

EEP100 Lecture 17 (Oct 27, 2009)

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Let's get going. It's lecture 17 as we roll along in the fun part of the semester. The videos are caught up more or less. Again, there was an error. The 12-minute video is gone. It's been replaced by the full one hour and ten minutes of exciting economics.

I have office hours today; I've got to cut them short a little bit. But after class until 1:15. Any open...and I'll talk about the briefing at the end of class, because I'll hand out the briefing and the materials, and the lecture today will prep you for the briefing in a sense, okay? It will be due November 10, which is 2 weeks from today. So I will discuss that at length at the end of the class.

Are there any open questions from anybody about anything?

No? The world is at peace? Everything's good. Okay. We'll keep talking.

If someone asks you a question on the blog are you required to respond?

You are not required to respond. You'll have to investigate whether you want to respond.

I have a flame war going on with a guy right now, who is more famous (And definitely in his own mind is more famous than me). And I broke the rules of common courtesy by recording his public talk with twice as big of an audience by putting it on my blog. That was a scandal. I've taken it down...whatever. So much for the public discourse. If you want to reply...if somebody flames you on your blog post and says, "You suck." Then you can say, "You suck more." If you want to.

But there's a lot of constructive criticisms, and because your briefing 2 is going to be based on your blog posts...did I mention that? Did you guys here that? Okay. let me tell you right now what that is. So your blog posts...they're going until about November 10. So the next weeks...we have about 30 more posts going up. So your blog post is going to be the basis of your second briefing, which is 10 points of your grade, right? So now the blog post is worth twice as much as you thought it was worth. So instead of being...oh...a correction to my blog post...you're going to (essentially) have a chance of rewriting your blog post. So the one that went up on the web was your draft. And then you'll be rewriting it for your second briefing, and then grading each other in terms of the quality of your economic analysis. I'll speak more to peer grading later on in the class.

But just be prepared. When I started to mention that...who's the one that did the opium post? So you went and found more sources from the office of control of drugs...or...yeah, that long acronym. Five letters. So that, in a sense would be the kind of thing you want to include in your briefing, right? So in a sense, you've already done some work towards your second briefing. So when I mentioned...yeah, you can just forget it. Who cares if my blogpost...it's done. But when you...if you want to cut and paste your blog post into your briefing two, that's fine. You'll

be graded on that. But if there's something you want to improve or correct...language, spelling, punctuation especially?

Somebody got destroyed on their grammar. And it wasn't me who wrote that comment. That was brutal. And if you want to actually cut and paste, go ahead. You'll probably get a very bad grade. But if you want to take the opportunity of improving your blog post for your second briefing, then you will have that opportunity. At the moment, that's due on December 1st, but I'll make it more formally announced later on. So that's what's going to happen with the second briefing.

I have another question.

Yeah. We're all about questions.

You know how Starbucks keep raising their prices, and they say that the world price of coffee is like 12 cents, does the majority of their profits go to Starbucks?

So Starbucks is raising the price of their coffee. And they're complaining that the wholesale price of coffee is going up?

No, I was just wondering.

About coffee prices? Just talk about that? Okay. so the price of coffee is notoriously low. You go to Starbucks and you buy a coffee. They charge you what? Two bucks for a cup of coffee now? What's the cost? I get lattes and cappuccinos all the time. What's the cost of coffee at Starbucks? 1.75, right?

So the price of the raw material in there...the water's free, there's energy, and the coffee itself (out of 1.75) is probably 10 cents. So is it a \$1.65 profit?

What else goes into the price of a cup of coffee at Starbucks?

Labor, rent, cup, marketing, water (we got that one)...more?

Unbelievable monopoly profits, right? Starbucks is making a killing, right? Why are you nodding? How many coffee shops are next the Starbucks downtown in Berkeley (besides the Starbucks that's next to the other Starbucks)? But there's Starbucks, there's Peet's, there's wherever else...Coffee's a hypercompetitive business, and I don't know (this would be a good question to ask yourself and go and do some research) but I would be curious to see what their profit margin is. If you look at their annual report, simple question...what's the gross sales? What are their net profits? I would have to say that it's less than 10%. So out of that \$1.75 cup of coffee, less than 10% is 17 cents of profit . So there's a whole bunch of other costs

I'm confused that you said it's a competitive business. And I see that, for example, selling coffee on the world market cost...there's perfectly competitive...there's also the other products (it's not just coffee) like let's say...jeans, cars, whatever. I mean many people think...there's only one Starbucks, and there's many coffee shops, but there's only one Starbucks. And Starbucks is, for some reason, better, cooler than anything else, so there is, in a way, monopoly power...

There's market power, but there's not monopoly power. Market power, right? So you're right. There is market power. And here's a good example. When you go to Starbucks in Berkeley and you pay \$1.75 for a cup of coffee, and then you go for Starbucks at the Oakland airport, or the San Francisco airport, and you pay \$2.50 for a cup of coffee, that is monopoly power. Because there are no other coffee shops in the airport. Well sometimes there are, sometimes there aren't. So when they get an exclusive concession, then you see the price jack up. And it may reflect the cost of the rent. But that is a...so that's the monopoly profits being passed monopoly profit from the airport, right? Because the airport is charging a higher rent to get to the Starbucks in there.

So the fact is that...by definition...Starbucks is not a monopoly because there's more than one place to buy coffee. And there are substitute goods for coffee, if you go to the teashop next door. But they do have market power. And a lot of their market power is actually based on their brand name.

So that's the value of Rolls Royce, the value Levis, the value of the band—if U2 comes to town, they can charge more for concert tickets than U2 Revival Group. Because maybe U2 Revival Group has all the same singers, all the same guitar skills, or whatever, but they're not really U2. So this is where you get, what are called, monopoly rent, or return on your brand name. But the brand name took a long time to invent; to create. And so that's what's going on as far as that's concerned.

So that's the difference between monopoly power and market power.

Monopoly power is just one version of market power. It's a subset. Market power and monopoly power. Almost every business has some sort of market power. But monopoly power just essentially means that they're a monopoly. And that means...this is a better definition of a monopoly power...is that there's no entry. That means that nobody can enter the business and compete with you if you have monopoly power. The United States Postal Service has monopoly power over the delivery of mail to your slot of the door.

Starbucks has no monopoly over anything. Microsoft has no monopoly over anything. You can enter into the software business. People can choose, right? The United States government has monopoly over use of force in this country. Or whatever. Something like that. Some kind of definition of what they're monopoly power is. But it's very unusual that you actually have a monopoly for a private business that is not getting some kind of government right, government concession. So monopoly power is merely a subset of market power. Market power will ebb and flow according to essentially how many competitors you have, how well your advertising campaign is going to be...

