Yong Bao 120B.
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788-7998.

Fri.

1. Clark - land is productive
2. Low i.r. = high rents

Edgeworth

1. Heavy use of math. & abstractions.
   Not measurements, but math reasonings.
   Cards. Borrowed from physics.
   added precision; lost humanity
2. Man a pleasure machine.
3. Free mkts are ideal
   No interpersonal effects
   (Others say, too much is as bad for you as too little.)
   Win-win exchanges mutually help.
4. Remove all barriers to property rts.
5. But males, & heirs, need more than others
6. Persecuted heretics
7. Rationality - except females & the poor are too dumb to vote.
   assumes away mental illness, etc.

Ricardo's Law of Rent applied to industrial sites: the advantages of sites in the Manchester region, in Lancashire County, England, for cotton manufacturing, 18th-19th Centuries

-- lime-free water. Only a few locations possessed it;

-- Manchester's central location, surrounded on three sides by water power, and on the fourth by easy access to ocean shipping;

-- the scarcity value of water drops. There was a Ricardian rent gradient as new mills resorted to poorer resources and remote sites;

-- the dense network of rail, canal, and road transportation that facilitated movement of goods and people around Manchester;

-- local availability of coal, as steam replaced water power. This let industry remain near Manchester, with slight migration northward toward coalfields;

-- interdependence of spinning, weaving, and chemical treatment of yarn and cloth (bleaching, especially);

-- need for ore imports (limestone and salt by canal, pyrites by ocean);

-- growth of allied chemical industry at head of Mersey River; need of cotton industry for proximity to chemical industry;

-- differentiation of products, and specialization of mills and subcenters in different kinds of cloth;

-- economies from clustering of textile industry and its appanages in one region.

(Source: Atwood, Rollin S., 1928. "Localization of the Cotton Industry in Lancashire, England." Economic Geography IV (2), April:187-95)

Similar analyses have been published explaining the clustering of the steel industry around the "Mon" (Monongahela) Valley; electronics in Silicon Valley (Palo Alto to San Jose); cinema around Hollywood ("a state of mind between Burbank and Century City); finance in Manhattan; vehicles around Detroit; aircraft in Seattle; etc.

More generally, though, big cities are diversified, so as one industry tanks, others take its place. The steep rent gradients out from the prime locations reflect general advantages for many kinds of businesses and residences, with retailing usually commanding the highest rents.

Thus, Ricardo's Law of Rent applies to all kinds of land uses, not just farming.

Recommended study questions to prepare for Midterm, Economics 1, 15 February, 2002

These question numbers are taken from your Lecture Notes for Economics 1.

There is no guarantee that any of these specific questions will be on the midterm, although some of them MAY be. Some are here simply because their form lends itself better to a written question and answer than the other study questions. Note, however, that I might modify the form of some other study questions and make them easier to handle - if you know the subject.

PAGE	QN. NOS.
11	4, 5
12	10
25	2, 5
26	6, 7
33	1, 3, 6, 7, 9
38	1-5, 7-9
44	3, 5, 8, 9
51	1, 2, 5
56	1-5
61	2, 5, 7, 9
72	1, 2, 8

Notes:

-- The Final Exam is on **Thursday**, 21 March - not Wednesday, as previously announced in error. My thanks to the sharp-eyed student who flagged this error.

-- We have now studied enough "worldly philosophers" so you can volunteer to tell the class why you agree or disagree with any one of your choice. For this you will earn **extra credit** (gauged according to quality, not mechanically). We can afford class time for 8 - no more. So, to qualify for this credit, you need to be early under the wire. Notify me on paper, giving your name and the subject's name.

Don't worry that two people may choose the same subject. You can comment on each other (as supportively or critically as you please).

You may, if you prefer, select an economic issue, rather than a person. E.g., you could say why you agree or disagree with the views of 3-6 persons on the role of government in economic life, or on interest rates, etc.

Please mention how the ideas of these "dead old white men" bear on current hot issues.

HOW TO WRITE BETTER EXAMS

Mason Gaffney, February 2002

1. Read the question.

2. Prepare to answer the question. What is its main point? Suppress the urge to answer a question not asked to which you have a better answer. That will be marked NR (Non-Responsive) or RAWQ (Right Answer to Wrong Question).

3. Think: what are your main points?
This is the time to delete any mere truisms or platitudes or posturings: this is not to be a political speech, and your time is too scarce to write vacuities you'll need to cross out later.

4. Outline your answer; then use main points as headings, or topic sentences.

5. Think some more: what have you omitted? The most common error in blue books is being "Too Stingy!" (TS), and leaving the exam early. I am NOT inviting you to pad, or sling the bull, but to add SUBSTANCE to your answer.

6. Insert illustrations and elaborations, if any, where they fit. Subordinate them to main headings. Be sure, before spending time on them, that they really DO fit, i.e. they support or illustrate your main point.

7. Finally, write.
Remember the sequence: Read, Prepare, Think, Outline, Think some more, Illustrate, Write. That's RPTOTIW.

8. Write effectively:

a. Write complete sentences, including at least subject and verb.[1] Transitive verbs require objects.
b. Keep sentences short and simple. Split up long ones.
c. Use active verbs: passive verbs are weak.
d. Minimize adjectives and adverbs. Nouns and verbs tell the story; modifiers distract and divert.
e. Begin each paragraph with a topic sentence, mostly taken from your outline.
f. Keep paragraphs short and simple. Split up long ones. Organize, every step of the way.
g. Leave space. Uncrowded paper is easier to read, and lets you insert afterthoughts. Paper is cheap; confusion is dear.

9. Review your work, then clarify. Look for where a reader would say "Specify!" "So What?" "Where's the Meat?" "Vague." "Wires crossed." "Rambling." "Syntax Error." Use the space you have left to insert afterthoughts. Delete any garbage or padding, it lowers your grade.

