

Markets and Measurement II

MPA 612: Public Management Economics
January 10, 2018

Fill out your reading report on Learning Suite!



Plan for today

Capitalism revisited

Importance of institutions

Measuring outputs

Current events

Course policies

Class conduct and expectations

On the first day of class, we will come up with a set of rules, expectations, and policies for the following things:

Late work

Class participation

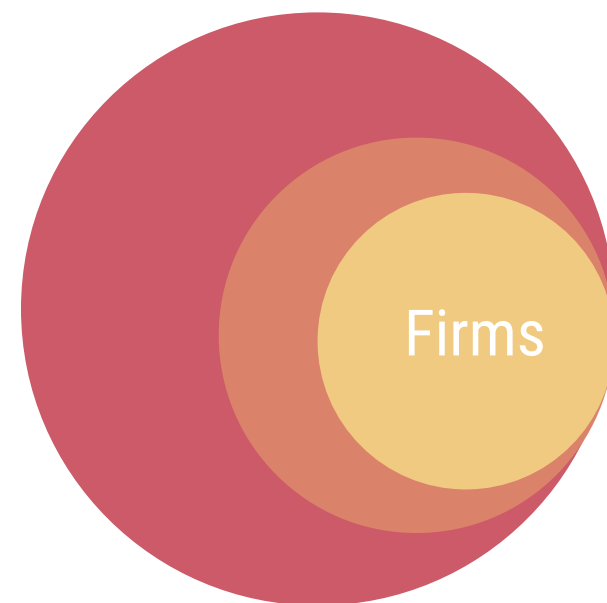
Attendance

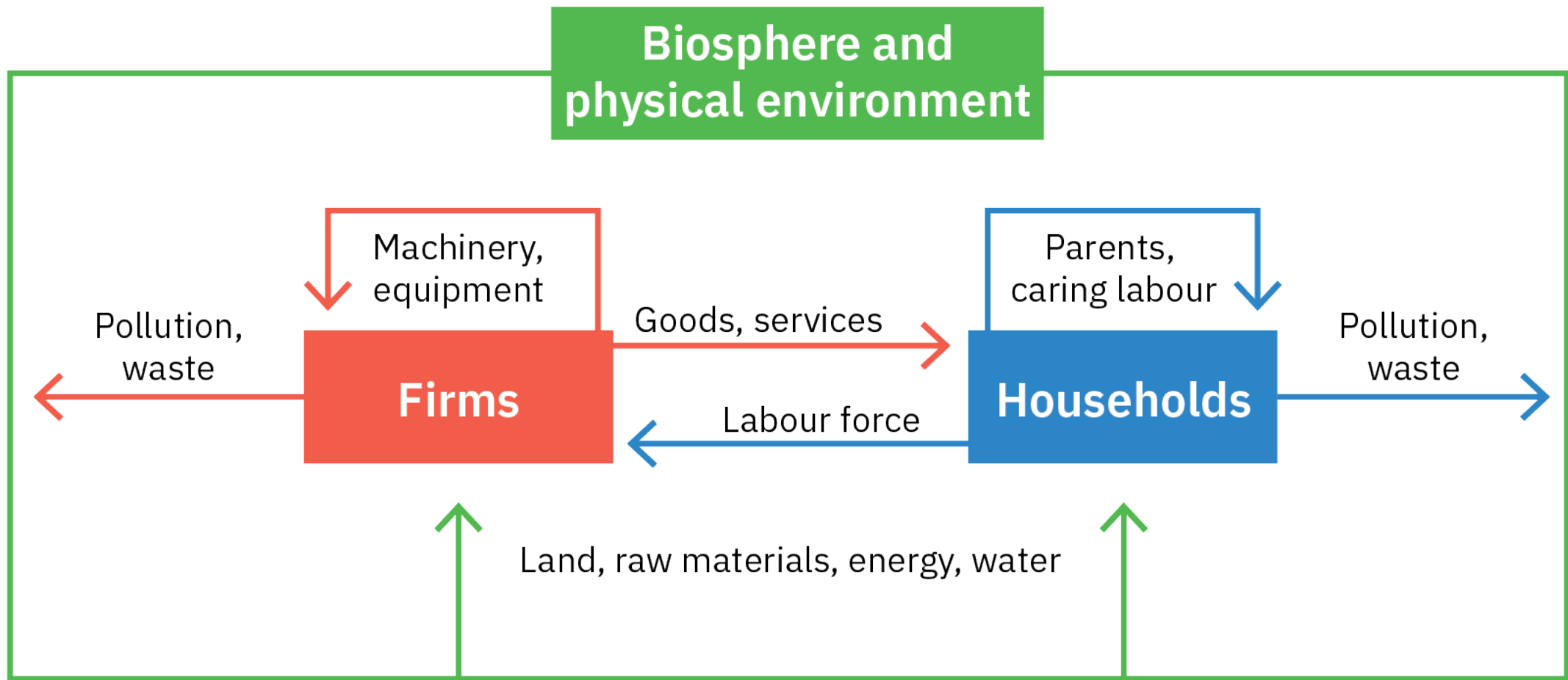
Use of technology

Labs

Capitalism revisited

Private property, markets, and firms, oh my!





