



How some economists think

by
Danny Quah
Economics Department, LSE
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This presentation is **NOT** about oral sex*

* apologies to *The Undercover Economist*

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Where economists begin

- You react to pain and to pleasure
- You can't live beyond your means...
- ... forever

OR

1. People respond to incentives, purposefully
2. Budget constraints matter
3. People take interactions and the future into account

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... towards:

- Behaviour isn't random but instead explicable and predictable
 - The "economics of everything"
- Financial markets, labour markets, information markets, ... markets for all kinds of goods and services
- Game theory
- Economic growth and income distribution

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Our interest is in outcomes

- A famous writer and his fundamental question of economics:
"Why do some places prosper and thrive..."

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Our interest is in outcomes

- A famous writer and his fundamental question of economics:
"Why do some places prosper and thrive...
... while others just suck?"

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Tradeoffs

1. “Do good in the world by doing well for yourself” Adam Smith and markets: Social gain aligned with individual incentive
2. Virtual and illusory
3. Substantive but not what many might think
4. Substantive and hard
5. Substantive and hard... to quantify

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5. Substantive and hard to quantify (1)

- Moral hazard: Greenspan *put*
 - Ex post vs. ex ante: Government bailout to keep financial market turmoil from harming broader economy
 - Allowing innovation vs. curbing excessive risk-taking

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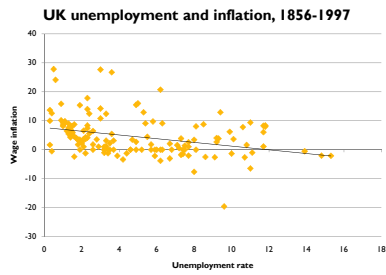
5. Substantive and hard to quantify (2)

- Global warming
 1. Greenhouse gases cause global warming
 2. Global warming has massive deleterious effects on human welfare
 3. Greenhouse gas production strongly correlated with economic growth
 4. All else equal, economic growth is good

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2. Virtual and illusory

- The Phillips curve

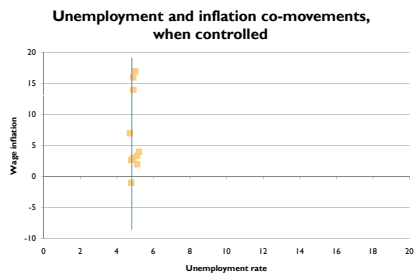


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10

2. Virtual and illusory

- The Phillips curve



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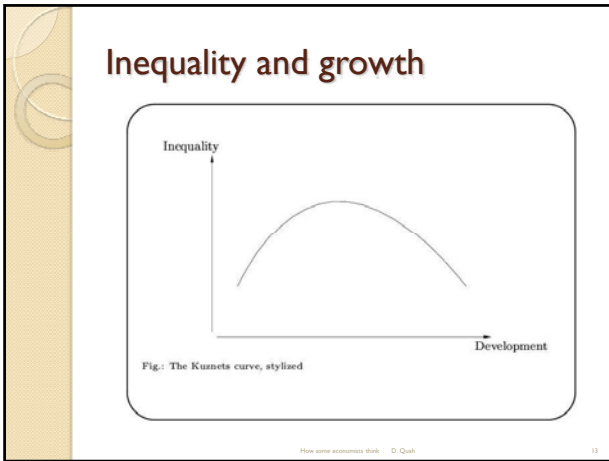
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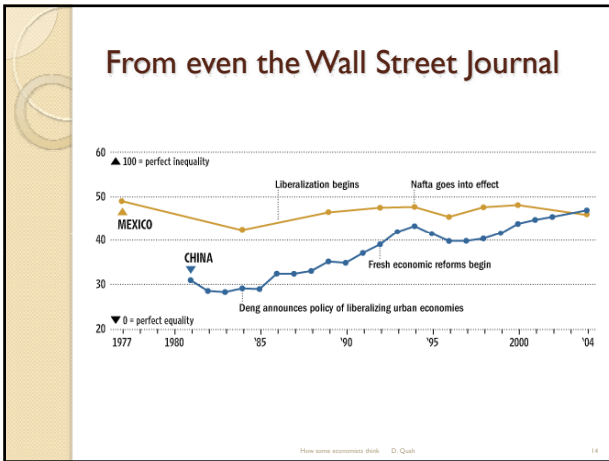
3. Substantive but not what many might think