10. Wrap it up. Restate your main point(s), preferably in one sentence.

Wrap up this page yourself by shutting your eyes and recalling the main points. Forgot most of it, didn't you? (I might, too, in your place.) Try points 8, a-g. Memorize that much first, the rest will come soon enough.

---

[1]Sentences herein are mostly in imperative mood, omitting subject, but containing an implied subject (you).

Marx

1. 19th Cent., Age of Revolution to democracy.
In Eur., called for violence.
1848 revolts; Les Mis
Leaders exiled. Marx to Eng.

2.

Fri., 25 Jan 02

Mercantilists.

1. Economics of nationalism.
   Supplanted Aquinas (Thomism)
   Reformation fractured unity of Christian Europe; added to unity of nations.
   Leading commercial states were Protestant: Netherlands, England, Switzerland.
   Protestants divided: Calvinists, Lutherans, Anglicans, Puritans
   Were also strong Cath. nations. Spain, France, Austria, Poland
2. Name to remember: Colbert
3. Machiavellian - grab for the state. Predatory
4. City dominated the contado
   (later, metrop. dominates colonies).
5. Dynamic, in flux. 3 kinds of flux.
   a. Shifting boundaries
   b. " commercial dominance
      Antwerp, 16th
      Amsterdam. 17th
      London, 18th
      (Venice, 15th; Bruges, 15th)
      (Banks: Florence, Augsburg)
   c. Personal mobility: "from states to contract"

Stretch Time

6. ~~Project~~ Elements of Mercantilism
   a. ~~Rigging terms of trade~~ Control int'l. trade

all ~~to~~ deals are win-lose, or "zero-sum"

3

b. Forms of ~~[illegible]~~ control

i. Big terms of trade (TOTs)

ii. Colonialism

Use of Quislings

iii. ~~Bullionism~~ Export balance

Essence, missing from the name, bullionism, is export balance, followed by acquisition of assets.

c. Modified individualism - alliance of big money with the state.

d. Military naval power

Called for good tax system: & banking.

(Wars fought on borrowed money. Get there "first cent w/ the mostest." Banks' major borrowers have always been govts.)

e. Bullionism & inflation.

f. Privatizn: unequal distribn; low wage rates.

g. Selective emigration

Mon., Jan 28, 02

Physiocrats

1. Enlightenment; Age of Reason.
   " = apply findings of reason to real life
2. Democracy? No, Benevolent Despotism.
3. Catholic? Yes, but liberal Cath. Their outlook was more Deist, like Jeff. et al. – who were very popular at French court.
   Call them "tolerant." Huguenots returned from exile. Banished Jesuits. (Even Spain became tolerant at this time, under Carlos Tres.
4. Imported some Chinese ideas.
5. Influence peaked in 1776. Got ahead of their interference, got sacked.
6. Their causes:
   a. vs. grain tax-farming (fate of Lavoisier, a tax-farmer.)
   b. Laissez-faire
   c. Naturalism
   d. End "indirect" taxes. labor taxes; excess burden
   e. Shift to direct taxes. no excess burden. "Co-proprietorship."
   f. Favor mobile K, hi turnover – Calvinist commercial attitude
7. Influence abroad
   a. Smith; Godwin; Ricardo; Mill
   Austria: Jos. II
   U.S.: Jeff., Adams, Monroe, Madison, Paine, Franklin
   Lafayette, Ballatin, DuPont

8. Quesnay & natural sci,
   Circ., & metabolism

9. Mirabeau & naturalism

10. DuPont, chem., & business – where he thrived by turnover, e.g. at GM.

11. Turgot, administrator. 1774-76, Min. of Finance

12. Major Fr, problems to solve.
   a. No taxes on nobles & clergy. 1st & 2nd Estates. 3rd Est. paid taxes; on Labor, Exchange, Cons, & K accum (if visible to tax farmers). Corvée. Gabelle. Domaine. Octrois. Taille.
   (In Spain, alcabala, cientos.)
   b. Dirigisme
   c. Price ceiling on food (cf. JFK on oil, gm &
   cf. Corn Laws.) Hard to repeal – like Nigerian price cap on
   d. No nat. mkt. oil.
   e. Tax farming.

13. Composing Left & Right positions

~~6L3~~

Owen

1. Top down
2. Nurture > nature (genes)
3. Unions
4. Utopian colonies
5. Coops

Review

Historical Settings

Tradition. authority. Market

Land. labor, K

Rent, wages, interest

Nationalism, imperialism

Privatization, enclosures – at home, + abroad

Rationalism, idea of progress

Speculation

Need for investment banking – loss of church power & authority

Mercantilists (Colbert)

Nationalism

Gains of trade are one-sided

Big trade:

a. Terms of trade

b. Control colonies,

- To provide raw materials
- Use local landowners as occupying force

c. Import gold

Merchants control state (Enron complex.)

Military (Iraq policy)

Import gold

Class war at home

Selective emigration

Physics.

4, p. 14
5, "
2, p. 16
6, p. 22

Smith

2, p. 28
3-9, p. 28-29
2-5, p 31-32

Malthus

1-5, p. 38
7-9, p. 38

Ricardo

8, p. 42
9, "

Utopians

~~p. 50. 2~~,
p. 52-~~54~~, 1-6

Mill

~~1~~ p 55, 2, 4-8

Marx

p. 59, 3-9

George

p. 67, 2

J B Clark

Watershed: from classical to neo-classical

Classical theories had radical implications. Ruling class cd. tolerate them bcs. they soft-pedaled, or pulled their punches.

Gt. depression, 1873-79, spawned radical political movements Coupled with abolition mindset, + reaction vs. stealing of public domain. Ruling class feared losing their moral authority.

Turned to academic ecsts, to defend status quo.

