overview

aob

why economics?

economics and information

economics and knowledge

economics and quality
why economics?

information age/information economy

information rules/new rules
increasing returns
Goldilocks economy

public discourse
New York Times: Paul Krugman; "the economic scene"
New Yorker: Malcolm Gladwell; James Surowiecki

blogs
Brad de Long, Matthew Yglesias
why economics?

Charles Hamlin  Marriner Eccles
William Harding  Thomas McCabe
Daniel Crissinger  William McChesney
Roy Young  Martin Arthur Burns
Eugene Mayer  G. William Miller
Eugene Black  Paul Volker
Alan Greenspan
"It is a basic tenet of our economic system that information in the hands of consumers facilitates rational purchase decisions; and, moreover is an absolute necessity for the efficient functioning of the economy."

FTC, 1979
"'Perfect information' ... free, complete, instantaneous, and universally available ...[is] one of the defining features of the perfect market."

--James Boyle, Shamans, Software, & Spleen.
whence perfection?

jstor economic journals
"perfect information"

first substantive hit: 1949
prior art

"perfect markets"

Cybernetics

Mathematical Theory of Communication
"'Perfect information' ... free, complete, instantaneous, and universally available ...[is] one of the defining features of the perfect market ...

"At the same time, both the perfect and the actual market structure ... depend on information being a commodity ... costly, partial, and deliberately restricted."

--James Boyle, *Shamans, Software & Spleen*
"... As the market grows in these dimension, there will appear a set of firms which specialize in collecting and selling information. They may take the form of trade journals or specialized brokers ... there is a strong tendency towards monopoly ..a 'standard' source for trade information."

--Stigler, "Economics of Information"
"One should hardly have to tell academicians that information is a valuable resource: Knowledge is power."

-- George J. Stigler

"the search for information ... the ascertainment of market price."
assumptions

"information as that which is being communicated becomes identical with "knowledge" in the sense of that which is known."

--Fritz Machlup, The Production and Distribution of Knowledge, 1962
economic information

"[Communications theory] uses the term "information" merely as a negative measure of uncertainty. But it is changes in belief distributions---a process, not a condition---that constitute here the essence of information ... economics of information is active where the economics of uncertainty is passive.

J. Hirshleifer, "Where are we in the theory of information?" 1973
symmetry?

**jstor economics journals**
"asymmetric information": 5,762  
"symmetric information": 675

"asymmetric knowledge": 21  
"symmetric knowledge": 4
Decision-relevance has been brought forward as a corrective to attempts to quantify economically relevant information by the "bit."

--Hirshleifer

prior art

"useful" information
"The production, distribution, and consumption of ‘knowledge’ in all its forms is said to account for 29 percent of gross national product ... and ‘knowledge production’ is growing at about twice the rate of the rest of the economy ... What the railroads did for the second half of the last century and the automobile for the first half of this century may be done for the second half of this century by the knowledge industry: that is, to serve as the focal point for national growth."
“The university and segments of industry are becoming more alike. As the university becomes tied into the world of work, the professor — at least in the natural and some of the social sciences — takes on the characteristics of an entrepreneur ... The two worlds are merging physically and psychologically.”
"We're a bunch of raw material that don't mean ... to be made into any product, don't mean to end up being bought by some clients ... We're human beings."
"There is a time when the operation of the machine becomes so odious, makes you so sick at heart, that you can't take part; you can't even passively take part, and you've got to put your bodies upon the gears and upon the wheels, upon the levers, upon all the apparatus, and you've got to make it stop."
“All the aspects of knowledge—its creation, its storage, its retrieval, its treatment as property, its role in the functioning of societies and organization—can be (and have been) analyzed with the tools of economics. Knowledge has a price and a cost of production; there are markets for knowledge, with their supply and demand curves, and marginal rates of substitution between one form of knowledge and another.”

troublesome concepts

tacit knowledge

"The concept of the inextricable tacitness of human knowledge forms the basis of arguments ... against ... every construction of rational decision processes as the foundation for modeling and explaining the actions of individual human agents."

