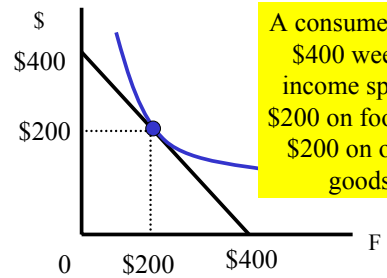


How Economists Destroy Christmas

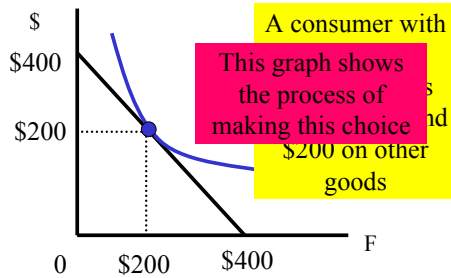


An Application to Food Stamps



A consumer with \$400 weekly income spends \$200 on food and \$200 on other goods

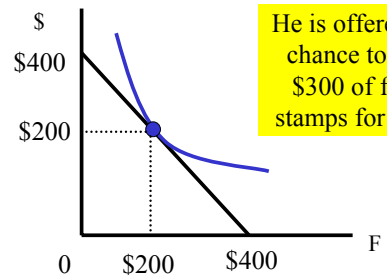
An Application to Food Stamps



This graph shows the process of making this choice

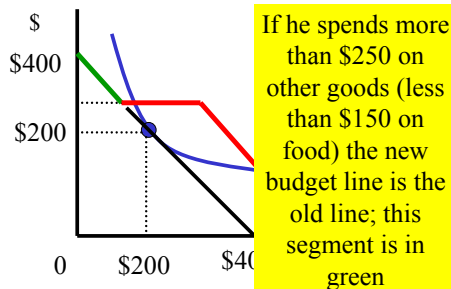
A consumer with \$400 weekly income spends \$200 on food and \$200 on other goods

Food Stamps



He is offered the chance to buy \$300 of food stamps for \$150

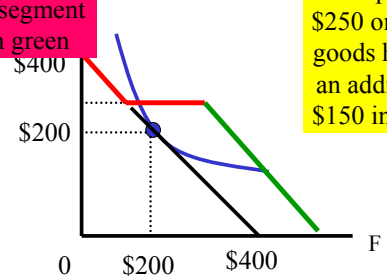
Food Stamps



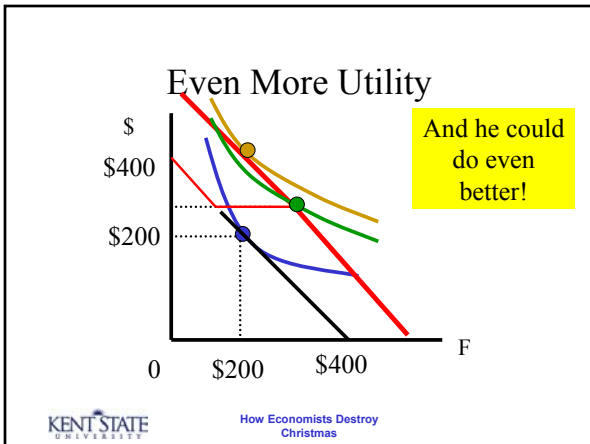
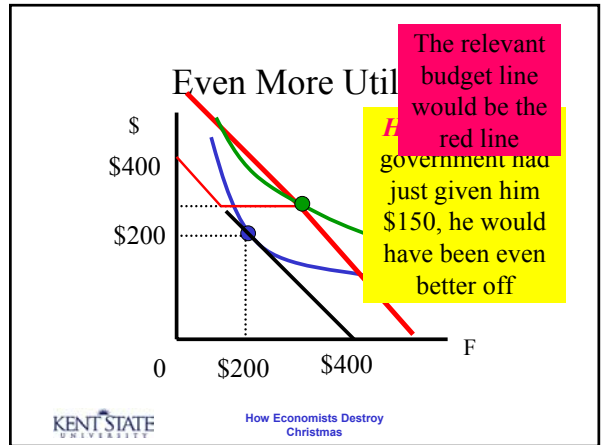
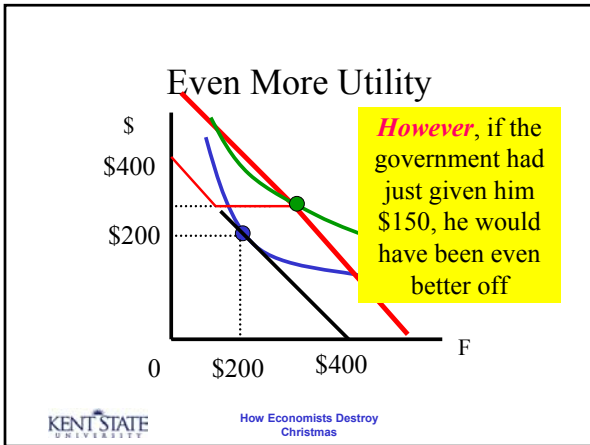
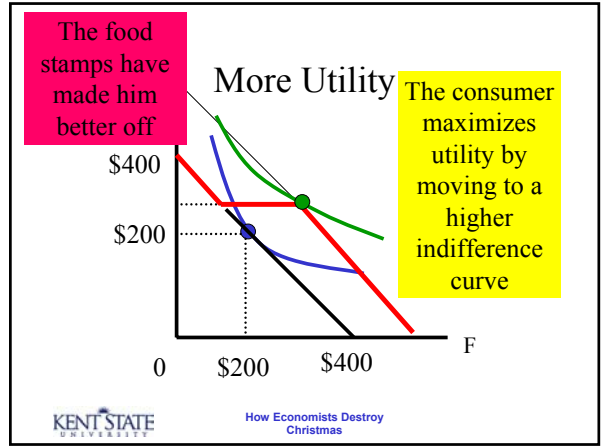
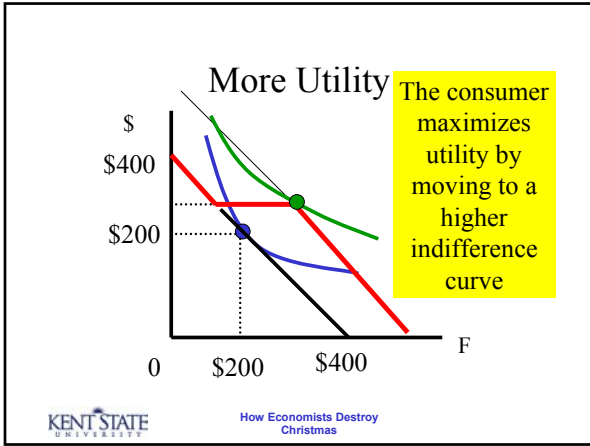
If he spends more than \$250 on other goods (less than \$150 on food) the new budget line is the old line; this segment is in green