1. No more concern w. distribn. of wealth + inc.
   - factoral distribn. out
   - concn. out. Myth of equality.
   - efficiency the only concerned
     Meaning perfect allocation
   - redistrib. won't work
   - corpus. haven't changed anything
2. No more "unearned inc." No source of wealth but saving.
   help. bcs. you can't cf. persons
3. Fuse land + K
   a. Static analysis
      Fixed amt of K. Immobile K.
      K lasts forever
      Turnover is "glitchless"
      Coexistence
      Equilibrium
      No laws of motion

b. Demand-side valuation

c. K & land are mutually convertible

Cf. 1986 tax reform.

d. Land has little value. "Trivializing"

1. Land means farmland

2. Farming no longer important

e. Land is man-made. This can go on forever

f. Similarity to Marx.

"2-factor ecs."

4. Universalizing rent

All incomes unearned.

But esp. labor inc.

Basketball players.

5. Hard choices – no reconciliations

6. Flopped in great depression

7. °

0.

- Three ways to organize society: authority, tradition, market
- Inputs: Land, Labor, Capital, via Technology, produce Output
- Returns: Rent, Wage, Interest, respectively.

1. Adam Smith

- Backgrounds: Enclosure Movement, etc.
- **Free Market**—*Laissez Faire*
- Free Domestic and Int'l Trade, mutually beneficial
- "**Invisible Hand**"—Market Mechanism (Price)—"Thermostat"
- Optimistic: Law of Accumulation and Law of Population

2. Malthus

- Fixed Land, Arithmetic Growth of Food, Geometric Growth of Population
- For poor, sex or starvation; for rich, no charity
- In the end, Tragedy: war, famine, disease, etc. Pessimistic
- Facts opposite to his predictions

3. Ricardo

- **Law of Rent**!!! (Graph)
- TP, MP, AP (Graph)
- Diminishing Returns
- Margin of Cultivation
- Classes, "The interest of landowners is always opposed to the interest of every other class in the community."
- Q3 (Part Two); Q7 on P44

4. Mercantilism—Nationalism—Ad hoc

- Predatory Attitude
- Dynamic and Flexible compared with Feudalism
- Elements of Mercantilism:

5. Phsyiocrat

- Some backgrounds in France
- Stand on Free Trade—*Laissez Faire*
- Pro-Natalism
- Against Exercise Tax and Indirect Tax; for Direct Tax on Net Product of Land
- Role of Capital
- Left? Right? Both
- Influence and Revival
- Some Influential Physiocrats:
  Quesnay (Downplay of Commerce and Industry)
  Turgot and Du Pont (×)

Example: Sales Tax (Indirect Tax) v.s. Income Tax (Direct Tax)

Suppose a society consisting of two agents, one consumer and one government. There are only two commodities: bread (x) and apple (y). The consumer is endowed with a fixed wealth \$10.00 (w) and the prices (p_x, p_y) for bread and apple are both \$1.00 per unit. For given consumption level of x and y, the level of satisfaction (in economics, it has a fancy name "utility"), is given by $u = x \times y$. Suppose the government wants to collect a tax revenue (T) of \$2.50 from the consumer. He or she has two choices: income tax or sales tax. We can compare the effects on u.

Note that before tax, the consumer will try to maximize his or her u (max $u = x \times y$) subject to his or her budget constraint ($p_x \times x + p_y \times y \le w = 10$). This is a trivial maximization problem (if you are a math major, do it!) and the optimal choice of x and y is x*=5, y*=5. And the maximized u=25.

If an income tax is imposed, then the new budget constraint for the consumer is $p_x \times x + p_y \times y \le w = 7.5$. If so, then the optimal choice of x and y is x*=3.75, y*=3.75, and the maximized u=14.0625. Tax revenue is \$2.5.

If a 100% sales tax is imposed, say, on apple only, then the new budget constraint for the consumer is $p_x \times x + 2p_y \times y \le w = 10$. If so, then the optimal choice of x and y is x*=5, y*=2.5, and the maximized u=12.5. Tax revenue is \$1×2.5=\$2.5.

The same amount of tax revenue under two schemes, but income tax will deliver a level of satisfaction equal to 14.0625, whereas sales tax will deliver a level of satisfaction equal to 12.5. A loss of 14.0625-12.5=1.5625 (In economics, again, a fancy name "deadweight loss", is reserved for this loss)!

That's why the physiocrats favored direct tax against indirect tax! What a shame on Governor Davis, who raised sales tax beginning January 1st, 2002!

6.1. Robert Owen— " Benevolent Mr. Owen of New Lanark"

- Against Raw Capitalism
- Reform Idea: Village of Cooperation (Never Realized)
- Reform from Top to Down (cf: Marx)
- Nurture is more important then Nature (Eugenics)
  "Man is the Creature of Circumstances," and may be improved by nurture, education, association, character training, etc.
- Labor Unions
- Utopian Colonies / Settlements in US
- Cooperatives (Consumer and Producer)

6.2. Saint-Simon

- Man should work (hence against Rentier)
- Rewards to Contributions

6.3. Charles Fourier—Eccentric

- "Phalanxes: Phalanst è res"
  (Grand Hotel Arrangement: Communal Living Arrangement)