Apple just made the most crazy profit in the last quarter. They made a big profit...I don't remember what it was. Billions of dollars. Relative to their market cap, they did very, very well. But they're making a big profit because of why?

Market power.

Market power, good. What kind of market power? What kind of good does Apple sell that people want to pay more for?

iPod

iPhone. iPod. iBook. MacBook. Whatever, right? All these things. And Apple...and when they spin it out, they spend a whole bunch of money adding intellectual property now that they're making profits. Google is the exact same thing, because everybody goes to Google to search. But that could erode next year. If the android phone destroys the iPhone, then that's going to fall apart, right? And if you're a phone geek, you're like, "Ooh, ooh. Neat. Competition." But then that's serving who? Us, right? That's the whole point of creative destruction. Which is what I was mentioning awhile ago. Okay. from coffee to Apple. Any other questions? No? Okay. We'll go right along.

At some point I mentioned the term homoeconomicus. What does that mean in English? What does it mean? It's a contrived neologism from Latin. What does it mean? Come on science buffs.

Is it like a rational thinker?

But literally, what does it mean? Come on guys? What does homosapiens mean? Man...keep going. Hombre. Homo means man. Anything else? Has anybody taken a biology class? Is this like creative design here?

Wise human?

Thinking man. It could be wise. "Sapave" is to know, right? So...the man who knows.

And this one means what? Economic Man. That's why it's so obvious, because someone just took economic and made it into a Latin word. Homoeconomicus, right? That's not that hard. So here's the thing. What defines homoeconomicus? Somebody said it already. Say it again.

Self interest?

Self interest. Acting in your own self-interest. Rational self-interest. I'm only writing this down because you have to know this if you're going to be an economist. You have to know that homoeconomicus...

Number 1: Acts in your own self-interest in a rational way. Him or her.

Now the problem is...I was talking about the trust game last class. I was, right? I'm a little bit confused. I've been talking too much to too many different people.

What happened in the trust game?

Mister A has got \$10, and he sends Mr. B, say he sends Mr. B \$10.

Number One: if Mr. B is homoeconomicus, what's going to happen in terms of passing back?

Zero.

Right? And if Mr. A understands that Mr. B is homoeconomicus, what's he going to pass?

Zero.

Zero. That's backwards induction. This is step one, and that's step two. This is very important. So if you take any game theory classes, this is critical, right? Upper division. Your next class. An A grade, right? Write that down. So through backwards induction, you know that 2 homoeconomici will pass zero dollars back and forth.

They'll both end up with a payment of...this guy will end up with a payment. He'll keep the 10 bucks, and this guy will get nothing, right?

But what actually happens? When people play this game? I told you in the last lecture, or did I not? Yes? What actually happens when real people...what happens when homorealitus, or homo...peoples play this game?

They pass the money?

How much money did they pass?

10, or 5, or whatever. More than zero, though right? That's the key number. So here's the thing. Actually...let's just stick with homosapiens. Not my stupid phrase. Homosapiens (who are us), when they play the trust game, they do not act like homoeconomicus. That is a very important point. When you're take your classes, your professors are going to be doing homoeconomicus this, and homoeconomicus that. And you'll be saying, "Oh yeah, I'm learning economics."

But you're not, in a sense, that this produces results that do not appear in the real world. And what turns out to happen is when people act in their rational self interest, which is basically true (it's not hard to defend that assumption) they actually will share money in the trust game. Because the simple version of homoeconomics is not self-interest but selfish. Self-interest and selfish are not equal.

Now the Nobel Prize this year was awarded to Lynn Ostrom because she figured out that people will cooperate with each other to solve collective action problems without requiring the privatization of property rights. Collect common pool goods. People will cooperate together to solve those collective action problems, which is not taught in economics classes, except this ones, and other ones. But not generally. If you look at a textbook, it's very unusual that the textbook will explain how to solve a commons problem, common pool dilemma, without private privatization of property rights. This is like...heads up.

And here's the thing. Well you don't have any choice, really. If you are interested in...there's a scientist, and he came up with a theory of falsification. Does anybody know who this guy is? He wrote in around the 1930s, 1920s? Does anybody remember his name? It's okay, I don't either.

The whole idea of falsification is that you will be able to create a testable hypothesis. What does that mean, a testable hypothesis? What does it mean?

It can be repeated?

It can be repeated, yeah,

It can be verified by others?

Verified...or more importantly, it can be falsified. So what it means, is this. So this is essentially how all of science works. You have a hypothesis and you say: my hypothesis is that...when I put on my sunglasses, it will rain. If I put on my sunglasses and it doesn't rain, that has been falsified. That has been rejected, right? That is falsifiable.

If I sit there and I say...when you guys all think about rain, it will rain, that can't be falsified, because I can't really get into your head. I can't know what's inside of your head. Especially, I can't know what all of you are thinking.

If one person says they're thinking really hard, but another person says, "I'm thinking." But they aren't, you can't invalidate that hypothesis. You cannot reject the null hypothesis. This is extremely important if you do any kind of empirical work as a scientist. But in economics, it's especially important if you do this in econometrics, right?

If you ever do econometrics, which I think you have to...do you have to? Yeah. If you do econometrics, you will have null hypotheses, and you must be able to reject your null hypothesis. If you can't reject it, because you're like...the worst thing you can say is...my finding is consistent with the null hypothesis. You can't say that. All you can do is reject it or not reject it. now why does it all matter? It matters because the trust game has rejected the null hypothesis of selfishness. This is the null hypothesis. People pass zero. Zero and zero. Homoeconomicus? Right, fine. They'll pass zero. And what ends up happening is that people pass more than zero. So you reject that hypothesis. So homoeconomicus is an imaginary figure that does not exist in reality. It does exist in economic textbooks, but you have to be very careful about where you apply it. You certainly can't apply it blindly or religiously.

It's super critical for this class, and super critical for briefing number one that you understand this concept.

Why aren't those two the same?

Selfish and self-interested? We usually define self-interest to mean that if I have \$10, and I'm asking if I can share it with you, or if someone asks if I could share it with you...if I'm selfish, I don't care about you. If I am self-interested, I might care about you because maybe it's in my self-interest. It might just sound like words to you, but there's differences in meanings. Put it in a sentence; it'll work out.

If you look at economics as more than strictly monetary...or beyond the scope of having to deal with money...or the social aspect...would they still be acting in rational self interest, and therefore acting like homoeconomicus?