Private property = inputs and outputs

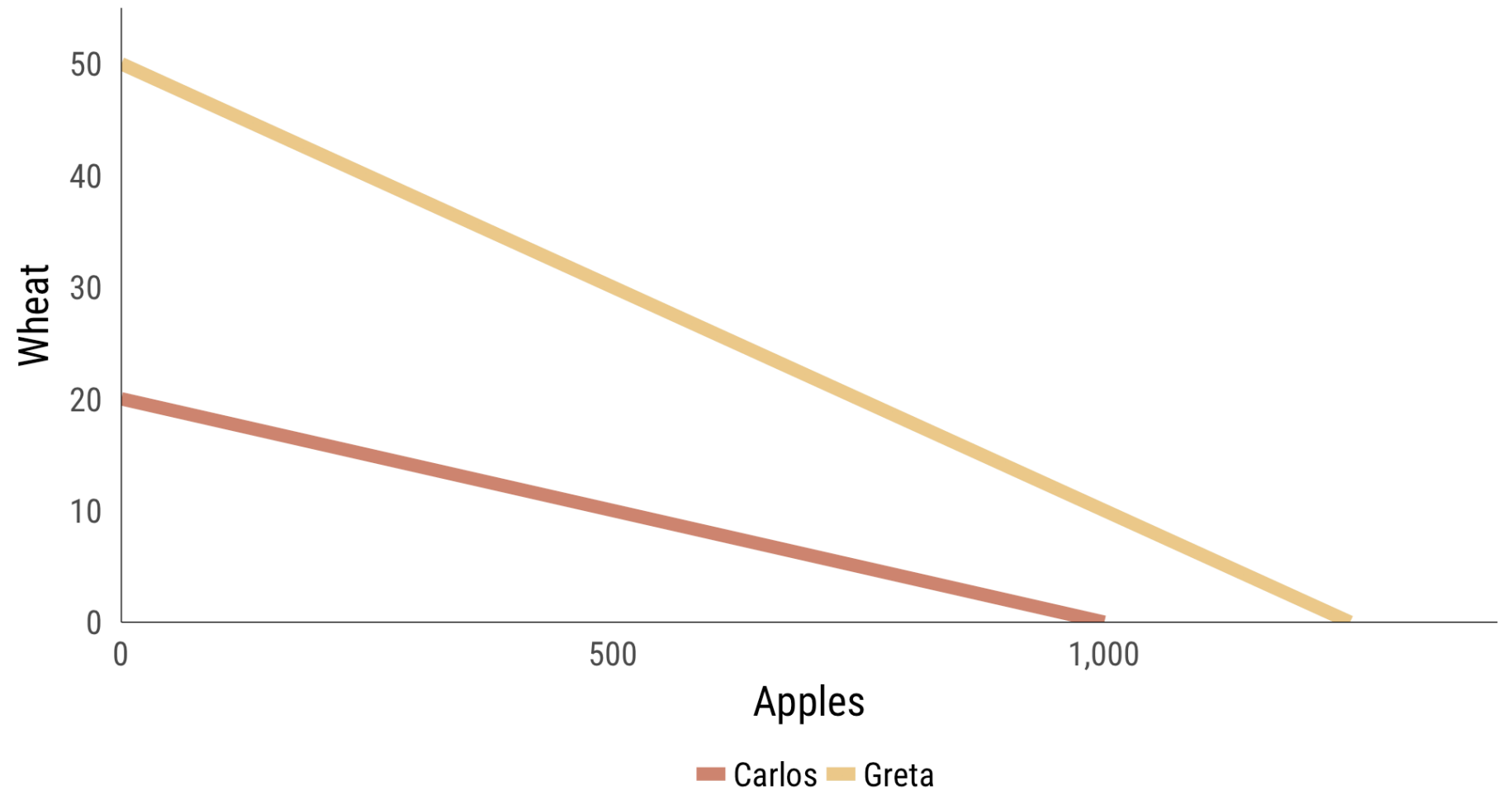
Firms use markets to sell outputs

Key to markets: specialization

	Greta	Carlos
Apples	1,250 apples	1,000 apples
Wheat	50 tons	20 tons

Absolute vs. comparative

	Greta	Carlos	Greta/ Carlos
Apples	1,250 apples	1,000 apples	1.25×