-- Cowans, David, & Foray
"A notion that took its origins in the psychology of visual perception and human motor skills has been wonderfully transmuted, first from an efficient mode of mental storage of knowledge into a putative epistemological category (having to do with the nature of knowledge itself), from there into a phenomenon of inarticulable inter-organizational relationships and finally to the keys to corporate, and perhaps national, competitive advantage!"

--Cowans et al.
"The large amounts of time spent by students of chemistry, biology and medicine in their practical courses shows how greatly these sciences rely on the transmission of skills and connoisseurship from master to apprentice. It offers an impressive demonstration of the extent to which the art of knowing has remained unspecifiable at the very heart of science."

-- Michael Polanyi\textsuperscript{21}
"We need to remember only how much we have to learn in any occupation after we have completed our theoretical training, how big a part of our working life we spend learning particular jobs. ... Even economists who regard themselves as definitely above the crude materialist fallacies ... commit the same mistake ... toward the acquisition of such practical knowledge ... the reproach of irrationality ..."

Hayek, 1945
"Economics is ... a matter of feeling the applicability of arguments, of seeing analogies ... of knowing when to reason verbally and when mathematically, and of what implicit characterization of the world is most useful for correct economics ... Problem-solving in economics is the tacit knowledge of the sort Polanyi described."

-- Donald McCloskey
"Clearly there is here a problem of the Division of Knowledge which is quite analogous to, and at least as important as, the problem of the division of labour. ... instead of showing what bits of information the different persons must possess in order to bring about the result, we fall in effect back on the assumption that everybody knows everything."

--Freidrich von Hayek, "Economics & Knowledge," 1937
"The 'data' from which the economic calculus starts are never for the whole society "given" to a single mind ... knowledge ... the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess."

"... a problem of the utilization of knowledge not given to anyone in its totality."

F. von Hayek, 1945
more troublesome concepts

social knowledge

[any dissent from methodological individualism] "implies that the behaviour of men is directed by mysterious forces that defy analysis and description."

reading Hayek

organization of industry

“I was once in the habit of telling pupils that firms might be envisaged as islands of planned coordination in a sea of market relations.”

--G.B. Richardson, "The organization of industry," 1972
"Markets increase information by inhibiting competition."

knowledge "is rarely reducible to information."

Richardson, *Information and Investment* [aka, "The economics of imperfect knowledge"]
the utility of imperfections

a tragedy of common knowledge

“By neglecting the whole problem of information, the perfect competition model condemns itself not only to unrealism but to inadequacy even as a hypothetical system.”
coordination

complementary capabilities

"Co-ordination cannot be left entirely to direction within firms because the activities are dissimilar, and cannot be left to market forces in that it requires not the balancing of the aggregate supply of something with the aggregate demand for it but rather the matching, both qualitative and quantitative, or individual enterprise plans."

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"Quality is so disputable a matter, that I look upon all information of this kind [i.e. about quality] as somewhat uncertain."

--Adam Smith, *Wealth of Nations*, 1776
"Nature has wisely judged that the distinction of ranks, the peace and order of society, would rest more securely upon the plain and palpable difference of birth and fortune, than upon the indivisible and often uncertain difference of wisdom and virtue. The undistinguishing eyes of the great mob of mankind can well enough perceive the former: it is with difficulty that the nice discernment of the wise and virtuous can sometimes distinguish the latter."

--Adam Smith, *Moral Sentiments*, 1759
"... it would be metaphysical, and fruitless, to assert that all dispersion is due to heterogeneity."

"Quality has not yet been successfully specified by economics, and this elusiveness extends to all problems in which it enters."

--George J. Stigler, 1961

"pathbreaking article" --Hirshleifer
"Information about quality ... poses an intrinsically more difficult problem than uncertainty about prices ... quality may be multidimensional unquantifiable ... irreducibly subjective."

-- Hirshleifer
"There is an incentive for sellers to market poor quality merchandise.

... The difficulty of distinguishing good quality from bad is inherent in the business world.

... Gresham's law has made a modified reappearance.

... An asymmetry in available information"

--George Akerlof
"The problem of quality has been ... evaded by the assumption of homogeneous goods."

