Cheatography

MF&R Cheat Sheet

by rob via cheatography.com/18737/cs/1911/

Market Failure Definitions:

Market Failure:

> When the allocation of goods and services by a free market is not efficient. Market outcomes that are pursued out of pure self-interest lead to societal problems

Pareto optimality:

> The point at which it is impossible to redistribute resources to make any one individual better off without making at least one individual worse off.

Negative externality:

> An “external cost” of a product that is not incorporated into the product’s cost. Air pollution from a factory might be an example. Taxation is a way of fixing a negative externality.

Positive externality:

> An “external benefit” of of a product that is not incorporated into it’s cost. Education is an example of a good that has positive externalities. Subsides are a good fix.

Moral hazard:

> A situation where the party taking the risk won’t feel the consequences of failure. Subprime loans are a good example.

Imperfect information:

> occurs when people have inaccurate, incomplete, uncertain or misunderstood data and so make potentially ‘wrong’ choices. For example, investing in the stock market.

Insufficient competition/market power:

> The existence of monopoly power is often thought to create the potential for market failure and a need for intervention to correct for some of the welfare consequences of monopoly power.

Principal agent problem:

> In many markets, transactions are carried out by “agents” on behalf of their “principals” – for example, corporate executives who are supposed to act in the best interests of their corporation’s shareholders.

Market Failure Definitions: (cont)

Public goods problem:

> A public good is one where the use of it by one person does not diminish the ability of another person to benefit from it (technically called “nondiminishable” or “nonrival”), and where it would be difficult to keep any individuals from enjoying its benefit (“nonexcludable”).

Free rider problem:

> is applied to people who seek to enjoy a benefit without paying for it

Transaction cost:

> transaction costs are the costs of arranging economic activities.

1-13 on the study guide, your answer should be about 4 sentences total. You should be able to give a basic definition, example, and a remedy in that amount of space

Wrong w/ Positive Externality

From a policy perspective, what is wrong with a positive externality? Illustrate with an example.

> The costs or benefits of an externality (in the case of a positive externality, the benefits) are not internalized by the transacting parties. If party X cannot internalize or receive the full benefits of a transaction, X will be less likely to engage in the transaction in the first place, i.e., they will produce less of the the transaction or its benefits. So underproduction is the main theoretical problem. (ie google)

FUMLABUE

Moral gov't intervention

general categories where governments intervene on moral/social grounds

> Dees: 1) morally objectionable exchanges 2) socially important goods 3) procedural fairness 4) distributive justice Bardach: 1) hard to collect payment from all the potential beneficiaries 2) hard to collect from the beneficiaries of consumption the true econ cost of making use of the good or service 3) When hard for consumers (and sometimes suppliers) to know the true qualities of the good or service they are acquiring 4) When the cost of producing the marginal unit lower than the average cost within the relevant range of demand

Policy Analysis

What are the 8 steps in Bardach’s Eightfold Path to Policy Analysis?

1) Define the problem
2) Assemble some evidence
3) Construct the alternatives
4) Select the Criteria
5) Project the Outcomes
6) Confront the Trade-offs
7) Decide!
8) Tell Your Story

PA.10

When talking about criteria for analyzing policy options, Bardach says it’s helpful to distinguish between “analytical” criteria and “evaluative” criteria. What does he mean by “analytical” and “evaluative” criteria? Illustrate your definitions with examples.

> The policy story has 2 interconnected but separable plotlines, the analytic and the evaluative. Evaluative: is aimed at the projected outcomes. Alternative A will very probably lead to Outcome OA, which we judge to be the best of the possible outcomes; therefore, we judge Alternative A to be the best. The Analytic plotline says whether or not they are likely to happen.

What are the main practical difficulties with policies to internalize externalities?

> (FAIL) Some governments can fail in specific roles, and other governments may simply be failed states. (UNINTENDED CONSEQUENCES) The interventions of a government body may unintentionally do more harm than good. (MARKET ORDER) Without the discipline of markets to determine when value is created, government activity can be both costly and ineffective. (LEGAL PROCESS) Law and regulation are the product of highly imperfect legislative, administrative, and judicial processes. (ADAPTABILITY) They tend to lag behind technological and social innovations. This time delay is particularly damaging in an era of rapid change. (BUSINESS EXPERIENCE / INFLUENCE) Lawmakers, bureaucrats, and judges may lack the relevant business experience to find cost-effective solutions. Or they may be unduly influenced by the lobbying efforts of business groups or other special interests. (UNCERTAINTY) The effects of government intervention are often highly uncertain and occasionally counterproductive. (ENFORCEMENT) Furthermore, markets have become more global, while laws tend to stop (with only a few exceptions) at national borders. This creates coordination and enforcement problems.

PA.11

Identify and describe the three main approaches policy analysts use to resolve evaluative criteria when those criteria conflict?

> 1) The political process takes care of it - Allow existing governmental and political processes to determine the weighting in accord in with the analyst's employer or client, and relevant arenas who are important to the employer or client. 2) An analyst imposes a solution - Underrepresentation: modify - not replacing- the weighting assigned by the employer or client by reference to some overarching philosophical or political conception. The justification is that certain interests, and perhaps philosophies, are typically "underrepresented" in government and politics. Giving the permission of the theoretically knowledgeable analyst, in the name of fairness and democracy, the right the balance. (examples: taxpayers whose interests may be squeezed out by better-organized advocacy groups , future generations, children, people who live outside the jurisdiction making the decisions, ethnic and racial minorities, women, the poor, consumers, and animals and ecological entities). Educational process : proposed to rethink existing criteria in the light of facts or arguments the analyst can draw to their attention. In this case, the analyst takes responsibility for opening up a dialogue, and perhaps for trying to infuse it with reason and insight, but then allows the political process to take over. 3) The distribution of "rights" precludes some solutions and forwards others.- Generally, claims based on rights are a reasonable guide to choosing "better" policies, and rights-based criteria deserve some extra weighting. Exceptions include rights specially protected claims of an individual or a group against encroachment by "others," including society as a whole, rights more emergent than established: obviously legitimate to us being merely the (so-far) best established and (probably) most socially beneficial. For example, "the right to privacy" or "the right to control

Public Choice Theory

What is Public Choice Theory?

