REVIEW OF MICROECONOMICS

Major Forces of Change

Approximately the year 1500	Approximately the year 2000
GUN POWDER	FISSION
NEW WORLD	ONE WORLD
PRINTING PRESS	COMPUTER
RURAL	URBAN
LABOR SHORTAGE	LABOR SURPLUS

CAPITALISM

ELEMENTS (means) and	FUNCTIONS (ends)
private property	embody self interest
prices	measure self interest
markets	coordinate self interest
competition	regulate self interest
government	facilitates p.p., p., m., & c.

CAPITALISM

ELEMENTS	and	FUNCTIONS
private property		embody self interest subjective made objective
prices		measure self interest voluntary transactions
markets		coordinate self interest information

CAPITALISM

ELEMENTS	and	FUNCTIONS
competition "large" # of buyers and sellers free entry and exit		regulate self interest alternatives
government		facilitates p.p., p., m. & c.
public sector failure no profit motive special interests vote trading clear benefits and hidden costs		define rights property contract torts criminal set transaction costs

PUBLIC SECTOR FAILURE

lack of efficiency motive
- every bureaucracy
- do YOU get a paycheck or a dividend?

special interests
- large benefit for small group (per member),
- small cost for large group (per member)

vote trading (a.k.a. log rolling)
- special interest vote trading

clear benefits and hidden costs
- what of "hidden benefits and clear costs"?

PROFIT = p = TR - TC

TR = P * Q

TC = FC + VC

Tc_e = land + labor + capital + entrepreneurial ability

= rent + wages + interest + normal profit

Normal Profit **= p_n**

= amount necessary to attract AND to keep entrepreneurial ability

subjective reaction to TR - TC_a

Accounting Profit = p_a

= TR - TC_a

= TR - (rent + wages + interest)

= p_a >=< p_n

Economic Profit = TR - TC_e
= $p_a > p_n$

Economic LOSS = TR - TC_e
= $p_a < p_n$

SHUT DOWN RULE

TR < VC
or
TR/Q < VC/Q
or
P < AVC

DESTRUCTIVE COMPETITION

TR persistently less than TC,
but above VC

HISTORY OF CAPITALISM

pre 1500	PRE-CAPITALISM (FEUDALISM)
	self sufficient manor
1500 - 1800	MERCANTILISM
	self sufficient nation
1750 - 1890	FREE CAPITALISM
	self sufficient individual
1860 - 1920	INDUSTRIAL CAPITALISM
	self sufficient firm
1890 - 1930	FINANCIAL CAPITALISM
	self sufficient industry
1915 -	RESPONSIVE CAPITALISM
1930 -	REGULATED CAPITALISM
2000 -	???

HISTORY OF CAPITALISM

pre 1500 PRE-CAPITALISM (FEUDALISM)
- labor tied to land
- no markets
- self sufficient manor

1500 - 1800 MERCANTILISM
- self sufficient nation
- king-granted monopolies
- colonization
  - separation in place and time

1750 - 1890 FREE CAPITALISM
- self sufficient individual
  - (Family?)
  - mythical core of the U.S.
- small MES
  - absolute and relative

1860 - 1920 INDUSTRIAL CAPITALISM
- self sufficient firm
- mass production and mass distribution
  - increasing MES
  - railroads
- erosion of social relationships
  - victims

- technology
- is an intangible asset
- idea plus physical embodiment

1890 - 1930 FINANCIAL CAPITALISM
self sufficient industry
concentration of "ownership"
leveraging

rapidly increasing MES
new technology is
adopted faster than
scheduled depreciation

ATC new < AVC old
versus
ATC new < ATC old

1915 - RESPONSIVE CAPITALISM
social responsibility
AND
profit maximization

person, as well as system,
responsible for cost minimization

private decision maker,
but public impact

incentive to be irresponsible

1930 - REGULATED CAPITALISM
substitution of government
for the individual decision maker

group impact = group decision ?

inefficient regulation

NON-PRICE DETERMINANTS OF SUPPLY

number and size of sellers
    horizontally sum
costs for inputs
prices of related goods
    substitutes (A or B)
    compliments (A and B)
taxes
technology
expectations

NON-PRICE DETERMINANTS OF DEMAND

number and size of buyers
    horizontally sum
income
prices of related goods
    substitutes (A or B)
    compliments (A and B)
tastes

expectations

NON-PRICE DETERMINANTS OF

SUPPLY	DEMAND
number and size of sellers horizontally sum	number and size of buyers horizontally sum
costs for inputs	income
prices of related goods substitutes (A or B) compliments (A and B)	prices of related goods substitutes (A or B) compliments (A and B)
taxes	tastes
technology	
expectations	expectations

Unless the buyer is
WILLING AND ABLE
to pay the purchase price there is no demand
(e.g., poor people have no demand for food).

Unless the seller is
WILLING AND ABLE
to sell at the purchase price there is no supply
(e.g., there is no supply of clean air).