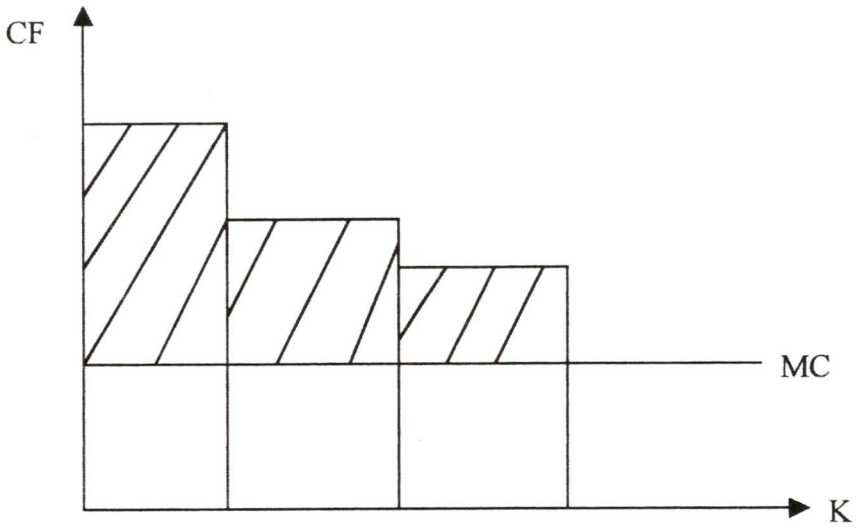
7. John Stuart Mill

- Labor or Capital Paid at Marginal Rate, not Average Rate
- "**Scarcity Breeds Substitution**" —Factor Substitution
  Cf: Thermostat Mechanism:
  Adam Smith: Output
  Malthus: Labor (Wage Rate)
  Mill: Factor
- Land Tax on *Increments* of Rent and Progressive Tax on Inheritance
- Separation of Distribution and Production

8. Karl Marx (and Friedrich Engels)

- Dialectical Materialism
  "Dialectical" : Struggle and Synthesis
  "Materialism" :Economic Foundations *Determine* "Superstructure"
  "Deterministic" : nearly
- Labor Theory of Value and "Surplus Value"
  Cf: Ricardo (Land, Labor, and Capital)
- Contradiction of Capitalism
  i. Interdependency of Production versus Private Property
  ii. Factory Organization➔ Gravediggers
  iii. Under-Consumption
- Predictions
  Falling Profit; Advances in Technology; Crises; Breakdown of Capitalism

Example: *Labor or Capital Paid at Marginal Rate, not Average Rate*



The shaded area goes in terms of rent. Consider K as office building. CF is "Cash Flow", which is equal to gross return minus labor cost. MC is "Marginal Cost", similar concept to "Marginal Product" in Ricardo.

Thought: Land Tax on *Increments* of Rent and Progressive Tax on Inheritance

This policy can achieve redistribution effects while not so radical. It maintains the status quo but redistributes future wealth. No wonder Mill was so popular, though his policies were against the ruling class' s overall interests!

SKELETAL OUTLINE, FIRST WEEK, ECON 1

This is for temporary use, pending availability of complete lecture notes.

INTRODUCTION
Historical Setting of The Worldly Philosophers

1. Three ways of organizing society: Tradition, Authority, The Market
2. Three factors of production: Land, Labor, Capital
3. Triumph of Nationalism and Imperialism
4. The Enclosure Movement (Privatization)
5. Rationalism and the Idea of Progress: a new attitude
6. Speculation, good and bad
7. Need for understanding the new order

Adam Smith I (pp. 42-59)

1. Desperate poverty and exploitation of landless proletariat
2. Quesnay, Smith, and the search for understanding social relations as a System – a Living System, like anatomy
3. Laissez-faire
4. The Invisible Hand
5. The Division of Labor (Specialization)
6. Mutuality of Gains from Trade
7. Wealth of Nations - meaning the **whole** nation
8. Does Smith apply today?
9. Perversions of Adam Smith peddled in his name.

Adam Smith II (pp. 59-74)

1. Ugliness of life for "the unprofitable poor"
2. "Laws of Motion" of a free economy: upwards to Valhalla
3. "Law of Accumulation": Capital formation and its benefits
4. The equilibrating "Law of Population": Higher wages lead to higher population
5. The equilibrating "Law of Accumulation": Abundance of capital drives down interest rates

6, Immediate uses (misuses) of Smith at the hands of others: used to talk down labor organizations, public education

Gloomy Presentiments of Robert Malthus

1. Before Malthus, Prevailing Sentiment of Pro-Natalism. It had three legs: Militarism, Godwinian Perfectionism, Smithian Optimism.
2. Malthus' Spectral Model: Exponential growth of population; arithmetic growth of food production; fixed land; limited ability to substitute labor or capital for land.
3. Malthus gave ammunition to misanthropes, and has been doing so every since.
4. Ricardo noted how the Malthusian Effect divides society into classes: landlords who have, proletarians who have not. (A third class, capitalists, stand in between.)
5. Malthus' over-emphasis on food and farmland, overlooking fixity of other natural resources. Fallacy of identifying "landlord class" with farmers.

6. Malthus' on poverty: it is inevitable, there is no way out save death and non-reproduction..
7, Advice to poor: choose between food or sex. Advice to rich: avoid private charity and public welfare.
8, Malthus' influence magnified by Darwin, Galton et al.; revived by modern ecologists, environmentalists, conservationists, and eugenicists. (Hitler + eugenics)
9. Is India an example of "overpopulation" causing poverty? Heilbroner says yes; Gaffney says no. So does Sen. 10
10. Fall of birthrate after Malthus; ~~Eight~~ causes given.
11. Advances in land-saving, labor-using capital and technology in farming and other industries belie Malthus' forecast. Productive power of enhanced specialization: Adam Smith verified? Stay tuned!
12, Malthus' other pessimism: Over-production. His ability to hold two contradictory views at the same time, both fatalistic, but each refuting the other.
13, Tricky later dismissal of Malthus by "Neo-classical" economists, from ca. 1880, who meld land with capital, and try to make it reproducible. Reaction of environmentalists against neo-classical economics.
14. Enduring truth in Malthus: fixity of natural resources, need to husband them carefully. Enduring issue: is resource scarcity natural, or artificial?

