

Reflection exercise 7

New Ideas from Dead Economists

January 19, 2022

- 1 Imagine the following scenario: a factory close to a residential area produces really cute Penguin toys. The toys are pretty popular. Playing with these toys gives the kids immense happiness. Seeing their kids immensely happy makes their parents, grandparents, and even the neighbors extremely happy—smiles all over. But there is a problem. While producing these toys of “happiness”, the firm creates a large amount of waste that it disposes off in a nearby open field. The waste has deleterious effects on the health of those happy people. Wearing an Economist hat, how do you propose we solve this problem? Please provide a meticulous analysis.
- 2 Consider a supermarket and an island. A banana peel in front of the supermarket is pretty risky. People might just slip and break their elbow that could cost them tens of thousands of dollars in medical bills. The supermarket could easily avoid that by paying a worker a few hundred dollars to remove those peels as soon as they appear. Now imagine a similar problem in an island where there are just a few people and the chance of someone slipping on injuring themselves is very low. But still, the injury might cost the same. This time though, the cost of avoiding that injury is way high. In these two scenarios, which business could be held responsible for a broken elbow due to slippery banana peels left on the ground?

- 3 The war on drugs has been there in the US for a long time. Despite billions of dollars spent and numerous lives lost, the problem continues. Provide an economic analysis of why this problem continues. How should we solve it?
- 4 It is well known that separation of management and ownership in companies has its benefits. Unfortunately, it does come up with its own problems. One such issue is that managers don't necessarily have the same objective as owners have. Often these objectives clash. The owners, therefore, face "agency costs", the costs of monitoring managers to ensure that they do their best to work in the interest of shareholders. What could the owners do to reduce such agency costs?
- 5 Do you think rent control laws are bad? Are they good? What are the problems they create? Do they benefit anyone at all?