


How God's word informs the regulation borne of market failure



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One of key responsibilities of the professorate is to bring context to content

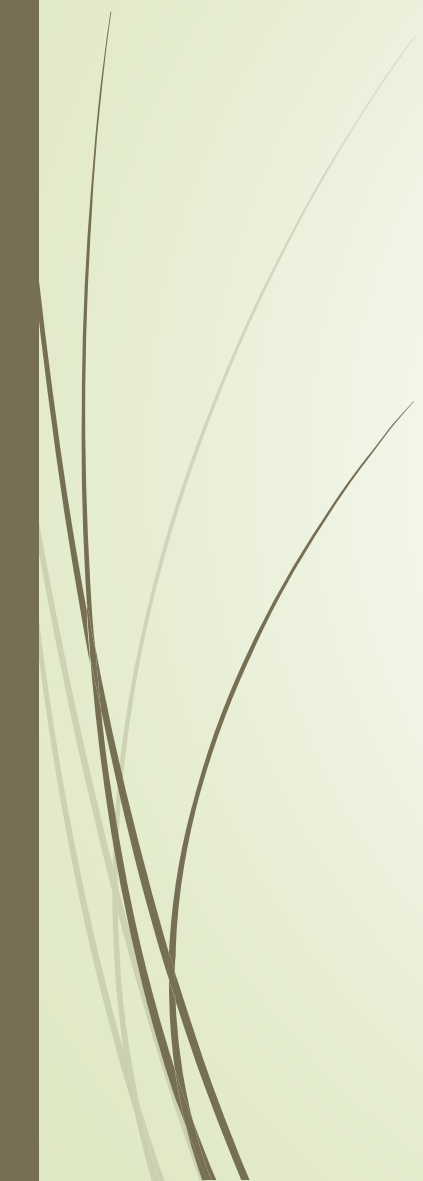
Another key role is to foster deep and critical thinking

A third component is to develop a sense of informed thought

Last, our job is to help students have pride in, and ownership of, their core beliefs and values; to defend those beliefs; and to be able to engage in productive discourse about them.



The Concept of Market Failure in context

- ▶ Microeconomic business decisions are made within the context of the macroeconomic realities that surround the business environment
 - ▶ Understand that market failure creates the divide between microeconomic production efficiency and macroeconomic allocative efficiency
 - ▶ And that regulation borne of the outcomes of market failure helps form the bridge linking the goal of productive efficiency in an individual business with the goal of allocative efficiency in society overall.
- 



The Concept of Market Failure in context

- ▶ Microeconomic business decisions are made within the context of the macroeconomic realities that surround the business environment
- ▶ Bridge between microeconomic production efficiency and macroeconomic allocative efficiency
- ▶ Senior leadership – outside and tomorrow
- ▶ Leaders as holder of quilter's needle
 - ▶ Diverse workforce with different world views
 - ▶ Good to share how one is informed
 - ▶ Fosters understanding and discourse



Decidedly **NOT** a class session on ethics or scripture

- But on how economic thought, ethics, and scripture are linked

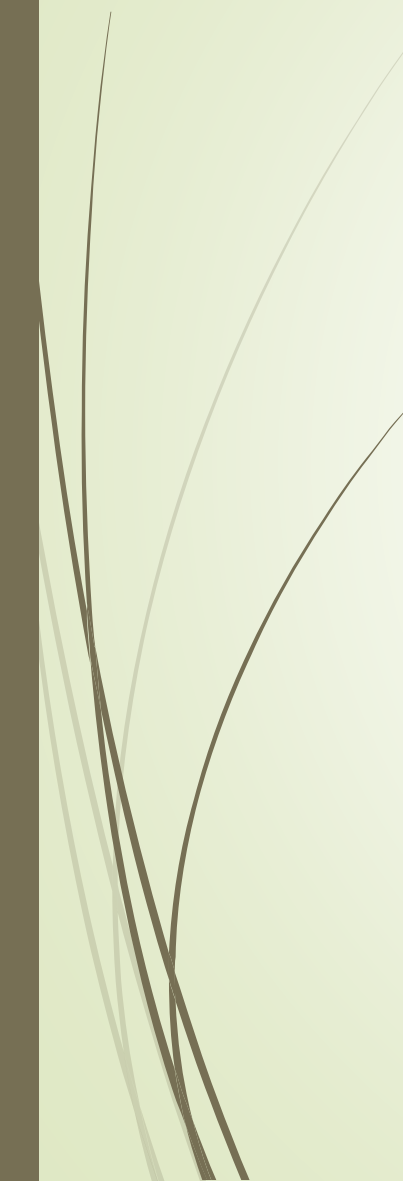


What does ethics have to do with economic issues?