2

Geoffrey

SOME REASONS WHY BIRTH RATES HAVE FALLEN SINCE MALTHUS' TIME

A, Urbanization - it lowers b.r. everywhere.
B, Delayed marriage - the Irish and French practice. Now ours.
C, Laws against child labor. $1,000,000 per child. To age 18
D,. Need for extended education.
E, Need for thrift - a French attitude, brought on by very high land prices, also observed today in Japan.
F, Periods of depression. Example of U.S. during the 1930s. Forecasts of falling pop.
G, Advances in technology of contraception. 1967
H, Decline of sexism, coupled with rising need for women to work outside the home, to make ends meet. Case of + feedback?
I,. Changes in religious attitudes - in practice, if not in official teachings.
J, Higher incomes - history seems to show that Malthus had it backwards, and higher incomes actually tend to lower birthrates. E.g. of U.S., 1850 - 1900. Que. vs. Anglo-Canada

SOME REASONS FOR RISE OF FOOD SUPPLY PER CAPITA, SINCE MALTHUS

a. Expansion onto "new" lands, worldwide.
b. Replacement of animal traction by machines. (Draft animals used to occupy or eat the produce of 1/3 of all land in farms.)
c. Substitution of higher-yielding crops for lower, e.g.
vines and tree-fruits for grain and grass.
d. Advances in genetics, bio-chemistry, agronomy, etc.
e. Advances in fertilization, pest control.
f. Synthetic fibers replace some sheep and cotton.
g. Growth of world trade, with higher specialization,
fitting crops to more appropriate soils and climates.
h. Advances in irrigation technique, doing more with less water.
i. Subsidies to farming, a worldwide phenomenon.
j. Advances in storage and transportation and distribution of food crops. Abating losses and wastes is the same as producing more food.
K, Advances in knowledge of nutrition: better health with less food.
L, Exemption of food from most sales taxes.
M, Use of farming as an income tax shelter.

Ely

1. In politics & philosophy, did a 180.
Began as a union man; ended flacking for r.r. grantees, SP
2. Ed. in Gy.. Whole profn. was ~ Gm models e.g.
a. Purpose of edn. was training for civil service
– highly mercantilist
b. U.S. policy was highly protectionist.
Eng. ecsts favored free trade. Gy fit better
c.

3. Founded & controlled AEA.
It still gives awards named for him.

4. Angel was Hewitt – who engineered vote fraud of 1880(?) Hewitt also patronized JB Clark.

5. 1894, Ely recanted

6. WWI, Gm. training went out of style

7. Revived Land as a topic – but see p. 92 (Became the Howard Jarvis of his day)

$$\text{Use Value} = \frac{a}{i}\left(1 - I^{-35}\right) = \frac{10}{.1}\left(1 - \tfrac{1}{32}\right) = 100(.97) = \$97$$

$$\text{Resale Value} = R\,I^{-35} = \frac{32{,}000}{32} = \$1{,}000$$

$a = \$10$

$i = .10$

$I^{35} = 32$

$R_{35} = \$32{,}990$

But: a_{35} must be $3200

also, if i

Ely on "Ripening" of land: some basic math

a = annual rent

i = interest rate

$I = (1+i)$

n = number of years

R_n = Resale value after n years

Use Value $= \frac{a}{i}(1 - I^{-n})$ (Discounted Cash Flow, or DCF)

Resale Value, Discounted, $= R_n I^{-n}$

Example:

$a = \$10$

$i = .10$

$I = 1.10$

$n = 35$

$I^n = 32$ (approximately)

$R_{35} = \$32{,}000$

Use Value $= \frac{\$10}{.10}\left(1 - \frac{1}{32}\right) = \$100 \times \left(\frac{31}{32}\right) \cong \$97$

Resale Value, Discounted $= \frac{\$32{,}000}{32} = \$1000$

Mean annual increment in value $= \frac{\$32{,}000 - (\$1{,}000 + \$97)}{35}$

$= \frac{\$30{,}903}{35} \cong \$854.$

$\$854 = 85.4 \times \$10$

Ely on "Ripening" of land: some basic math

a = annual rent

i = interest rate

$I = (1+i)$

n = number of years

R_n = Resale value after n years

Use Value $= \frac{a}{i}(1 - I^{-n})$ (Discounted Cash Flow, or DCF)

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Resale Value, Discounted $= \frac{\$32{,}000}{32} = \$1000$

Mean annual increment in value $= \frac{\$32{,}000 - (\$1{,}000 + \$97)}{35}$

$= \frac{\$30{,}903}{35} \cong \$854.$

$\$854 = 85.4 \times \$10$

Ec. 1 Wed. 27 Feb.

Ely. 1. Review math

2. 2 kinds of socialism

3. Beware socialism as a scarewood

4. Questions, p. 93, come from rdg. on reserve.

Hobson

1. Imperialism - European

2. Underconsumptionism

3. " investment - falling rate of profit

Due to undercons. - but solved by acquiring new lands.

A blend of classical ecs. with underconsumption + Marx - a bit confused, never got his act together, but had something for everyone. Antic. Keynes, who made these views respectable - & who proposed solutions

4. Rhodes

5. Weaknesses

6. ~~8~~. Revived Marx.

7. ~~9~~. Colonies - benefits to a few, costs to many.

8. ~~10~~. Policy of provision; vertical integ.

9. ~~11~~. MNCs - a new world govt?

10. ~~12~~. ~~Factories of~~ hothouse dev. vs. indigenous.