Wheat	50 tons	20 tons	2.5×



Importance of institutions

Markets can only be magic if there are rules

What happens when...

Private property not secure?

Markets not competitive?

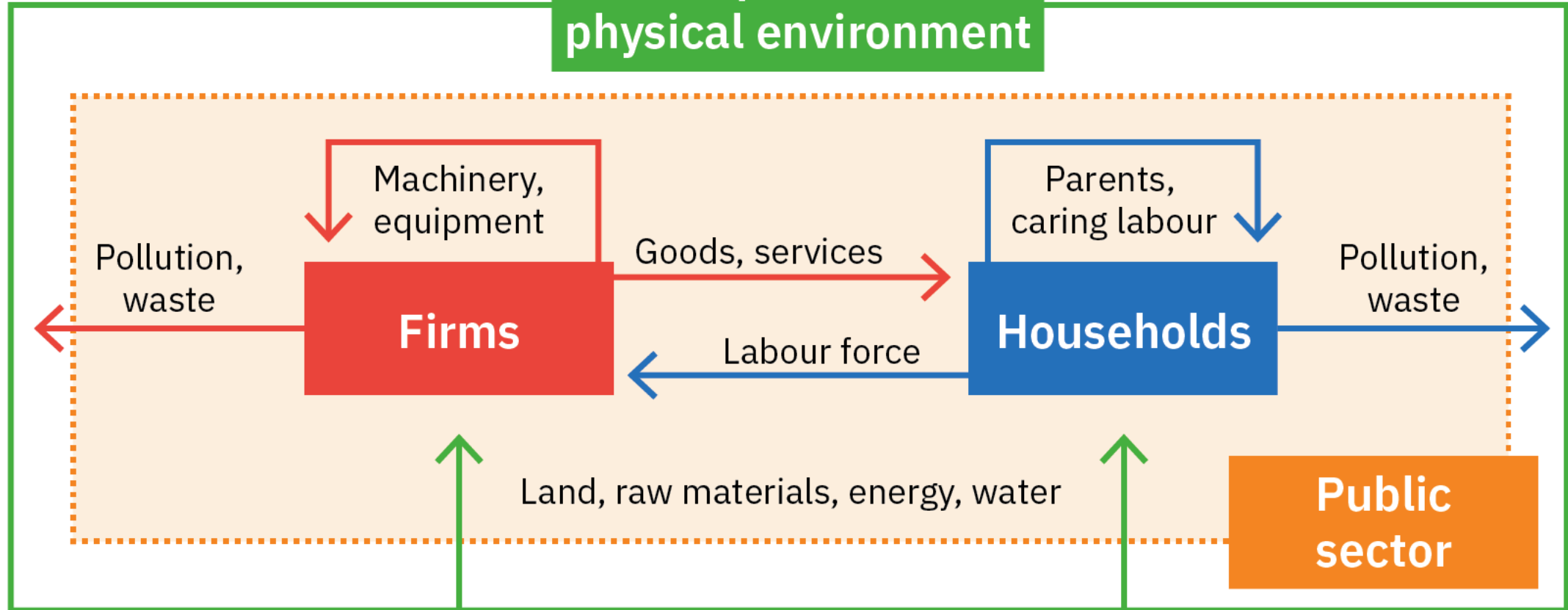
Firms run by entrenched interests? (birth or government connections)

If one or more fail...

