be sold for more than \$4



**How'd we do?**



# THE INVISIBLE HAND

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**Everyone working in their own self interest drives the collective market**

“It is not from the benevolence of the butcher, brewer, or the baker that we expect our dinner, but from regard for their own self interest”

**WHY DO WE MAKE YOU  
TAKE THIS CLASS?**

# WHAT IS ECONOMICS?

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The study of how people interact with each other and with their natural surroundings in providing their livelihoods, and how this changes over time.



# ECONOMICS $\neq$ MONEY



**Mike Simpson, M.D.**

@DrMikeSimpson

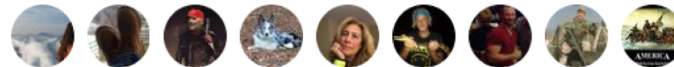
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The fact that every person with a PhD in economics is NOT a billionaire should tell you all you need to know about the worth of that particular field of study.

2:25 PM - 2 Jun 2018

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236



213



1.0K



Tweet your reply

# ECONOMICS ≠ MONEY

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**Kevin Banda**

@KevinKBanda

Following



The fact that every person with a PhD in geology is NOT a rock should tell you all you need to know about the worth of that particular field of study.

**Mike Simpson, M.D.** @DrMikeSimpson

The fact that every person with a PhD in economics is NOT a billionaire should tell you all you need to know about the worth of that particular field of study.

[Show this thread](#)

6:22 AM - 4 Jun 2018

399 Retweets 2,271 Likes



59



399



2.3K



*Homo economicus* and  
crystal ball math

VS.

**Data + models  
+ analysis =  
decisions**

# WHY ECON IN AN MPA PROGRAM?

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**It's the language of policy**

You have to speak that language

**Markets need referees**

You are those current/future referees

# LANGUAGE OF POLICY



NIH Public Access

Author Manuscript

*N Engl J Med.* Author manuscript; available in PMC 2013 November 02.

Published in final edited form as:

*N Engl J Med.* 2013 May 2; 368(18): 1713–1722. doi:10.1056/NEJMsa1212321.

## The Oregon Experiment — Effects of Medicaid on Clinical Outcomes

Katherine Baicker, Ph.D., Sarah L. Taubman, Sc.D., Heidi L. Allen, Ph.D., Mira Bernstein, Ph.D., Jonathan H. Gruber, Ph.D., Joseph P. Newhouse, Ph.D., Eric C. Schneider, M.D., Bill J. Wright, Ph.D., Alan M. Zaslavsky, Ph.D., and Amy N. Finkelstein, Ph.D. for the Oregon Health Study Group\*

Department of Health Policy and Management, Harvard School of Public Health (K.B., J.P.N., E.C.S.), the Department of Health Care Policy, Harvard Medical School (J.P.N., E.C.S., A.M.Z.), and RAND Corporation (E.C.S.) — all in Boston; the National Bureau of Economic Research (K.B., S.L.T., M.B., J.H.G., J.P.N., A.N.F.), the Harvard Kennedy School (J.P.N.), and the Department of Economics, Massachusetts Institute of Technology (J.H.G., A.N.F.) — all in Cambridge, MA; Columbia University School of Social Work, New York (H.L.A.); and the Center for Outcomes Research and Education, Providence Portland Medical Center, Portland, OR (B.J.W.)

### Abstract

**BACKGROUND**—Despite the imminent expansion of Medicaid coverage for low-income adults, the effects of expanding coverage are unclear. The 2008 Medicaid expansion in Oregon based on lottery drawings from a waiting list provided an opportunity to evaluate these effects.

