

Chapter 22

Frontiers of Microeconomics

2011.3.4.

Outline

Asymmetric Information

Political Economy

Behavior Economics

1 Asymmetric Information

2 Political Economy

3 Behavior Economics

Asymmetric Information

- A difference in access to relevant knowledge is called information **asymmetry** (資訊不對稱).

Hidden Actions:

Principals, Agents, and Moral Hazard

- An **agent** is a person who is performing an act for another person, called the **principal**.
- The **principal** is a person for whom another person, called the agent, is performing some act.
- **Moral hazard** refers to the risk, or “hazard”, of inappropriate or otherwise “immoral” behavior by the agent if the principal can not **perfectly monitor** the agent’s behavior.

- Employers can respond to the moral-hazard problem in various ways:
 - Better monitoring.
 - High wages. (efficiency-wage)
 - Delayed payment. (year-end bonus)

Hidden Characteristics:

Adverse Selection and the Lemons Problem

- **Adverse selection** is a problem that arises in markets in which seller knows **more** about the **attributes** of the good being sold than the buyer does.
- The “selection” of goods sold may be “adverse” from the standpoint of the uninformed buyer.

Examples of Adverse Selection

- **Used car markets.** Many potential buyers may not even consider used cars because they surmise that the sellers know something bad about the cars. This is also known as the **lemons problem**.
- **Insurance.** People with hidden health problems are more likely to want to buy health insurance than those with good health.
- In certain labor markets, if a firm reduces the wage it pays, high productivity workers tend to quit.

Signaling to Convey Private Information

How do Markets respond to Asymmetric Information?

- Signaling
 - **Signaling** refers to an action taken by an informed party to **reveal private information** to an uninformed party.
- Advertising, education.
- For a signal to be effective.
 - Signal must be costly.
 - The signal must be less costly, or more beneficial, to the person with the higher-quality product.
- Gifts and signals.

Screening to Induce Information Revelation

- Screening
 - Screening occurs when an action taken by an uninformed party **induces** an informed party to reveal information.
- The insurance company might be able to sort the two kinds (high risk or low risk) of drivers by offering different insurance policies that would induce them to separate themselves.
- For example,
 - Policy 1: High premium, cover the full cost of any accidents.
 - Policy 2: Low premium, has \$1,000 deductible. (the drivers are responsible for the first \$1,000.)
 - With a large enough deductible, safe drivers will choose policy 2 while risky drivers will choose policy 1.

Asymmetric Information and Public Policy

- The study of asymmetric information gives us new reason to be wary of markets.
- When some people know more than others do, the market **may** fail to put the resources to their best uses.
- Although asymmetric information may call for government action, three facts complicate the issue:
 - Private markets can sometimes deal with information asymmetries on their own.(signaling and screening)
 - The government **rarely** has **more** information than the private parties.
 - **The government itself is an imperfect institution.**

Political Economy

- The government itself is an **imperfect** institution.
- Political economy (also called the field of **public choice**) is the application of economic methods to the study of how government works.
- Problems associated with how government determines public policy
 - The Condorcet Voting Paradox
 - Arrow's Impossibility Theorem
 - The Median-Voter Theorem
 - Self-interested Politicians

The Condorcet Voting Paradox

- The **Condorcet paradox** occurs when there are more than two possible outcomes, the **majority rule** fails to produce **transitive** preferences for society.
- Transitive preferences imply that if A is preferred to B, and B is preferred to C, then A is preferred to C.

1 TABLE

The Condorcet Paradox

If voters have these preferences over outcomes A, B, and C, then in pairwise majority voting, A beats B, B beats C, and C beats A.

	Voter Type		
	Type 1	Type 2	Type 3
Percent of Electorate	35	45	20
First choice	A	B	C
Second choice	B	C	A
Third choice	C	A	B

- Three voter types, three choices.
- Pairwise votes:
 - Between B and C: B gets 80% from type 1 and 2 voters, C gets 20% from type 3 voters. B is the majority choice.
 - Between A and B: A is the majority choice.
 - But, between A and C: C is the majority choice.

- The Condorcet paradox is that democratic outcomes do not always obey the property of **transitivity**.
- The Condorcet paradox implies that the order of which things are voted **can** affect the result.
- When there are more than two options, setting the agenda (that is, deciding the order which items are voted on) can have a powerful influence over the outcome of a democratic election.
- Majority voting by itself does not tell us what outcome a society really wants.

- Another voting method. Give one point for the last place, 2 points for the second to the last, 3 points for third to the last, and so on. The outcome that receives the most total points wins.
- This is called a **Borda count**.
- Is there a **perfect** voting system?
- **What** is a perfect voting system?

Arrow's Impossibility Theorem

- Arrow's impossibility theorem is a mathematical result which shows that, under certain conditions, there is **no** scheme for **aggregating** individual preferences into a valid set of social preferences.
- No voting system can satisfy **all** of the following:
 - *Unanimity*: If everyone prefers A to B, the A should beat B.
 - *Transitivity*: If A beats B, and B beats C, then A should beats C.
 - *Independence of irrelevant alternatives*: The ranking between two outcomes A and B should not depends on whether some third outcome C is also available.
 - *No dictators*: There is no person who always gets his way, regardless of everyone else's preferences.

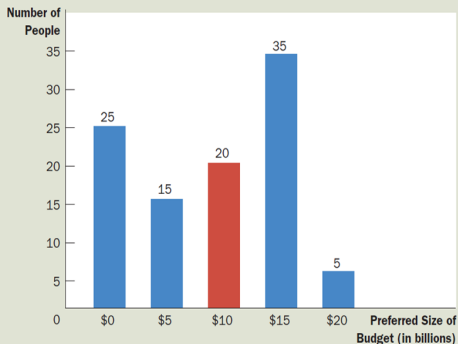
The Median Voter Is King

- How government run by majority rule work? That is, in a democratic society, **who** determines what policy is chosen?
- The **median voter theorem** is a mathematical result that shows that if voters are choosing a point **along a line** and each voter wants the point closest to his most preferred point, then majority rule will pick the most preferred point of the **median voter**.