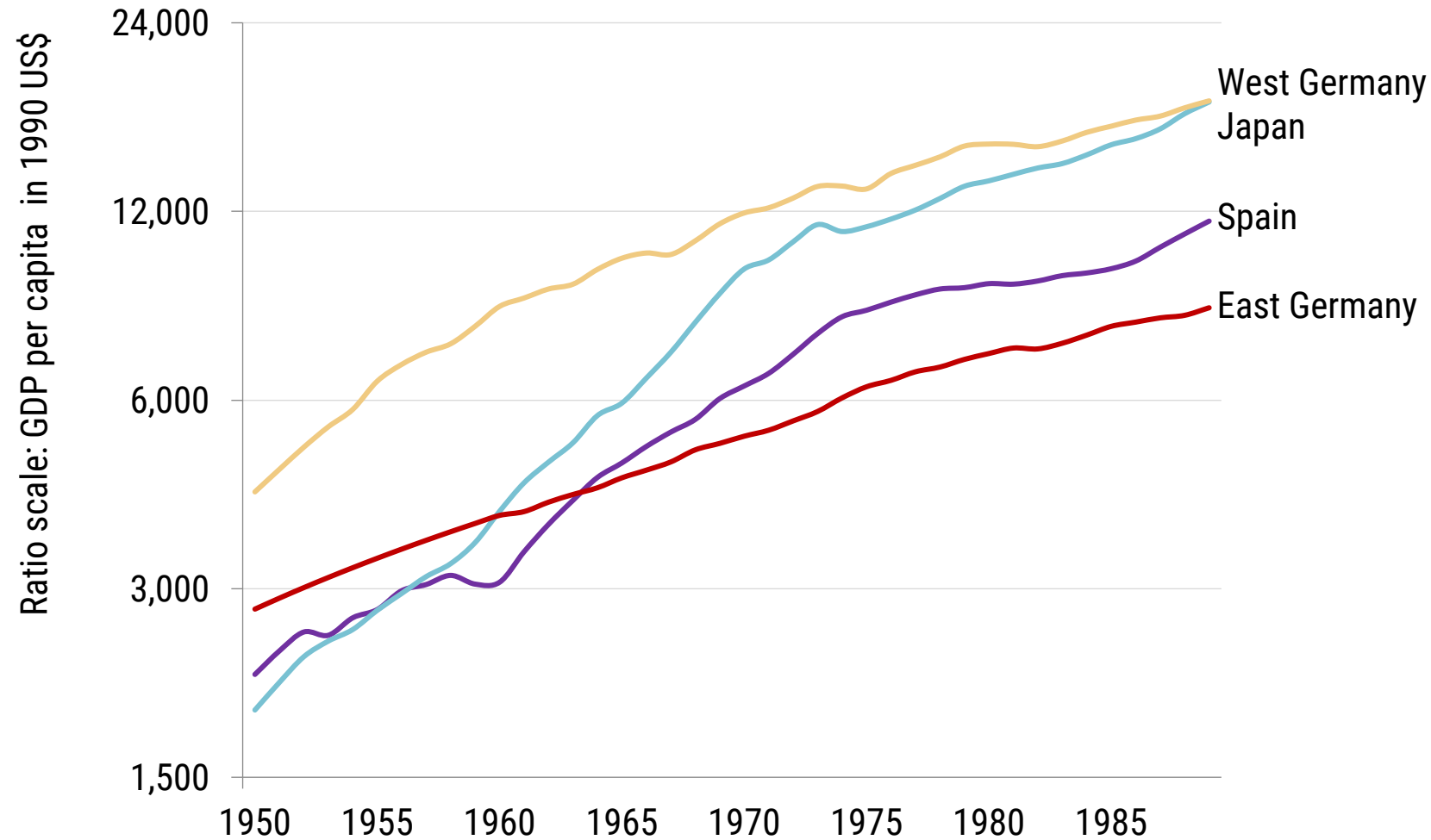
It's better to not directly
create economic value