## Preliminary Cost-Benefit Analysis of Ultrasonic and Camera Backup Systems

Table 2  
Net Lifetime Benefits of Various Backup Systems  
On a Per Vehicle Basis (\$2006)

3% discount rate	50 % Driver Factor	80% Driver Factor
<b>Ultrasonic</b>		
At low speeds, 10 % are backing up crashes	-\$82.73	-\$75.34
At low speeds, 25 % are backing up crashes	-\$64.26	-\$45.78
<b>Camera</b>		
At low speeds, 10 % are backing up crashes	-\$375.21	-\$365.20
At low speeds, 25 % are backing up crashes	-\$350.19	-\$325.16
<b>Both</b>		
At low speeds, 10 % are backing up crashes	-\$468.57	-\$457.54
At low speeds, 25 % are backing up crashes	-\$441.00	-\$413.43

7% discount rate	50 % Driver Factor	80% Driver Factor
<b>Ultrasonic</b>		
At low speeds, 10 % are backing up crashes	-\$74.23	-\$68.35
At low speeds, 25 % are backing up crashes	-\$59.53	-\$44.83
<b>Camera</b>		
At low speeds, 10 % are backing up crashes	-\$365.11	-\$357.14
At low speeds, 25 % are backing up crashes	-\$345.19	-\$325.28
<b>Both</b>		
At low speeds, 10 % backing up	-\$447.80	-\$439.02
At low speeds, 25 % backing up	-\$425.86	-\$403.92



# WHAT HAPPENS IF...

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**Private property is not secure?**

**Markets are not competitive?**

**Firms are run by  
entrenched interests?**

# INSTITUTIONS MATTER

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**The public sector provides  
the backdrop for capitalist  
institutions**

# CLASS DETAILS

# GOALS FOR THE CLASS

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**Talk like an economist**

**Understand the role of the public sector in capitalist markets**

**Do public economic analysis**

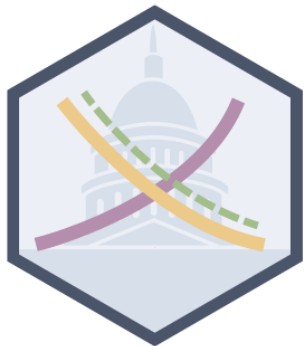
## Capitalism, markets, and public policy

Growth      Social dilemmas  
Measurement      Fairness

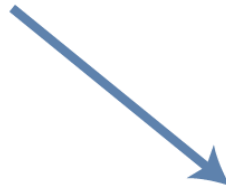


## Scarcity, power, and inequality

Preferences      Institutions      Rights



# ECONOMY, SOCIETY, AND PUBLIC POLICY



## Evaluating and implementing policies

Cost-benefit analysis      Experiments  
Causal inference      Politics



## Market failures, governments, and politics

Externalities      Public goods      Rent seeking  
Monopolies      Government intervention



## Economic models

Firms and markets      Credit markets  
Labor markets      Macroeconomics



THE CORE ESPP TEAM

# ECONOMY, SOCIETY, AND PUBLIC POLICY

coreecon



# naked economics

UNDRESSING THE DISMAL SCIENCE



fully revised  
and updated

Charles Wheelan

FOREWORD BY BURTON G. MALKIEL

"Clear, concise, informative, witty and, believe it or not, entertaining."  
—Chicago Tribune



# SKILLS YOU'LL NEED

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**Algebra**

**Derivatives**



# MAIN ASSIGNMENTS

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Readings

Podcasts

Labs

Problem sets

Economic briefing

Exams

Final project

# COURSE POLICIES

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## **Class conduct and expectations**

On the first day of class, will come up with rules, expectations, and policies regarding late work, laptop use, and other issues. Those will be listed here.

# COURSE WEBSITE



## MPA 612: ECONOMY, SOCIETY, AND PUBLIC POLICY

[SYLLABUS](#) [SCHEDULE](#) [ASSIGNMENTS](#) [REFERENCE](#) [SLACK](#)

### ECONOMY, SOCIETY, AND PUBLIC POLICY

**THIS SITE CONTAINS** the syllabus, schedule, and assignments for MPA 612: Economy, Society, and Public Policy, held during Winter 2019 at Brigham Young University.

By the end of this course, you will (1) be literate in fundamental economic principles, (2) understand the limits of economic theory and free markets, (3) justify government and nonprofit intervention in the economy, and (4) make informed policy recommendations by analyzing and evaluating public sector policies.

