

## Key ideas of Chapter 8-10

### Chapter 8

#### ***Welfare Economics***

Welfare economics is a branch of economics, which views that competitive markets lead to Pareto efficient outcomes, a situation when one's welfare could not improve without hurting others.

But for Pareto efficiency to exist, we require 'perfect competition', which is almost impossible since most policy changes always reducing welfare of at least one person in the society.

If a policy change must meet the criteria of Pareto efficiency before being adopted, there might be no policy change at all.

There arises the concept of Kaldor-Hicks Efficiency. Any policy changes is considered Kaldor-Hicks efficient if it creates net gains to society (total welfare gain greater than total loss) because losers could potentially be compensated.

This concept of efficiency allows policy change to be adopted more easily compared to Pareto efficiency.

#### ***Comment on "efficiency" as a goal of welfare economics***

In addition to efficiency, society has other goals such as equity. However, economists rarely set equity as a goal because: 1) efficiency and equity might be inefficient and; 2) equity involves philosophical and political aspects, which are subjective and hard to prove.

#### ***The idea of market failure and government wisdom***

Those who disagree with welfare economics claim that perfect competition hardly exists. This means that markets actually fail and produce inefficient outcomes.

Therefore, "government" intervention is needed to correct market failures because they know everything and are willing to act in the benefit of people.

#### ***The idea of government failure***

Public choice theory, a branch of new political economy pioneered by James Buchanan, argued that market failure does not justify government intervention because government also fails. And when government fails, it results in even worse outcome than when market fails.

Four major sources of government failure are perverted incentives of the government, separation of costs and benefits, institutional myopia, and income redistribution by political means.

## Chapter 9

New political economy argues that the problem of monopoly is overrated by mainstream economics because monopoly without government support usually does not last long. Thus, of all types of monopoly, those with government support is the worst.

Government-created monopoly creates 'rent', which induces rent-seeking behaviour and rent-sharing between bureaucrats and private businesses. Thus, new political economy support privatisation and deregulation as means to de-monopolise government-created monopoly.

## Chapter 10

Globalisation creates both opportunities and challenges. Among other difficulties, Thailand's structural problem is the most crucial since it worsened Thailand's competitiveness. Accordingly, economic reforms are needed.

However, economic reforms (e.g. liberalisation and privatisation) is not possible without political reforms. In this respect, Thailand's political crisis arose as the reforms (new power) and anti-reforms (traditional power) struggled to gain control over economic direction of a country.

Reforms: to be benefitted from more opportunities if the market opened.

Anti-reforms: do not want to lose their privileged position.