



Partha Dasgupta

# ECONOMICS

A Very Short Introduction

OXFORD

## Economics: A Very Short Introduction

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Partha Dasgupta

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*To Aisha, Shamik, and Zubeida*  
*with their Baba's love*



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# Preface

Writing an introduction to economics is both easy and hard. It's easy because in one way or another we are all economists. No one, for example, has to explain to us what prices are – we face them every day. Experts may have to explain why banks offer interest on saving deposits or why risk aversion is a tricky concept or why the way we measure wealth misses much of the point of measuring it, but none of these is an alien idea. As economics matters to us, we also have views on what should be done to put things right when we feel they are wrong. And we hold our views strongly because our ethics drive our politics and our politics inform our economics. When thinking economics we don't entertain doubts. So, the very reasons we want to study economics act as stumbling blocks even as we try to uncover the pathways by which the economic world gets shaped. But as economics is in large measure *about* those pathways – it's as evidence-based a social science as is possible – it shouldn't be surprising that most often disagreements people have over economic issues are, ultimately, about their reading of 'facts', not about the 'values' they hold. Which is why writing an introduction to economics is hard.

When I first drew up plans to write this book, I had it in mind to offer readers an overview of economics as it appears in leading economics journals and textbooks. But even though the analytical and empirical core of economics has grown from strength to

strength over the decades, I haven't been at ease with the selection of topics that textbooks offer for discussion (rural life in poor regions – that is, the economic life of some 2.5 billion people – doesn't get mentioned at all), nor with the subjects that are emphasized in leading economics journals (Nature rarely appears there as an active player). It also came home to me that Oxford University Press had asked me to write a *very short* introduction to economics and there are economics textbooks that are over 1,000 pages long! So it struck me that I should abandon my original plan and offer an account of the *reasoning* we economists apply in order to understand the social world around us and then deploy that reasoning to some of the most urgent problems Humanity faces today. It's only recently that I realized that I would be able to do that only if I shaped the discourse round the lives of my two literary grandchildren – Becky and Desta. Becky's and Desta's lives are as different as they can be, but as they are both *my* grandchildren, I believe I understand them. More importantly, economics has helped me to understand them.

The ideas developed here were framed and explored in my book, *An Inquiry into Well-Being and Destitution* (Oxford: Clarendon Press, 1993). While writing that book I realized that economics had increasingly driven my ethics and that my ethics in turn had informed my politics. As that is an unusual causal chain, the earlier book was more technical and a lot 'heavier'. Theoretical and empirical advances since it was published have led me to hold the viewpoint I advanced there even more strongly now. I understand things much better than I did then – including *why* I don't understand many things. The present work is a natural extension of my earlier book.

While preparing this monograph I have benefited greatly from correspondence and discussions with Kenneth Arrow, Gretchen Daily, Carol Dasgupta, Paul Ehrlich, Petra Geraats, Lawrence Goulder, Timothy Gowers, Rashid Hassan, Sriya Iyer, Pramila Krishnan, Simon Levin, Karl-Göran Mäler, Eric Maskin, Pranab

Mukhopadhyay, Kevin Mumford, Richard Nolan, Sheilagh Ogilvie, Kirsten Oleson, Alaknanda Patel, Subhrendu Pattanaik, William Peterson, Hamid Sabourian, Dan Schrag, Priya Shyamsundar, Jeff Vincent, Martin Weale, and Gavin Wright. The present version reflects the impact of the comments I received on an earlier draft from Kenneth Arrow, Carol Dasgupta, Geoffrey Harcourt, Mike Shaw, Robert Solow, and Sylvana Tomaselli. Sue Pilkington has helped me in innumerable ways to prepare the book for publication. I am grateful to them all.

St John's College  
Cambridge  
August 2006

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# Prologue

## Becky's world

Becky, who is 10 years old, lives with her parents and an older brother Sam in a suburban town in America's Midwest. Becky's father works in a firm specializing in property law. Depending on the firm's profits, his annual income varies somewhat, but is rarely below 145,000 US dollars (\$145,000). Becky's parents met at college. For a few years her mother worked in publishing, but when Sam was born she decided to concentrate on raising a family. Now that both Becky and Sam attend school, she does voluntary work in local education. The family live in a two-storey house. It has four bedrooms, two bathrooms upstairs and a toilet downstairs, a large drawing-cum-dining room, a modern kitchen, and a family room in the basement. There is a plot of land at the rear – the backyard – which the family use for leisure activities.