#### Capitalism, markets, and public policy

Growth Social dilemmas  
Measurement Fairness



#### Scarcity, power, and inequality

Preferences Institutions Rights



### ECONOMY, SOCIETY, AND PUBLIC POLICY

#### Evaluating and implementing policies

Cost-benefit analysis Experiments  
Causal inference Politics



#### Market failures, governments, and politics

Externalities Public goods Rent seeking  
Monopolies Government intervention



#### Economic models

Firms and markets Credit markets  
Labor markets Macroeconomics

### INSTRUCTOR

Dr. Andrew Heiss

639 TNRB

[andrew\\_heiss@byu.edu](mailto:andrew_heiss@byu.edu)

[@andrewheiss](https://twitter.com/andrewheiss)

Office hours: [Sign up here](#).

E-mail is the best way to get in contact with me—I will try to respond to all course-related e-mails within 24 hours (*really*).

### COURSE

Wednesdays

January 7–April 17, 2019

7:35–9:45 PM

417 SLC

[Slack](#)

# IMPORTANCE OF INSTITUTIONS

# WHAT ARE INSTITUTIONS?

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**Rules**

Formal

Informal

# CAPITALIST INSTITUTIONS

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**Private property**



**Markets**



**Firms**



# WHAT HAPPENS IF...

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**Private property is not secure?**

**Markets are not competitive?**

**Firms are run by  
entrenched interests?**

# IF INSTITUTIONS ARE BROKEN...

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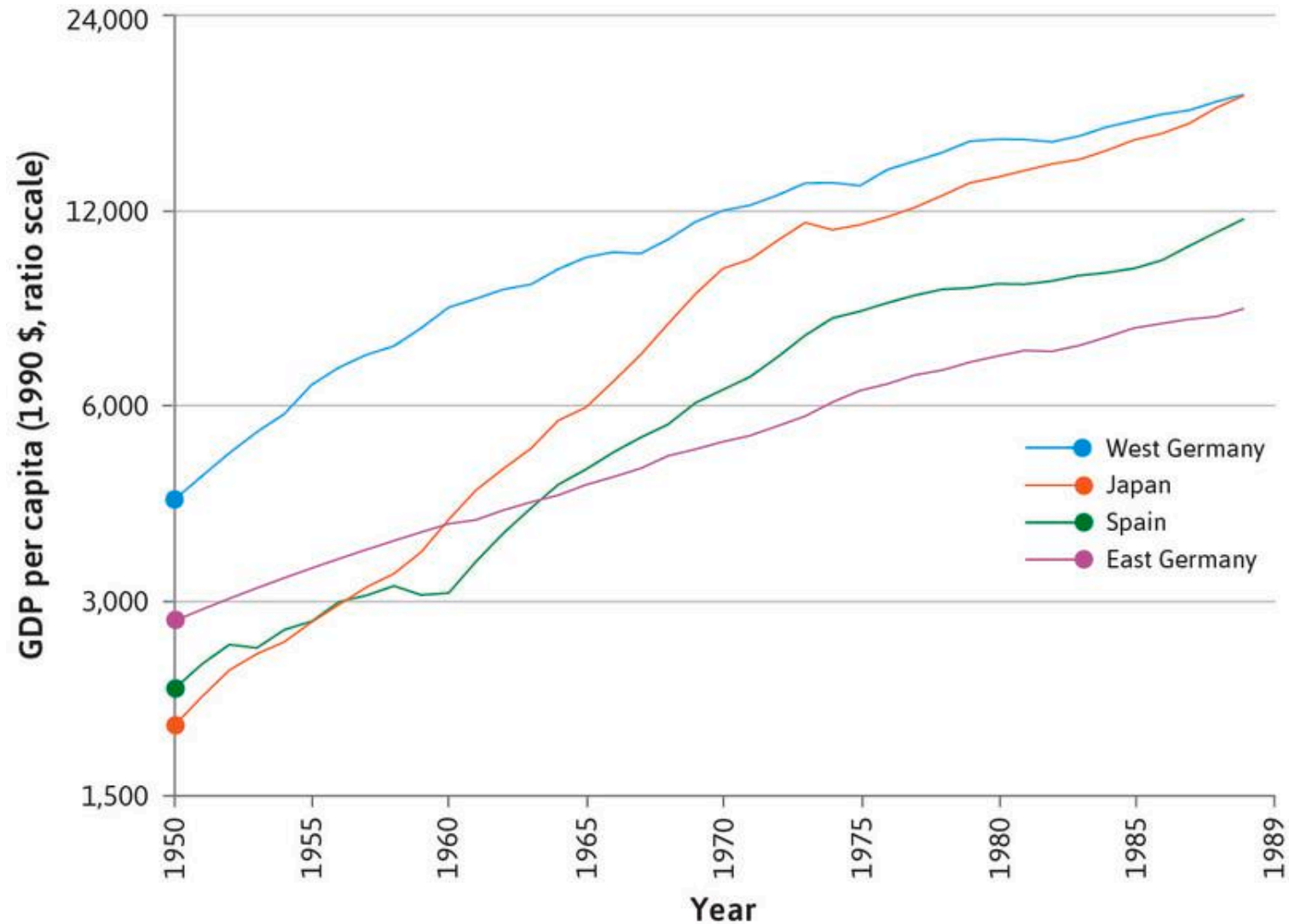
**It's better to not directly  
create economic value**