Food Stamps

This segment is in green



If he spends < \$250 on other goods he gets an additional \$150 in funds



Why this Result

- The gift of food stamps came with strings.

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How Economists Destroy Christmas

Why this Result

- The gift of food stamps came with strings.
- The consumer could not set $MRS = MRT$

Why this Result

- The gift of food stamps came with strings.
- The consumer could not set $MRS = MRT$
- Economists refer to this as the *gifts in cash vs. gifts in kind* argument.

Gifts in cash versus gifts in kind

- If you give people money, they can make free substitutions.

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Gifts in cash versus gifts in kind

- If you give people money, they can make free substitutions.
- If you give them a restricted gift, MRS and MRT may not be equal.
- In that case, people are not as well off as they could be.

Government Programs

- Many government programs are truly gifts in kind.

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- A partial list would include
 - Food stamps
 - Housing Subsidies
 - “Free Education”

Government Programs

- Many government programs are truly gifts in kind.
- A partial list would include
 - Food stamps
 - Housing Subsidies
 - “Free Education”
- The gifts in cash vs. gifts in kind argument implies all of these programs are inefficient.

Generalization

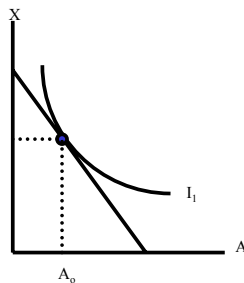
- The argument goes beyond government programs.

Generalization

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- Suppose you spend part of your income on apples.

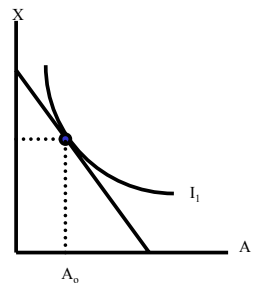
Generalization

- The argument goes beyond government programs.
- Suppose you spend part of your income on apples.
- Right now, you consume A_0 apples



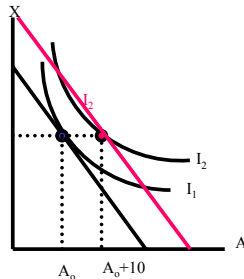
Generalization

- Suppose your uncle Ed gives you 10 apples as a Christmas Present.



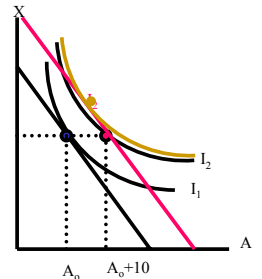
Generalization

- Suppose your Uncle Ed gives you 10 apples as a present
- He makes you better off, moving you to a higher indifference curve.



Generalization

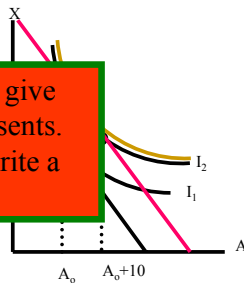
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- But he could have done more by simply giving you the money



Generalization

- Suppose your Uncle Ed gives you 10 apples as a present
- He makes you better off, moving you to a higher indifference curve.
- But he could have done more by simply giving you the money

Moral: never give Christmas Presents. Give cash. Write a check.



What does this mean?

- Normative Economics

What does this mean?

- Normative Economics
 - We should not give food stamps, just cash
 - Uncle Ed should give cash, not a gift in kind

What does this mean?

- Normative Economics
- Positive Economics

What does this mean?

- Normative Economics
- Positive Economics
 - People will not give gifts in kind

What does this mean?

- Normative Economics
- Positive Economics
 - In fact there is compensation in kind

What does this mean?

- Normative Economics
- Positive Economics
 - In fact there is compensation in kind
 - Employee benefits
 - Christmas presents

End

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