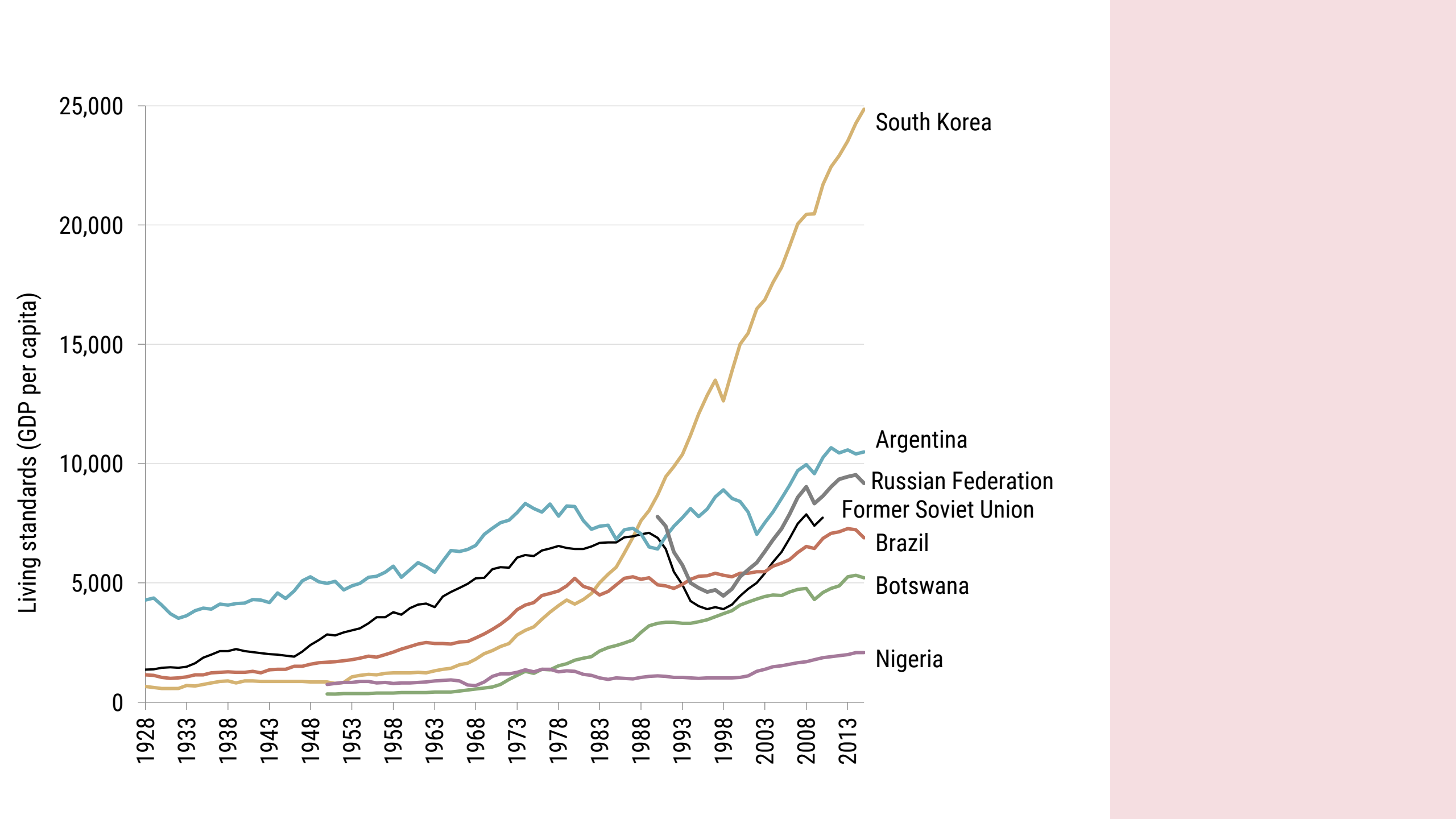
Individuals and groups have more to
gain in lobbying and crime to shift
distribution of income for themselves

Biosphere and physical environment



Do political systems matter?





