

The Ethics of Price Gouging

Choice, Commerce, and Conflict
Ryan Doody

Contents:

Review: The Invisible Hand
Segregation Model
The Ethics of Price Gouging

Invisible Hand Explanations

Invisible Hand Explanation:

- (1) A certain pattern of human activity arises from the intentional actions of some individuals,
- (2) No one acted with the intention of bringing about that pattern.

Under certain conditions, *markets* produce *positive social effects*.

But not always.

And spontaneous orders needn't always be positive.



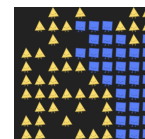
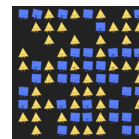
Segregation Model

Invisible Hand Explanation:

- (1) A certain pattern of human activity arises from the intentional actions of some individuals,
- (2) No one acted with the intention of bringing about that pattern.

Example:

Thomas Schelling's Segregation Model



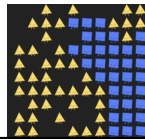
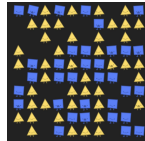
Segregation Model

Thomas Schelling's Segregation Model (<https://ncase.me/polygons/>)

Individuals have a preference to not be a minority in their neighborhood.

In aggregate, as a result of individuals acting on their preferences, segregation emerges.

... even if everyone prefers integration over segregation.



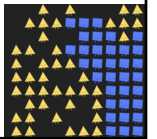
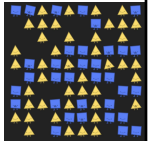
Segregation Model

Thomas Schelling's Segregation Model (<https://ncase.me/polygons/>)

Individuals have a preference to not be a minority in their neighborhood.



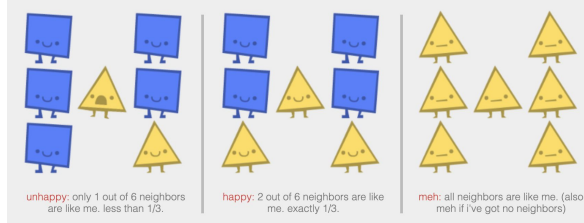
Each shape **most prefers** being in an integrated neighborhood. But also prefers **not being a minority** in their neighborhood.



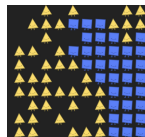
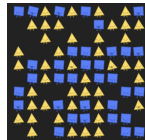
Segregation Model

Thomas Schelling's Segregation Model (<https://ncase.me/polygons/>)

"I wanna move if less than 1/3 of my neighbors are like me."



Each shape **most prefers** being in an integrated neighborhood. But also prefers **not being a minority** in their neighborhood.

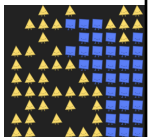
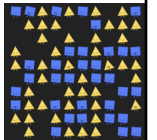
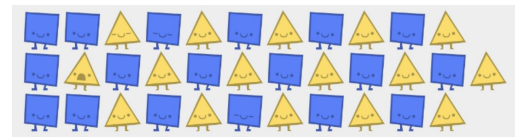


Segregation Model

Thomas Schelling's Segregation Model (<https://ncase.me/polygons/>)

Individuals have a preference to not be a minority in their neighborhood.

In aggregate, as a result of individuals acting on their preferences, segregation emerges.



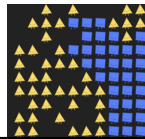
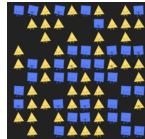
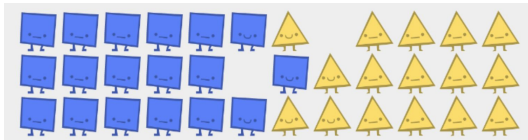
Segregation Model



Thomas Schelling's Segregation Model (<https://ncase.me/polygons/>)

Individuals have a preference to not be a minority in their neighborhood.

In aggregate, as a result of individuals acting on their preferences, segregation emerges.