Individuals and groups have  
more to gain in lobbying and  
crime to shift distribution of  
income for themselves



# DO INSTITUTIONS MATTER?

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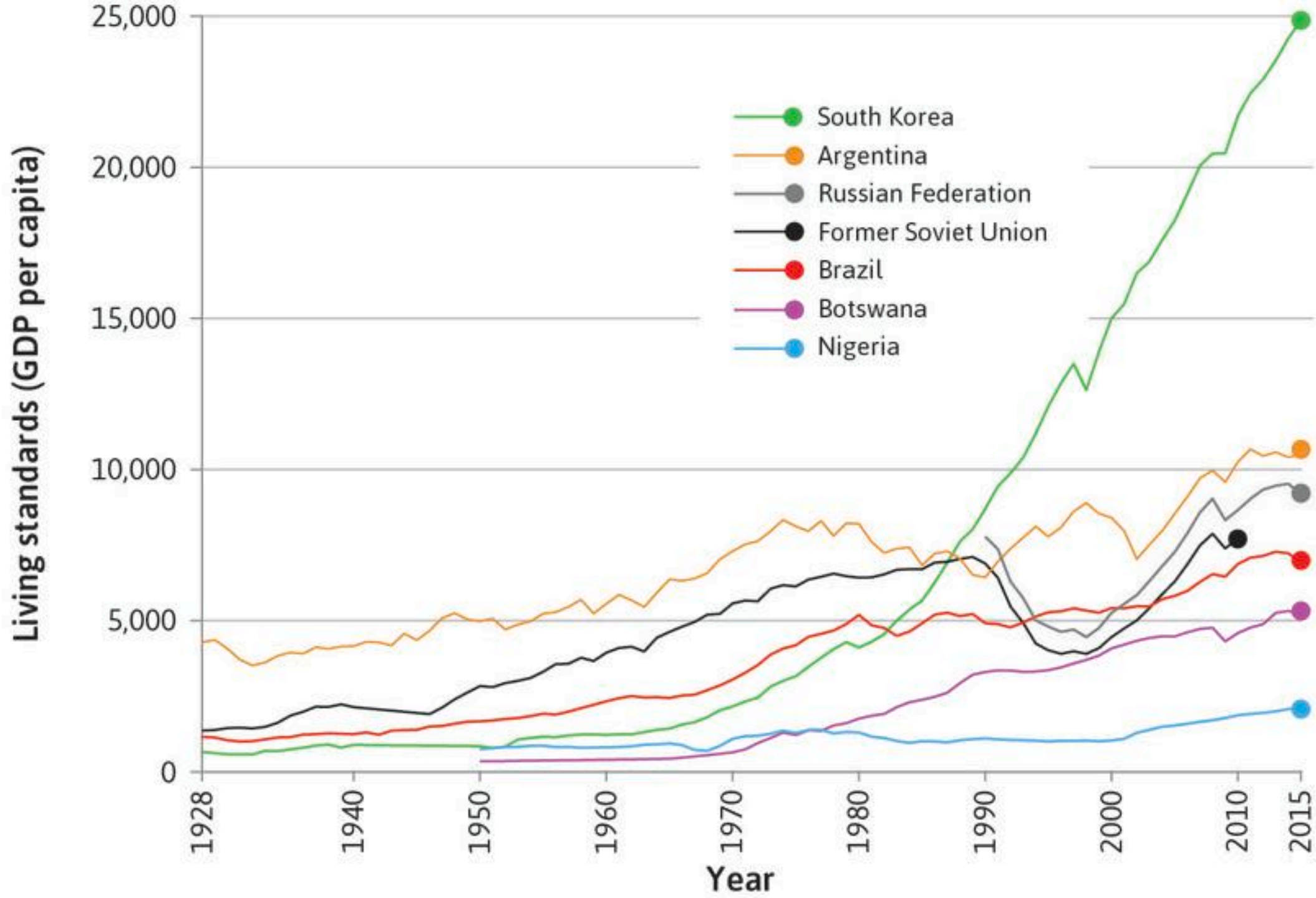


