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석사학위논문

A Glimpse of Interesting Story
about Economy

(재미있는 경제이야기 翻譯論文)

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A Glimpse of Interesting Stories

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Dear readers

When you try to learn about the economy from the articles from newspapers or daily news, you might be confused from graphs, formulas, and economic theories that seem unrealistic. However, if we get familiar with the economy, we can learn how many economic concepts and principles are impacting our daily lives, even though we do not recognize it, and also we can learn that economic way of thinking can help us find the answers to many problems, not all though.

『Exploring the economics with real-life examples』 is a book with a collection of columns published under the same title in our monthly magazine. The writers are experts in various fields, including researchers, university professors, teachers, journalists, and entrepreneurs, and they explain the economic topics commonly shown in the articles of newspapers and daily news. The columns are categorized into five themes. The first theme, "Applying Economic way of Thinking to solve Economic Problems," introduces several economic basic concepts such as incentives, opportunity costs and sunk costs, and time preferences with examples, and describes the definition of economic way of thinking and its importance. The second theme, "Market and Competition," explains the concepts of scarcity and determination of prices, the law of demand and supply, and public goods and private goods with examples of competition in the professional sports industry and the process of wage determination of athletes.

The third theme is related to public choice and game theories, and information asymmetry, and the fourth theme focuses on 'growth and welfare' and its related issues in our daily lives and other countries such as tax, subsidies, prices, economic growth, income, and happiness index. Lastly, we describe 'marketing strategies and brands' that many companies adopt as a plan for survival. The book 『Exploring the Economics with real-life examples』 does not introduce that many economic concepts or principles, nor does it explain them in detail. However, we hope that teachers, students, and even ordinary readers will be able to access those theories more easily by reading examples around us. Last but not least, I would like to express my gratitude to the writers who contributed a column every month, and the data development team in the KDI Economic Information Center for their hard

work in publishing a book.

February, 2012

Ko, Il-Dong

Director of Economic Information and Education Center

Contents

Part 01 solve real-world problems through economic way of thinking

- Is it the best to put a price on bad behavior?
Kim Young-yong, Department of Economics and Trade,
Kyungpook National University
- The stupid filling up on the bread and economic rationality
Yoon Hee-sook/KDI Researcher
- The Economics Major, Is it really a part of Liberal Education?
Kim Yeon-soo/ KDI Economic Information Center
- When you use rational tools of economics, we will have a great
strategy for love!
Jeon Daewon / Shinjang High School
- Economics and Time
Kim Jin-young/ KDI Economic Information Center
- Economic thinking that extends to death
Lee Sung-pyo/ KDI Economic Information Center
- Straw sandal dealers and Umbrella dealers
Oh Hyung-Kyu/Korea Economic Daily Economic Education
- The Trabant, East German automobile and economic system
Kim Jin-young/ KDI Economic Information Center
- Difference between employee and owner
Han Soon-gu / Yonsei University Department of Economics

Part 2 Market and Competition

- Professional sports market and the competition

Kim Ye-gi/ KDI Economic Information Center

- Professional sports market and scarcity
Kim Ye-gi/ KDI Economic Information Center
- The reason why professional athletes earn high salaries
Kim Ye-gi/ KDI Economic Information Center
- Why are high school toilets dirty?
Jeon Daewon / Shinjang High School
- Go Ahead and Complain. It might be good for you.
Lee Sung-pyo/ KDI Economic Information Center
- Crop Insurance
Lee Sung-pyo/ KDI Economic Information Center

Part 3 Decision-Making and consumption

- The 'same bed, different dreams' about expanding the number of classrooms
Kim Jin-young/ KDI Economic Information Center
- What is more expensive than a diamond?
Oh Hyung-Kyu
/Korea Economic Daily Economic Education Research Institute
- The reasons why majority rule is preferred
Kim Kwang-ho/ KDI Research Fellow
- Economics of burning your boats
Kim Kwang-ho/ KDI Research Fellow
- Game Theory explains a penalty shootout
Kim Kwang-ho/ KDI Research Fellow

- Looking for a partner in life
Kwon Jae-won/ Deoksu High School
- Moral Hazard, Work the system!
Kim Duk-soo
/ Department of General Social Education at Gongju University
- What if the amount of information is different by people
Kim Jin-young/ KDI Economic Information
Center

Part 4 Economic Growth and Social Welfare

- The principle of good taxation
Kim Ye-gi/ KDI Economic Information Center
- The economic principle in coal briquettes
Jeon Daewon / Shinjang High School
- The economic thermometer, as the barometer of the economy
Kim Jin-young/ KDI Economic Information Center
- The catch-up effects
Kim Chul-hwan / Department of Economics at Ajou
University
- What's your happiness score?
Kim Jin-young/ KDI Economic Information Center
- Life with 'Prosuming'
Yoon Sung-in/ KDI Economic Information Center
- Clinical Economics and Prescriptions for Polarization
Kang Young-mok/ KDI Economic Information Center
- Production and consumption for 'All'