Measuring outputs

GDP: Everyone's favorite indicator

Gross domestic product

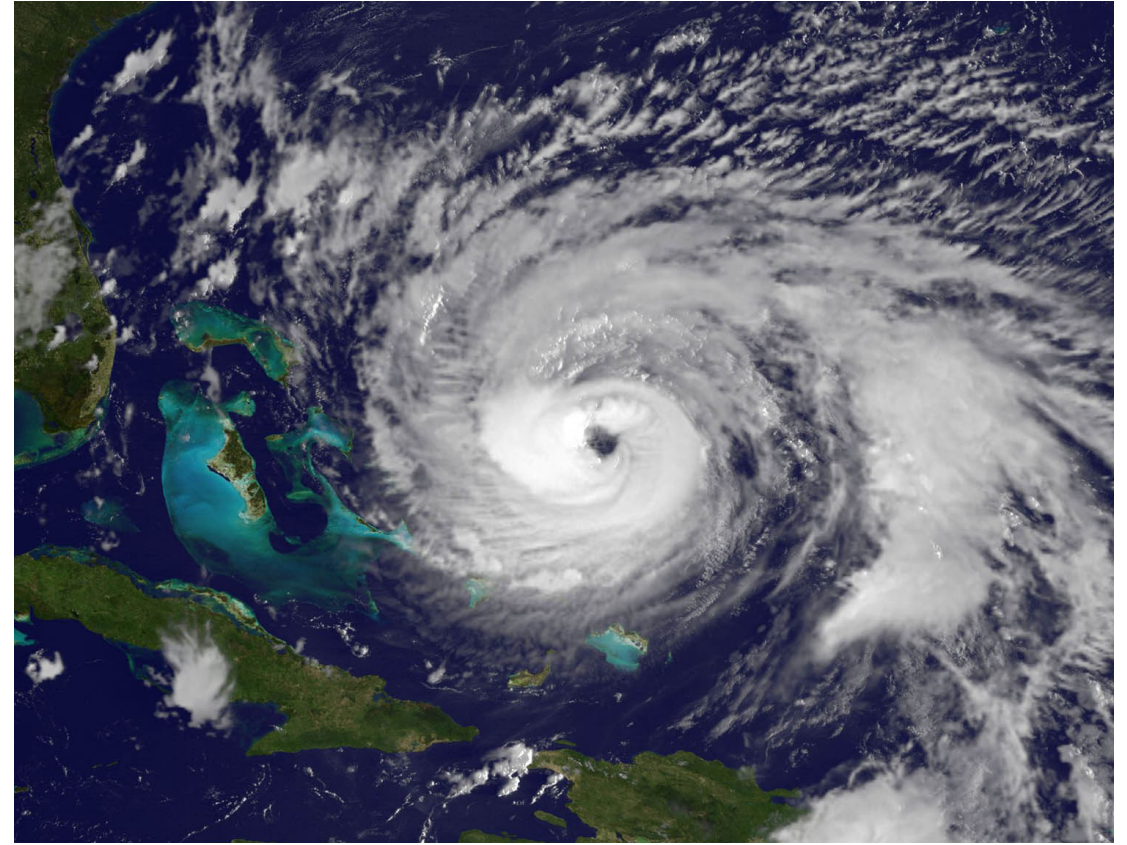
Private consumption

Investment Exports

Government expenditures

(subtract imports)

Problems with GDP



Nominal

What the value was then

vs.

Real

What the value is today

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index} / 100}$$

Price indexes

Compare price of the
same thing over time

But what about iPhones?

Baskets of goods

Consumer price index

What goods and services does the CPI cover?

The CPI represents all goods and services purchased for consumption by the reference population (U or W) BLS has classified all expenditure items into more than 200 categories, arranged into eight major groups. Major groups and examples of categories in each are as follows:

- FOOD AND BEVERAGES (breakfast cereal, milk, coffee, chicken, wine, full service meals, snacks)
- HOUSING (rent of primary residence, owners' equivalent rent, fuel oil, bedroom furniture)
- APPAREL (men's shirts and sweaters, women's dresses, jewelry)
- TRANSPORTATION (new vehicles, airline fares, gasoline, motor vehicle insurance)
- MEDICAL CARE (prescription drugs and medical supplies, physicians' services, eyeglasses and eye care, hospital services)
- RECREATION (televisions, toys, pets and pet products, sports equipment, admissions);
- EDUCATION AND COMMUNICATION (college tuition, postage, telephone services, computer software and accessories);
- OTHER GOODS AND SERVICES (tobacco and smoking products, haircuts and other personal services, funeral expenses).

Comparisons between countries



Purchasing power
parity (PPP)

Big Mac Index



\$5.30



\$2.92

Excel time!