**Is democracy  
necessary for  
capitalism?**

1 We believe that governments were instituted of God for the benefit of man; and that he holds men accountable for their acts in relation to them, both in making laws and administering them, for the good and safety of society.

2 We believe that no government can exist in peace, except such laws are framed and held inviolate as will secure to each individual the free exercise of conscience, the right and control of property, and the protection of life.

3 We believe that all governments necessarily require civil officers and magistrates to enforce the laws of the same; and that such as will administer the law in equity and justice should be sought for and upheld by the voice of the people if a republic, or the will of the sovereign.



# WHAT IS THE RIGHT INSTITUTIONAL MIX?

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## Incentives for innovation

Secure private property + competitive markets

## Public policy

Government policies that foster these conditions

## Efficient firms

Competent leadership → create goods at low cost

## Public good provision

Governments fill in gaps missed by private sector

# **DOWNSIDES OF CAPITALISM**







# TWO CHEERS FOR CAPITALISM

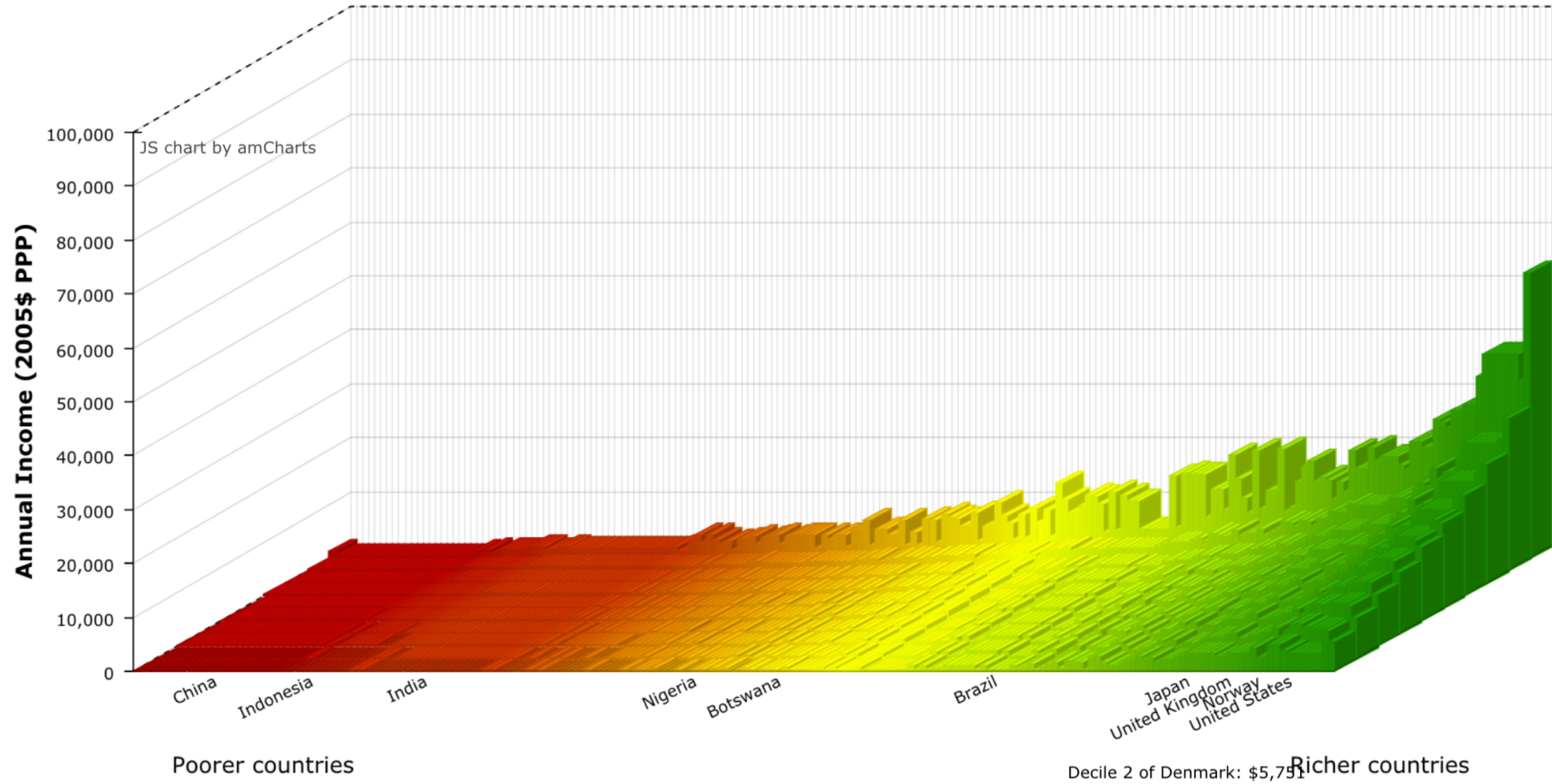
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## Inequality