- Allocative efficiency?
- Market regulation and commercial law?
- Social order?
- Justice ?
- Right thing to do?
- Foundational to legal responsibilities?
- God's word?



So, what are the economic issues?

- ▶ How do we know if markets are performing well?
 - ▶ How are actions informed?
 - ▶ Who gets to decide what “market failure” is?
- 



Economist N. Gregory
Mankiw says:

“Markets do many
things well, but they
do not do everything
well.”

(Mankiw, 2012, p. 195)



What they don't do well can
be summarized:

➔ P

➔ A

➔ U

➔ S

➔ E



What they don't do well can be summarized:

- Public Goods
- Asymmetric Information
- Unequal Distribution of Income among Equals
- Structural Failure
- Externalities



The linkage of market failure as informed by ethical duties

- Hosmer (2003) identifies 6 ethical duties
 - Utilitarian benefits
 - Personal virtues
 - Distributive justice
 - Contributive liberty
 - Universal duties
 - Religious injunctions



Linking Market Failure to Ethical Duties

- ▶ Public Goods → Utilitarian benefits
- ▶ Asymmetric Information → Personal virtue
- ▶ Unequal Distribution of Income among Equals → Distributive justice
- ▶ Structural Failure → Contributive liberty
- ▶ Externalities → Universal duties
- ▶ All duties → Religious injunctions



Utilitarian benefits

- Take action that results in greater good than harm for society



Utilitarian benefits

Take action that results in greater good than harm for society

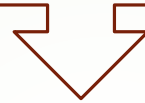
Helps address market failure of **Public Goods:**
Find balance between firm (individual marginal cost and marginal benefit); and society (marginal *social* cost and marginal *social* benefit)

Linking Market Failure to Ethical Duties

▶ Public Goods



Utilitarian benefits



- ▶ Non-market responses
 - ▶ Public expenditures for utilities such as sewage, clean potable water, public safety, education, etc.
 - ▶ “road blocks” to collect money for fireworks displays
- ▶ Market responses:
 - ▶ Private trash collection but often required by municipality

Markets not providing enough public goods

↓
Fails ethical duty of Utilitarian Benefits

↓
Necessitates:
Public expenditures for utilities such as sewage, clean potable water, public safety, education, etc.
“road blocks” to collect money for fireworks displays

→ Taking action that results in greater good than harm for society is supported by

- 1 Timothy 6:17-19;
- Acts 2:45;
- Matthew 5:47-47;
- Isaiah 61:1



Personal virtue

- Take action that is honest, open, and truthful
- Be proud of actions



Personal virtue

Take action that is honest,
open, and truthful

Be proud of actions

Openness, honesty and truthfulness seems to address the market failure of **Asymmetric Information**:

Economics of information

-Caveat venditor

-Caveat emptor

-Moral hazard

-Adverse selection

Linking Market Failure to Ethical Duties

➤ Asymmetric Information → Personal virtue

➤ Non-market responses:

- Sellers disclosure and sales disclosures in real estate transactions
- Mileage and lien disclosures on auto titles

➤ Market responses:

- Outcome:
Non-abusers pay higher price while subsidizing abusers misuse

Markets allowing for asymmetric information

↓
Fails ethical duty of Personal Virtue

↓
Necessitates:

Sellers disclosure and sales disclosures in real estate transactions

Mileage and lien disclosures on auto titles

Non-abusers pay higher price while subsidizing abusers misuse

→ Taking action that is honest, open, and truthful and for which a person can be proud is supported by

- Galatians 3:28;
- Psalm 98:9;
- Ephesians 4: 25-32;
- John 8:32;
- Philippians 4:8;
- 1 John 3: 17-18;
- 2 Peter 1:5



Distributive Justice

- ▶ Take action in which the least among us will not be harmed



Distributive justice

Take action in which
the least among us
will not be harmed

Pretty clear attempt at addressing the market failure of **unequal distribution of income**:

Promote “fairness” so least among us are not harmed -

Equal Opportunity Laws and Regulations such as civil rights, age discrimination, equal pay act, etc.

