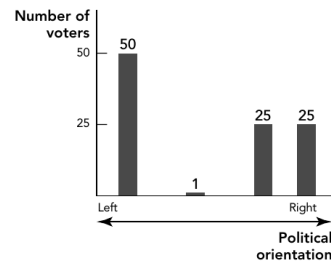


# Principles of Macroeconomics

Prof. Dr. Dennis A. V. Dittrich

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1. Which group of voters will get their exact wish: the group on the left, the center-left, the center-right, or the right?
2. Now, four years later, it's time for a new election. Suppose that in the meantime, the two right-leaning groups of voters have merged: The 25 center-right voters move to the far right, forming a far-right coalition. In the new election, whose position will win now?

3. As you've just seen, there's a "pivotal voter" in this model. Who is it?

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	Jean	Marie	Claude
1st choice	Walras	Bastiat	Say
2nd choice	Bastiat	Say	Walras
3rd choice	Say	Walras	Bastiat

1. They vote by majority rule. If the vote is Walras vs. Say, who will win? Say vs. Bastiat? Bastiat v. Walras?
2. They decide to vote in a single-elimination tournament: Two votes and the winner of the first round proceeds on to the final round. Now, suppose that Jean is in charge of deciding which order to hold the votes. He wants to make sure that his favorite, Walras, wins the final vote. How should he stack the order of voting to make sure Walras wins?
3. Now, suppose that Claude is in charge instead: How would Claude stack the votes?
4. And Marie? Comment on the importance of being the agenda setter.

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## Positive and Normative Economics

- ▶ Positive Economics is describing, explaining, or predicting economic events.
- ▶ Normative Economics is making recommendations or arguments about what economic policy should be.
- ▶ Most economic theory is (supposed to be) positive economics.

Which of the following is a normative economic statement?

1. Raising the price of new textbooks will lead students to seek more used textbooks.
2. Raising the price of new textbooks will lead students to buy fewer new textbooks.
3. Publishers should not raise the price of new textbooks.
4. The price of new textbooks will rise if transportation costs and costs of paper rise.

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## Objections to Standard Economic Reasoning

A conclusion of mainstream economics is that trades makes all involved parties better off.

Is it ALWAYS true that trade makes people better off?

1. The problem of exploitation
2. Meddlesome preferences
3. Fair and equal treatment
4. Cultural goods and paternalism
5. Poverty, inequality, and the distribution of income
6. Who counts? Should some count for more?

Do you agree with 70% of economists that selling kidneys should be legalized?

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## Exploitation: Is the seller being exploited in some cases?

The argument:  
Poor people are more willing to sell goods that entail risk (like their kidneys)

## Exploitation: Is the seller being exploited in some cases?

- ▶ The rebuttal: people at all income levels voluntarily take jobs that involve risk.
  - ▶ E.g. commercial fishing in Alaska is 5x more deadly than donating a kidney.
- ▶ The response: poor people have fewer choices and paths to prosperity and are therefore forced into risky trades.
- ▶ The rebuttal: It's hard to say from the outside what is exploitive to another person.

## Exploitation: Is the seller being exploited in some cases?

- ▶ Which of the following cases is most exploitive?
  1. someone asks you to donate a kidney for free.
  2. someone offers you \$ 5,000 for a kidney.
  3. someone offers you \$ 500,000 for a kidney.
- ▶ The issue is a complex one, but most people agree that abject poverty is a problem – but a separate issue.
- ▶ Finally, can we assume that all people fully understand risks? If not, should we ban kidney gifts too?

## Meddlesome Preferences

Meddlesome preferences: preferences over what other people do, even when they don't interfere in any direct way with what you do.

Is it okay to eat a horse? A dog?

## Fair and Equal Treatment

Is it preferable to convert all buses to accommodate wheelchairs even if it's more expensive than hiring cabs for all wheelchair users for life?

Is "equal treatment" more valuable?

Economics cannot answer questions so subjective – and whose benefits are so difficult to measure.

## Cultural Goods and Paternalism

Is the French government right to place quotas on foreign shows on TV? To subsidize French music?

Should the government support some goods even when the public isn't willing to pay for them?

Does it:

- ▶ Improve culture and help French firms? Or
- ▶ Waste money, reduce competition and meddle with free choice?

What do you think best describes the reason that trade in recreational drugs is illegal: fear of exploitation, meddlesome preferences, notions of fairness, paternalism, concerns about equality, or some other factor?

Who of you would vote for income redistribution?

## Poverty, Inequality, and the Distribution of Income

The BIG question: what is a “just” distribution of income?

Three influential views:

1. Rawls’s maximin principle
2. Utilitarianism
3. Nozick’s entitlement theory of justice

Society	Red	Blue	Green	Average Income
A	100	100	100	100
B	150	100	50	100
C	600	600	99	433
D	1096	102	101	433

- ▶ Just thinking about yourself, if you did not know in advance whether you were a Red, Blue, or Green person, would you rather live in society A, B, C, or D? Why?
- ▶ Which society would you like least? Why?

