Some Key Economics Context: Big Concepts and Theory

Antitrust
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Some big economics concepts

These were mentioned in the book or videos:

- Scarcity
- Trade-offs
- Incentives
- Marginal analysis
  - We’ll have a portion of a slideshow devoted to this later on
- Sunk costs (and the “sunk costs fallacy”)
  - This is a specific case of marginal analysis
- Diminishing marginal utility
  - The farmer’s first tractor is super useful
  - The farmer’s 17th tractor barely adds any benefit
- Specialization of labor
- Opportunity costs
  - Real cost isn’t just the price, it’s the opportunity you forgo

Some key theory concepts (1/2)

- One big divide in economics is "central planning" vs. "free market"
  - Central planning is like the old Soviet Union. The government would decide how many tractors to make.
  - Free market is nearly all the world today (albeit with modifications and interventions). Tractor firms decide how many tractors to make based on perceived demand (through price signals) as well as considerations of costs of supplies.
- The U.S. economy in general, and antitrust law in particular, is founded on an enthusiastic embrace of markets and a forceful rejection of central planning.
  - Although central planning sometimes pops up – like with covid vaccines.
- *The whole idea of classical/neoclassical market theory is that the market does a brilliant job of ordering the efficient production and consumption of goods and services!*

Some key theory concepts (2/2)

- *The whole idea of classical/neoclassical market theory is that the market does a brilliant job of ordering the efficient production and consumption of goods and services!*
- That's something everyone who argues about antitrust can agree on ...
- But there's fighting about the details. Very broadly, some folks are hawkish and support vigorous enforcement, while some are skeptics who want to turn the enforcement dial way down. So ...
  - Is antitrust law and enforcement a great way of keeping the market free, to ensure the market is able to do its work of efficiently ordering production and consumption?
  - Or is antitrust law and enforcement yet another bungling government intervention that leads to inefficiency?
  - ***People disagree!*** (And, of course, many would say both of those statements are true at least to an extent.)

The Chicago School of Economics

You'll hear a lot in antitrust about the "Chicago School" of economics. It refers to a school of thinking, not an actual college.

- The video described this as an evolution of the Austrian School of Economics.
- When it comes to antitrust, Chicago School thinking is consistent with the idea that antitrust enforcement is capable of harmful overreach. Thus, the Chicago School can be said to stand for a skepticism toward, but not a full rejection of, antitrust enforcement.

Some things said in law reviews about the Chicago School:

- "[T]he Chicago School revolution allowed courts and antitrust agencies to harness the power of the Sherman Act in order to act as a shield against truly harmful business practices, while limiting its use as a sword by private and public plaintiffs bent on attacking efficiencies."
- "'[T]he Chicago School of antitrust analysis,' primarily contributed empirical work in the form of case studies demonstrating that various business practices previously considered to be manifestly anticompetitive could, in fact, be efficient and pro-competitive."
- "The Chicago School of economics, with its emphasis on allocative efficiency to the exclusion of all other normative concerns whether economic or not, its tautological definition of rationality, and its curious claim to be a 'science,' attacked most existing antitrust rules as being counter-productive."

The Chicago School has had a lot of influence at the U.S. Supreme Court and in the executive branch, particularly beginning in the 1970s and 1980s. It continues to have substantial influence today.