

Outline Lecture 3
THE MARKET: HOW IT IS SUPPOSED TO WORK
Wednesday, September 13

I. The Overall argument in our analysis of American capitalism

II. What is a Capitalist Free Market Economy?

1. Important idea: Economic life can be organized in many ways
2. The US is NOT a pure capitalist society: bookstores vs libraries
3. Some key definitions for understanding capitalism:
 - (1). Exchange
 - (2). Commodities, commodification, decommodification
 - (3). Market
 - (4). Capitalism

III. The defense of capitalist markets: Values and Empirical Claims

1. The Moral Argument: *negative freedom* = freedom from coercion
2. The Pragmatic/utilitarian Argument: The Free Market & Efficiency
 - (1). The problem: Coordination & Cooperation.
 - (2). Two solutions: *Command* and *Markets*
 - (3). How do markets solve coordination problem?
 - The “invisible hand”: coordination by supply & demand
 - Prices of commodities are the pivotal mechanism.
 - (4) Result = “*Allocative*” efficiency
 - (5) Key idea: coordination results from INFORMATION & INCENTIVES
 - (6) Consumer sovereignty
 - (7) Command vs Markets
3. The technical meaning of “efficiency” in markets: “Pareto Optimality”
4. Two other aspects of Efficiency:
 - (1) Innovation & growth: *dynamic efficiency*
 - (2) The smooth running of the system: *Macroeconomic efficiency*

IV. The free Market and Limited Government

1. Core thesis of defenders of free market = Limited Government.
2. Reasons for the Indictment of Government Intervention
 - Unintended negative effects of government intervention are pervasive
 - State regulation is itself an affront to freedom
 - The Frankenstein problem