

Being Human is a market failure

Hans Nilsson

FourFact AB

Prologue

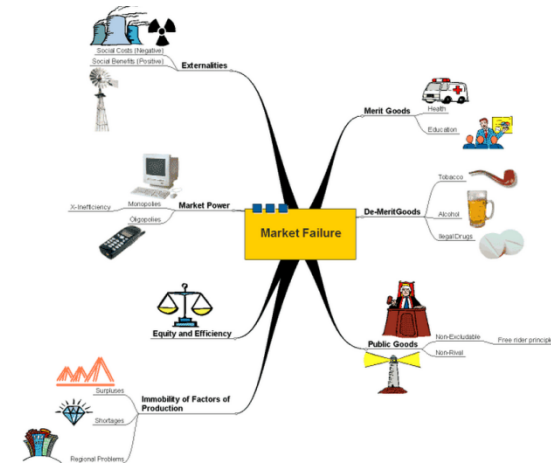
“Due to circumstances beyond my control, there will be no big parade this Sunday afternoon”



Colonel Scheisskopf in Catch 22 by Joseph Heller

Market failure occurs in many ways

- time-inconsistent preferences,
- information asymmetries,
- non-competitive markets,
- principal–agent problems,
- externalities,
- public goods
- Etc, etc



Six key market failures (Stern)

- Greenhouse gases
- R,D&D (research, development and deployment)
- Imperfection in risk/capital markets
- Networks
- Information
- Co-benefits

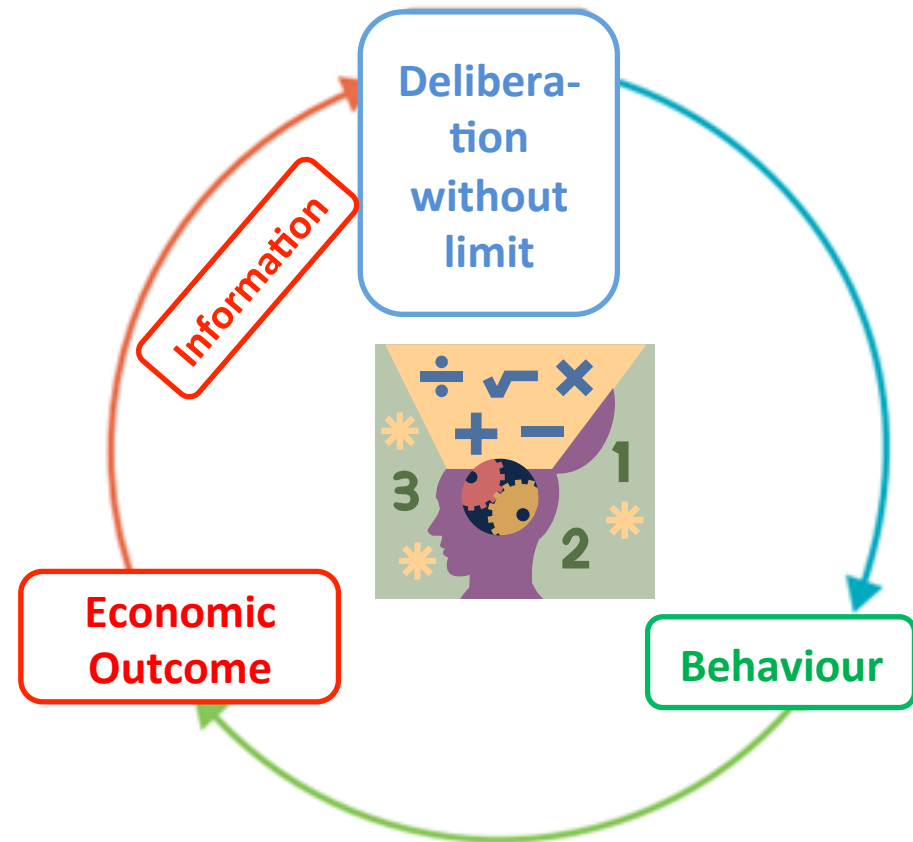
Climate change is the greatest market failure the world has ever seen, and it interacts with other market imperfections. Three elements of policy are required for an effective global response. The first is the pricing of carbon, implemented through tax, trading or regulation. The second is policy to support innovation and the deployment of low-carbon technologies. And the third is action to remove barriers to energy efficiency, and to inform, educate and persuade individuals about what they can do to respond to climate change.