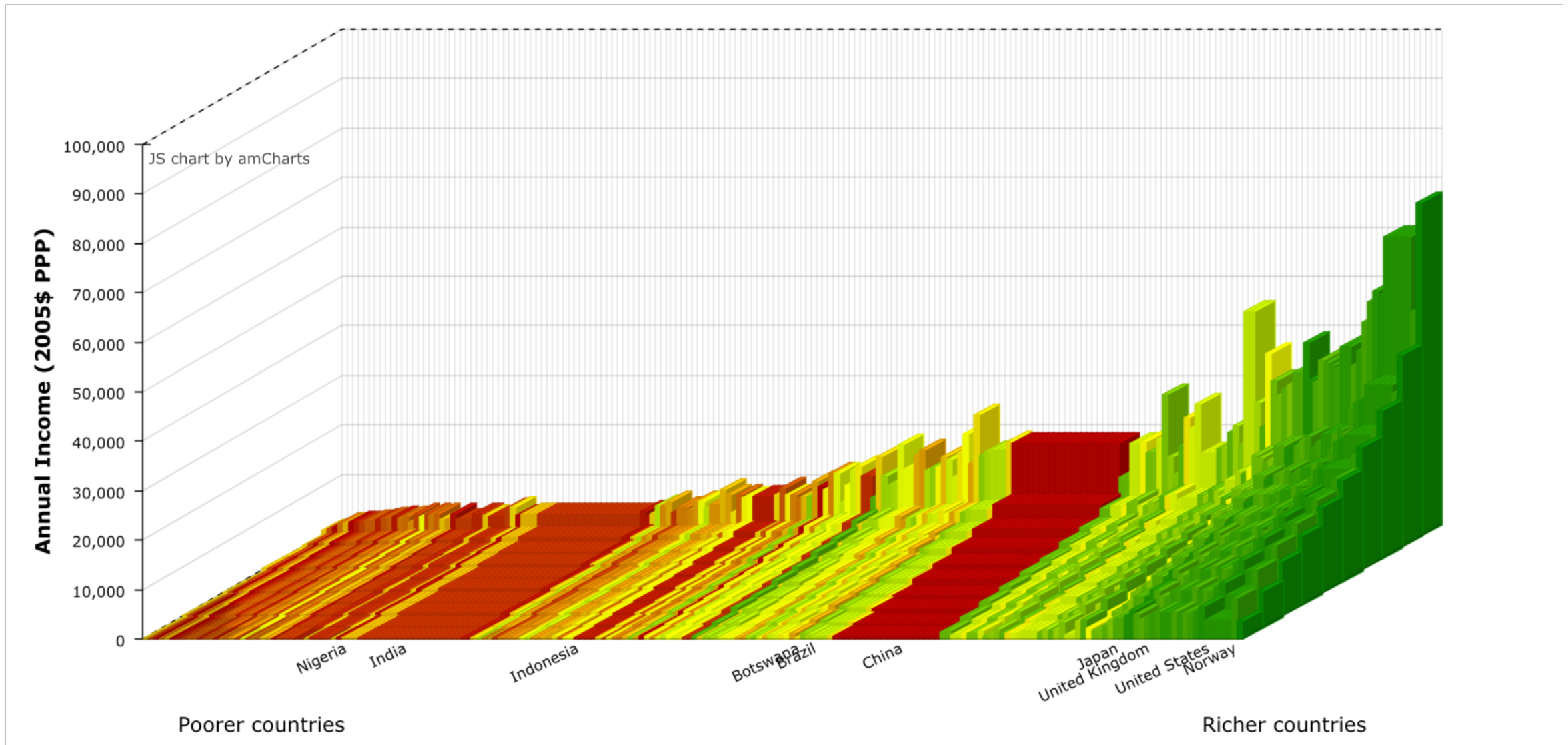
Not all gains are spread equally  
(within *and* between countries)



# 1980



# 2014



# CAPITALISM AND INEQUALITY