1 FIGURE

The Median Voter Theorem: An Example

This bar chart shows how 100 voters' most preferred budgets are distributed over five options, ranging from zero to \$20 billion. If society makes its choice by majority rule, the median voter (who here prefers \$10 billion) determines the outcome.



- median is \$10 billion, average is \$9 billion, and the modal outcome is \$15 billion.
- The preferred outcome of the median voter beats any other proposal in a **two-way** race. The median voter always has more than half the voters on his side.

Implications of the median voter theorem:

- If two political parties are each trying to maximize their chance of election, they will both move their positions toward median voter.
- Minority views are not given much weight. Rather than reaching a compromise that takes into account everyone's preferences, majority rule looks only to the person in the exact middle of the distribution.

Politicians Are People Too

- Self-interest is as powerful a motive for political actors as it is for consumers and firm owners.

政治人物的勞動市場

Outline

Asymmetric
Information

Political
Economy

Behavior
Economics

- **疑問**: 為什麼那麼多人想當政治人物?
為什麼那麼多人想當老師?
- 里長也有競選總部, 里長是一份工作。
- 政府體制中存在許多灰色, 可以競租 (rent seeking) 的機會。

- 2002年之前,旅行社每當遇到顧客急著出國旅行卻沒有護照或驚覺護照過期時,唯一的解決辦法就是找立法委員。外交部領事事務局的國會聯絡人幾乎只有一件業務,就是每天接獲無數的立委傳真請託、接立委助理的電話,然後緊急把案子送到櫃臺,把申請案抽出來,排入「急件」行列。領務局的聯絡人也不好幹,因為經常請託案件當事人趕著翌日取件,稍有一個環節銜接有間,當事人隔天無法出國,立委當然就是一頓毒罵。
- 因為經常發生顧客搞不清楚自己有否護照已經有效期限的問題,所以辦理 outbound 的旅行社都和特定立委有一定的合作默契。當然,立委的服務也不會是免費的,只不過,每位立委的收費方式不同,有的是逐件收費;有的立委從來不在服務的過程中收錢,而整合到選舉的時候以政治獻金的名義收取。一般而言,逐件收費的標準,在2001年隔日取件約為1,200元。

- 2002年初,外交部修正了「中華民國普通護照規費收費標準」,將原來護照規費1,200元並於七日內發件的規定改為現行辦法:普通件四日發件,提前一天加收300元,提前二日加收600元,提前三日加收1,000元。
- 這就是外交部日後修改護照規費收費標準的背景。業者從此不須和立委打交道,因為服務規費的多寡而爭執,而且,外交部也很聰明,他們把價額訂在1,000元,顯然意圖有效打擊黑市。

Posted by 盤 at December 15,2008 21:57

- 以前的監理所。

- 國營事業有許多位子可供分配, 台糖, 台肥, 台鹽, 中央廣播電台, 公營銀行。
- 公部門的所有「交易」都有被介入的空間。
- 政治勞動市場的特性決定政治人物的平均性質。
- 問題: 如何改變政治人物的平均性質?

Behavior Economics

- Recently, a field called **behavioral economics** has emerged in which economists make use of basic psychological insights to examine economic problems.

- People aren't always rational:
 - People are overconfident.
 - People give too much weight to a **small** number of **vivid** observations.
 - People are reluctant to change their minds. People tend to interpret evidence to **confirm** beliefs they already hold.

People care about fairness

- People care about **fairness** as demonstrated by the **ultimatum game**.
- Two volunteers A and B play a game and could win a total of \$100.
- Player A proposes a division of the \$100 prize between A and B.
- Player B decides to accept or reject player A's offer. If he accepts it, both players are paid according to the proposal. If he rejects the proposal, both players walk away with nothing.

- What would you do as player A? As player B?
- People in player B's role usually rejects proposals that give them only \$1 or similarly small amount.
- It is more common for player A to propose giving player B an amount such as \$30 or \$40, keeping the larger share for himself. Player B usually accepts the proposal.

People are inconsistent over time

- Q.1: Would you prefer (A) to spend 50 minutes doing the task right now or (B) to spend 60 minutes doing the task tomorrow?
- Q.2: Would you prefer (A) to spend 50 minutes doing the task in 90 days or (B) to spend 60 minutes doing the task in 91 days?
- Many people choose B to question 1 and A to question 2.
- This is called **time-inconsistent** problems.
- Examples: quit/not quit smoking, lose/not lose weight, consumption/saving decision.
- Saving, like passing up the cigarette or the dessert, requires a sacrifice in the present for a reward in the distant future.

From Chapter 1, *Predictably Irrational*, a book by Dan Ariely. There were subscription offers from *The Economist* as follows:

- A. Economist.com subscription— US \$59.00
one year subscription to Economist.com
- B. Print subscription—US\$125.00
one year subscription to the print edition of *The Economist*.
- C. Print & Web subscription— US\$125.00
one year subscription to the print edition of *the Economist* and online access.

The choices of 100 MIT students are:

- A. online access, US\$59.00: 16 students.
- B. print edition, US\$125.00: 0 student.
- C. online access & print editon, US\$125.00: 84 students.

What happens when option B is dropped?

- A. online access, US\$59.00: 68 students.
- C. online access & print editon, US\$125.00: 32 students.