Well, that's the question, right? If homoeconomicus is this person here, right? It depends on how you want to define homoeconomicus. If you want to say homoeconomicus is rational self-interest, then karma could fit in, social cooperation could fit in, but if you actually define it as selfish, and when we talk about the prisoner's dilemma, what you do in the prisoner's dilemma...it's like...I should defect. I should not cooperate. Or I should not protect my partner in crime. But it turns out when people play the prisoner's dilemma, or, more importantly, when they play the trust game, which is a much clearer situation, that they...if you want to call them homoeconomicus, go ahead. But the prediction that they'll give zero is violated in terms of people. Peoples' behavior, right? So either you redefine homoeconomicus to include, within

self-interest...some concern about other people...or you throw away the homoeconomicus. So you have to decide. In some ways it's...it might sound pedantic, right? But the problem is that a lot of times, the definition of this is that your utility function of an individual equals the consumption of goods to you and that's it.

If you sit there and you say... X_i , X_j , and that's everybody else, then okay. Your utility function has that. You're acting in your own self-interest. Then you might share. You might cooperate. And maybe that's still economic. But you have to be able to distinguish what's going on in that utility function. Does that make sense? So I guess, as a clarification, I'm not saying...let's just say it this way. The simple black and white version of homoeconomicus, which is actually assumed, and why is it assumed? It's assumed because then the math is easier. Right? It's like that. That's it. really. Because if you sit there and you say...people are going to be something in between getting zero and ten dollars, then there's no math. You can't make a prediction, right?

That's why the math economists hate the experimental economists because there's no math involved in experimental economics. So if you go over that limited version of homoeconomicus, then you're going to be wrong. If you say, "Well, it goes into the utility function. Then I can include everything that falls under self-interest." Then you're back on track, but that means almost anything can happen. Which is tough.

So then you can include in your utility function, for example, a good that is happiness of another person. [Absolutely, yeah] So if you include that, then your mathematical model will break down. [That's right.] But it will still be under self-interest because the other person has to be happy to make your utility...

Right. So here's the way...the counterpoint is like...it's like in my self-interest to take care of someone I care about. If I hate that person, should I give them stuff also, right? Or if I don't know who that person is. Sometime people (this is interesting...international aid)...People are happy to donate money to aid, but when you ask them...do they care about how that money results in the reduction of poverty, they're like, "No." but they just want to put \$10 in the envelope and send it off to somewhere. But if it gets lost in the mail slot, they don't care. They feel happy because they just...they sacrificed something. They don't care if it actually helps somebody, which is kind of sucky, but that's the way it works. That's how self interest works out.

Another hand...was there a hand up here?

I had a question about behavioral...Is experimental economics similar to behavioral economics?

Behavioral economics and experimental economics. Behavioral economics is like psychology, and experimental economics is the idea that you could have testable hypothesis that will be repeated in experiments over and over again.

Who's done the auctions in section already? That's experimental economics; it's not necessarily behavioral economics. The trust game is behavioral and experimental. So behavioral, again, is a subset of experimental.

What do they mean by rational? How can you say that everyone is rational, and how do you define that?

Rational is...basically, if you're given a set of choices, the same set of choices, not adding and subtracting choices, that you will be consistent in what you are choosing at a given time.

So if I say to you...I say, "Do you want coffee or coke to drink right now?" Right now. Then you will choose coffee. And if I ask you again, you'll say yes, coffee. And if I ask you again, you'll say yes, coffee.

If I say, what about your second or third cup, you can switch. That's still rational. If I add another option here (Tea) you can also switch. If I ask you tomorrow, you can switch. The only thing is you're basically assuming that what you're choosing right here, right now, between your choices is what you really want. Which is kind of ridiculous to make that huge definition for that little obviousness. But that's what we mean. It's essentially...you think...you know what you want, and you ask for it.

Another question?

There are other assumptions that are used for mathematical purposes that go beyond this, that actually fail on real people.

That's a hypothesis, so that can never be proven, right?

It can only be rejected. You can never prove something with a null hypothesis. That's the whole idea. So of course what you do is you just write it in the right way, so you can reject it, which is one of those rhetorical slips/tricks. It's like taking the natural log of Copp-Douglas or a Lagrangian. Anything else?

Okay, so that's a clarification. And I'm banging on this because I want you guys to be forewarned and fore-prepared, not because it's going to pop up on the test later on, but because if you take the stuff that you're learning for your tests later on, and you go out into the real world, be careful that it matches reality, or at least your experience in life. Because the one thing that people always say...I say, "I'm an economist." Oh, economics is tough. I'm like, "No, you do economics every day."

When you go out in the supermarket, and you buy groceries. You are acting in your rational self-interest against your budget constraint, choosing a bundle of goods that will serve you the best. It's just like that. It's not more complicated than that. The fact that I can't understand what you're doing does not matter. That's where economists go crazy.

But consumers know what they're doing, generally speaking.

Okay. Good enough? Yes. I'm sure we'll come back to that more often.

Now...auctions. Here's the deal. There's a little experiment that's going to be going on in this classroom on Thursday. And as part of my Fall cleaning, because I'm leaving the country for a little while, I'm getting rid of a lot of books. And I'm going to auction some of these books to you guys in this class on Thursday.

So this is what's going to happen. I have about 8 books here. What I'm going to do is I'm going to hold them up, and I want to see a show of hands if you're interested in bidding for this book on Thursday. The four most popular books will be put up for auction at 25 cent increments. So

if they sell for less than \$5, I'm happy. This is not break the bank time, okay? The most popular four will be sold in different auction mechanisms, and I will describe all of them on Thursday. So probably the whole class will not auction, but you will earn something there, hopefully. So we need to find out which are the four, and which are most important.

So here's my little...this is like late night TV:

Wordly Philosophers: The Lifetimes of Great Economic Thinkers.

The Principles of Political Economy and Taxation. David Ricardo. 1820. I thought so.

Wisdom of Crowds...James Surowiecki

Wait, what is it about?

The Wisdom of Crowds? It's...why the many are smarter than the few, and how collective wisdom shapes businesses, economies, societies, and nations. Very good book, actually. I have to say. Oh, I should do my own little star ratings. This is a 5 star, this is a 5 star, this is definitely a 2 star. Hernando de Soto...*The Other Path*, a very famous book on private property... "the economic answer to terrorism"...he actually helped break apart terrorism in Peru in the 1980s. Anyone? Anyone? Kind of? Okay.

Shoveling Fuel for Runaway Train: Errant Economists, Shameful Spenders, and a Plan to Stop them All...this is about sustainable...steady-state economies and sustainable ecology. Why GDP sucks as a measure of economic output. So this is like a ...forget what you guys say...this is like a 5 star book also. Okay so this is a 4 star...anyone? Hands? We'll do second round if we don't get clear.

The Koran, in English. Small edition, right?