<https://www.imf.org/external/np/fad/envIRON/pdf/040213.pdf>

Ideal world

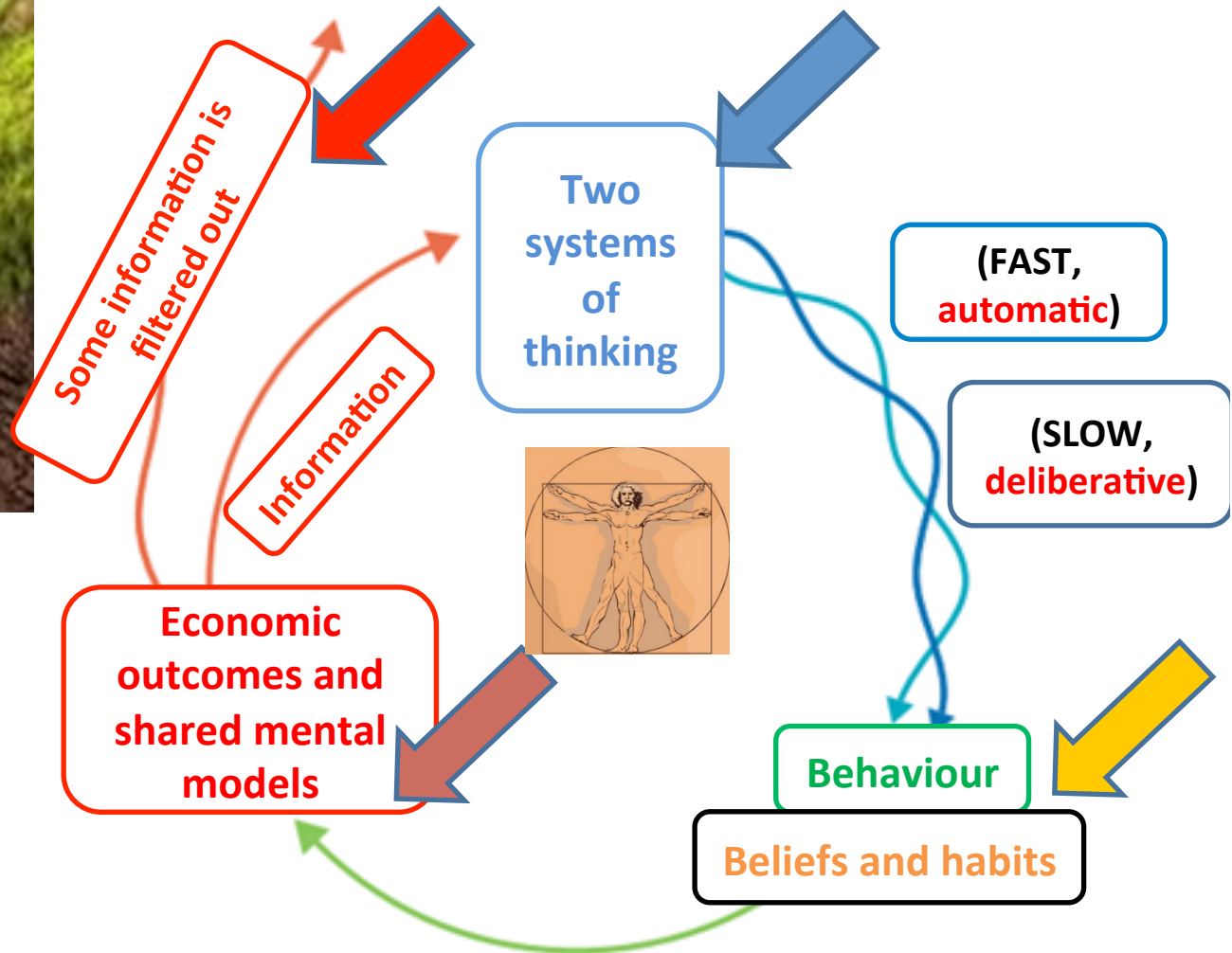
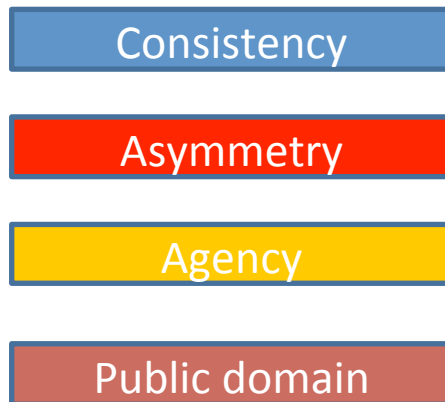
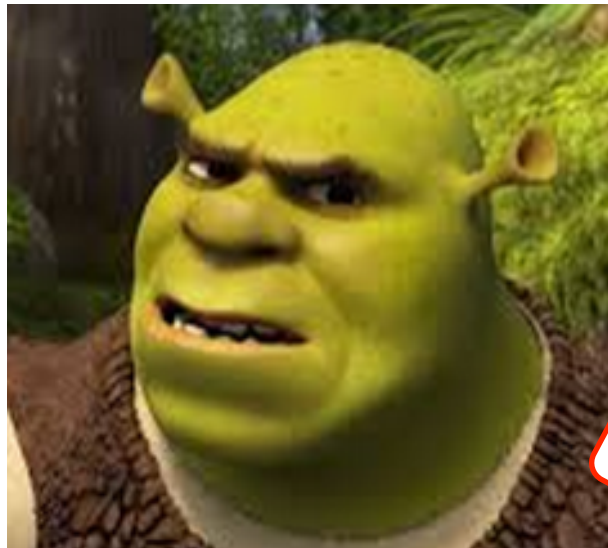