11. Keywords: pp. 97-99

Ely on "Ripening" of land: some basic math

a = annual rent

i = interest rate

$I = (1+i)$

n = number of years

R_n = Resale value after n years

Use Value $= \frac{a}{i}(1 - I^{-n})$ (Discounted Cash Flow, or DCF)

Resale Value, Discounted, $= R_n I^{-n}$

Example:

$a = \$10$

$i = .10$

$I = 1.10$

$n = 35$

$I^n = 32$ (approximately)

$R_{35} = \$32{,}000$

Use Value $= \frac{\$10}{.10}\left(1 - \frac{1}{32}\right) = \$100 \times \left(\frac{31}{32}\right) \cong \$97$

Resale Value, Discounted $= \frac{\$32{,}000}{32} = \$1000$

Mean annual increment in value $= \frac{\$32{,}000 - (\$1{,}000 + \$97)}{35}$

$= \frac{\$30{,}903}{35} \cong \$854.$

$\$854 = 85.4 \times \$10$

Fri. 1 March 02

Marshall

1. a Centrist
   a. Policy
   b. Wobbly oblique (a medieval revival, softening the hard edges of capitalism). "Passive Conservatism" – i.e. protect existing pvt. prop., but stop creating more.
   b. In value theory

      Some said value based on cost.

      " " " " " demand

      Marshall allowed for both: S & D

   c. In distrib. among factors

      Kept the trinity of land, labor, K, nominally

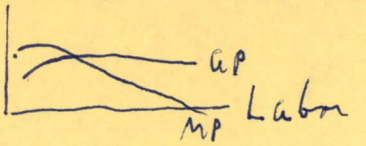
      But changed the ~~independent variable~~ from input to output – thus melding all inputs together. This is subtle and sly, like a good lawyer, craftily changing the subject w/o appearing to..

      So, diminishing returns now looks like Δ of costs

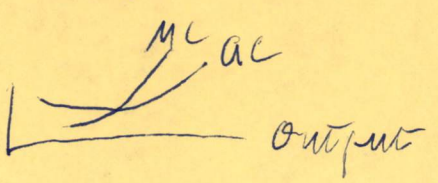
Ave. Returns are $\frac{\text{output}}{\text{input}}$.

Ave. Costs are $\frac{\text{input}}{\text{output}}$

I



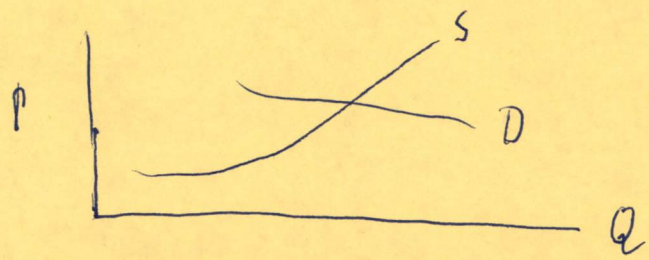
II



In I, factor prices change

In II, you don't know what's fixed: "The Firm"

2. Culminates in S & D



"P" means relative price of products – relative to each other, not to factors of production.

Wed, Mar. 6, 2002

Keynes

~~I. Dynamics~~

1. Classical dynamics – Capital turnover

Quesnay; Smith – who ∴ favored domestic trade over foreign trade.

Ricardo, who feared depletion of subsistence – track system, company stores.

Mill; Jevons; Böhm-Bawerk; Wicksell – even Marx.

2. Jevons' dynamics: exogenous

Ever since, is ok to blame busts on external causes – esp. unpopular foreigners. We blame OPEC; OPEC blames Jewish bankers.

3. NCE ignored cycles.

suppressed Veblen, Hobson, Mac, George

4. Keynes a Brahmin; same time, an outsider, hcs. gay. Hence, could break the mold.

5. Demand side ecs.

a. Marshall's demand is partial

b. Keynes " " aggregate

$C + I \rightarrow Y$

c. I is autonomous – hence, drives the machine

c. Positive feedback, $C \uparrow Y$

e. Say's Law out (Marxists love this!)

f. System not self-regulating

g. b.c. fails to regulate it

6. Revived distrib. as a subject. Raise wages.

7. ~~Dont~~ Also stimulate inv., I

Wed, 23 Jan 02

Ricardo, Concluded

1. 5. Corn laws hurt workers, but also shifted rents from cities to farms. Land itself cd. not move, except trivially.

2. 7. If rent gets more, "every other class" gets less. Emphasis on factoral distrib.

No incentive effects on aggreg. supply. If K gets more, get more saving, importing of K, investing. If land gets more, use land more intensively — but no more land.

3. Q.3 What is Dim. Rets?

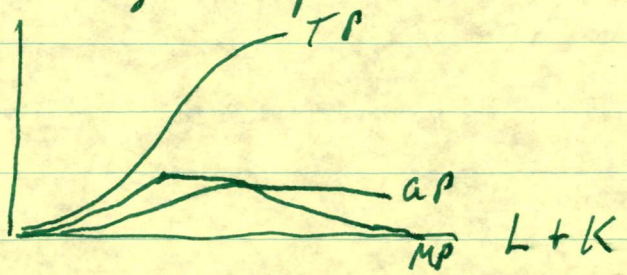
A. Whole nation.

Labor + K forced to worse land, where each unit of L + K adds less to ~~Nat. Product~~. TP of nation.

B. Each piece of land.

Ea. added unit adds less to TP of the firm.

To clarify, note there are 3 different ways of measuring the product in use here



4. Q.8 a. Mobile factors interflow. Differences of returns are competed away.

b. Products of good + bad land sell at same prices.

Fri, HA, Kristin

5. Q.10 Rent = G − E − K(i + d)

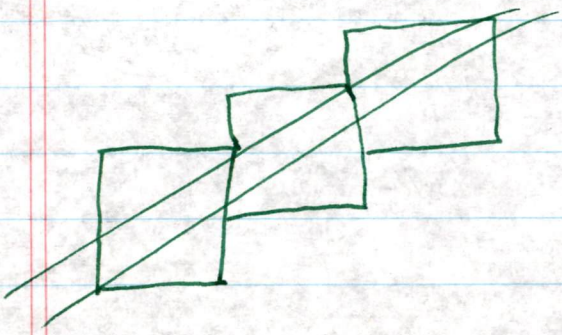
Profit = G − E − K(i + d) + (Equity) × i + (Labor of owner)

Profit is also consolidated from all sources.