The Communist Manifesto. Anyone heard of it? Marx? 22 pages...50 pages of rhetoric. Maybe?

Oh look! Tomas Schelling: *Micromotives of Macrobbehavior*. Anyone, anyone? Okay...kind of...

The Logic of Collective Action. A book everybody's reading? Yes? Except they already bought it, right? That's the problem. I should've done this at the start of the quarter.

The Economic Naturalist, anyone?

Watchmen. Oh! \$20!

A Beautiful Mind—John Nash. Sylvia Nasar. A great book on John Nash kind of going crazy or whatever. He's the guy that like...made game theory happen.

If they don't go on auction, can we just buy them from you?

That's possible.

Okay, so this is not happening...so here's our runoff. We've got *Wisdom of Crowds*, *Worldly Philosophers* in. And we've got 6 more books, and we've got to get them down to two. So we've got Soto. We've got the Koran. *Shoveling Fuel for Runaway Train*. That's more. Okay. *Communist Manifesto*. *Watchmen*? No. *Beautiful Mind*?

I think it should be the Communist Manifesto

You think it should be *The Communist Manifesto*? You're like one vote though. This is a democracy. Okay...between these two? Who thinks this one? Who thinks this one? Alright. Here you go.

Alright, so we will do this on Thursday. I will have change (as in quarters). Bring singles if you want to bid. I'm serious. These will sell...I know you guys are all going to be really cheapskate. That's fine. If this sells for \$1.25, I'm happy. We're going to do the auction mechanism. That's what matters to me. So it'll be these four. That's that.

Let's go on to (and those of you who are in section on Wednesday will be doing more auctions). Go ahead.

Can you email us the titles?

Yes I can. You can see on Amazon and check the actual value, yeah. I know this homoeconomicus. Remember shipping costs though and immediacy. You can have it right now. With all my notes in it. This guy's an idiot!

You write in your book?

Yeah. Actually, these guys don't have very many notes in them. But there was this famous...has anybody heard of Fermat's Thereom? No? Yeah? So there's this guy...he's a French noble. He was a tax collector. This is how it used to work. You would be a tax collector, and you would just like...go collect taxes, keep a piece of the action, and send the rest to the king, right? It was a pretty easy job. And he was kind of a dilettante except he was very smart. He was reading a book, and I don't even remember what the math was...he was reading a book, and someone said..."Hey, I wonder"...I think it was like finding...it wasn't finding the biggest prime, but it was a factoring problem. Something that was complicated. And Fermat wrote in the margin of the book. He said, "Oh, I can solve this problem, but I don't have the space to write it here." And he died. And back when this happened, it was like 1600 or 1700, what they would do actually is they would republish a book that an intellectual had owned, with his margin notes in it.

So people would say, "Ooh look, it's Fermat's notes on *The Wisdom of Crowds*. And someone started reading it and was like wow, I wonder what his theorem was. Fermat's last theorem. That's how it got the name.

It took 300 years or more until they actually found..."they" was like...it was the combined efforts of like 10 different mathematicians. Actually, I think the guy at Berkeley...he was the one...he had a key contribution to solving it. And his proof of Fermat's last theorem was like 180 pages. It wasn't actually going to stay in the margin. So basically Fermat was full of it. But they did end up proving, I think, that he was right. So there's nothing so wise in here.

So let's go back to principle agent stuff and spend a lot of time on that, because that also matters for your briefing.

So you've got your principle, and they hire an agent. And the first problem of a principle agent relationship is what? As far as information is concerned?

What is the category of an information problem called?

Asymmetric Information. So there's two types of Asymmetric Information. What's the first type?

Ability?

Ability. What's the jargon. Adverse selection. So adverse selection is about ability, right? You don't know if that agent is good at his job, and the job that he is doing for you (The principle). The other problem with asymmetric information is what?

Moral hazard. What does that mean?

Effort?

Right. And you would hope that we would make it simple and say ability and effort, but we don't.

So these are the two things that the principle cares about. And the traditional solution for adverse selection is what? What is one means of solving that problem? You want to find out if the person has ability or has no ability. What do you do?

Signaling?

Use signaling? What does that mean? Put that in a sentence. What does it mean, tell me what it means?

Like when your real estate agent drives a fancy car...

What does it mean? Don't talk about real estate agents. Tell me what it means.

Well in the past, if you've done a good job, there are certain signs that you put out that signals that you do a good job...

So if you're the agent, you're going to signal...you're going to do a good job.

And you can also do repetition?

That's a different thing. I don't want to talk about that right now. But signaling...go ahead?

I guess the principle could determine whether an agent is good or not based on certain characteristics that you feel that a good agent will have? Or certain schema that you have about an agent that performs well?

So the principle can figure out if an agent can do his job, based on some kind of signal...that's some idea...but the point is...here's an important point...is that...what the principle is trying to figure out is a person's ability. There are certain signals of ability. One signal of ability might mean...might be that the real estate agent has a flashy car because he's earned money from his commissions.

If a real estate is merely the son of a rich person, that signal fails. Another signal is that you have a diploma. What if that diploma comes from an online university for \$88 with a credit card? Bad signal. Has to be a good university. So you want to have some signal of ability. The signal must be costly for the agent to transmit. Has to be costly.

Would a resume count?

Absolutely not. Resume is an act of fiction. If you've gone to one of those resume workshops...use active verbs...talk about...talk about...I've read resumes... "I work at Cisco. I made Cisco happen." It's like...yeah. Thank god I went away from the resume world. My resume was like...oh my god, I'm amazing. Because then what happens? It's like a resume arms race. And you're sitting there going...oh yeah...and I saved that child, and I rescued a whale, and then I solved climate change. And the person who's trying to filter these out are like...Holy Cow. Where did they go to school?

And of course, the problem is, they actually lie about that. There's people that have been working for years at a job, and then they get promoted to higher position, and someone says, I wonder if they really do have a PhD?" And it turns out they made that up like 20 years before when they got their job. And they get canned. This has happened a lot. Like...20 and 30 year career people that are getting knocked right out of their entire career because they had lied about their education that much earlier.

Don't they usually request their diploma?

That's if the HR department is doing their job. Go back to that principal agent problem, right? Oh, yeah, Harvard, fine. Okay, so come on in. They just want to hire you. They don't have to work with you. They're HR. that's why they don't pick up the phone, ever.

Why hire them?

Oh...actually, you know what? That's the best question ever. It's like...well clearly she was...there was a woman in particular that had. It's like...everybody loved her, and they're firing her for not having a degree that no one cares about anymore? It's like an ethical lapse. Unlike politicians who have affairs and get reelected

Other questions?

What kind of situation is this? Is this like insurance companies?