Standard Economic Model



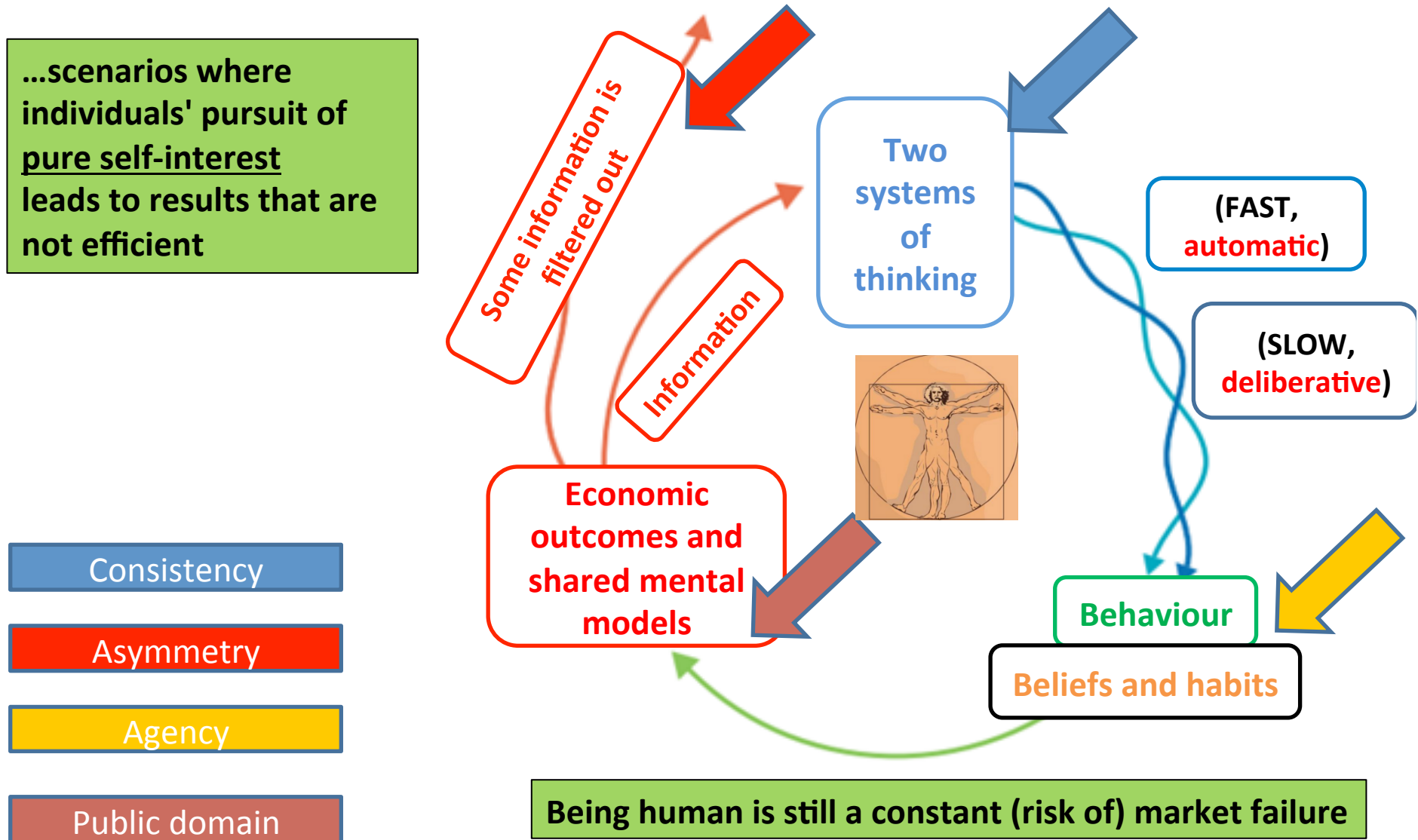
Real world

Model of the psychological and social actor

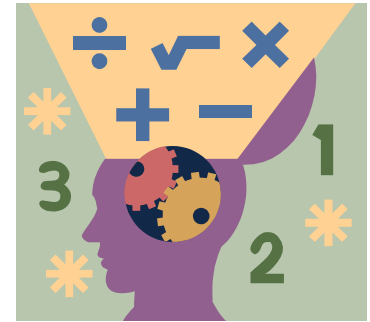


Market Failures are...

...scenarios where individuals' pursuit of pure self-interest leads to results that are not efficient



Perspectives on the market



Standard (Neo)-classical model ECONS

- Preferences are constant
- The prices contains the necessary information
- Customers have access to all necessary information on performance and prices

