

Class 7

Exam prep

May 29, 2018

- Churchill: 11:15 at Gloucester tube
 - First thing smoking District/Circle heading east
 - Alight at Westminster
- Tomorrow: 10:00 exam
 - Scheduling has constrained us this year. Hence, I give you today all but one of the questions from which the exam will be constructed (you will have some choice from the following questions).
- Thursday: YOYO (I suggest a look at monuments around us, e.g., WWII Bombing Memorial)
- Friday: wrap-up. Who is leaving Friday and when?

- 1 Consider the following quote from CBB: "War is the collective pursuit of a dangerous activity. But the collective pursuit occurs person by person. Why do individuals participate in war, whether voluntary or conscripted? In battle, what makes the fighting unit stay together as a collective, even as the lives of the individuals are at stake?"

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 - 1 15 points. Explain for an audience that has not had this course, e.g., one of your parents, why the participation of individuals in combat is seen by economists as problematic. That is, what assumptions about the motivation of individual soldiers and assumptions about their interactions make their participation in such a dangerous activity a puzzle?

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 - 2 Answer sketch: soldiers care about their own probability of living; their individual actions (shirk, be brave) interact with other's actions to affect their own probabilities of living. An "A" answer would illustrate this with the exposition of the prisoners' dilemma game—the description of "payoffs" for each combination of actions by the two soldiers, and the logic behind the prediction that both would shirk (dominated strategy).

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- ② Answer sketch: "burning bridges" and other "stick" inducements, medals and other "carrot" rewards (land for vassals, pirate booty, ...); training (shared tribulations, group punishments for individual errors, ...). The "A" answer uses examples to illustrate these ideas.

15 points. The efficacy of bombing in WWII has generated much debate. With use of the basic economic principles listed in CBB, critically evaluate the theory and practice of strategic bombing. Critically evaluate any ethical issues surrounding strategic bombing.

- 1 Answer sketch: theory: from CBB: "Strategic bombing is best defined as the use of air power to strike at the very foundation of an enemy's war effort—the production of war material, the economy as a whole, or the morale of the civilian population— rather than as a direct attack on the enemy's army or navy." This if successful would void the need for land invasion. Implicit theory of economy: (1) interconnected web of activities full of critical components, e.g., ball bearings, oil, raw materials of all sorts; (2) enemy morale could be destroyed, so they would not be able/willing to work. Evaluation of this theory: except for production of pilots, principle of substitution was displayed as oil was made from coal, factory production dispersed geographical, slave labor substituted for free workers. Evidence available at start: WWI, Spanish Civil War.

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- ① Practice: poor results (weather, anti-aircraft defense, bombsights, pilot fear). But why did the belief in its efficacy persist? Agency problems (Generals have careers, that they have hitched to air war success, bomber crews "saw what they wanted to see" in their own reports of the efficacy of their raids). Diminishing returns.

20 points. Explain why to understand war and other conflicts it is necessary to understand the reasons for bargaining failure. Then discuss at least two of the various reasons for bargaining failure.

- 1 20 points. Moral hazard is any situation in which one person makes the decision about how much risk to take, while someone else bears the cost if things go badly. Discuss the idea of moral hazard as it applies to issues of war.

- 1 "To overcome this incentive alignment problem, hierarchies must provide for oversight and recourse. These may include appeal to higher authorities ..., but more effective is the simple requirement that commanding officers fight with their men. If the officer is to face death, he will think twice about being heedless; if he is truly mad, a mutiny may well be sanctioned upon inquiry. In World War II, rear-area officers were prone to go along on bombing missions."

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- 2 Answer sketch: Generals and privates; let's start with this quote from CBB:
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- Discuss the causes and conduct of WWI from the perspective of economics.
- 20 points. Discuss either "Hamlet" or "Peter Pan" from the perspective of conflict economics.
- 20 points. Explain the paradox of civilization. As part of your answer, make sure you discuss what is paradoxical about civilization in this context, and what are the conditions necessary for civilization to arise.
- 20 points. Describe what you have gained from this course, in terms of both cognitive development and exposure to new ideas and experiences.
- 20 points. Chapter 3 of CBB is rich with examples of issues in the economics of conflict. Describe at least two such issues and then speculate on whether use of mercenaries in recent conflicts, e.g., Iraq, Afghanistan, might face similar problems.

- ① 20 points. From 1980 to 2000, the proportion of SUV's on American roadways increased from .22 to .39. One suggested reason for the increase is that an SUV is safer for its occupants in a car crash with a non-SUV, such as the smaller, environmentally-friendly Leaf. Consider the following description of strategies and payoffs of the choices faced by two citizens:
- ① I am safest if I have an SUV, and you have a Leaf; you are safest if you have an SUV and I have a Leaf.
 - ② If we both have Leafs, we are both equally safe, but better off than if we both had SUV's because we get a warm glow from believing we are helping the environment.
 - ③ Because of the safety aspect of a crash, it is more desirable for me to have an SUV and for you to have a Leaf than for each of us to have the same thing, i.e., both of us having SUVs or both of us having Leafs. Likewise, you are better off having an SUV and me a Leaf rather than both of us having the same type vehicle.

We can summarize these ideas in the matrix game:

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	Leaf	SUV
Leaf	(4, 4)	(1, 5)
SUV	(5, 1)	(2, 2)

Explain what the prediction of this game is for the choices of both players, and opine on whether government policy could affect the well-being of both players.