

Government can make choices to hit the right balance of the goals

Market system:

Laissez-faire

Private control of property and market pricing/bidding for products and resources will allocate resources optimally, achieving both productive and allocative efficiency.

Command system:

Centralized human intelligence, given control of the means of production, can achieve a better allocation of resource to meet the economic goals of society.

US today: A market system with government controls/checks.

Few agree no interference needed.

Vicious arguments about how much to interfere and how to interfere.

What are we doing:

Reviewing the characteristics of a market system.

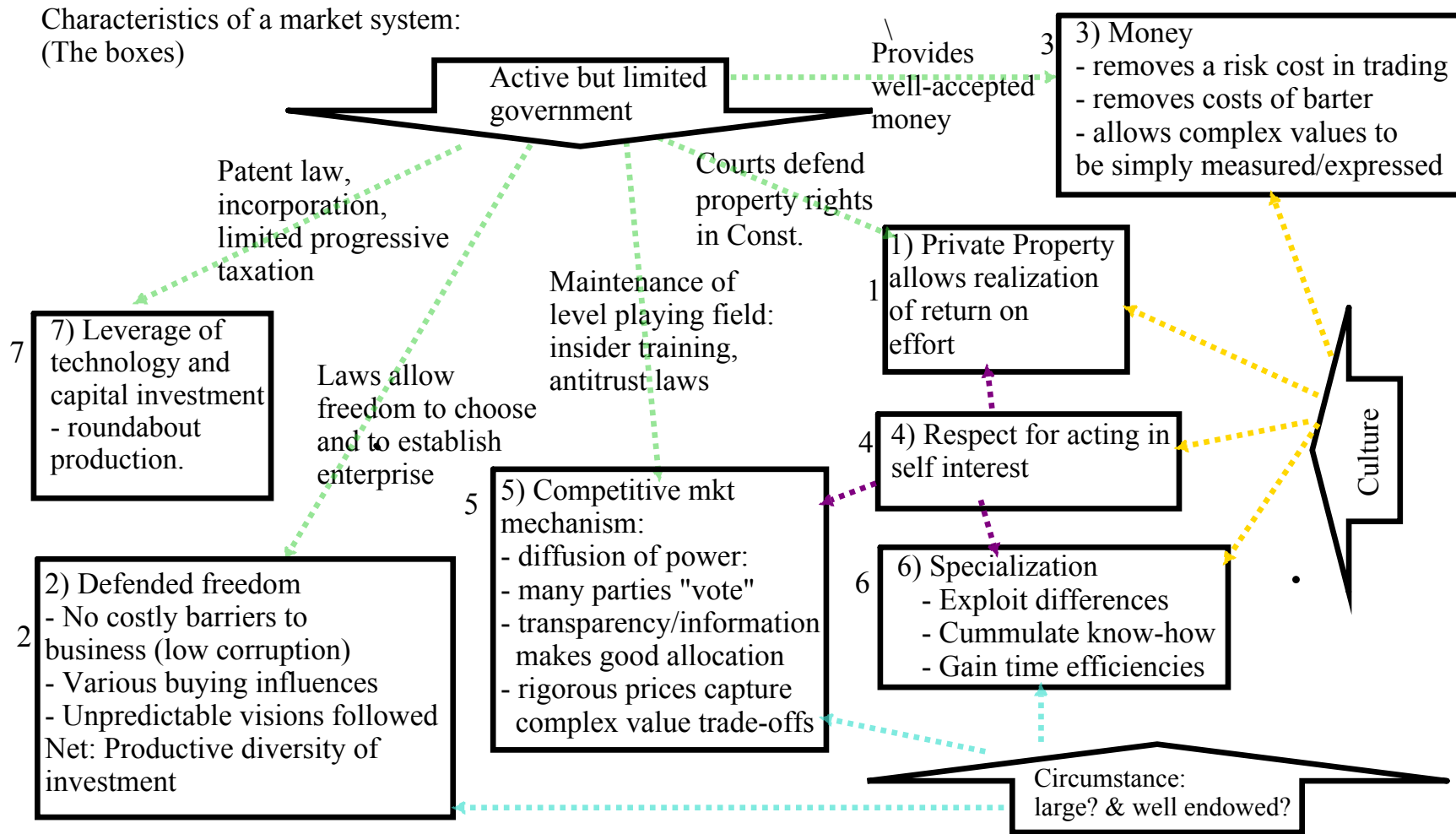
(The numbered boxes are stuff you want to know and people to discuss).

Different societies have different market systems.

The next slide tries to discuss variations in market systems by looking at three elements of context:

- 1) The chosen role of government
- 2) The culture
- 3) The resource circumstance.

On 3 (the boxes are the features)



THE FOUR FUNDAMENTAL QUESTIONS THAT AN ECONOMIC SYSTEM ANSWERS

What will be produced? Yes: Products that generate excess profit (economics)

Yes: Products that, on average, produce normal profits.