Ernie's B&L mortgage in 1928 = \$5,000

\$79,292

George's salary in 1935 = \$45/week

\$42,442

Potter's offer in 1935 = \$20,000/year

\$362,749

Amount stolen by Potter in 1945 = \$8,000

\$110,862



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FOLLOW THE PROPHET

The Five-Dollar Miracle

By Heidi S. Swinton

Amount lost in jeans in 1939 = \$5

\$88.10

“Good” inflation = 2–3%

My dollar today buys more than my dollar tomorrow

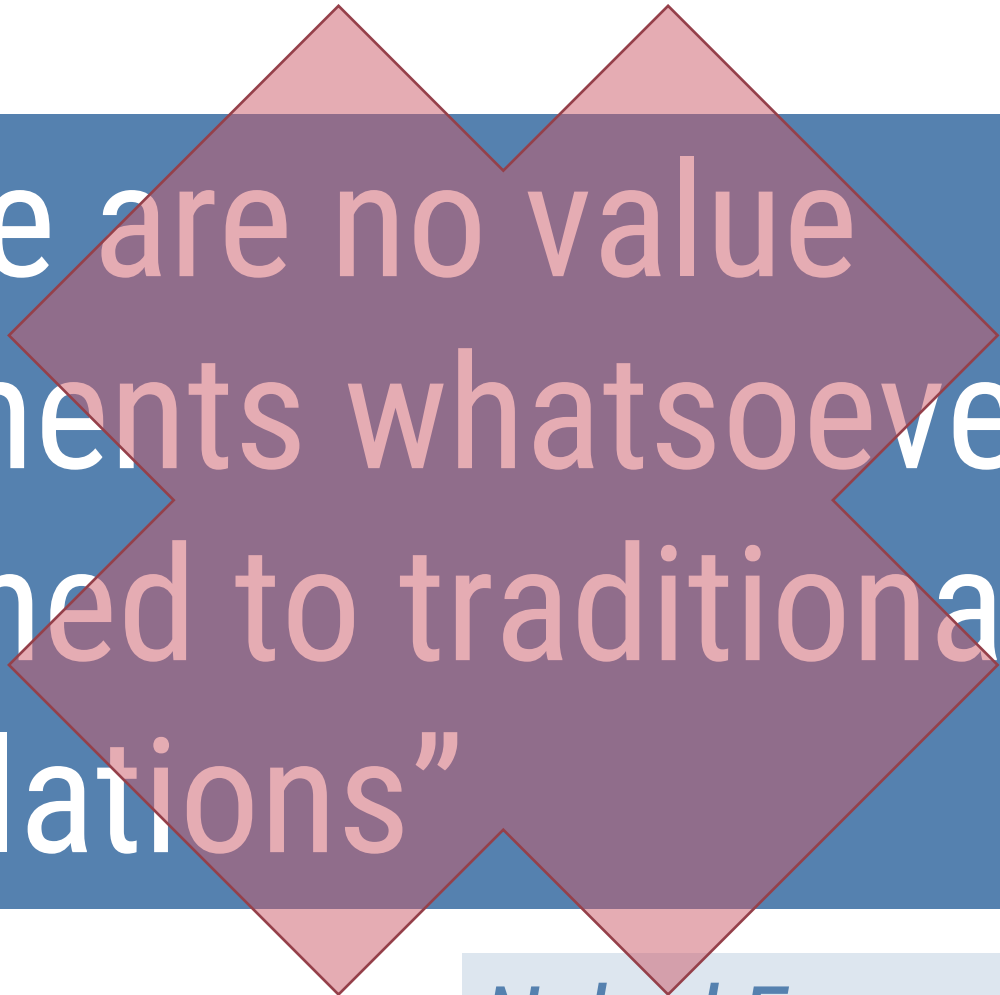
People spend more; encourages spending

Deflation = really bad

My dollar today buys less than my dollar tomorrow

People stop spending; encourages saving

Can we measure well-being
with the quantity of stuff
the economy spits out?



“There are no value judgments whatsoever attached to traditional GDP calculations”

Naked Economics, p. 198

“Yet the Gross National Product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry, of the strength of our marriages, the intelligence...”

Robert F. Kennedy

Report by the Commission on the Measurement of Economic Performance and Social Progress

Professor Joseph E. STIGLITZ, Chair, Columbia University

Professor Amartya SEN, Chair Adviser, Harvard University

Professor Jean-Paul FITOUSSI, Coordinator of the Commission, IEP

Capabilities

What people can do

Opportunities and freedom

Functionings

What people *do* do

Doing and being

Human Development Report 2016

Human Development for Everyone



Human Development Index (HDI)

DIMENSIONS

Long and healthy life

Knowledge

A decent standard of living

INDICATORS

Life expectancy at birth

Expected years
of schooling

Mean years
of schooling

GNI per capita (PPP \$)

DIMENSION INDEX

Life expectancy index

Education index

GNI index

Human Development Index (HDI)