Rent is in rem

6. Q.11 Laws of Motion

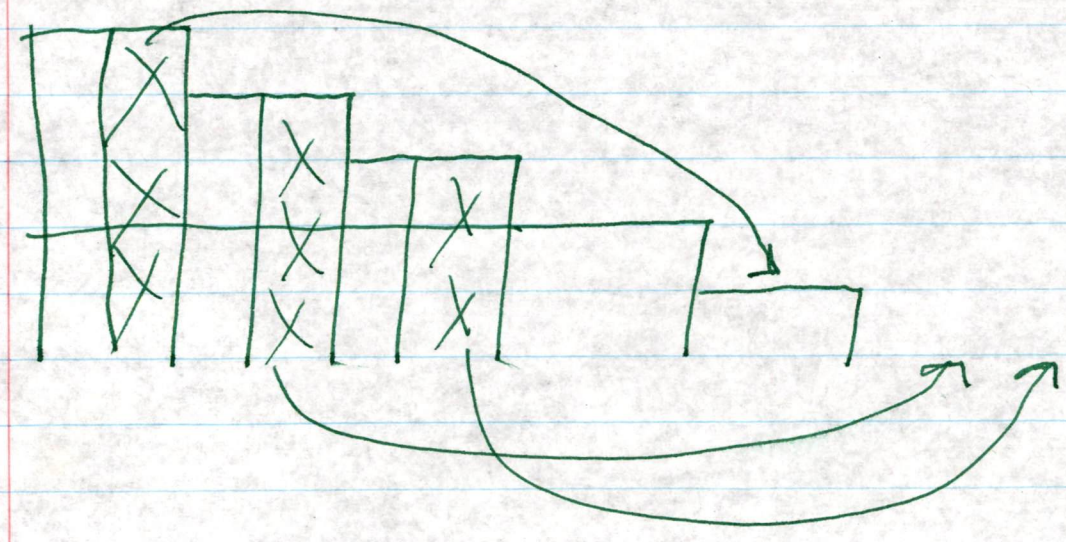
Mixture of Malthus & Adam Smith. More realistic than either.





Gross	5	4	3	2	1
Rent	3	2	1	0	–
Int. & Wage	2	2	2	2	

(Mobile factors)



Adam Smith

1. ~~After~~ Old order passed – church, a place for everyone, personal ties of family, village, + feudal patronage (noblesse oblige).

2. Commercialized land.
∧ Fee simple. Landowners shook off old social obligations. Land became alienable, merchantable – a store of value.
∴, no limit on how much one person cd. accum – became highly concentrated. Scotland today – the clearances.

3. 3 classes
∧ 2 other classes.
Proles, nothing to sell but labor.
Entrepreneurs. Proles turned to them.

4. Same time, Age of Reason. The Enlightenment.
Search for <u>systems</u>.
Newton – one concept to bind all physics
Lavoisier – elemental structure of matter
Linnaeus – classified all life
Humboldt – saw interrelations of life, dynamic

5. Laissez-faire – (Lao-tze to Turgot to Smith)
Self-reg. Mechanism:
Neg. feedback – thermostats

6. Allocation by Invisible Hand

7. Specialization.
   Cities as foci

8. Mutuality of gains
   Win-Win.
   (Overlooked losers)

9. Wealth of <u>whole</u> nation

10. Lasting influence

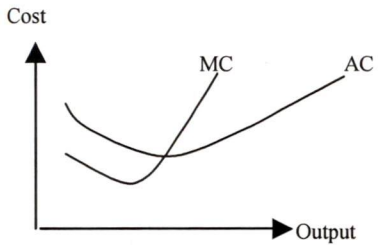
11. Perverted & misquoted

email address: bao_yong@hotmail.com,

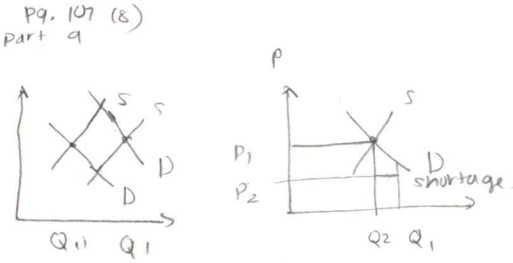
14. Marshall

- Centralist in Policy, in Methodology (Reconcile Cost-side/Supply-side and Demand-side), and in Distribution (Passive Conservatism)
- Cost Analysis
  Total Cost (TC) = Fixed Cost (FC)+ Variable Cost (VC);
  Average Cost (AC) = TC/Output;
  Marginal Cost (MC) = The increment of TC from this additional unit of output.
  Cf: TP, AP, MP in Ricardo

"U" Shaped Cost Curves

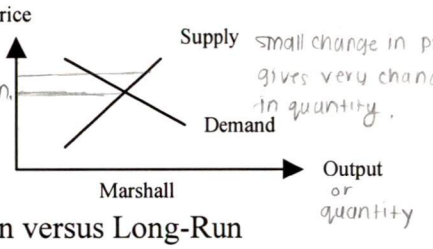


pg. 107 (8) part a

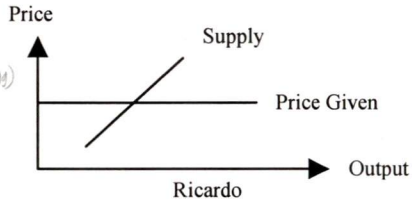


- Analysis is Static. No "Laws of Motion"—Ahistorical
- Supply and Demand

as price increases, supply goes up, demand goes down.