Park Chang-soon/ Korea Fair Trade Union

- Let's reset health inequality

Kim Jin-young/ KDI Economic Information Center

- A gambling of European Countries

Jang Kyung-deok / Maeil Business Newspaper

- Lessons learned from the Republic of Nauru

Seok Hye-won/Metro Bank

Part 5 Marketing and Branding

- Difference between corporate with core competencies and corporate without them

Kim Duk-soo

/ Department of General Social Education at Gongju University

- What are the survival strategies of individuals and businesses?

Oh Hyeong-gyu/Korea Economic Daily

- "2080 Law" in our daily lives

Jung jae-man/Kanghwa High School

- "Made in Japan" vs. "Made in China"

Oh Hyeong-gyu/Korea Economic Daily

- Impact of Weather and Sales in leisure industry

Kim Dong-sik/ K-weather

- Investment in youth talents

Kang Chang-hee/ Mirae Asset Investment Education

- Girls, Be Ambitious!

Chun Kyu-seung/ KDI Economic Information Center

Part 01 solve real-world problems through economic way of thinking

- Is it the best to put a price on bad behavior?
Kim Young-yong, Department of Economics and Trade,
Kyungpook National University
- The stupid filling up on the bread and economic rationality
Yoon Hee-sook/KDI Researcher
- The Economics Major, Is it really a part of Liberal Education?
Kim Yeon-soo/ KDI Economic Information
Center
- When you use rational tools of economics, we will have a great
strategy for love!
Jeon Daewon / Shinjang High School
- Economics and Time
Kim Jin-young/ KDI Economic Information
Center
- Economic thinking that extends to death
Lee Sung-pyo/ KDI Economic Information
Center
- Straw sandal dealers and Umbrella dealers
Oh Hyung-Kyu/Korea Economic Daily Economic
Education
- The Trabant, East German automobile and economic system
Kim Jin-young/ KDI Economic Information Center
- Difference between employee and owner
Han Soon-gu / Yonsei University Department of Economics

Are fines the best policy?

Perhaps the most intriguing questions for philosophers and scholars of human science would be “What do men live by”. In fact, it is the title of a novel by Leo Tolstoy, the great Russian author. However, many social scientists including economists would focus more on “what motivates trigger people’s behavior”. Humanities scholars are interested in the purpose of human life while economists pay attention to the principles of human behavior. Tolstoy’s answer is ‘love for God and your neighbors’, but the economists would say ‘incentives’.

Incentive, Power that motivates people to act

An incentive is “an often tiny object with astonishing power to change a situation” (Freakonomics by Steven Levitt and Stephen Dubner). Therefore even with good intentions, if we forget about the incentives that are woven through complex systems, we will make terrible mistakes (The Invisible Heart by Russell Roberts). Incentives have huge potential to easily solve seemingly insoluble social problems.

In Roberts’ novel, an interesting case of this view was presented. In the nineteenth century, the English used to export boat-loads of convicts to Australia. The problem was that many of the prisoners died on the way. To address this, the government paid on the basis of how many prisoners got off the ship in Australia rather than how many got on in England. They choose to harness the self-monitoring system rather than pay someone to keep an eye on the captains. The English government could solve it by giving the captain the incentive to do the job himself.

Donations or voluntary activities where incentives do not apply

There are more interesting stories. According to the paper published by Gneezy and Rustichini in 2000, there are some important aspects that we overlooked. They observed the surprising finding while they studied the effect of fines on late-coming parents in the city of Haifa. Before the introduction of the fine, the average number of late-coming parents was eight, but after the system implemented the number doubled. Why did

the incentive work contrary to the initial expectations despite the introduction of monetary incentive.

Unconventional economists explained from this result that the introduction of incentives established a social norm or system. Once the fine was introduced, the parents regarded the right to be late as a commodity in the market. As a result, they began to consume it at the price of the fine. If this happens more often, it would be more difficult to predict or explain behaviors motivated by a desire for incentives. What Haifa's experiment teaches us is that designing incentives is complex, but the prediction of corresponding people's behavior is much more complicated.

Of course, traditional economists would point out that the penalty is too low to have an expected result. According to them, it might have reduced the occurrence of the behavior subject to the fine, if the monetary penalty would have been high enough to reflect the market situation. However, it can not explain the reason why people who used to follow the rules decided to be late even after the introduction of the fine. (The case of the Haipa experiment was also presented in the text on the subject of the social studies of the CSAT in 2007. The answer was the opinion of traditional economists.)

