

121 G Salt - 9m3304

Q.S. 162, Jan. 10, 1978

Names

Purpose & Survey.

Purpose -- apply tools of micro theory to real problems -- policy & mgmt.

also, sharpen tools of theory

Thy. is like arith. & math -- manipulate abstractions that can apply to anything. "Thy. Transcends Technology."

At the heart of every thesis, every mgmt. directive, every policy is a theory, a world-view or cause & effect relation. Theory dominates yr. concept of how world is or shd. be put together.

Mgmt. & policy makers are acting out theories, usually, which harden in their minds after college

So theory is important. We will not just assume it, but review it & restate it & refine it.

Applying thy. also helps us screen out useful theory from excess baggage.

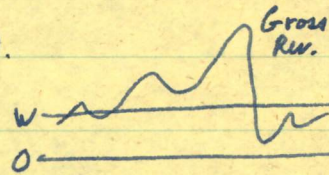
Survey - Go over outline.

Why Econ?

World not uniform. Garden of Eden not big enough -
Curse of Adam. Popn. grows.

Best land becomes crowded.

- a) Manage it to avoid overcrowding
- b) Some move to poorer land
- c) Better land assumes value. Pie now shared between owner & others (tnts, workers, communists).
- d) Interflowing keeps wage rates constant



Distribn. of prodn.

Functional, among factors.

vs. Personal. Profit is a personal concept. Depends on what person owns, (above what he borrows).

Both concepts are imptnt. bear both in mind.

But ~~the~~ functional distribn. tells you what things are worth, whether you own them or hire them.

(Personal distribn. also means ~~the~~ ranking by income, regardless of source, a 3d meaning.)

Malthusian gloom

1846, Senior, Carlyle, dismal science.

Today, ecologists occupy this role. Revived lifeboat theory -- Sta. Barbara.

Genuine concern, re energy.

For decades, primary products fell -- or were said to, & perhaps held their own.

Now, many on the rise.

Leachhold again, oil & gas.

The curves always wave & wiggle -- farm prices are down again temporarily.

Utopian prodigality. Other extreme.

Cybernation.

Consumption as a goal. Saving, working, consuming all obsolete.

Ei, sense. World is finite. Eye on scarce resources -- use more labor. Stay up-to-date on

Jan. 10, end, what is scarce. Exercise inst. bias.

- Subst. for land,
E.g. of labor
E.g. of K.

- Subst. for energy
labor
K

- Intensify land use

- Lower margins.

- Synergy

A.S. 162, Jan. 12, '78

Malthus & Dim. Ret's

Major points made last time.

1. Course applies theory to practice: ~~business~~ input, & policy-making. In process, improves theory

for

a. Sharpen & corrects it.

b. Makes it operational - something you can handle & apply.

2. Thy. transcends technology, just as math. does.

3. Econ. begins ~~to~~ with expulsion from Eden.

World not uniform

Best land lacks room for all

" " managed optimally carries fewer people yet, and it is placed in tenure. (Enclosure movement)

So some move to poorer land. (U.S. Westward Expansion, 200 years history of this.)

4. But compn. among workers keeps wage levels uniform.

5. Land earns rent, depending on its ~~value~~ superiority.

6. Pie shared among 3 factors, 3 ways.

Functional distr. vs. personal distr.

7. Malthusian gloom, iron law.

Overcome by synergy -- Ec. progress.

Doom avoidable, but requires const. effort, economize on land, conserve res.

8. Utopian prodigality. -- problem is Puritan ethic
Solution is print money, ~~reduce work incentives, etc~~
consume more, than Δ GNP. Masked in math.
models, this is ~~the~~ basis of macro policy.

9. Ec. sense:

As pop. As on finite world, learn to use
nature more intensively. Variable popus.

E.g. today, clear need to change popus, thus
solve unempl. and resource scarcity simul.

~~For~~ needs:

a. Exercise instl. bias

b. Keep current

c. the price system for measures --

not, e.g., a broad spam vs. primary products. Conserve all

res., not just one (e.g. 27 $\frac{1}{2}$ mpg)

d. Δ synergy

e. Bend tech. progress to new

scarcity parameters.

#3

10. Using nature means 2 things:

Extensive margin

Intensive "

(Instl. bias overinvades extensive)

#3

a. More popn. means higher share to land
(E.g. o & g lease argu.)

#

b. Synergy ~~between~~ & techn. (orgn. & science) make
wage levels rise, too — maybe.(Or is it that labor is better today, pumped full
of learning)

c. Rent grows. It's fun.

i. Elicit supply? No

ii. Allocate

(Joe's restaurant)

d. Factoral distribn -- what does a profit-maker
care?He shd. know ^{what each} ~~which~~ of his inputs is
adding to output; & what he cd. sell it for; to
know if he is efficient.

e. "Paper" distribn.

Int. on bonds, etc. "Transfer payments".
as vs. primary payments for services of ~~physical~~
real assets.

Ka Ec. analysis lifts the corporate veil, the
veil of money, looks for real underlying values.

"Real" $\equiv$ physical, but includes
knowledge. Is not materialistic. But distinguishes
value from claims on value.

f. Law of Wages: margin of prodn.

George writes of extensive margin.

also true of intensive margin. The
"marginal product".

Ec. 121 Wed, 4 Apr.

1.
 own land,

Ecs. begins w. expulsion from Garden of Eden. Cain for Abel

World not uniform.

Best land lacks room for all.

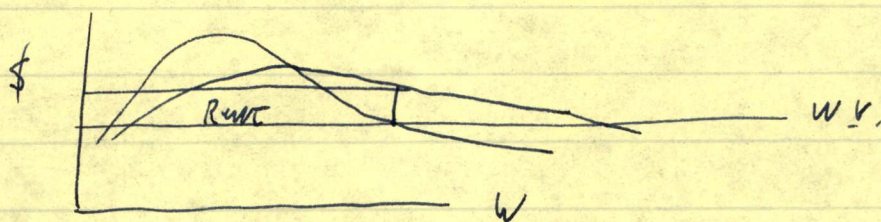
Tot. ut. as open range ruins for all.

Subject to famine, carries fewer yet - surplus
pop. expelled, move to worse land.

Compu. among workers keeps w.r. at a common level.

Land owner pockets surplus.

Same for K - arbitrage.



Submerged.

1846 Irish famine, The Gr. Hunger.

Senior's Malthusian prescriptions. Disanal Sci.