Youngberg

Econ 304—Bethany College

**Homework 07**

Answer all the following on a ***typed, stapled*** (if applicable)separate sheet of paper. Make sure that you justify your answers, use your own words, and show your work. All questions are equally weighted.

1. How does the influence of agenda setter demonstrate Arrow’s Impossibility Theorem? What is the source of the agenda setter’s influence?

*The Impossibility Theorem proves all results of votes, if there is no clear majority, are arbitrary. That arbitrary result depends on the order of vote, something the agenda setter (e.g. the leader of a meeting) controls.*

1. Provide an example of a public good which was not discussed in class or in the lecture notes. (They are: national defense, murals, city parks, attractive buildings, police protection, and light from lighthouses.) Justify your answer. Why is it efficient for public goods to be provided by the government?

*Asteroid protection is a public good. If an additional person on the planet is born, it does not increase the cost of protecting Earth against an asteroid. It is also impractical to exclude people from enjoying asteroid defense; one cannot let the asteroid only blow up and kill a particular person and leave the rest unscathed.*

*The optimal number of uses is everyone because the cost of adding an additional user is zero. But because the good is nonexcludable, governments must provide them to provide free riders.*

1. Why does Iannaccone argue that monotheistic (Western) religions require so much from their believers than polytheistic (Eastern) religions? What would happen if Western religions required less?

*In Western religions, the congregation plays a crucial role in creating value for the believers. That good, one where value comes from what people contribute to it, has a danger of free riders from those who are only casually interested in the religion. Thus they have an incentive to make sure only the true believers belong; by requiring a lot from their believers, only the truly dedicated will commit and since the truly dedicated are more likely to contribute to the overall well being of the church, the church thrives.*

*If Western religions made it easier to belong, the average faith would assuage as casual or non-believers would enter in an attempt to free ride off the club goods provided by the group. Eastern religions provide few or no such goods so each god is specialized and believers opt into a multitude of beliefs.*

1. We discussed two reasons why voters support policies which are not good for economic growth. Describe them both and argue which one plays a greater role in this inefficient political result. Be sure to justify your answer. (NOTE: You must take a stand; no wussing out and saying each are equally influential.)

*The two theories are rational ignorance and rational irrationality. Rational ignorance describes why voters are often uninformed about politics because the expected benefits of knowledge exceed the costs. Therefore, they don’t vote for the economically efficient policy. Rational irrationality argues voters have emotional attachment to nonsensical ideas. Because they have no influence on the result of the election, voting is a cheap way to indulge in their irrationality.*

*You would have to choose one side but here is an example of each argument:*

*Rational ignorance plays the larger role; that’s why political ads work. It is very difficult to change people’s minds if they have an emotional attachment to an idea but if they are simply ignorant, lying and deception get you far. That’s why political ads, and thus fundraising, are so important. People are basically blank slates that political agents can influence.*

*Rational irrationality plays a larger role; politicians don’t shape voters but rather cater to them. It explains why so few states are battleground states; so many have their minds made up already. The actual number of swing voters is very low and when people are polled on one economic topic or another, they often disagree with conventional economic wisdom.*

*Note I added factual details that we did not discuss; you are not required to supply such evidence in your argument but it would certainly help with this kind of answer.*

1. Provide an example of rent seeking not used in class or the lecture notes (since I’m writing this before we have class, I don’t know what examples I will use but you should be keeping good notes, anyway). Justify how you know this is rent seeking. If the potential gains from the rent increased, what would happen to the expected value of pursuing the rent? Justify your answer.

*Taxi cab medallions are a form of rent. To drive a taxi in NYC, you need to buy one of these from the government. This barrier to entry reduces competition and increases the revenues for taxes. But because the revenues for taxis increase, more people chase these medallions, increasing their price. These medallions can sell for $1 million each and many go for more than half a million.[[1]](#footnote-1) If the potential revenues from running a cab increase, that increase in rent would bid up the price of these medallions; entry pressure doesn’t go away. Thus the expected value of pursuing rent remains the same for risk neutral agents.*

*As a side note, this brings us to what economist Gordon Tullock calls the transitional gains trap. When you hand out bonuses and protections like these medallions, people pay a lot to get them. Deregulation because very hard because such changes would render these significant investments worthless. Taxi cab drivers thus because a group vehemently in favor of keeping this system. Politically, it’s virtually impossible to remove.*

1. <http://www.nycitycab.com/business/TaxiMedallionList.aspx> [↑](#footnote-ref-1)