

On Monday students in all three classes constructed towers out of marshmallows and toothpicks. The goal was to earn the largest total profit.

All classes did a great job.

Period 1 winner \$13,600, Period 2 winner \$19,500, Period 3 winner \$13,600

The picture below was a common scene.



But in period three, one group did it differently . . .



Entrepreneurs

Transform innovation into economic growth. They develop new methods of production or new products and change the industries.

But they must be aware of the risk of failing.

Making Predictions

What if they failed?

- \$10,000

But what else?

Make a list of results due to failure.

Should the government “bail out” these students? Why or why not

What if they were successful?

+ \$164,000

But what else?

If repeating game would this be tried by others?

**Should I have made a rule against this?
Who would support the rule?**

I real life what would have been the reason for the rule?

If allowed to occur who would have not like this decision?

**What groups would not like
entrepreneurs?**

Why?

**Firms already in the
market!!!!!!**

Why?

**Entrepreneurs turn their
world upside down.**

"You must separate out being "pro free-enterprise" from being "pro-business." - Milton Friedman

Why would someone who was such a strong advocate for free-enterprise make this comment?

"You must separate out being "pro free-enterprise" from being "pro-business."

Almost every businessman is in favor of free enterprise for everybody else, but special privilege and special government protection for himself.

As a result, they have been a major force in undermining the free enterprise system.

Stop kidding yourself into thinking you can use the business community as a way to promote free enterprise.

Unfortunately, most of them are not our friends in that respect."

-Milton Friedman

Do you agree or disagree?

It is not the smartest or most intelligent species that survive, but the species that is adaptable to change.

- Charles Darwin

Relate this quote to firms

Creative Destruction



Creative Destruction

Joseph Schumpeter

Entrepreneurs create new products of new methods- New Creations and Destruction of the Old

Efficient use of resources

New in terms of methods, new improvements of old products, and entirely new products that turn the equilibrium of the markets on its ear.

According the Schumpeter there are types of innovations that lead to change.

- 1. Product**
- 2. Process**
- 3. Market**
- 4. Organizational**

These innovations increase standard of living but also change the economic landscape.

Creative Destruction

Evolutionary Economics- combining nature, biology, and evolution to determine economic outcomes.



Should creative destruction be controlled by the people in the government with the use of bailouts regulations, and tariffs?

Should the people in the government create a law that protects the jobs of bank tellers?

Imagine that a new law was just passed that stated that for every ATM there must be 6 bank tellers.

What would be the intended and unintended outcomes?

Don't forget . . .

The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups.

Looking at the seen and unseen

Let's take a look. Brainstorm a list of both jobs lost and jobs gained because of the ATM

The ATM's impact on job creation

Cost (jobs that were lost)	Benefits (jobs created)

Let's take a look.

The ATM's impact on job creation

Cost (jobs that were lost)	Benefits (jobs created)
Bank Tellers	ATM Manufactures IT workers to manage the machines Computer programmers Other jobs created because people have more time

Creative Destruction

Does Creative Destruction and the creation of machines cause high levels of unemployment?

According to Henry Hazlett-

Among the most viable of all economic delusions is the belief that machines on net balance create unemployment. Destroyed a thousand times, it has risen a thousand times out of its own ashes as hardy and vigorous as ever. Whenever there is a long-continued mass unemployment, machines get the blame anew. This fallacy is still the basis of many labor union practices...

The belief that machines cause unemployment...leads to preposterous conclusions. Not only must we be causing unemployment with every technological improvement we make today, but primitive man must have started causing it with the first efforts he made to save himself from needless toil and sweat...