The world. Everywhere. Principal agent problems exist everywhere. Everywhere there are asymmetric information problems, and you are...if you go to a restaurant, and you don't know what's going on in the kitchen. If you hire a doctor, you don't know what they just did to your guts. If you ask someone to sell your house...if you give your brother the car and say, "don't mess with the transmission."

Or if you rent a car. Rental racing...have you ever heard of that one? So this happens over, and over, and over again. It happens within markets and without markets. Essentially, there's some goods that are...I'll say it...but I might be wrong. Okay, let's do a homework assignment. No, let's not.

I'm going to call it experience goods, credence goods, consumption goods.

Let's look at the different types of goods for a second. Consumption goods. Using that word, it's not jargon. I'm just trying to say it's kind of what we're thinking about in terms of a good. Let's say that these sunglasses are...let's call it a consumption good. What makes this a consumption good? I go to a shop...I got these at Walmart or something. I go to a shop, I try it on, I look in the mirror, I look at the sun, and you know the properties of these glasses. There's no "I'm not sure". The glasses are not promising to

make you smarter. They're not promising to make you richer. They're just sunglasses, right? You know exactly what you're getting before you buy it. That's important. That's just basically what we think about in terms of most goods.

There are other goods that are much more difficult to figure out. One of them is an experience good where you buy a ticket to go on an airline, you pay them all your money before you experience the good, right? And you are basically going to get on that plane and take that trip.

Now if you buy a ticket and you show up and they say, "There's not food on board." Actually there was this really good spoof on the internet about EasyJet? One of these European flight airlines? Ryan is ever worse.

Does anybody know Ryan Air?

It's like 10 times worse than Southwest. Southwest is like...okay. You know... you get some peanuts, they give you a drink. You go to Ryan Air...it's like...oh, do you have a bag? Give us \$10 more. Oh, you want sit down? Give us \$10 more. Oh you want a drink? That'll be \$5. And they had this spoof. It's like...do you want a seatbelt? We'll sell you that for \$5. Do you want the thing that actually lets you get out of the seatbelt? That's another \$10.

Ryan Air is crazy on terms of nickel and diming you on these charges. So essentially, when you buy that Ryan Air ticket, you don't actually know what you're getting, in a sense, until you experience it. You could consider this the same thing...going to movie is an experienced good. you buy a ticket, you walk in, and you decide that the movie is either worth your money or it's a waste of your money. And if you get 30 minutes through your firm, and it's a waste of money, what should you do?

Leave.

Right. That's a good example of sunk costs are sunk. Do not invest an hour of your life watching crap. That's an experience good: movie. Sunnies. A credence good is...yes?

What happens if you buy sunglasses on the internet, and you know exactly how much you have to pay?

That...it's definitely not this if you haven't seen it already. It's not exactly what I talked about in terms of a credence good, it's...at this point...no...if you're buying sunglasses on the internet, maybe the ad on the internet is completely accurate. But you just don't know your head size...or whatever. Or you don't know how those lenses work. You might just kind of say well...I have this range of expectations about what I'm going to get, and if it falls in that range, then that's okay. It's much worse if you buy those glasses, and the person's just lied to you. They're selling you counterfeit. I actually know somebody who sells counterfeit glasses, but he says counterfeit, right? Because people want to buy Gucci without paying for Gucci, right? So...

I'm not quite sure what to call that one. It's certainly not this because you know what you're getting ahead of time...this is not a strict hierarchy. This is kind of off the top, that I'm giving you these definitions. But it's something around experienced...

What if you go to see a play or a movie, and you don't understand it. And you go back a second time, and...

Well that's like reading Shakespeare 12 times, you know? If you're still into it, then that's cool. But if you're saying, "This sucks." I just watched transformers this weekend. Besides the whole Megan Fox thing...I had to know. But man, the script sucked in that film. That was like...you know...for 6 year olds. And I was feeling a little bit talked down to. But I had to watch the special effects

What are credence goods? So if you want to go to a film twelve times, go right ahead. Credence goods are when you essentially have to take on trust with what you're actually getting. You can't experience it. When you walk into the film, you're like...I see the film. But a credence good is like taking medicine. Or I had the surgery, and they're like, "Hey, the surgery went well." And I'm like...I hope so. But if you're taking medicine against malaria, for example, and you don't get malaria, you don't know if that pill protected you from malaria, or you just didn't get malaria. You have to trust. You have to trust the person who's selling it to you. Medicine.

And as you go from one to two to three, you have to have more and more trust for the person that's selling you the good.

Are there any examples of that that are not health related?

Of a credence good? Who has an example of a credence good that's not health related?

Could a car be one?

Go ahead.

Like a used car salesman tells you a car...

That's more of an experience good.

But you have to trust...

But you can also test all these things out. You buy the car, and you go in the car, and you panic, and you can run the whole thing down. And besides stuff that no one can find, which, by definition, no one knows about, the car is basically an experienced good.

A credence good...you can never prove or disprove it's working. Yeah?

Maybe an SAT course prep course? You pay for a prep course, and maybe you're just really smart, or maybe it's something else.

Right, an SAT course.

Like...they give you like a 200 point guarantee.

But you might try hard. There's an interesting thing called...I just spend 500...how much do those things cost? Those things cost a lot don't they? It's a \$1000. So you spend \$1000...it's like dude. I better do well on this test. And you're not going to sit there, and it's like oh SAT...you don't sleep on the book. You work hard because you want to get your money's worth, even though there might not be anything there. So it's hard to disentangle, but I think that the...I'm not sure about that one...I doesn't...I don't know how to do that one.

What about Dr. Scholl's?

Yeah...in terms of your feet not stinking or what?

Like...it helps out your back pressure...

Right. In a sense because you don't have your counterfactual. But the reason that it's an interesting concept is because of the whole idea of doing a double blind test...doing the sugar pills. Placebo tests. If

you can't run placebo on yourself, which by definition you can't, then you're not exactly sure about what you're getting.

I think another industry apart from health is anything that involves Tarot cards or good luck charms, where people say...

Yeah. I read my horoscope, and it said I was going to have a great day, and I had a great day. It's amazing. It worked. Except I read Virgo, and I'm really a Libra. But yeah, that's another one. Like a psychic says, "I am taking care of your future. Give me some money."

Would insurance be a credence good?

What kind? No, I don't think so. Because insurance is almost a kind of contract called: we'll take care of certain expenses that might happen to you. Insurance is obviously a principle agent model. But when you buy insurance, you have an agreement. If you break your leg, you're going to get your leg fixed. The doctor...or fraudulent insurance is a different problem.

I'm saying that you're paying for something that you're not sure if you're going to get covered.