Segregation Model

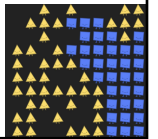
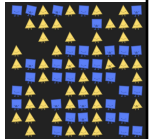


Thomas Schelling's Segregation Model (<https://ncase.me/polygons/>)

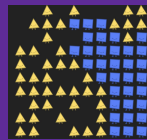
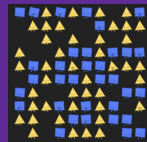
Individuals have a preference to not be a minority in their neighborhood.

In aggregate, as a result of individuals acting on their preferences, segregation emerges.

... even if everyone prefers integration over segregation.



Discussion Question:
What can be done?



Segregation Model



Thomas Schelling's Segregation Model (<https://ncase.me/polygons/>)

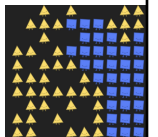
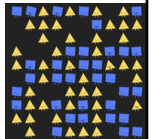
Lessons:

It doesn't follow from the observation of segregation that people *want* it. (But they might.)

Starting conditions matter. It's hard to upset established patterns.

It's not enough for people to want integration. (What would it take?)

Government enforcement might be necessary (e.g., forced bussing)



Review: Hayek

Hayek on Economics

The Fundamental Economic Problem:

Given the scarcity of resources, what **goods** and **services** should be **produced** and how should they be **allocated**?

Hayek on Economics

The Fundamental Economic Problem:

Given the scarcity of resources, what **goods** and **services** should be **produced** and how should they be **allocated**?

The Knowledge Problem:

In order to answer the Economic Problem, we need to **know**: (1) what people want and need, (2) what resources are available and in what quantities, (3) how best to deploy those resources, (4) how various allocations will alter (1)-(3), etc.

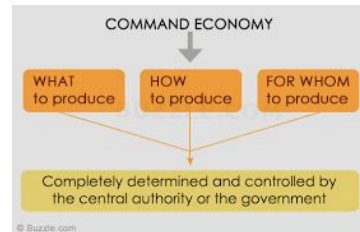
Hayek's Argument Against Central Planning

Hayek's Argument Against Central Planning

P1 In order for an economic system to work well, it must address **The Knowledge Problem**.

P2 A central planner cannot adequately address **The Knowledge Problem**.

C Therefore, a centrally planned economy won't work well.



Hayek's Argument Against Central Planning

P1 In order for an economic system to work well, it must address **The Knowledge Problem**.

P2 A central planner cannot adequately address **The Knowledge Problem**.

C Therefore, a centrally planned economy won't work well.

- A. Much of the relevant knowledge required is *know how*, which is difficult to communicate to a central planner.
- B. The information is too diverse (and "frequently contradictory") to be understood from a single perspective.
- C. Central planners cannot reliably discern people's subjective values.
- D. Central planners cannot readily innovate *new* forms of knowledge.

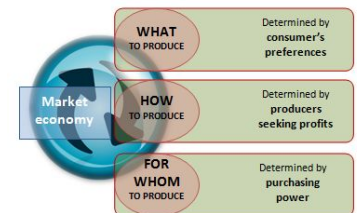
Hayek's Argument For the Free Market

Hayek's Argument Against Central Planning

P1 In order for an economic system to work well, it must address **The Knowledge Problem**.

P3 The free market uses a price mechanism, which can solve **The Knowledge Problem**.

C Therefore, a free market economy can work well.



Hayek's Argument Against Central Planning

- P1** In order for an economic system to work well, it must address **The Knowledge Problem**.
- P3** The free market uses a price mechanism, which can solve **The Knowledge Problem**.
-
- C** Therefore, a free market economy can work well.
- A. Prices **reflect** diverse information (incl. about subjective values and *know how*) from diverse sources.
 - B. Prices automatically **respond** to changes in relevant information (e.g., preferences, scarcity, innovations in production).
 - C. Prices readily **communicate** this information to others, who can easily make use of it.

Price (as a signal)

Review: Price (as a signal)

Prices convey **information** about the **scarcity** of goods and services, which **motivates** people to produce, consume, invest, and innovate in ways that make the best use of an economy's productive potential.

This allows the **market** to **coordinate** the **division of labor** through the **exchange** of goods and services among a dispersed and varied population **without centralized direction**.