- Inequality and growth
 - Kuznets curve

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12



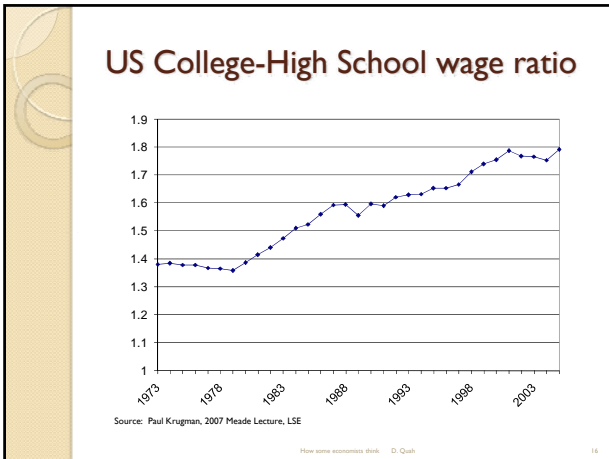


Annual earnings of US men, aged 35-44, in \$2005

	1973	2005
Median	45785	40964
Mean	49705	54525

Source: Paul Krugman, 2007 Meade Lecture, LSE

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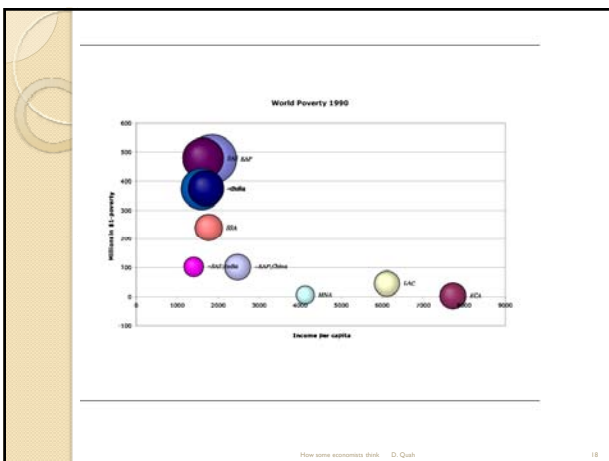


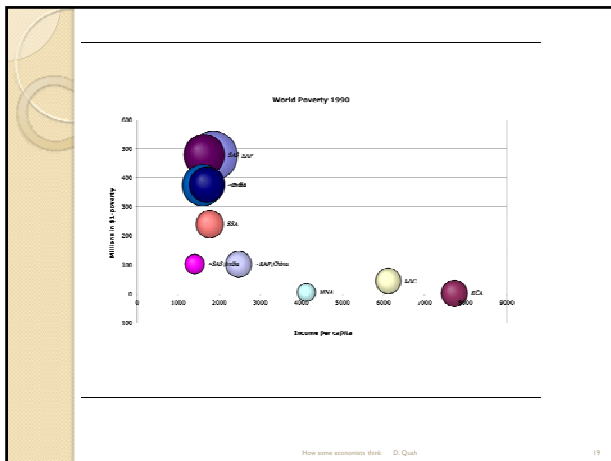
World Poverty

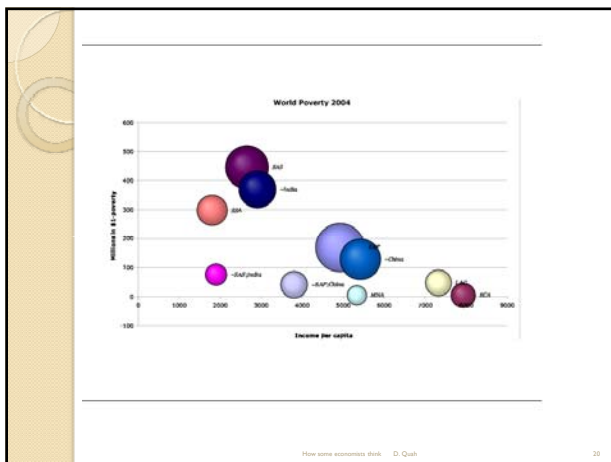
	1981	1990	1999	2004
World GDP 10¹² PPP\$	24	33	43	52
GDP per capita PPP\$	5408	6292	7231	8198
World's poor 10⁶	1470	1247	1109	969
China's poor 10⁶	634	374	223	128
Remainder 10⁶	836	873	886	841

- PPP\$ means constant International Dollars corrected for inflation and Purchasing Power Parity
- Poor means living on less than PPP\$1/day

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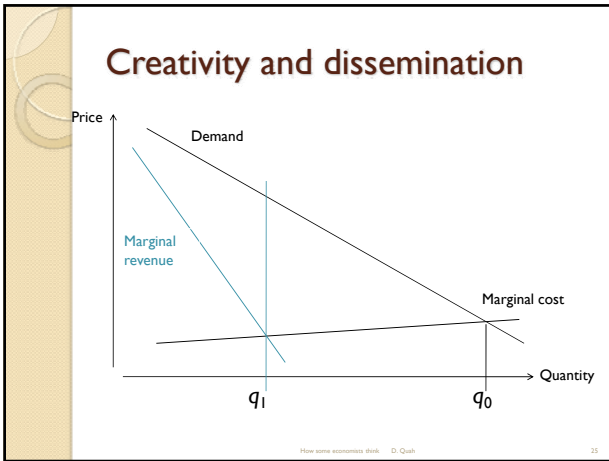




4. Substantive and hard


- Intellectual property rights
 - Efficiency versus incentive
 - Nonrival goods
 - Identity and group consumption
 - Unlike property rights for all other goods and services

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- ### International IPRs
- India 04/1972-05/2003 pharma process patents only
 - World's largest producer by volume, one of the world's largest for bulk drugs. Major exporter
 - Quinolone molecules for bacterial infection
 - Welfare loss US\$715mn a year (120% of total sales) versus domestic producer profits gain US\$50mn a year, multinationals US\$57mn
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- ### Conclusions and emergent issues
- Tradeoffs
 - Modeling
 - Behavioral
 - Constraints
 - Heroism
 - Numbers
 - Political economy
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