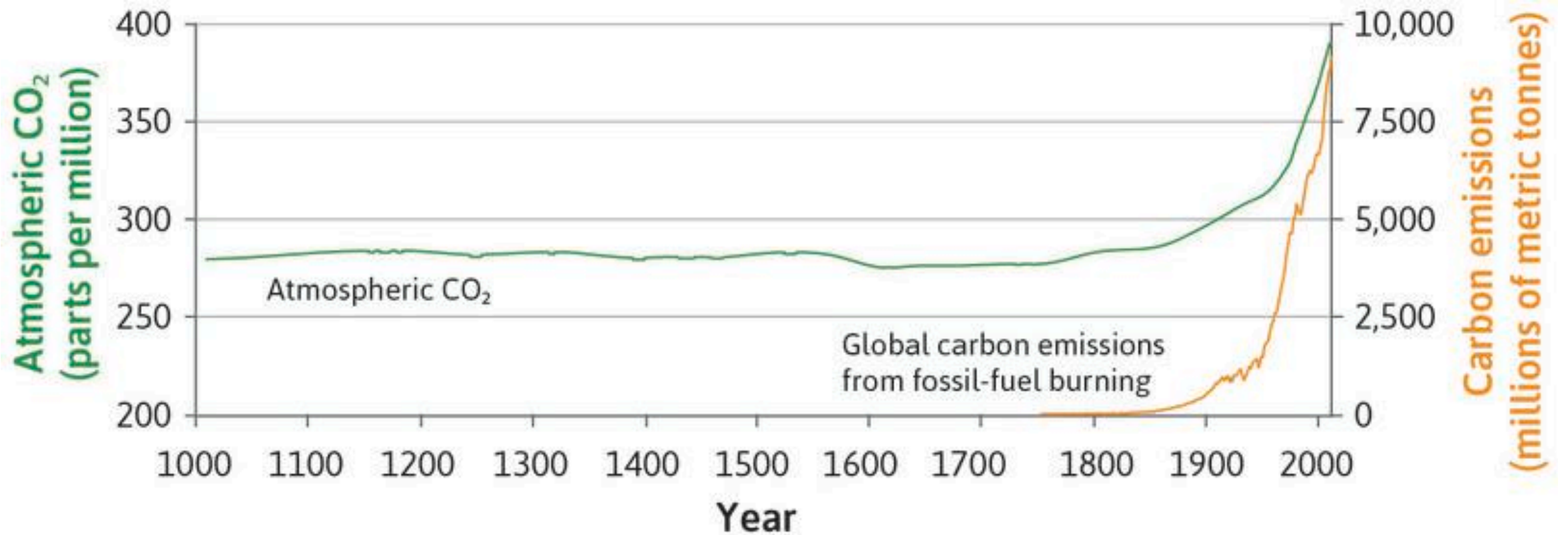
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**Why is capitalism associated with growing inequality?**