> Public Choice is often referred to as a school of economics. In fact, it is more an approach to political science. It does not try to explain how the economy works. Rather, it uses the methods and tools of economics to explore how politics and government works. It analyzes how efficient, effective, and legitimate the political process is.

Government Intervention in Negative Externalities

When there is a negative externality, what would Pigou say are the three basic policy solutions available to policy makers?

> Pigou's policy approach to negative externalities: 1) make the party pay for the damages, 2) tax externality, 3) restrict externality

What would Coase say is the problem with Pigou's view of the 3 policy solutions for negative externalities (i.e, in your own words, what is the "Reciprocal Nature of the Problem" Coase writes of)?

> "the reciprocal nature of the problem" If (A) is causing harm to (B), then by restricting (A) from causing harm to (B), then you are inherently causing harm to (A). The problem should be solved by determining who inflicts the least amount of harm, and that party gets to do so.

Synthesis

14.Is income inequality a "market failure"? Why or why not?

> The prevalence of income inequality in free market economies indicates that inequality may be the result of a market failure. Why or why not? • In a "free" market, it is believed, all individuals possess an equal opportunity to succeed, but due to a mis-allocation of resources in a purely market economy, this may not always be the case. • Whenever a market failure exists, it can be argued that there is a role for government in regulating the market to achieve a more optimal distribution of resources. When it comes to income

Synthesis (cont)

15. Why is the concept of market failure useful to policy analysts?

> The concept of market failure is useful for policy analysts because it is a means to justify government intervention. Policy analysts argue that the existence of a market failure "provides a necessary, not a sufficient justification for public policy interventions". Goodwin: Business leaders and voting citizens as well as policy makers are influenced in their decision-making by the idea that a "perfectly free" market can produce a social optimum (a "best of all possible worlds")

16. In what ways is policy and government action important for social entrepreneurship?

> Government support to social entrepreneurship social work because most often the work produces positive externalities not captured in our economic system. Think feeding the homeless. The gov is needed to support these types of programs because they don't make money, but produce a huge positive externality.

PC.13

[redacted]

your own body," should evolve to fit new social and technological conditions. Technological change raises questions of privacy and transparency (e.g., confid-entiality and fairness), and the past structure of rights is not necessarily a good guide to how to redesign that structure for the emergent situation. Decent health care, privacy, abortion, and a host of other matters that now or in the recent past have been subject to debate over who ought to have what sort of highly protected positions that we dignify and crystallize as rights. Overall, claims weight criteria by reference to which rights ought or ought not to take priority deserve to be treated critically.

inequality, government intervention typically comes in the form of a tax system that places a larger burden on the rich, and a system of government programs that transfer income from the rich to poor, including welfare benefits, unemployment benefits, healthcare for low income households, public schools and support for economic development in poor communities. • Goodwin: • "Value" in economic terms is synonymous with price. The social preferences that are visible to standard economic analysis are what economic actors in a society are able and willing to pay for. Demand is ultimately dependent on consumer demand; that is, firms may demand parts and other inputs from suppliers, and raw materials from primary industries, but they only do so on the expectation that the final products will be bought by consumers. The only consumer demands for goods and services that are visible to the standard economic model are those that are backed up by a consumer's ability to pay. This has several implications. • There is nothing in the model that assures that resources are distributed in such a way that people can meet their basic human needs. • poverty vs education correlation • points to federal tax issues upon the rich. • If we look at counties where income inequality has grown the most, we see the largest income inequality-growth counties are where the divorce rates have risen most rapidly--that's where the factors that marriage counselors always cite, couples they see, financial trouble. The bigger the income inequality growth, the bigger the divorce rates, the bankruptcy filings, long commute times--that's another margin families use when they can't make ends meet. Whole cavalcade of costs experienced by the guy in the middle. So: where is the data? It's there that you see the data on the shadow of income inequality.

Define the term listed below, and provide an example of how they might prevent policy for sustainability outcomes:

a. Logrolling (Butler, p. 66F73) An agreement to exchange votes between two groups of political interest parties: • on separate legislative measures is called explicit logrolling. • where the different groups bundle their various proposals into a package before they are voted on - implicit logrolling b. Rent Seeking (Butler, p. 75F80) Artificially created monopolies that grant a certain interest group the right to collect profits above competitive rates (regulation of the number of Taxi licenses in NYC). The interest group that is benefiting from these barriers to competitive entry is incentivized to protect them (lobbying…) c. Bureaucratic budget maximization (Butler, p. 89F90) simple proxy for all the other things that go with a large and growing budget – such as job security, promotion prospects, salary increases… → bureaucrats are able to maximize their own benefit within whichever budget is established by the political power; with large budgets they simply take on new functions and demand more money, with small budgets they limit their output and ensure that money sticks with them rather than being spent on projects. Bureaucrats have no personal interest in saving money, and every incentive to invent new work-s-treams and social programs → large bargaining power of bureaucratic infras-tructure d. Rational ignorance (Butler, p. 52F53) In politics there is a significant uncertainty about costs and benefits, and the minuscule chance that individual person's vote will have a real and predic-table effect on the election→ some electors think that it is simply not worth their time and effort to become well informed on the candidates or their policies.