"Let us consider these [used-car] dealer markets."

-- George J. Stigler
"Tastes neither change capriciously nor differ importantly between people.

... we believe our approach better explains when behavior is stable than do approaches based on customs and traditions.

... we would welcome explanations of why some people become addicted to alcohol and others to Mozart."

economic imperialism

"This traditional approach of the economist offers guidance in tackling these problems -- and that no other approach of remotely comparable generality and power is available."

Stigler & Becker, 1977
counteracting institutions

"the difficulty of distinguishing good quality from bad is inherent in the business world; this may indeed explain many economic institutions."

-- Akerlof
branding

apportioning risk

"New products are associated with old brand names. This ensures the prospective consumer of the quality of the product."

-- Akerlof

"Goodwill may be defined as continued patronage by a customer without continued search."

-- Stigler
"doctors, lawyers, and barbers ... the high school diploma, the baccalaureate degree, the Ph. D., even the Nobel Prize, ... education and labor markets themselves have their own 'brand names'."

--Akerlof

"We are not equipped to discuss advertising in general because the problem of quality has been (and will continue to be evaded) by the assumption of homogeneous goods."
"In practice, the FTC and the courts have recognized that advertisements cannot be required to carry every relevant piece of information ... the problem, at bottom, is that there is no easy way of distinguishing deception from the larger problem of inadequate consumer information."

Beales, Craswell, Salop, "Efficient Regulation," 1981
"the still insufficiently explored role of quality (as contrasted with price) in economic life ... Quality changes have usually been dealt with .... through the concept of the equivalent price or quantity change."

"Economists have paid little attention to *repairable lapses* of economic actors ... First, in economics one assumes either fully and undeviatingly rational behavior, or, at the very least, an *unchanging level of rationality* on the part of the economic actors... [second] in the traditional model of the competitive economy, recovery from any lapse is not really essential. As one firm loses out in the competitive struggle, its market share is taken up and its factors are hired others, including newcomers."
"In perfect competition (which includes perfect consumer knowledge as one of its many exacting assumptions) the firm is not derived of an effective mechanism [when performance deteriorates] ... because performance deterioration ... is reflected directly in a decline in revenue... But assume a small departure from the perfectly competitive model so that the firm has some latitude in varying quality; then performance deterioration can (and is perhaps likely to) take the form of quality decline and if the market in which the firm sells is highly competitive ... the firm will be competed out of existence. In other words, while the perfectly competitive world is a feasible one from the point of view of an effective recuperation mechanism, the world of quasi-perfect competition is not. ... the optimal arrangement is not one as close as possible to that of perfect competition, but one rather far removed from it.
losing out in the competitive struggle

"when a uniform quality decline hits ... all firms, each firm would garner in some of the disgruntled customers of the other firms, while losing some of its previous customers to its competitors. ... Competition in this situation is a considerable convenience to the manufacturers / because it keeps consumers from complaining; it diverts their energy to the hunting for the inexistent improved products."
"Competitive political systems have a considerable capacity to divert what might otherwise be a revolutionary groundswell into tame discontent with the governing party."
[T]hose who would be the most active, reliable, and creative agents of voice are for that very reason also those who are apparently likely to exit first in case of deterioration ...

It is possible that the consumers who drop out first as price increases are not the same as those who exit first when quality declines."
"[I]n the case of 'connoisseur goods'--and, as the example of education indicates, this category is by no means limited to quality wines--the consumers who drop out when quality declines are not necessarily the marginal consumers who would drop out if price increased ... the consumer who is rather insensitive to price increases is often likely to be highly sensitive to quality decline."
"Quality and price are once again revealed as totally different phenomena: a decline in the price of a commodity is good news for all consumers just as a rise in price means a loss in real income for all, but one and the same change in quality may make the commodity more appreciated by some consumers, while others find it less to their taste than before."
different exits

"Cleavages between the upper and lower classes tend to widen and to become more rigid in upwardly mobile societies."
and so ...

Aristotle
(or Paul David)

once more

?as tacit to explicit

so quality to quantity?