**How can democracy ideally curtail this capitalist inequality?**

# CAPITALISM & CARBON

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# TWO CHEERS FOR CAPITALISM

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## Inequality

Not all gains are spread equally  
(within *and* between countries)

## Environmental damage

Gains have side effects

# CAPITALISM AND CLIMATE

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**Why is it so hard for democracies  
to address climate change?**

# MEASURING STUFF CORRECTLY

# EVERYONE'S FAVORITE NUMBER

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## Gross Domestic Product (GDP)

Private consumption

Investment

Exports

Government expenditures

(Subtract imports)



**Y T H O ?**

---

**Why does everyone  
love this number?**

# PROBLEMS WITH GDP

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# GDP (+ \$s) ACROSS SPACE

## Purchasing power parity (PPP)

Adjust value for how much the same good costs at the same time in different places

## Big Mac Index



\$5.51



\$3



\$4.63



# GDP ( + \$ s ) OVER TIME

## Nominal numbers

What was written down at the time

## Real numbers

The value in today's dollars (or another year's dollars)

$$\text{Real value} = \frac{\text{Nominal value}}{\text{Price index} / 100}$$



# PRICE INDEXES

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Compare the price of the same good  
(or basket of goods) over time

Consumer Price Index (CPI)

## **What goods and services does the CPI cover?**

The CPI represents all goods and services purchased for consumption by the reference population (U or W) BLS has classified all expenditure items into more than 200 categories, arranged into eight major groups. Major groups and examples of categories in each are as follows:

- FOOD AND BEVERAGES (breakfast cereal, milk, coffee, chicken, wine, full service meals, snacks)
- HOUSING (rent of primary residence, owners' equivalent rent, fuel oil, bedroom furniture)
- APPAREL (men's shirts and sweaters, women's dresses, jewelry)
- TRANSPORTATION (new vehicles, airline fares, gasoline, motor vehicle insurance)
- MEDICAL CARE (prescription drugs and medical supplies, physicians' services, eyeglasses and eye care, hospital services)
- RECREATION (televisions, toys, pets and pet products, sports equipment, admissions);
- EDUCATION AND COMMUNICATION (college tuition, postage, telephone services, computer software and accessories);
- OTHER GOODS AND SERVICES (tobacco and smoking products, haircuts and other personal services, funeral expenses).

# HISTORICAL PRICES

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**What about iPhones?**

How much would an iPhone  
have cost in 1935?



**Ernie's B&L mortgage in 1928 = \$5,000**

\$72,843

**George's salary in 1935 = \$45/week**

\$43,365

**Potter's offer in 1935 = \$20,000/year**

\$370,644

**Amount stolen by Potter in 1945 = \$8,000**

\$113,275





 / JANUARY 2013 / THE FIVE-DOLLAR MIRACLE

[< PREVIOUS](#)

[NEXT >](#)

FOLLOW THE PROPHET

# The Five-Dollar Miracle

By Heidi S. Swinton

**Amount lost in jeans in 1939 = \$5**

\$90.01

**Excel time!**