No: Products that sustain losses that are too large

How will the goods/services be produced? Yes: Methods that temporarily improve profits
maintain competitive costs.

No: Methods that are more expensive.

Who will get them? Those with the ABILITY and WILLINGNESS to pay.

(cue socialist rant)

How does change occur?

Prices drive allocation of resources as consumers vote

Creative destruction advances techniques/methods/technology

Fruits of capital investment

Profit is what Entrepreneurs get paid (remember cell and wrip)

ROUGH IDEA: Profit = Revenue - Costs

Accounting Profit = Total revenue - Accounting Costs

Total Revenue: The money brought in the door.

Accounting Costs: All costs other than Entrepreneurial compensation

PROFIT SHOULD = ENTREPRENEURIAL COMPENSATION => Accounting profit = Entr. Comp.

Accounting profit may just be:

Normal Profit

or

Normal profit + Economic Profit

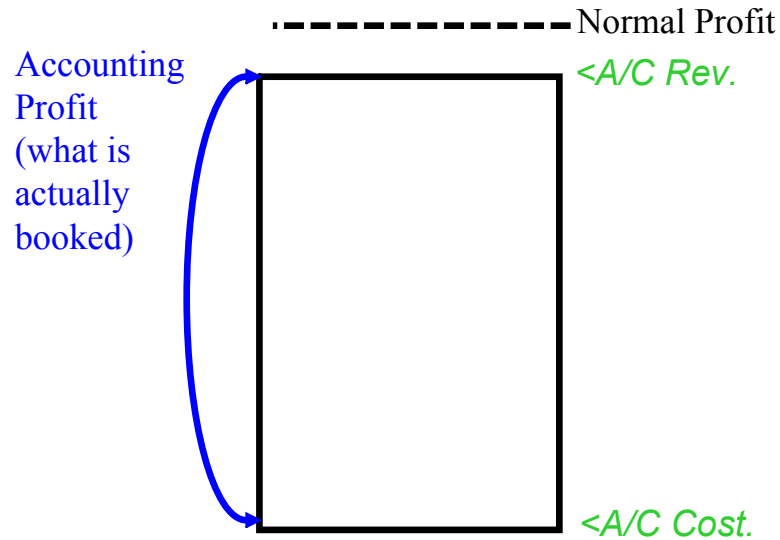
Normal profit = Fair entrepreneurial compensation.

Economic profit = Excess reward above normal profit held by the entrepreneur.

Page uploaded



What will be produced? Yes: Products that generate excess profit (economics)
 Yes: Products that, on average, produce normal profits.
 No: Products that sustain losses that are too large

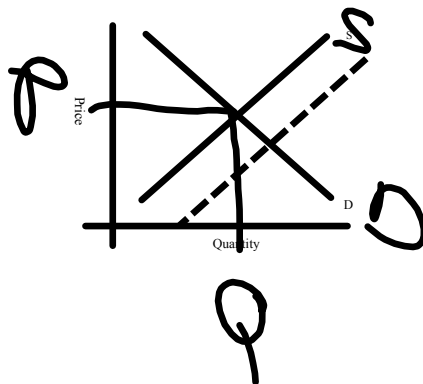


Normal Profit: Appropriate compensation to the entrepreneur. Pays for time and risk.

Economic Profit: Excess profit/pure profit. A windfall to the entrepreneur arising from fortunate circumstance.

For entrepreneurs economic profit is like a porch light to a moth - an irresistible attraction to entrepreneurs.

What happens as more entrepreneurs enter a market chasing economic profit?



What happens when companies don't earn economic profit?

How will the goods/services be produced?

Yes Methods: Methods that temporarily improve profits or maintain competitive costs.

No Methods: Methods that are more expensive.

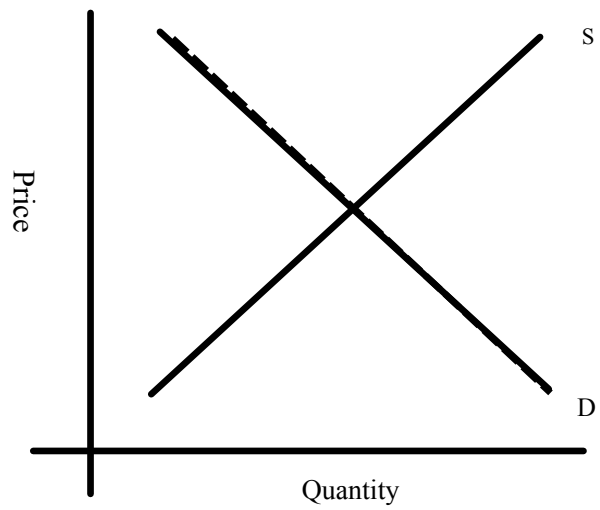
Who will get them? Those with the ABILITY and WILLINGNESS to pay.
(cue socialist rant)

How does change occur?

