

Ec 1 Old Notes

**THEY CAN SEND YOU
TO SCHOOL —
BUT THEY
CAN'T MAKE YOU THINK**

**REALITY
WASN'T MEANT TO BE
TAKEN SERIOUSLY**



SAVE AMERICA

GET OUT THERE

AND SHOP YOUR BUNS OFF!

Fri., Review

1. Mill

A. Pioneer feminist; Right to Choice (before conception)

B. Society generates a surplus

- More than is needed to make labor work

- " " " " - people save

- " " " " - keep K at home

This surplus is rent - as Ricardo showed.

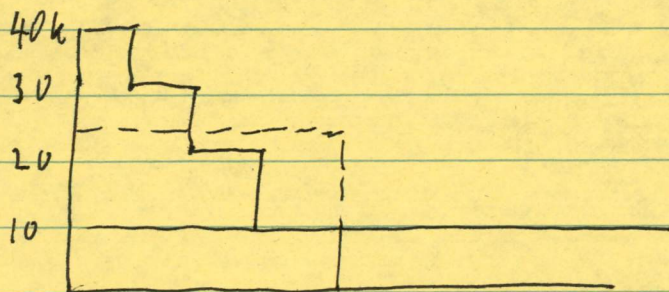
C. To measure it, or grasp what it is, review graph & table about how much K to put into a hldg.

AP = 25,000 per unit of 100,000

MP = 10,000 " " " "

K = 4% ~~of 100,000~~ units @ \$100K

$$\text{rent} = \text{AP} \times [25,000 - 10,000] = \frac{4}{100} \cdot 15,000 = 600$$
$$[= 30k + 20k + 10k + 0]$$



D. Smith + Ricardo ~~also~~ ^{+ Malthus all} wrote about rent, but Mill was the first to ask, what to do about it? He sensed that the poor cd. receive more than their MPs, w/o impairing incentives - TITSTAAFL.

2

Before Mill, to believe in div. rets was to believe
in TANSTAAFL — the iron law of Wages.

E. Ab. social dividend is e.s. of Mill in
action.

F. Min. Wage is NOT Mill.

" " creates a TANSTAAFL Trap.

~~Engages people in sterile~~ Marshal's people into bitter,
endless clashes between opposing legions hacking at
ea. other with crude weapons "on a darkening plain
where ignorant armies clash by night."

Lots of people love that — ^{ex. one} can think w.
his gut, air his ancient prejudices.

What Mill offered was TITSTAAFL. Distribute
the rents.

G. # Also, had a TITSTAAFL solution to
the Dismal Dilemma of Malthus: Scarcity Breeds
Substr. High scarcity of land leads to high rents, but
hi rents lead to using land better. See App. I.

H. Not a Mgal. Socialist.

Favored small business.

2. Marx

A. More dynamic than many others.

1. Boom & bust. Periodic crises, caused by ~~an~~ over-saving, aggravated by unequal distrib.

(Not so simple - had complex explanations for everything. Created a vast acad. indy of Marxist savants who quibble endlessly over the details. & dispute every word you say - but most of us find that quite tiresome & unproductive. It boils down to underconsumptionism.)

2. Secular laws of motion. Historicism.

B. Militantly anti-clerical

(Mill was silent on this: HG was pious; so were his enemies. Gradually, agnosticism has taken over academe.)

^{priests &} Superstitions as rival leaders of thought - supported by the rich, ∴ unable to lead for social justice, even tho their religion called for it.

C. Ideas ~~spring~~ are molded by circumstances, so factory system calls for new ideas, class struggle. (Situation ethics.) = Materialism

D. all prop. inc. is uneven. No need to reward saving - it's a curse, there's too much anyway. "Surplus Value"

- ~~E.~~ E. Labor produces all value. Pay shd = ap.
- F. Growing concn. of K. - present
- G. Violent rev. needed, & will occur, led by prof. revolutionaries, workers, thru unprov.

3. H.G.

Summarized in series of TUSTAFLEs, pp. 67-68.

4. Edgeworth

Reality is just a special case.

5. Hobson

A. O' saving, + dir. vtr to K, leads to imperialism as safety-valve for excess saving.

(An advance on bullionism. They wanted an export balance, ~~defi~~ to pile up gold. Hobson had them pile up assets abroad — protected by armed forces.)

B. What Hobson missed is that Eng. needed the K at home. It wasn't really surplus, or from net new saving, but from CCAs of old indy. Eng. neglected to renew + replace its K.

Money, a major cause.

(Vehem put finger on that.)

Eng. lost the innovative spirit as its major energies + talents went into painting the globe red.

C. Hobson rescued Marxian

6. Marshall

A. A compassionate conservative.

B. Static analysis. Complete reaction to Marx

C. ~~S & D~~ 1. No cycles

2. " kinds of motion.

3. No quantum leaps

C. S & D

D. Incrementalism.

Continuous variations

7. Veblen (Spent money on Medical care, and putting Becky there)
U. of Ch.

A. Cons. sovereignty ~~is~~ involves some + feedback.

B. Anti-muff. Saw corps. as inherently monopolistic

C. Emulation explains why the poor will not waste
vs. the rich.

(But when they lose hope, they did)

D. World shd. see more dignity in labor,
less in predation + leisure.

Relied on engineers to do sth.

E. Anti-clerical, like Marx - unlike H. G.

F. Consumers not like Edgeworth's
calculation machines

G. A good father.

Target of false rumors.