Oh like US insurance...no. I think that...I wouldn't worry about one. That's like a contractual problem. It's not a credence good.

Maybe like carbon offsetting...

Totally. Yeah. I just bought a bunch of carbon offsets. I bought...or I sent my money to the aid to [inaudible] International, and they sent me a picture of a kid back. Or the hook-up ads on Craigslist. It's like...oh...so and so wants you. It's like...wow, look at her, she's cute. Except it's a photo of someone else, or it's a guy...whatever. And then you can keep going with that one, right? So yeah. Carbon offset is a total credence good. Yeah. In fact we're all going to sacrifice so much for our lives in order to just save the world. And if all that...we're not...then we're really upset about it, right? That's why there's this big debate.

I had a question about the signals?

Hold on a second. Anybody on the credence whatever? These goods? So let me just finish up on that, and we'll come back to your question. The importance of these goods...as you move from one to three, your trust is going up in terms of who you're buying the stuff from. Now...if I'm going to buy pills...this what was going on in high school. Hold on, I have three hands backed up. In high school I had a friend that like really wanted to do drugs. It was a shock, I know. But he...this other guy said, "Oh yeah!" I don't know what he said...what he claimed to be selling him...but he actually sold him nutmeg powder. I don't know what it was supposed to be. Heroin or something like that? And it was like nutmeg powder. That was a credence good. Or it was actually an experience good because he ended up having a very nice smelling room.

What was your question about?

I was going to say that...you wouldn't take medicine that you don't know...like you wouldn't take medicine...

I do know.

Because they come from pharmaceutical companies...I mean like...you wouldn't buy it off the street.

Totally not. Never! Never buy drugs from the street.

Education? Would that be considered a credence good?

Education...well it is credence in a sense that you have no...it's like Standford/Berkeley, Stanford/Berkeley. And it's like...oh dude. You're going to be so successful in life because you go to Stanford. And Berkeley says...people say the same thing, except it will save you whatever...50 grand a year. But then you have no counterfactual. So that could be a credence good.

What about time...because I feel like with increase of trust, you're signing up for more of this...

The big commitment...you're making a bigger commitment. So you have to have trust. And that's why brand names matter. You have to be...to get back to your drug thing, actually, I mean illegal drugs, which was what I was joking about, right? That's why drug dealers are not only interested in their reputation. I'm going to give you a freebie...that's the whole joke about gateway drugs or whatever. But they also have brand names on illegal drugs...on ecstasy...actually on heroin they have Bolt, which I don't deal with. Or anything actually. It's like...they have brand names. So it's like really crazy because you're trying to have a brand name on something when you don't have any intellectual property protection because it's a black market item. But on the legal drug industry, they don't want you to know that drug that you're paying a lot of money for actually doesn't do anything. So there's this controversy about texting by doctors.

Like the whole restless leg type of thing...

What is that?

There's like all these commercials about how your legs are restless, and you need a drug.

What's that...it's called female sexual dysfunction. Did you here about that one? I don't know what the terms were. It's something like Pfizer trying to sell Viagra to women. What was the acronym for it? Female Sexual Dysfunction...there's some doctors that are diagnosing all these women. And it's like...oh you need this Viagra. And this is creating something out of nothing. This is what...in a sense...the whole... "Do you feel nervous, worried? Do you sleep well at night?" it's like...is your life going well? That's that they're doing. They're selling you drugs. It's kind of like a pre-exam...they ask people ethical questions.

Wouldn't education also be like an experience good?

Yeah I think that...here's the thing. Remember that with principle/agent problems, the way to solve them is repetition, which is what was mentioned earlier. So trust is going to be a one shot game, in a way. You go to that movie once, but once you go...if you go to a movie with so-and-so the director...and that director has another movie. Or that star shows up in another movie, it's like oh, I know that person. I'd go to that movie again. That's the repetition. And in education, you know...even here...I'll be like here for four or five years. But if your first year sucks, you're like "I'm going to transfer to somewhere else." So...or you're taking multiple classes, and you can switch between divisions. So repetition is what will save you from these problems. So there's a little bit of trust going in, but the more often you can get repetition, the better off it is.

So in that sense, coffee is a really good...so coffee, in a way, is an experience good. If you pay \$1.75 for a cup, and it's good you come back again. If it sucks, you go switch coffee shops. And so in some ways, coffee shops can't really rip you off. Because consumers learn very quickly that the coffee shop sucks. Coffee shops, food, TV shows...I mean there's a number of things that you can talk about. But the bigger amount of trust, or the bigger amount of money that's at stake, and if you can only do it that one time, that one shot...say that you're a refugee, and you're sitting in Geneva, and they say, "What country do you want to go to?"

Do you want to go to the USA, Australia, UK, or Germany...whatever...and the refugee's like well... USA...okay...they have American Idol, and they have Levis...in the UK, I have an uncle there, and I didn't like that uncle. And in Germany, they have Mercedes. So they're trying to figure out how to make a decision based on very, very strange heuristics. Rules of thumb. But essentially, I need to figure out what that experience good is going to be. That country they show up in. Because it's hard if you're a refugee and to hop around the word, right? By definition, you can't very easily. So that...in a sense, repetition really, really matters for solving this problem. So if I'm talking about this all the time, how does that relate to principle agent? It wasn't one of those crazy tangents; it's actually directly central. What does it mean? Let me say it a different way. Who's the principle, and who's the agent?

Is the agent the good?

The agent is not the good. The seller's the good. The consumer's the agent. Oh. Other way around. Oh my god. None of that made sense. The seller's the agent. The consumer's the principle. You're passing your money to your agent, and your agent is delivering a good to you. Just the same as a real estate agent is doing service to you.

You know that the side effects of a gateway drug is increased gambling?

Increased gambling problems? Those drug disclosures are absolutely insane. It has the picture on the front...I get the National Geographic, and they have the little angels dancing around, and the back says, "You might die. You're going to have endless diarrhea, you're going to have..." It's like whoa. Yeah, drugs. Avoid those drugs. Bad news. Weird. Just be healthy.

So you have to think about these issues when you're doing principle agent problems. You're trying to solve these things.

Now how does...you can solve the principle agent problem essentially through repetition. You can solve it by...the principle will be doing...they'll be using filters, which is the same as signaling. We'll be looking at signals for adverse selection. But for effort, they're going to be doing what? What does the principle do to reduce the cost of moral hazard?

Reputation?

No.

Monitor?

Monitor, right? Just watch the person, right? If you hire the dude to mow your lawn, you say, "Hey how many peoples' lawns do you mow in the neighborhood."

"I'm mowing 80% of the lawns in this neighborhood."