Regulating Prices?



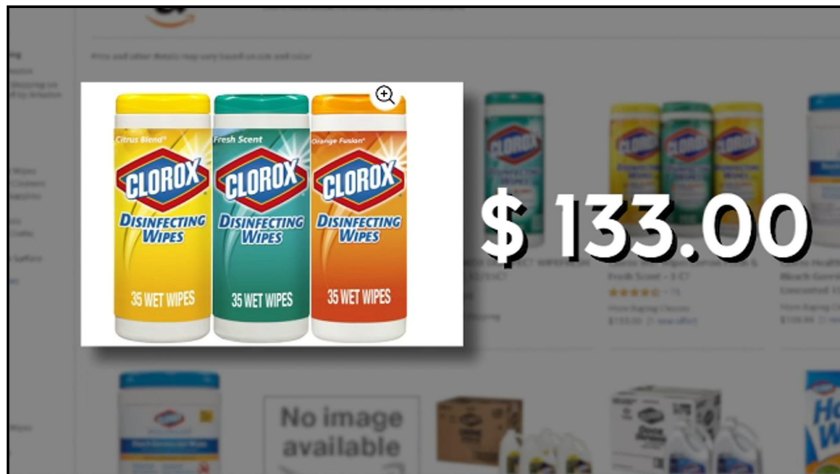
Regulating prices?

Hayek would disapprove



- Markets efficiently aggregate the knowledge possessed by individuals dispersed throughout society
- Government cannot “know” what the market does
- When government interferes, it distorts the information conveyed by prices, leading to inefficiencies

Price Gouging



Price Gouging

What Is It?

When suppliers charge **very high** prices for certain goods or services. (Higher prices than “normal” / “should be”...)

Why Does It Happen?

Decrease in supply/increase in demand → Increase in \$\$\$

Should It Be Banned? Is It Morally Wrong?

Ethics Bowl: Price Gouging

Case 1: Price Gouging and COVID-19

In response to the COVID-19 pandemic, Congress considered passing the [Disaster and Emergency Pricing Abuse Prevention Act](#), which (among other things):

prohibits a person from selling or offering for sale an essential good or service at a price that is unconscionably excessive during, or in anticipation of, a state of emergency or natural disaster.

Although many States have price gouging laws, there currently is no Federal law prohibiting it. Proponents of the law argue that the new legislation will protect vulnerable consumers, especially during national disasters.

Question: Should price gouging be Federally outlawed?

Case 2: Martin Shkreli

In 2015, Martin Shkreli's company, Turing Pharmaceuticals, bought a 62-year-old drug called Daraprim, which is used to treat infections caused by a parasite. The company immediately raised the price of the drug from \$13.50 to \$750 per pill. The move sparked protest from the medical community, who argued that the increase was excessive and predatory. Shkreli disagrees, saying:

This is a disease where there hasn't been one pharmaceutical company focused on it for 70 years. We're now a company that is dedicated to the treatment and cure of toxoplasmosis. And with these new profits we can spend all of that upside on these patients who sorely need a new drug, in my opinion

Question: Is it morally wrong for Shkreli to raise the price of Daraprim so drastically?

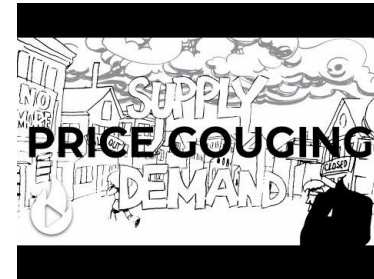
Questions?

Discussion

Question: Is Price Gouging Morally Wrong?

Price Gouging

Should It Be Banned? Is It Morally Wrong?



(What would Hayek say?)

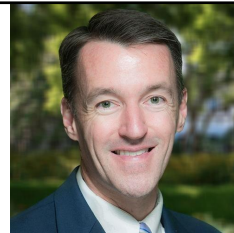
Price Gouging

Should It Be Banned? Is It Morally Wrong?

What is the argument Zwolinski is making?

How might you respond to this argument?

What makes something a *fair* (or *just*) price?



Questions?