8. Keynes

A. Endogenous causes of crash.

B. Keynesian - revived etc.

C. + feedback.

D. Irrationality of investors

E. Demand-side effects.

F. Δ cons and invt.

G. Δ net new invt. - a message lost
in 1986.

Review, Ec. 1, Wed.

1. Born in agony for some, unearned riches for others.
Later reformers have tried to offset this.

2.

2. Tradition
Authority
Mkt.

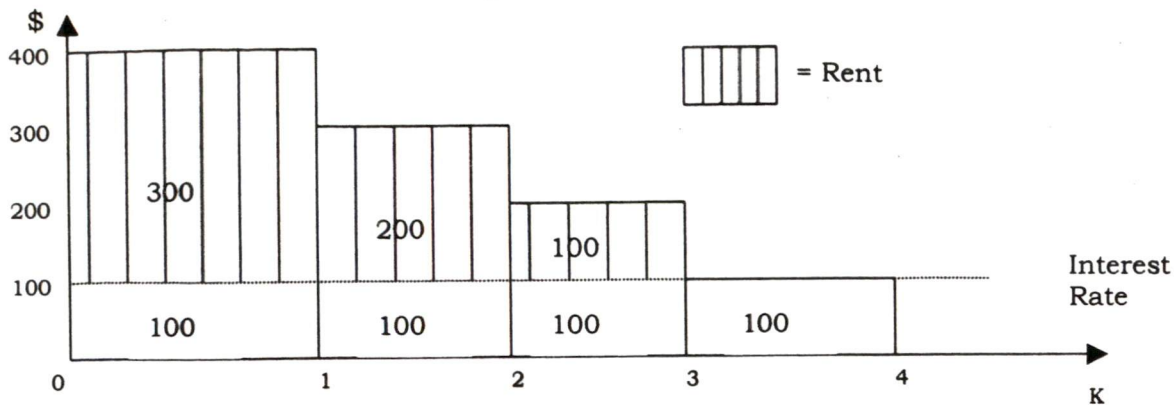
Can combine in diff. ways.
Mgt Socialism
Distr. "

Marc. = Mgt Socialism w/o Distr. Socialism
Colbert; Bismarck; Riv. public wrk. & power

~~Att.~~ Classical Pol. Ecsts = Distr. Soc'n w/o Mgt. Soc'n

Avoid the Tausenapf Trap. Break proposals into their elements. Many of you are wearing blinders, - like political debates.

3. Merc., exemplified by Colbert
Some of you identify them w. free mkt., ~~for~~
bcs. they were greedy.



K (\$000) units of capital	1	2	3	4
Change in Rent	300	200	100	0
Total Rent	300	500	600	600
Average Rent	300	250	200	150
K x Average Rent	300	500	600	600

To follow this example you must understand what we mean by rent:

Rent is the difference between the return you get on your money minus the money you must pay the bank in interest. $\text{Rent} = \text{Return} - \text{Interest}$

For example, suppose that you have a piece of land and borrow money from the bank so you can plant on it. The bank charges you **ten percent** of interest for every dollar you borrow. Following this example, when you borrow the first thousand you earn a 40 percent return on the money, which is \$400. But, you must pay the bank not only their \$1000 loan back but also an extra \$100, in other words ten percent of \$1000, as interest. Therefore you keep **\$300** (\$400 of return - \$100 of interest you have to pay = \$300 you earn of rent). So, the **marginal return**, the **return** you get on the first thousand, minus the interest you pay to the bank for the right to use that money for a year, \$100, **is the rent**.

If you decide to borrow another \$1000 the marginal return you get is lower, 30%, thus your rent will be 20% of \$1000.

For the third thousand your marginal return is 20%, hence your rent will be 10% of \$1000.

When you get to the *last thousand* your marginal return is 10%, which is equal to what you must pay to the bank in interest. That means that you *do not earn any rent*.

Note: The marginal return on your money has been made up for this example.

In order to get the total rent you simply add the change in rents. So, for the first \$1000 your rent is \$300, so the total rent is simply \$300. For the second \$1000 you add the second rent, \$200, plus the first one, \$300, so you have \$500 total rent. And so forth.

To calculate the **average rent** you divide the **total rent** at each level of capital investment (the money that you borrow from the bank) by the number of **units of this capital**.

$$\text{Average Rent} = \text{Total Rent} \div K$$

For example, the average of the second thousand dollars of investment is the total rent, \$500, divided by 2. Remember that 2 means two thousand dollars (2 units of capital). So we get \$250 as the average.

You can calculate the **total rent** in two different ways.

One way is simply by **adding the rents** corresponding to each unit of capital: $\$300 + \$200 + \$100 + \$0 = \$600$.

The other way is by **multiplying the average rent** corresponding to the last unit of capital, for example \$150, times the **units of capital corresponding to that level of investment**, in our example is 4. Therefore, \$150 times 4 is \$600. This is what we did in the last row of the table: we multiply each average corresponding to each unit of capital by the number of units of capital. So, for example, the average rent at 3 units is 200, so the total rent is \$200 times 3 or \$600.

You can see that if the interest that the bank charges you increases then your rent should fall. Hence, **the interest rate and rent are inversely related**.

Practice problem: Using the **same information** (this means that the marginal return for each unit of capital is assumed to be the same as in the original problem) recalculate the rent if interest rate is 15% and if interest rate is 5%. In each case reproduce the table above with the new numbers and do the graph as well.