That is called signaling. It's a way of solving the adverse selection problem. And then you say...I don't trust you anyway because you sit on the porch and you watch the kid go back and forth, and back and forth. You say, "Oh you missed some." Right? Monitoring.

Use that example. You will never fail thinking about the kid with the lawn mower. That's fine. You saw the question.

What if you look at somebody else's lawn?

That is an advanced form of signaling. In some ways...of course, the kid might lie. So they get to go...it's like checking a person's diploma. Mr. Smith—did so-and-so mow your lawn? No! He's a liar. It's

like...oh, alright. You don't hire them. And that's in some ways why repetition really matters because once you get burned as a fraud or a liar, like...Bernie Madoff is not going to be doing any investments for a while because he's in jail for a hundred and eighty years, right? If you are fired because you're a liar or a thief, unless you're in politics, you're going to be out of the job. Okay...so this is the traditional way of solving it.

Now how does this relate to intrinsic/extrinsic motivation? If someone has...I'm not going to get...well, extrinsic motivation for your...if you're the principle, the extrinsic for your agent is a wage. You could make the wage contingent on the delivery of the good

The real estate agent is paid before the house sells, not after the house sells. The lawn mower kid...you'll say [if he] did a good job or not. I heard this from girls before. Who's paid \$100 for a haircut and the haircut sucked? No? Yeah? I heard that before. But then do you get a freebie after that? Or do you like...never go back again? Never go back again, right? And tell all your friends to never go back again, or something like that.

So there's money before and after. There's testimonials, there's telling your friends, there's asking your friends...that's why a vast majority of people...you show in town, and you meet the people. It's like...who do I go to...the dentist? The doctor? Who else? Who else do you really...don't know?

Car Mechanic?

Car mechanic, that's a huge one. What else? Optometry, babysitters? Step-dad, right? That's a new film that's coming out. A step-dad who kills every family he marries in to. So you've got money, you've got talking, you've got Yelp. Yelp is apparently running some sort of extortion racket against the business that were being rated. If you buy advertising, we'll take those negatives. But if you don't...sorry! They might write some. So these are ways of solving the principle agent problems. What about intrinsic motivation? How does that relate to the principle agent problem?

If someone has an intrinsic motivation to do a better job, are they...is that the person you want as your agent? Yes or no?

Yes.

So when they come to the interview, they say, "I really want this job. I'm going to do such a good job." Is that what you mean? I mean...kind of...you have to be able to check against it, right?

You said the resume doesn't really count. Doesn't the resume...isn't a sign of how much effort you want to put into that, like intrinsic motivation...effort that you are willing to put into your...whatever.

In a sense. So if your resume says that you spent three years in a jungle rescuing orphan gorillas...

I don't mean what is on the resume...

How it looks.

How it looks, right. Like whether you just put a piece of paper and a list...or if it's obvious that you spent 2 days designing and thinking about what you put on your resume.

Right. That's an interesting question. So, if you spend 2 days designing a resume that's fictitious, are you more likely or less likely to get a job than if you spend 1 hour designing a resume as a winner of the piece prize?

So it was content versus presentation, or something like that, right? And it definitely depends on what... because the people who are filtering resumes...when there's a hundred applicants for every job, they're going to look at like...spelling errors...spelling errors are notorious. If you have a spelling error, your resume is going to get thrown away.

That's true. That goes together. And lying is not that common. Because the most important part of your resume is what? References. Because if anybody comes today, I'm going to be like...looks good, they sound nice, I'm going to call their references. And find out if their references are legit. I think actually... when the guy writ me off, he actually...before he writ me off, he said, "Call my ex-wife. She'll vouch for me." And the ex-wife was in the game! It burned me instead—it was really sad. So references...he went to jail though, so it was cool. That was the power of blogging.

I got...for a rental deal in Washington DC. It was sad. But I got him put in jail, so that was cool.

Fraud in DC. Oh yeah, we don't have problems with fraud in DC, right?

The point though is...you want to go straight to the repetition thing. And the higher the ranking of the reference person and their reputation...so say that so-and-so was giving you a referral, and they lied, and now their reputation is burnt. Because anybody...who's a fan of ESPN? You see this thing...this sex thing on ESPN or on TV? Some blogger got all pissed off because he got lied to...he like published a whole list of sex scandals, and ESPN is like, "What are you doing?" He's like, "I don't care. You guys lied to me."

And that is retribution. Because no one is more upset than the one that is being lied to. And that's because of this evolutionary psychology, which is cheater detection, which is we don't like cheaters because back in the day if someone cheated, you'd just kill them. Now we're nice, we just put them in jail or you give them a bad reference.

But in a sense...humans have...we only got here because we got cooperated. The guys that didn't cooperate, we killed. That's how it worked. Our tribe killed that tribe. And so if somebody was cheating in our tribe, you kill them too, you don't need them. That's how social cooperation evolved, by killing the people that don't cooperate. That's literally why we're so hard wired on that.

Okay. Let me spend a second on corporate social responsibility. And I mean a second, because I'm going to ask you...if you're a shareholder, and you've got a CEO of a company, who's the principle and who's the agent?

Shareholder's the principle and the company's the agent.

Okay. And the CEO, back in the day, you'd say, "Your job is to maximize profits."

Now you're not quite sure if the CEO is good, but basically you see if so and so is in charge of the company, or a different company, or was the Vice President for this many years...there's a career that has a track record. So you have a notion of ability. You have a notion of effort. You're saying...I want quarterly reports, I want to talk to you, I want to see what's going on.

Or effort is forced because of competition. So you have that principle agent relationship.

Now your CEO says, "you know what, we need to do some corporate social responsibility with your CEO as a profit maximizer. Now your CEO says...well you know what? We need to do some corporate social responsibility. So we have to worry about the balance between profits and society (the world).

And then the CEO says, "Well since we've adopted the CSR model, our profits are down by 20%, but we're really doing well. We have a big carbon offset program, so you should be okay with that. Right, principles?"

How do you know that your CEO is doing the best job possible?

You look at the profits.

The profits just went down. No, but it is because we're helping the world.

But it's not in the shareholder's best interest.

No, but it is, because CSR is good for the shareholders.

Maybe some of them don't feel that way.

That's why I claim that you shouldn't do it. That's my opinion though. I'm asking you how to resolve this dilemma.

Now let me ask you a slightly different question. What if there are no shareholders, and it's a family owned business, and they decide to be corporate socially responsible, and help their community. Do we have to worry about the balance between profit and CSR?

No, because there's no agent, no principle. All the incentives are combined within one decision-making group. So in a family-owned company, it's their decision what to do with their profits because they work hard to keep the profits.