Inequality: Gini coefficients

0-1

0 = Perfect equality

1 = Perfect inequality

0.3ish = medium

0.5+ = high

\$10,000

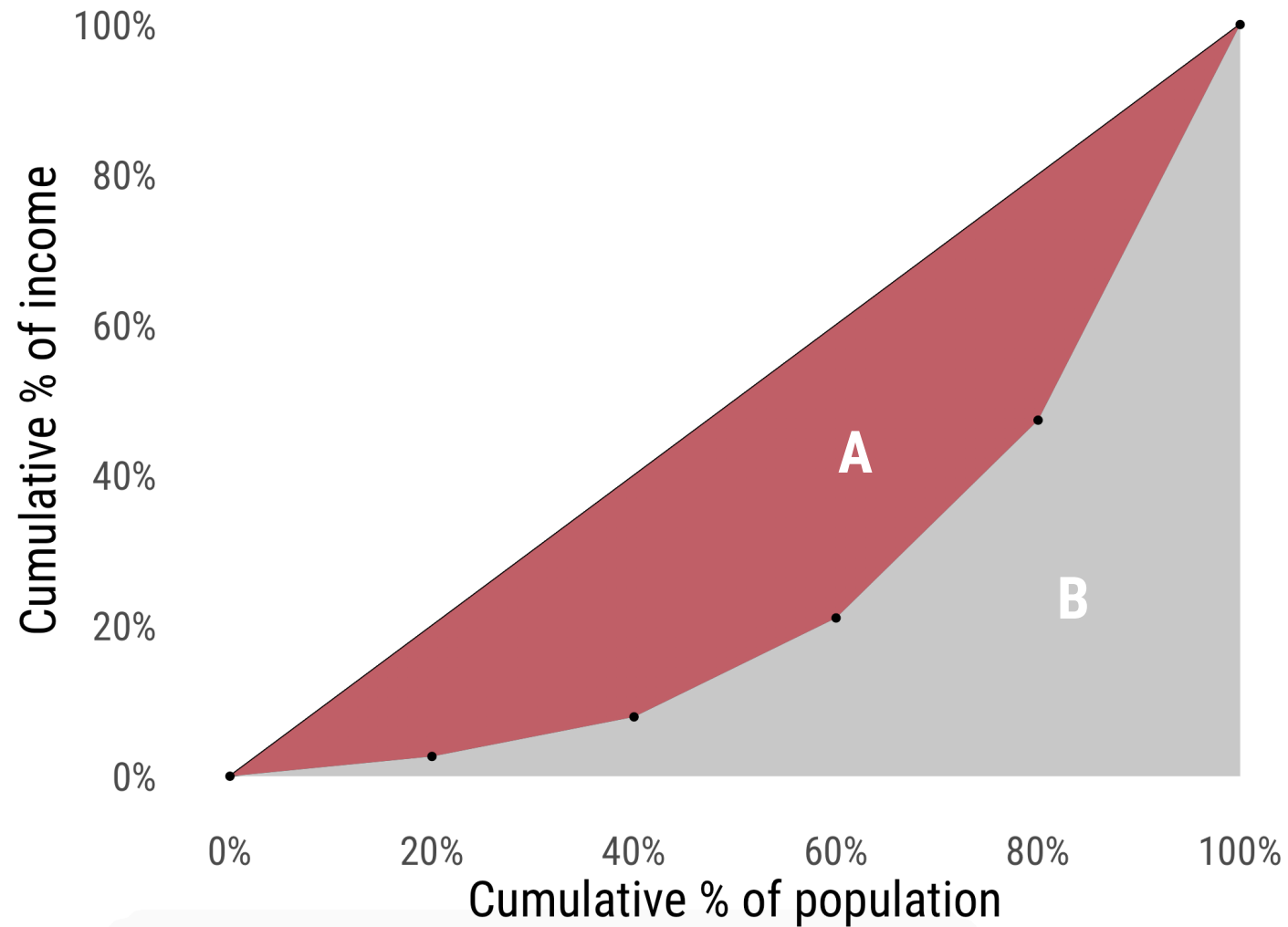
\$20,000

\$50,000

\$100,000

\$200,000

Gini coefficients



$$\frac{A}{A + B}$$

0.484

[Countries](#)

Other measures

Unemployment rate

Poverty

Size of government

Budget or current account
surplus/deficit

Best alternative?

- \(\infty\)

GDP/capita is standard and probably
will be for a looong time