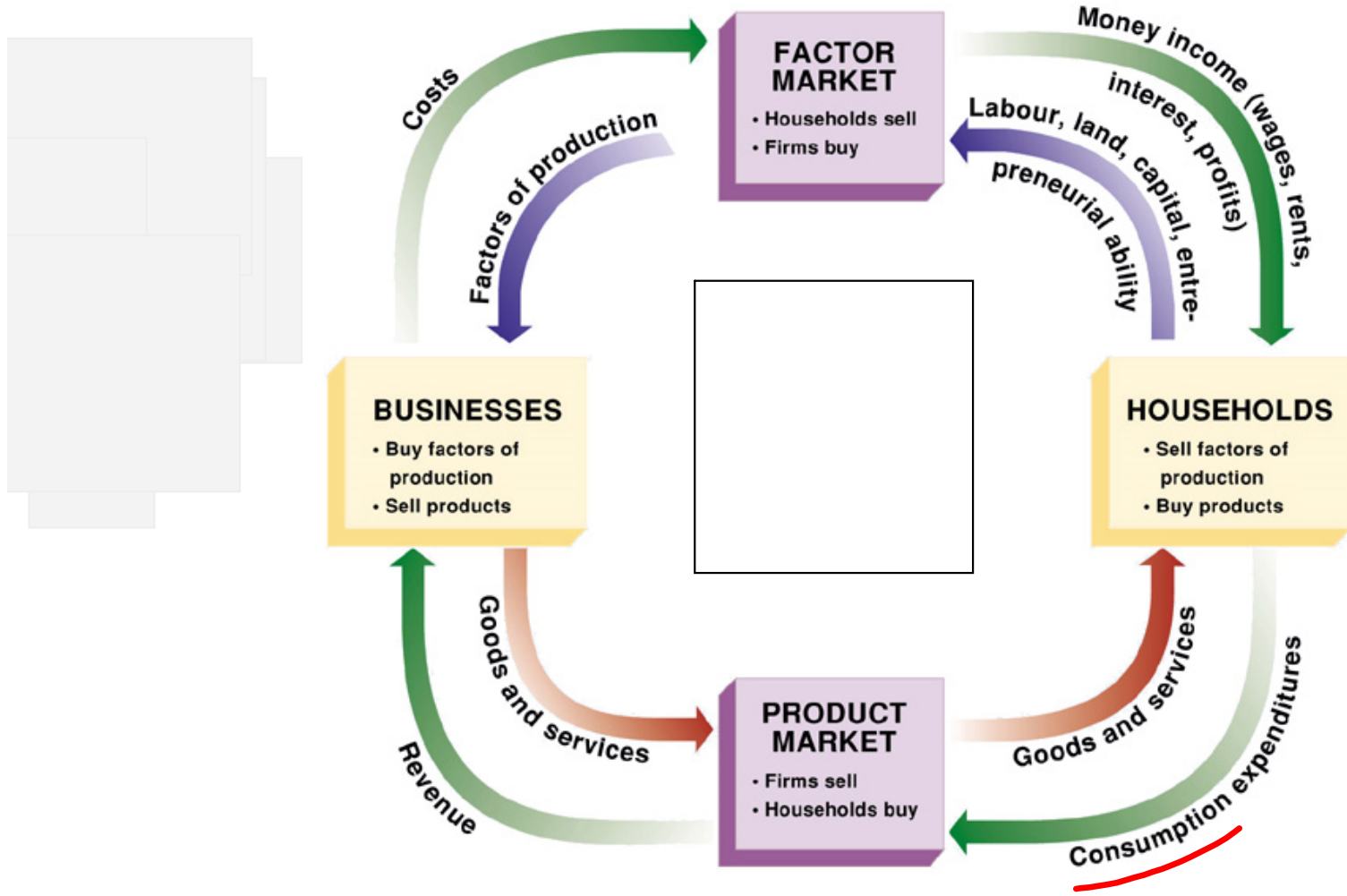
Prices drive allocation of resources as consumers vote

Creative destruction advances techniques/methods/technology (see above)

Fruits of capital investment



Little demo



The invisible hand:

Adam Smith 1776

People working in their self-interest through the mechanisms of markets will promote the public interest.

The pure form:
Even Adam Smith saw the need for government guidance.

The basis of classical economics:

Markets and "efficiency"

- Markets are not without waste

- They are efficient in that they

Steer resources to efficient use.

They encourage efficient use of information.

The incentive of self-interest aligns human actions with the general good.

This is a libertarian perspective: The world works best when people act on their own, not subjugated to any force.

Mr. Benjamin has not been able to bring himself to say these words since the Reagan administration. Please read to yourself.