They decide if they want profits, or if they want to help their employees with job security, or if they want to support the local football team, or if they want to do carbon offsets. Because they are getting both the costs and the benefits.

But if you're the CEO, and you tell the shareholders, then maybe the cost of lower profits comes at a benefit of more invitations to social functions to be given prizes and stuff like that as the CEO. So the CEO—you're like...I go to all these dinners, I get to meet Angelina Jolie, and the shareholder's are like, "Woah, what happened to our 20%?"

And it's like, "Oh yeah, well that was the cost of doing business."

This is the problem with CSR. And CSR is just another name for community relations, another name for employee...or stakeholders (that was the old word for it). CSR, stakeholders...keep going back. That problem has occurred over and over and over again in time. And basically, the CEO is saying, "I want to do something else for me, can I have some of your money, shareholders?" That is the tension that is going on with CSR. Now...if you believe that CSR is a good idea, go for it. Keep this in mind. Keep it in mind in terms of a draw back to it. Because no matter what that person promises, the costs and benefits of that CSR program are being born by those people. So what I said was...is Nikita here? So Nikita sent me an e-mail that says...what about CSR? Or something like that. And so the old definition is this...tell the CEO to do his job, give the shareholders the money, the dividends, the profit, and let the shareholders spend it on carbon offsets and cows and stuff like that. Community.

I was just saying...what if CSR doesn't necessarily decrease profit?

If it doesn't decrease profits, then you would have already been doing it already. That's what's called greenwashing, usually.

Ethos water. Who's seen that? Oh, ethos, I love ethos, here's \$4. And some kid in Africa gets a penny. Maybe. I doubt it. That's the whole thing with Starbucks and the fair trade coffee. Yeah, we sell fair trade coffee. It's one percent of our coffee volume, but you'll pay a lot more for [inaudible] coffee because you feel good.

They sell Ethos water at Starbucks.

Tell me about it. Yeah. That's the whole joke. It's more crap from the greenwashing division of Starbucks.

If you took that approach, and the CEO did it by himself, wouldn't it even itself out by [inaudible] if they wanted to?

If they took that approach...

If they took it out of the social welfare and stuff like that by themselves...

If the shareholders do it on themselves, that's their decision.

No, the CEOs.

If the CEO does it, then he's defrauding the shareholders.

And if they don't like it...wouldn't it even itself out as people sold their shares...

They either sell their shares or fire the CEO.

So I'm handing out the briefing plus *The Tragedy of the Commons*. I'm making it easy for you; I'm lowering your transactions costs. I already killed the trees, so you have to read it. Let's go over the briefing. We will have more and more and more to say about principle agent stuff, because it turns out that this is the key to a lot of our political economy questions.

Anybody still needing briefings? There should be enough copies going around thereabouts.

So what is the advantage of having an...it seems that the solution to all of our problems is to get rid of the stock market and have a...

Do everything yourself. Or give it to...so why do you have stock markets? You have stock markets because you can raise capital. You have stock markets so you can have gains from trade and gains from specialization.

But then you create principle agent problems.

So that's a cost and a benefit. The cost and the benefit is actually where the rubber hits the road in terms of leveraged buy-outs and reprivatizations, and companies going public. The guys at Google didn't want to go public, but they were forced to by their board. They wanted to keep the control. And the guys at the investment banks did go public and shifted all the risk to the shareholders, and take half a payout. So there's this conflict back and forth, but that's a good question.

Okay. Briefing number 1. Let's go over that.

Okay. You're a junior staffer politician. You have been asked to write a briefing on the following topic . Please explain how a leader can promote an environmental program, but not central interest groups, but still, get reelected.

This is a bitch of a question, okay? What I want you to do is I want you to think very creatively about how to write a briefing for this politician, and I'm talking about...the things that you have to keep in mind are to deal with these problems that are here. I want to think creatively about how to I'm not going to try and define ecosystems, groundwater, greenhouse gasses, offshore drilling. These are all public good problems. These are the tragedy of the commons. You have *Logic of Collective Action*, which hopefully is very fast. Most of you are, at least, started. True or not true? Who's started it? Good. Who's finished it?

So there's a tragedy of the commons, which lays out part of the problem. Same era. *Logic of Collective Action* was 1966 or something like that. And *Tragedy of the Commons* was 1968. This is where the discussion gets going. Lynn Ostrom and her economy. Not allowed to say...we'll just evolve our society for 50 years and fix the problem okay? That's the bad news. You can't use the Ostrom solution. You can discuss things like competition, asymmetric information, principle/agent problems, collective action, free riding, and special interest. The key here is that your political...your person who you are...your principle. You are the agent. Your principle is asking you to write this briefing to try and figure a way of serving the public, and then getting reelected against that opponent who will be funded by the special interests who do not care about the public. It's the old problem of business as usual in politics. Now if you are following politics, this happens all the time. If not, this is where you start to learn. Don't use the jargon, okay?

This was written for a politician who has an elevator worth of time to read your briefing. That means you get in the elevator, and by the 12th floor, you've got to have a clue. The idea, right? How to do this. Consider that the person's got 10th grade education. Or 10th grade attention span. Either one. There's a...oh back to bootleggers; I'll get to that on Thursday. Be concise. Now it's one page. Don't muck around with the...I'm going to put in...I'm going to reduce to Courier in my font. You guys have all done that, or know people who've done that before. Just make it fit in there, and the whole point is that you spend enough time on it that you get your message down to one page. If you have to start with 5 pages and cut it down, that's fine. If you want to write a paragraph and that works, that's fine.

Now grading, The most important thing.

So what kind of politics do...I mean how many years...

Stay within two years. This is a congressional cycle, okay?

How can you avoid special interest groups?

That's what you're going to tell me how to do.

Especially for environmental...

Woah, woah, woah. That's what you'll tell me how to do. I'm not answering your question.

Okay. I have to get to the end of this, and I'll get to the last hand.

This is going to be peer-grading double blind. Your assignments are going to come in; it's going to have the last four digits of your student ID on the upper right hand corner. And you're going to bring 3 copies of it. If you bring 2 copies, you will get zero points. Does everybody understand that? Three copies. You're going to bring in three copies, it'll have your student ID on there, we will redistribute those copies to everybody else in the class in a random, that's what I actually have to determine...those people are going to rank your briefing and the other two briefings they get. The best one is going to get 10 points. It's completely a relativistic grading system. When you are grading, you only get to choose one that's best. Alright? And the second best or the third best.

So if you write a crap thing, you're going to get whatever...5 points on your briefing, Okay? That should be good enough. And if you have a hand up, I'll try and get to it next lecture, okay?

Transcribed and checked for accuracy by Brynna Bunnag