

What is economics?

- science of allocation  
scarce resources

- unlimited wants  
more is better

- limited resources  
• 24 hours in a day  
income -

- effort → increase resources legit way good
  - ↳ increases resources cheat. bad.
  - people respond to incentives
    - want more stuff
    - $\left( \frac{\text{good}}{\text{bad}} \right)$  effort
- relative payoffs.

- less of bad effort → reduce  
payoff → probability  
of detection } -  
→ penalty

↳ marginal effect  
- penalty fit crime

opportunistic → respond to incentives

- unintended consequences.

- loopholes - tax  
- regulations

1960s - 1970s → separation of ownership  
& control -

owner; shareholder

control: manager → rewarded through  
stock.

Volkswagen - emission

WorldCom

Enron - gas contracts - 20 years

Wells Fargo - fake accounts .

Health South. 5300 fired.

Exec \$125 million

↳

Markets work if:

1 Info symmetric - Buyers  
Sellers  
Sellers better informed.  
buyers exploited ]

→ regulations require  
disclosure & repealed.

Dodd-Frank

Sarbanes Oxley Act

## 2 Incentives matter.

- people maximize net well being (utility subject to budget constraint)

[ want people to do less raise price  
more lower price ]

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Read Chapter 1 in Mankiw  
(principles 1-7)