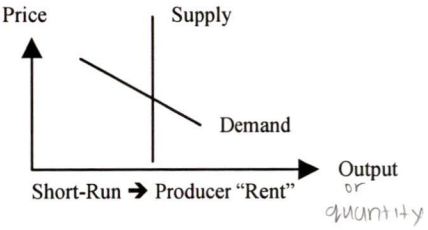


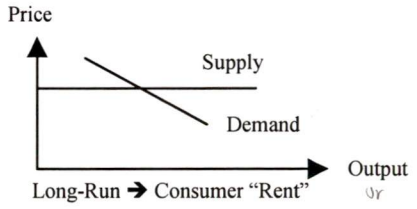
small change in price, gives very change (big) in quantity.



- ~~Sort~~-Run versus Long-Run

In short-run price fixed.





- Incrementalism: "Nature has no leaps"
- Q8, Page 107

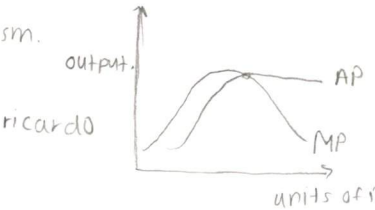
1) in the long-run, every cost is variable cost. Therefore, output is changeable by any quantity.
2) In the long-run, sensitivity of quantity to price is infinity.

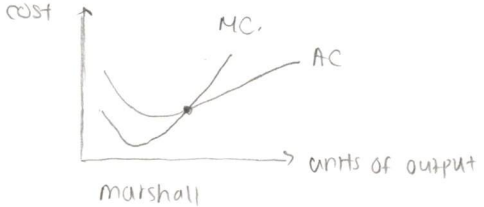
14. Veblen

- Sardonic
- "**Positive Feedback**": Competitive Emulation and Keep-up-with-the-Jones
- Leisure Class and Workman
- On Economics: at best Ornamental and Hidebound; at worst Venal and Hypocritical
- On Corporation
- Law of Motions: Engineers Come to Control; Business Cycles
- On Economic Man: Non-rational!

J. B. Clark

Hobson-impurilism.





15. J. M. Keynes (Too many to list: Focus on your Notes!!!)

Key Words: dynamics, sunspots, animal spirits, aggregate demand, aggregate supply (cf: Marshall's supply and demand), liquidity trap, Say's law, positive feedback, reflation, MROR, AROR, mature economy, "prime the pump", deficit, inflation, etc.

marginal rate of return.

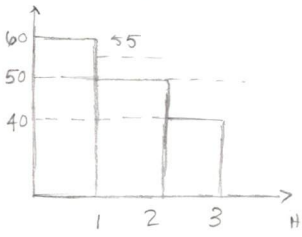
ave. rate of return.

16. Schumpter: Textbook, 288-310

17. Behind the Wordly Philosophers: Textbook, 311-325

Keynes.

MROR.



cash flow

1st: 60

2nd: 110

diminishing marginal return.

multiplier - [pg. 120 part B; 3]
[123 part D; 5]

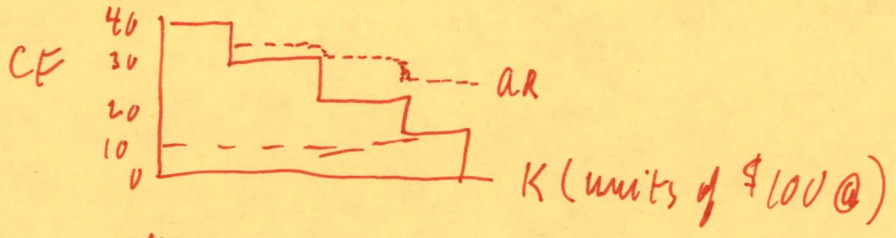
Fri., March 8, '02 ①

Final: Thurs., 21 March, 11:30 AM

Re 3, C, p. 121

① MROR vs. AROR

$CF = GR - E$



$MROR = 10\%$

$AROR = \frac{40 + 30 + 20 + 10}{400} = \frac{100}{400} = 25\%$

AR includes rent.

② 1. Keynes focused on raising MROR

③ 1. This actually may lower rents + land values.

a. By raising i.r. $Rent = CF - K(i + d)$

b. By " cap. rate $LV = \frac{Rent}{i}$

④ 1. I bought a 4 b.r. house, ½ ac. lot, $26 k.

"Mature economy" notion

A. Closing frontier. Malthus revived – no more jobs

B. Falling b.r. – also a source of gloom!

C. No more inv. opps. – Marx + Hobson revived.

D. Fear of goods – brakes put on prodn (e.g. Sinny's gm. re NYC)

E. High tariffs

Keynes' solutions

a. Hi wages – ΔC

b. Foster pvt. investing
- Guarantee pvt. loans
- Lend below mkt., e.g. REA, RFC
- Downtaxing new investing. 1960–86

Note, this means net I_{inc} (income-creating) not Merc turnover.

Today, this basic idea is being lost – "Buy stocks, help America." Only 180's help, & only part of them.

c. Public works – e.g. hiways, water supply.

d. Borrow from banks, stabilize them – also, create new dem and

e. Reconciled K fmrs. & higher C !

Bad side

a. Borrowing from banks, same as printing M
Inflm. Killed FMC, 1980.

b. Voelker rev., killed Carter.

c. Reagan, learned we cd. live w. hi i.r.
Foreign money poured into U.S.
1986, ~~—~~ lost idea of MROR. Pushed most taxes onto labor.
c~~b~~. Fear of "crowding-out". Elected Clinton.
Poured $ into pvt. sector – boom of '90's.

e. Now, however, hi values of land & stocks,
shortage of inc-creating investing

f. Poured K into slow turnover forms – anti-Ricardo