Linking Market Failure to Ethical Duties

► Unequal Distribution of
Income among Equals → Distributive justice

► Non-market responses:

► EEOC

► ADA

► Affirmative action

► Market responses:

Markets allowing for Unequal Distribution of Income among Equals

↓
Fails ethical duty of
Distributive Justice

↓
Necessitates
regulations such as
EEOC
ADA
Affirmative action

→
Taking action in
which the least
among us will not
be harmed is
supported by

- ▶ Matthew 20:1-16;
- ▶ Proverbs 19:17;
- ▶ Proverbs 14:31;
- ▶ Psalm 146:5-9;
- ▶ Proverbs 31:9;
- ▶ Proverbs 21:8-9;
- ▶ Matthew 19:21;
- ▶ Matthew 25:40;
- ▶ Proverbs 28:27;
- ▶ Deuteronomy 15:1-4,
- ▶ Deuteronomy 15: 7-11;
- ▶ Isaiah 61:1;
- ▶ Matthew 25:35-36;
- ▶ Jeremiah 22:13;
- ▶ Psalm 82:3



➤ Contributive liberty

- Take actions that do not interfere with the rights of others for self-development and improvement

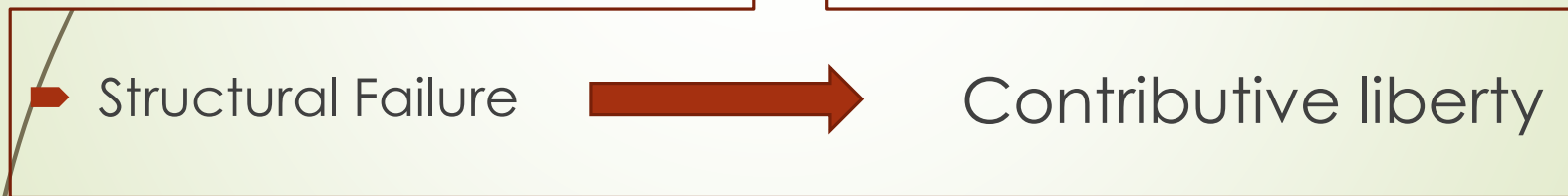
Contributive liberty

Take actions that do not interfere with the rights of others for self-development and improvement

Structural market failure implications: Society better served with competitive markets and choice of sellers from whom to buy. Attain greater allocative efficiency when markets as competitive as possible. And that happens the closer price is to marginal cost. Market regulation philosophies such as Chicago School, Structuralists, New IO

Linking Market Failure to Ethical Duties

- ▶ Non-market responses:
 - ▶ Anti-trust regulation
 - ▶ Regulation of Monopolies via URCs
 - ▶ FTC and Justice Department enforcement of anticompetitive practices
- ▶ Market responses:



Markets allowing for Structural Failure (less competitive market models)

↓
Fails ethical duty of
Contributive Liberty

↓
Necessitates
Anti-trust regulation
Regulation of
Monopolies via URCs
FTC and Justice
Department
enforcement of
anticompetitive
practices

→ Taking actions that do
not interfere with the
rights of others for self-
development and
improvement is
supported by

- Romans 12:15-18;
- Leviticus 19:15;
- Proverbs 22:16;
- Jeremiah 22:13-17;
- Deuteronomy 24:17;
- 1 Peter 2:1; 1
- Thessalonians 5:19-22



Universal duties

- Take actions that a person would be willing to see others take when faced with the same situation

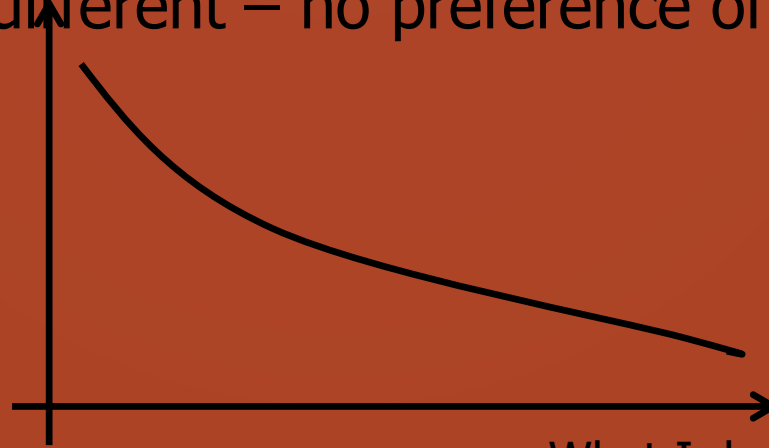
➤ Universal duties

- Take actions that a person would be willing to see others take when faced with the same situation

