

Naked economics

[Economics](#)



**ASSIGN
BUSTER**

Charles states as his number one point that economics is really unpredictable. He uses the Coca-Cola Company as a fine example for this. That company starts of turning out to be loss and failure but within 10 years since it started it turned out to be very profitable. Charles also states that markets are extreme powerhouses over individual's daily lives. Markets are also self-correcting because they use prices to allocate their resources. Individuals all work for their own self-interest so they can be better off in the society.

One very good example the author provides is the Soviet's socialist economy and how it failed because the bureaucracy controlled the economy, or basically he's saying that there shouldn't be a single person that controls the market and it should be the people.

Incentives Matter Incentives are the best way to create policies. Government, however, should regulate these policies so they don't deviate from their original reasons. For example, once something gets rare, it becomes more and more scarce and also more and more expensive.

Like the Rhino's horn, an example Charles gives in the chapter, made the black rhino endangered because its value was so high that it kept increasing when it got even scarcer. This is a fine example of why incentives need to be regulated. Material things need to bring in profit; if they don't then they are dispensable. This is maximizing the use of scarce resources. Incentives are the biggest things that motivate individuals. Government and the Economy
One big task for the government is that it deals with externalities.

The economy on its own won't do well because the ordinary person would try to save by cutting corners to maximize personal benefit and when that happens, social benefit drops. This is basically having people aiding themselves with others money. This theory also works vice-versa. That's why the government is a valuable part to the economy. It will provide public goods that no one person could make and these are positive externalities derived from taxes the government collects.

Government and the Economy II Charles states in this chapter of the book that the government being the only provider for a good or service is extremely inefficient. He uses examples such as the postal system. The only reason the government should take sole responsibility for goods and services if the private companies won't be efficient in doing so. Like the Department of Motor Vehicles, if other private companies start giving out licenses they may give them to people that shouldn't receive them.

The government, however, can give the responsibilities of the postal service and that in return will give them to develop in other areas. Charles also states that the government doesn't always have to do the work. For example, the government just writes out plans and then hires bidding contractor companies to construct projects like highways, buildings, and shopping complexes. Economics of Information In this chapter, Charles talks about adverse selection and how information about stuff is vital. He states that the information on its own is often under-estimated.

For example, if you have the wrong information or if you're lacking in information then you're more prone to making a wrong decision. The author gives an example of making the wrong decision when hiring a worker. He

states if a pregnant woman is hired and then she takes off for maternity leave and then leaves the company, the company won't hire another female worker because they are incurring a loss. Charles says that information is the key factor lacking behind this problem, he doesn't want to sound sexist.

He also imposed an idea for this situation that the woman get they're pay for the maternity leave if they return to work, so he's basically saying that you need to obtain the information before making any decisions. Productivity and Human Capital Human capital is a major distinction that separates the rich from the poor. Charles talks intensively about the luxurious people like Bill Gates are able to afford while there are extremely poor people who don't even have a place to stay at night.

Human capital was defined as creativity, work experience, skills, and other things that show you apart from others. These are things that make a person still valuable even if he or she loses all that he has. Charles states that having human capital is the only thing that keeps one from being poor. Basically, having human capital states how well of you are in society. The author specifies that a nation will be rich if it has people with a lot of skill or human capital, like America.