## Rawls’s Maximin Principle

- ▶ In A Theory of Justice (1971), John Rawls argued that questions of income and wealth distribution are keys for evaluating social policy.
- ▶ Rawls’s maximin principle: justice requires maximizing the benefits to society’s most disadvantaged group.
- ▶ Rawls rejects the economist’s idea of trade-offs, and concludes that the worst-off group should be the priority of all policy.

To a Rawlsian, would the world be better off with and one additional billionaire but without the Harry Potter novels?

Society	Red	Blue	Green	Average Income
A	100	100	100	100
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C	600	600	99	433
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Rawls would assert that Society A is more just than Society B because the worst off person in Society B (Green) has more income in Society A.

# Rawls's Maximin Principle

- ▶ It is often believed that the maximin principle favors societies with a more equal distribution of income.
  - ▶ Comparing Society A with Society D refutes this assertion.
- ▶ Economists argue that the maximin principle is inadequate for evaluating policy because it ignores trade-offs.
  - ▶ A little bit less income to the worst off, for example, might be acceptable if it comes with a big enough gain to others.
  - ▶ Or, lower average income might be acceptable if income is a little bit more equally divided.

Rawlsians support government income redistribution to the worst-off members of "society." If "society" means the whole world, how much redistribution might be involved? In other words, what fraction of people in the rich countries might have to give most of their income to people in the poorest countries?

# Utilitarianism

The idea that the best society maximizes the sum of utility.

- ▶ It tries to implement policy outcomes which bring the greatest sum of utility (or "happiness") to society.
- ▶ Question: does everyone value \$1 equally? Or do the poor face a higher utility for each dollar of income than the rich?
  - ▶ If so, utility can rise by redistributing money from wealthy to poor.
- ▶ Utilitarianism recognizes the role of incentives when redistributing income.
  - ▶ Taking money away from richer people decreases their incentive to earn, so more redistribution could reduce overall wealth enough to reduce total utility.
  - ▶ Additionally, giving dollars to poor people is not always the best way to improve their welfare.

# Utilitarianism

- ▶ Utilitarianism's assumption about utility differences goes further than economic theory does:  
**There is no scientific measurement of utility.** However, most economists do support a "safety net" as insurance against job loss and other disasters.

Who of you would vote for grade redistribution?

The need of the many...

Suppose that 1 billion people are suffering from a moderately severe headache that will last a few hours. The only way to alleviate their headache is for one person to die a horrible death.

Can the death of this one person ever be justified in a cost-benefit sense?

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## Nozick's Entitlement Theory

In *Anarchy, State, and Utopia*, Robert Nozick explains his entitlement theory of justice (also known as a libertarian theory of justice): the distribution of income in a society is just if property is justly acquired and voluntarily exchanged.

- ▶ Nozick's entitlement theory argues that income distribution is irrelevant and that what matters is the process by which income is acquired.
- ▶ If trades are voluntary, doesn't that mean both trading partners are better off than before (even though over time income inequality may increase)?
- ▶ Nozick: "all capitalist acts between consenting adults should be allowed"  
...provided they do not infringe on the rights of others

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## Who Counts?

Of the three ethical theories we discussed (Rawlsian, utilitarian, and Nozickian), which two are most different from the remaining third?

In what way are the two different from the third?

How do we/should we evaluate immigration policy?

- ▶ Economists: measure benefits and costs to all people involved.
- ▶ Politics is different: domestic citizens' preferences are counted for much more than the preferences of foreigners.

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## Essay I

Compare a Rawlsian view against a utilitarian view on the question of whether it should be legal to copy movies and music freely. Consider current (short-run) and future (long-run) potential economic consequences.

Use references (if any) according to the Chicago Manual of Style, author-year (aka APA style).

On academic writing see <http://economicscience.net/content/academic-writing>

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### ▶ Introduction

- ▶ (Well motivated topic?)
- ▶ Is there a hypothesis / research question?
- ▶ Is it clear what will follow?
- ▶ Do I want to read this?

### ▶ Main Body

- ▶ Is the structure supporting the thesis?
- ▶ Do claims follow logically from the reasoning?
- ▶ Are all claims supported?
- ▶ Are there factual errors?
- ▶ Are technical terms (correctly) defined?
- ▶ Is everything relevant for the hypothesis / research question?
- ▶ Is it clear why something is mentioned?

### ▶ Conclusion

- ▶ Is it clear what this was about?
- ▶ Is there an answer to the research question / hypothesis accepted or rejected?
- ▶ Is there a conclusion / bottom line?
- ▶ (Are limitations mentioned?)

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- ▶ References/Quotes
  - ▶ everything referenced that should be?
  - ▶ Quality & Breadth of references
  - ▶ Correctly referenced?
- ▶ Tables & Figures
  - ▶ Headings / Captions
  - ▶ Source
  - ▶ Mentioned in text
- ▶ Style
  - ▶ Rhetoric
  - ▶ Clarity
  - ▶ Coherence
  - ▶ Grammar
  - ▶ Spelling
  - ▶ Punctuation
- ▶ (Degree of difficulty)
- ▶ (Methodological soundness)
- ▶ Analytical sophistication
- ▶ Did I like this?