Seems to address the market failure of **Externalities** – nothing spills over to others; costs and benefits accounted for:

Indifference curves (Bundle of goods to which consumer is indifferent – no preference of one over the other)

What you
do to me



What I do to you

Linking Market Failure to Ethical Duties

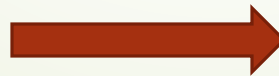
- ▶ Non-market responses:

- ▶ EPA

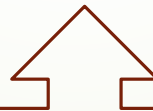
- ▶ Sarbanes-Oxley

- ▶ Market responses:

▶ Externalities



Universal duties



Markets allowing Externalities




Fails ethical duty of
Universal Duties



Necessitates non-
market responses
such as

EPA

Sarbanes-Oxley



Taking actions that a
person would be willing
to see others take when
faced with the same
situation is supported
by

- Matthew 7:4;
- Matthew 22:39;
- Deuteronomy 1:16-17;
- Mark 10:42-45;
- Mark 12:30-31;
- Luke 6:31;
- Joshua 9:25;
- Numbers 10:31-32;
- Deuteronomy 19:18-19;
- John 5:29;
- Matthew 7:12



➤ Religious injunctions

- Take action that is kind and builds on a sense of community



Religious injunctions

Take action that is kind and builds on a sense of community

In some regards, kind of summarizes all types of ethical duties, and helps address aspects of all market failures.

Markets allowing for any of these failures



Violates ethical duty of Religious Injunctions



Necessitates the whole host of non-market responses

Taking action that is kind and builds on a sense of community is supported by

- Galatians 6:10;
- Romans 12:15-21;
- Isaiah 1:17;
- Zechariah 7:9-10;
- Romans 10:12;
- 1 Timothy 12:15-18;
- Romans 12:15-18;
- Exodus 23:1-9;
- Ephesians 4:30-32



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Linking Ethical Duties to Scripture

Utilitarian benefits

(Take action that results in greater good than harm for society)



1 Timothy 6:17-19; Acts 2:45;
Matthew 5:47-47; Isaiah 61:1

Personal virtue

(Take action that is honest, open, and truthful; Be proud of actions)



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(Take action in which the least among us will not be harmed)



Matthew 20:1-16; Proverbs 19:17; Proverbs 14:31; Psalm 146:5-9; Proverbs 31:9; Proverbs 21:8-9; Matthew 19:21; Matthew 25:40; Proverbs 28:27; Deuteronomy 15:1-4, Deuteronomy 15: 7-11; Isaiah 61:1; Matthew 25:35-36; Jeremiah 22:13; Psalm 82:3

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(Take actions that do not interfere with the rights of others for self-development and improvement)

Romans 12:15-18; Leviticus 19:15; Proverbs 22:16; Jeremiah 22:13-17; Deuteronomy 24:17; 1 Peter 2:1; 1 Thessalonians 5:19-22

Universal duties

(Take actions that a person would be willing to see others take when faced with the same situation)

Matthew 7:4; Matthew 22:39; Deuteronomy 1:16-17; Mark 10:42-45; Mark 12:30-31; Luke 6:31; Joshua 9:25; Numbers 10:31-32; Deuteronomy 19:18-19; John 5:29; Matthew 7:12



Linking Ethical Duties to Scripture

Religious injunctions



(Take action that is kind and builds on a sense of community)

Galatians 6:10; Romans 12:15-21; Isaiah 1:17; Zechariah 7:9-10; Romans 10:12; 1 Timothy 12:15-18; Romans 12:15-18; Exodus 23:1-9; Ephesians 4:30-32



Pedagogical Implementation

- Suggest you not share scripture passages with students, but make it an assignment for them to see if they can find passages themselves
- Encourage them to look for passages that support
- But also encourage passages that could refute
- Consider allowing passages from other religions' holy books



Pedagogical Implementation

- ▶ Remember that there is learning value in making the linkage of market failure situations to ethical duties and to scripture
 - ▶ But the value of this exercise transcends the mere linkage learning . . .
 - ▶ It fosters discussion
 - ▶ Encourages informed opinions and decision-making
 - ▶ Helps to provide a defensible basis for decision making
 - ▶ Helps create a disposition for discourse in students
 - ▶ Helps perpetuate scriptural messages in an increasingly pluralistic workplace



References

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Mason, OH: Southwestern Cengage Learning.

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York: McGraw-Hill Irwin.