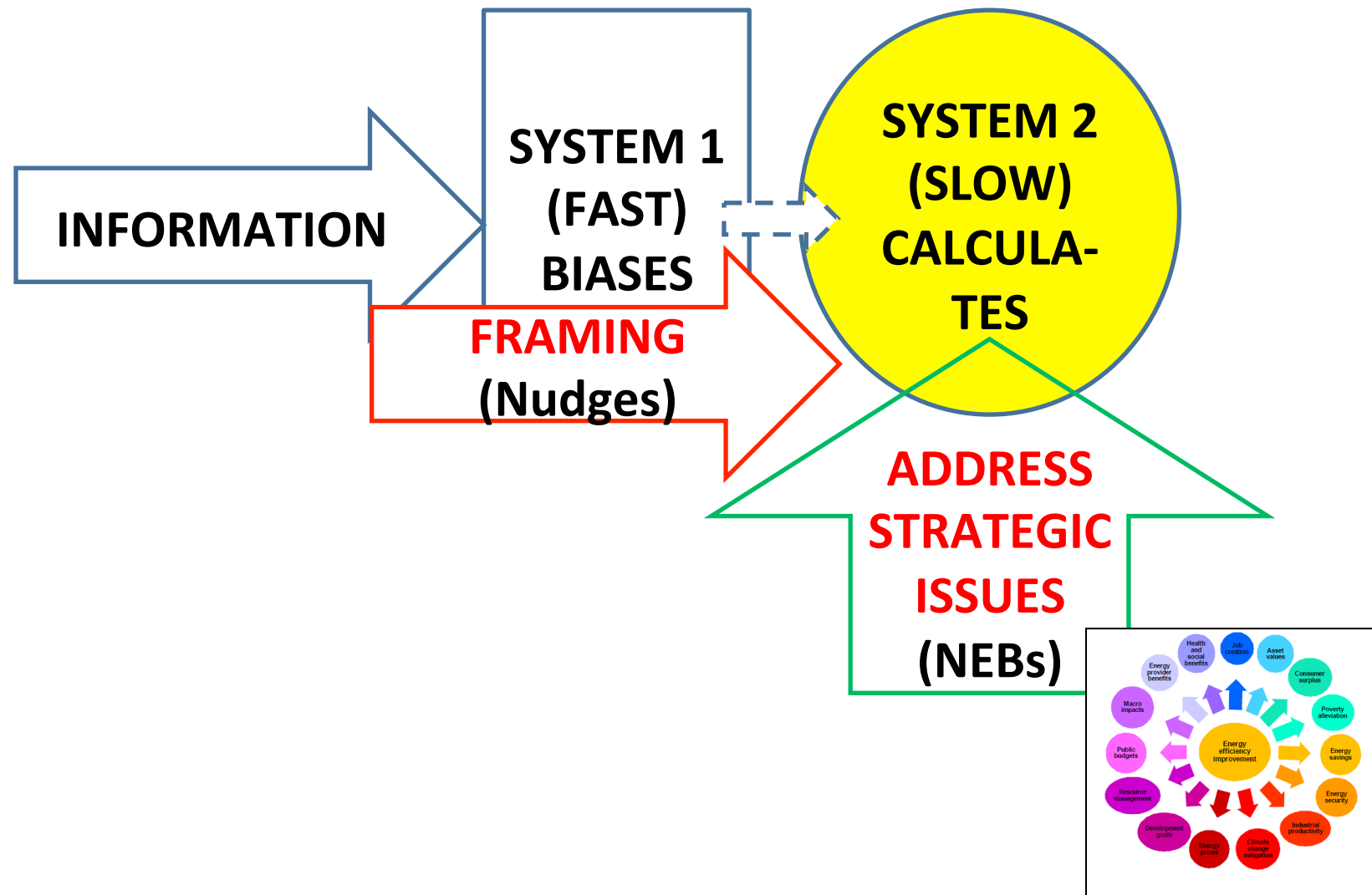
Good model to estimate the potential

Behavioural economics model HUMANS

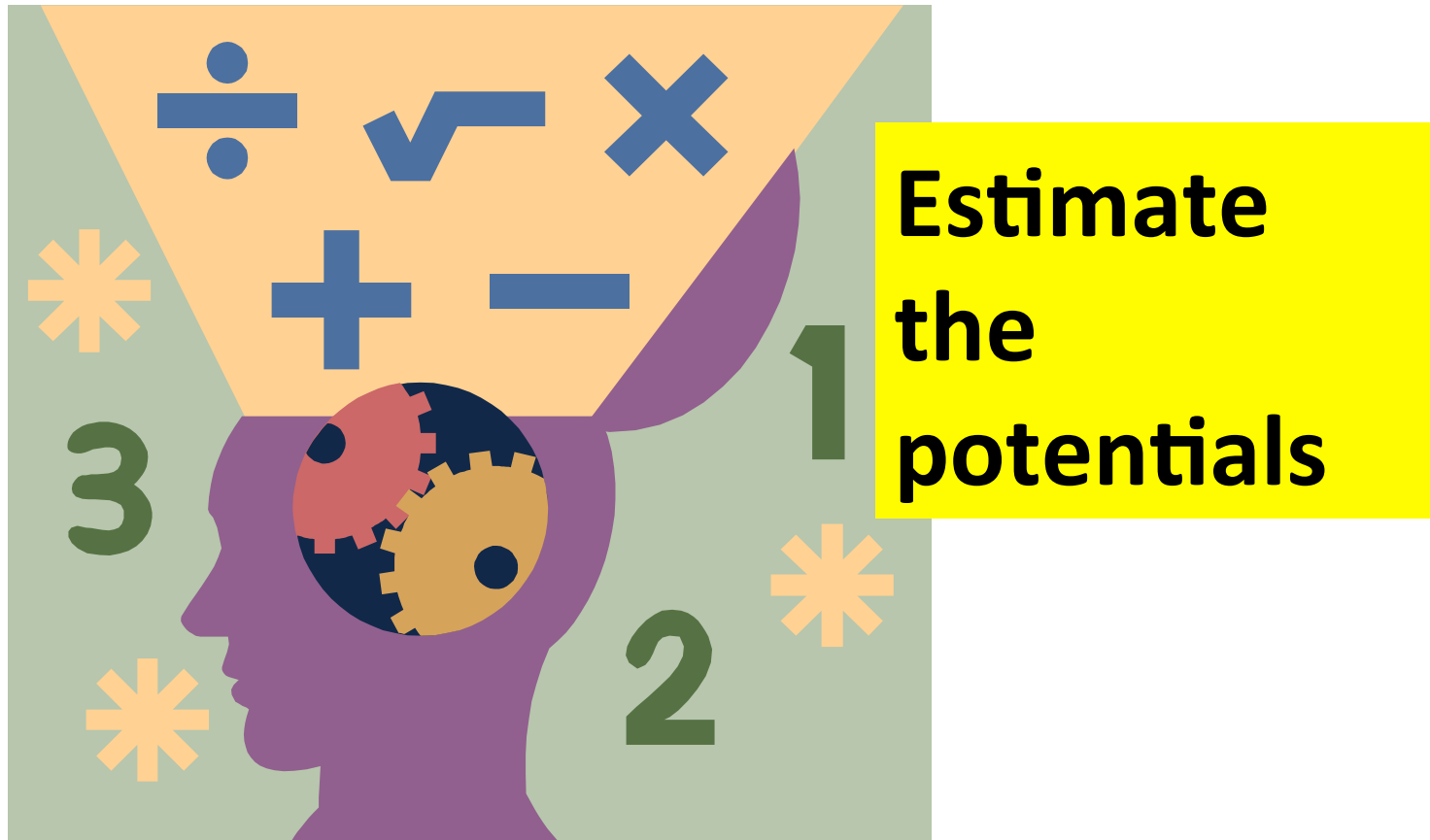
- Preferences are changing
- Decisions are biased by the way we are treating information
- Offers need to be designed (choice architecture)