Although their property is partially mortgaged, Becky's parents own stocks and bonds and have a saving account in the local branch of a national bank. Becky's father and his firm jointly contribute to his retirement pension. He also makes monthly payments into a scheme with the bank that will cover college education for Becky and Sam. The family's assets and their lives are insured. Becky's parents often remark that, because federal taxes are high, they have to be careful with money; and they are. Nevertheless, they own two





### 1. Becky's home

cars; the children attend camp each summer; and the family take a vacation together once camp is over. Becky's parents also remark that her generation will be much more prosperous than theirs. Becky wants to save the environment and insists on biking to school. Her ambition is to become a doctor.

## Desta's world

Desta, who is about 10 years old, lives with her parents and five siblings in a village in subtropical, southwest Ethiopia. The family live in a two-room, grass-roofed mud hut. Desta's father grows maize and teff (a staple cereal unique to Ethiopia) on half a hectare of land that the government has awarded him. Desta's older brother helps him to farm the land and care for the household's livestock, which consist of a cow, a goat, and a few chickens. The small quantity of teff produced is sold so as to raise cash income, but the maize is in large measure consumed by the household as a staple.



## 2. Becky riding to school

Desta's mother works a small plot next to their cottage, growing cabbage, onions, and enset (a year-round root crop that also serves as a staple). In order to supplement their household income, she brews a local drink made from maize. As she is also responsible for cooking, cleaning, and minding the infants, her work day usually lasts 14 hours. Despite the long hours, it wouldn't be possible for her to complete the tasks on her own. (As the ingredients are all raw, cooking alone takes 5 hours or more.) So Desta and her older sister help their mother with household chores and mind their younger siblings. Although a younger brother attends the local school, neither Desta nor her older sister has ever been enrolled there. Her parents can neither read nor write, but they are numerate.

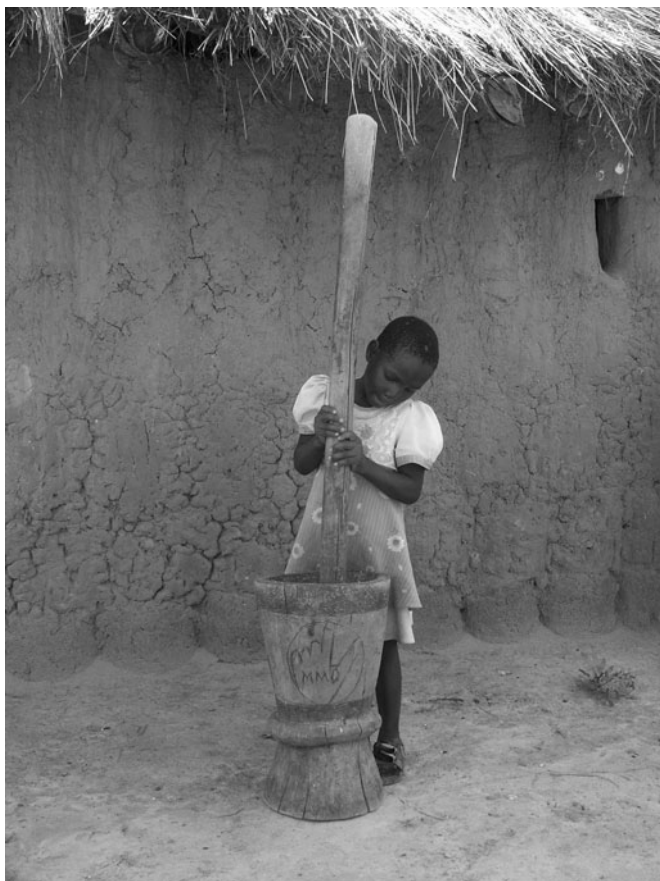
Desta's home has no electricity or running water. Around where they live, sources of water, land for grazing cattle, and the woodlands are communal property. They are shared by people in



### 3. Desta's home

Desta's village; but the villagers don't allow outsiders to make use of them. Each day Desta's mother and the girls fetch water, collect fuelwood, and pick berries and herbs from the local commons. Desta's mother frequently complains that the time and effort needed to collect their daily needs has increased over the years.

There is no financial institution nearby to offer either credit or insurance. As funerals are expensive occasions, Desta's father long ago joined a community insurance scheme (*iddir*) to which he contributes monthly. When Desta's father purchased the cow they now own, he used the entire cash he had accumulated and stored at home, but had to supplement that with funds borrowed from kinfolk, with a promise to repay the debt when he had the ability to do so. In turn, when they are in need, his kinfolk come to him for a loan, which he supplies if he is able to. Desta's father says that such patterns of reciprocity he and those close to him practise are part of their culture. He says also that his sons are his main assets, as they



#### **4. Desta at work**

are the ones who will look after him and Desta's mother in their old age.

Economic statisticians estimate that, adjusting for differences in the cost of living between Ethiopia and the United States (US), Desta's family income is about \$5,500 per year, of which \$1,100 are