Lesson 03: Economic Concepts Implied By Action

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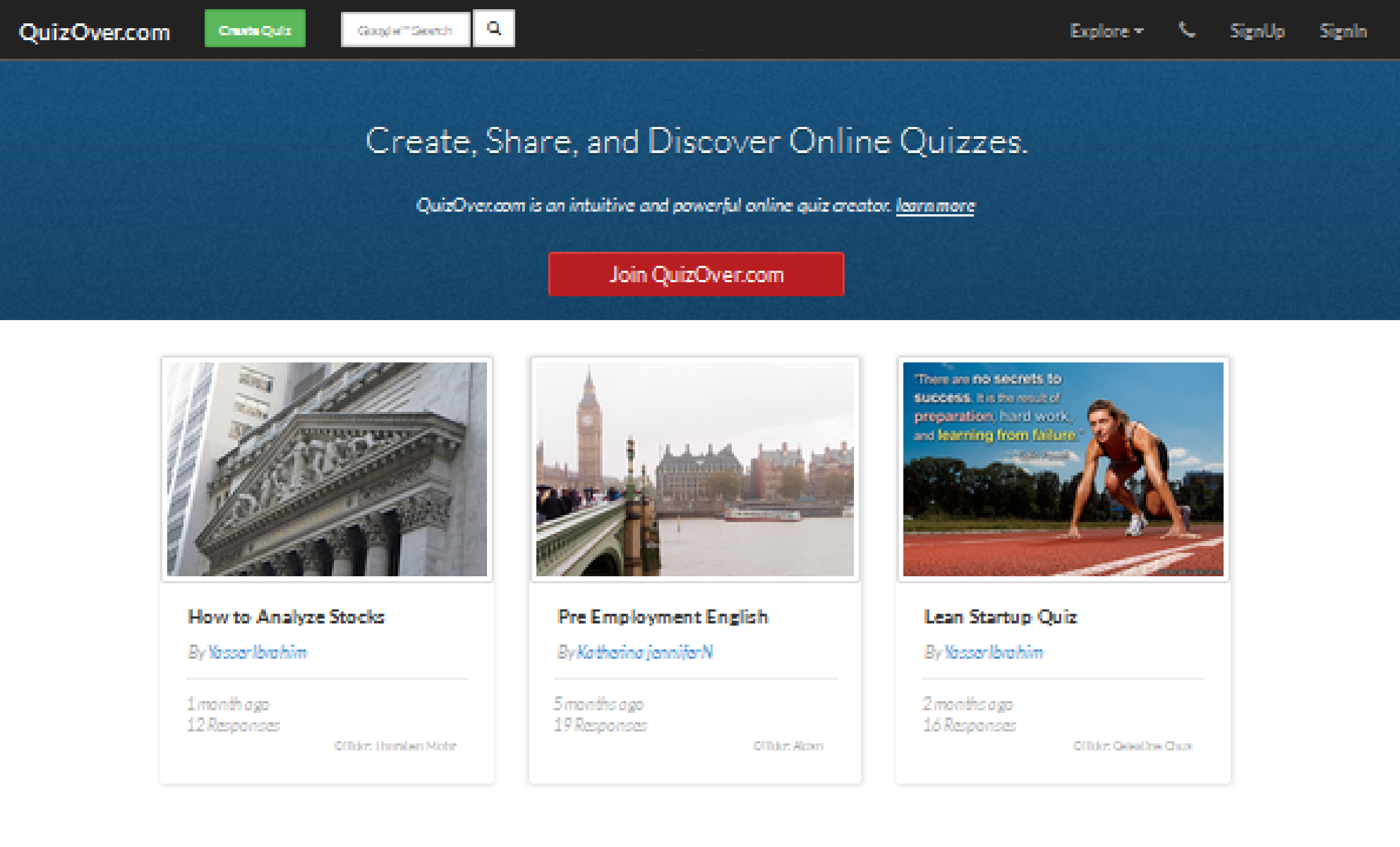
Published 2014



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4. Chapter: Lesson 03: Economic Concepts Implied By Action

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Author: Robert Murphy

Why do statements about a man's actions (implicitly) involve his beliefs as well?

- To say that a man acts with a purpose, we are implying that the man believes his action will achieve the result he desires. (If we didn't attribute such a belief to the man, then our description would make no sense.) This seems like a trivial point, but much of the development of economics in the twentieth century involved the growing realization among economists that expectations were important. These developments lie outside the scope of this course, but the moral is that these "foundational" issues really do have implications for cutting edge research.

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4.1.2. Can purposeful action be based on a faulty belief? Give examples.

Author: Robert Murphy

Can purposeful action be based on a faulty belief? Give examples.

- There are all sorts of examples of purposeful actions that are based on false beliefs. For example, if we see a man on his knee in a fancy restaurant in front of his dinner companion, we might say, "He is proposing to that woman because he wants to spend his life with her." One of his beliefs that motivated this action is that she will say yes. But she very well might say no. Even in that case, the man's action was still purposeful; he just didn't fulfill the purpose as he had expected. In business, entrepreneurs make faulty forecasts all the time. Their actions are still purposeful, and they still fall under the scope of economic theory.

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4.1.3. What does it mean when economists say preferences are subjective?

Author: Robert Murphy

What does it mean when economists say preferences are subjective?

- This elementary observation simply refers to the fact that people have different tastes. This is a much more straightforward way of explaining market prices, than to assume that these prices are the result of some "objective" facts (such as how much labor went into the product, etc.). The emphasis on subjective preferences will make more sense in Lesson 6 when we explain barter prices.

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4.1.4. Does economics say you shouldn't give money to charity?

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Does economics say you shouldn't give money to charity?

- No! It is perfectly reasonable for an economist to donate money to the poor. The discussion in the text was referring to an illegitimate application of economic theory. Specifically, some people learn the "law of diminishing marginal utility" in standard economics courses, and then falsely conclude that a dollar confers less utility on a rich man than on a poor man. This talk is meaningless; economics says no such thing. Now if we want to justify charity on the grounds of moral obligation, that is consistent with economics. The only point here is that standard utility theory does not justify wealth redistribution the way many people think it does.

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