Read column “Jobs Destruction Makes Us Richer”

1. Summarize the main idea of the column
2. What is the author’s logic
3. Write a question for Walter Williams

Email him you well thought out question.

wwilliam@gmu.edu



Read column “Robots and Robber Barons”

1. Summarize the main idea of the column
2. What is the author’s logic
3. Comment on this New York Times opinion by Paul Krugman

http://www.nytimes.com/2012/12/10/opinion/krugman-robots-and-robber-barons.html?_r=0



**What are your final
thoughts on Creative
Destruction?**

Do you think people in the government should spend taxpayer's money to bailout companies that make mistakes?

Why or why not?

Read column “Let Detroit go Bankrupt”

1. Summarize the main idea of the column
2. What is the author’s logic
3. Comment on this New York Times opinion by Mitt Romney

<http://www.nytimes.com/2008/11/19/opinion/19romney.html>



Read column “Jobs, Jobs, and Cars”

1. Summarize the main idea of the column
2. What is the author’s logic
3. Comment on this New York Times opinion by Paul Krugman

<http://www.nytimes.com/2012/01/27/opinion/krugman-jobs-jobs-and-cars.html>



Recall from your reading that the term moral hazard refers to the following idea. . .

A Moral Hazard occurs when people take unnecessary or reckless risk know that someone else will incur the cost.

Why can it be argued that bailouts increase moral hazards?

http://www.intellectuالتakeout.org/library/video-podcast-media/video-i-want-my-country-back-prof-russ-roberts-testifies-house-oversight-committee?library_node=68187

According to Russ Roberts, what is the problem with our country?

What will happen if we always bailout companies?

According Roberts should the government have the power to determine compensation? Why or why not?

Capture Theory

And Crony Capitalism



Capture Theory

Capture refers to a situation where the regulatory agencies are dominated or “captured” by the very industry that it is suppose to regulate. More specially, the agency is dominated by only a small segment of companies in the industry that is to be regulated. As a result, new rules are written that reflect the self-interest of those specific companies and not in the best interest the public.

[Video](#)

The mechanisms of crony capitalism are numerous:

Bailouts

Stimulus

special loans

too-big-to-fail

Favors

Mandates and Regulations

barriers to entry

political appointments

tax breaks

campaign contributions

'sole-source' procurement

Connections

Grants

government-union cooperation

Exemptions

government sponsored enterprises

political insider trading

legal bribery.

Crony Capitalism and Capture lead to Rent seeking

Rent Seeking- When a company, organization or individual uses their resources to obtain an economic gain from others without reciprocating any benefits back to society through wealth creation.

An example of rent-seeking is when a company lobbies the government for loan subsidies, grants or tariff protection. These activities don't create any benefit for society, they just redistribute resources from the taxpayers to the special-interest group.

Explain how rent seeking is a zero sum game.

Petition of the Candle makers

We are suffering from the ruinous competition of a rival who apparently works under conditions so far superior to our own for the production of light that he is *flooding the domestic market* with it at an incredibly low price; for the moment he appears, our sales cease, all the consumers turn to him, and a branch of French industry whose ramifications are innumerable is all at once reduced to complete stagnation. This rival, which is none other than the sun, is waging war on us so mercilessly we suspect he is being stirred up against us by perfidious Albion (excellent diplomacy nowadays!), particularly because he has for that haughty island a respect that he does not show for us .

We ask you to be so good as to pass a law requiring the closing of all windows, dormers, skylights, inside and outside shutters, curtains, casements, bull's-eyes, deadlights, and blinds — in short, all openings, holes, chinks, and fissures through which the light of the sun is wont to enter houses, to the detriment of the fair industries with which, we are proud to say, we have endowed the country, a country that cannot, without betraying ingratitude, abandon us today to so unequal a combat.

Be good enough, honourable deputies, to take our request seriously, and do not reject it without at least hearing the reasons that we have to advance in its support.

“The first lesson of economics is scarcity: There is never enough of anything to satisfy all those who want it. The first lesson of politics is to disregard the first lesson of economics.”- Thomas Sowell

AGES Chopped

**Write a creative poem that combines:
Scarcity, Creative Destruction, and concepts of Crony
Capitalism**