Necessary to decide on policies for implementation

1. Address the human aspect(s)



2. Find a new job for the economic man



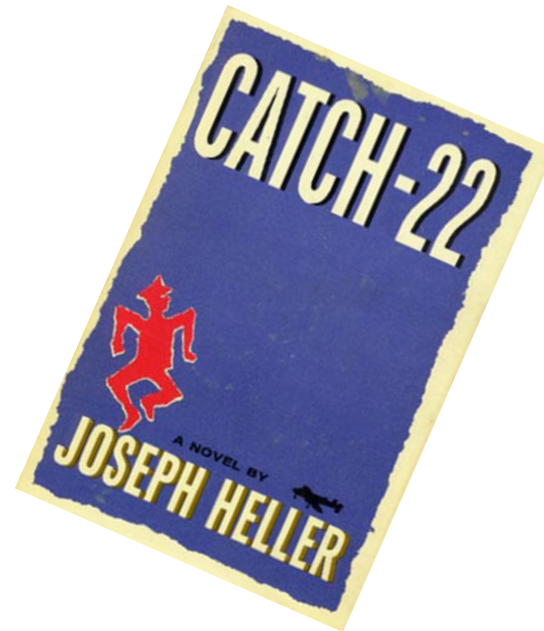
Epilogue

General Peckem looked at Colonel Scheisskopf with amazement

- *“What do you know about?” he asked acidly.*
- *“Parades,” answered Colonel Scheisskopf eagerly. “Will I be able to send out memos about parades?”*
- *“As long as you don’t schedule any.”*
- *“Can I schedule parades and then call them off?”*

General Peckem brightened instantly.

- *“Why, that’s a wonderful idea!”*



Extract from Catch 22 by Joseph Heller, chapter 29