The result of Haifa's experiment demands earnest reflection and reconsideration of the previous opinion that human behavior can be predicted by economic incentives and material motives. Apart from Haifa's experiment we can often observe that people change their behavior based on different forms of incentives. Celebrities doing good deeds secretly and the many volunteers at Tae-An Peninsula for Oil Spill are just a few examples of them.

"Love of God and neighbor", Tolstoy's answer to his question of "What men live by" may be another answer to "what makes people behave."

Kim Young-yong
/Department of Economics and Trade, Kyungpook National University
January 2008

The stupid filling up on bread and economic rationality

“My favorite is the bread served before the main dish at restaurants. The complimentary bread basket!” This is what Yoo-Kyung Seo says while taking a bite of bread in the high end luxurious restaurant, when she goes out for the first date with the head chef in ‘Pasta’, a Korean TV series. I would like to say that Yoo-Kyung, I couldn't agree more. I can fully understand her excitement before the bread. At this moment, the head chef says, “the complimentary bread ruins your appetite. It is only for soaking up pasta sauce. Other than that, you should not think of having even one bite of bread.

Do individuals always make rational decisions?

Actually I am far worse than her. I was literally scolded by the owner for gobbling complimentary bread at a high-end restaurant. He said “there is nothing more foolish than losing appetite with bread before a delicious main dish.” I feel ashamed of myself when I think of it. Then, do you think that I began to curb my appetite and save bread for the end of the meal? Not at all. The free bread, particularly at the top of an expensive meal, is incredibly hard to ignore even though I always leave the main dish after being full. Considering it, who can say that people are rational?

Life is such a place filled with fools. No matter how economists say that humans are rational, there are series of repetitions of stupid inertia, inconsistency showing different attitude before and after going to the bathroom, and the stupidity of taking great losses because it is cumbersome to change the current state in my life and the lives around me. If it is correct, is it okay to design social/economic policies assuming that humans are always rational? What is interesting is that new movements in the economic industry are being made to supplement existing economics because fools like me have been oftenly seen. This is behavioral economics, which breathes fresh wind into traditional economics. It observes human behavior that seems irrational. Behavioral economists have already won the Nobel Prize in Economics and the

Clark Medal (Editor's note: the American Economic Association awards an American economist under the age of 40 every two years) in the late 1990s and early 2000s. It can be proved that behavioral economics is recognized as one of the mainstream economics. <Nudge> and <36.5 °C Human Economics> are also attracting attention as one of the top bestseller books in Korea.

People who acts foolishly

For example, people try to pay taxes and quit smoking better when they find out that others do well, or put more effort into doing it. At buffet restaurants, food consumption varies depending on the way the dishes are displayed. If this is true, a simple announcement of the tax payment rate or the rate of smoking cessation will increase the policy effect. Encouraging buffet restaurants to place nutritious food in front of the gate also has the same policy effectiveness. All we need is a small adjustment on the existing policy by considering that people are not as smart as described in textbooks.

Economics is based on the premise that humans are reasonable. Behavioral economics can be a movement to face up to the fact that "sometimes, or many times people tend to act foolishly." In fact, economics seems arrogant in appearance, but it has developed by constantly expanding and modifying its spectrum itself. Economics will once again be enriched, when we raise the questions on the most important assumptions of mainstream economics, and that questions are identified as valid. Who said that, the study is alive as long as the question is raised.

Yoon Hee-sook/KDI Researcher

April 2010

Economics, Is it really a part of Liberal Art?

Architecture is the study that transcends across different disciplinary boundaries. It requires strong engineering skills to create accurate and safe construction plans as well as aesthetic design. Architecture should also consider the humanistic elements as it is inextricably linked to where people live. Just like architecture, economics is also a multidisciplinary study. The study of economics encompasses humanities and social science as it deals with fundamental problems of people's needs and thoughts as well as social phenomena. Economics have borrowed mathematics and statistical techniques from natural science disciplines.

Economics, Natural Science vs Liberal Arts

When students want to major in economics, they usually choose the 'Liberal Arts' department in high school. Economics is regarded as a social science because it studies the trade-off between incessant human desire and problems of scarcity in various social systems and relationships of nations, businesses, and individuals. However, students who study economics can easily recognize that economics is not a discipline with only the attributes of a liberal arts.

Economics is the study where it uses the most scientific methods to build theories so it is called the 'Queen of Social Sciences'. Here, science means natural scientific research methods because economists have taken concepts from natural scientific studies such as physics, mathematics, statistics and translated them to unravel social phenomena. With such an application of scientific models to economic analysis, many scientists or engineers began to study economics in earnest and it naturally made significant contributions to the development of economics. For example, when we look at the list of the Nobel Prize winners in economics, many laureates in economics majored in mathematics at university, and in some cases have their Bachelors in physics or engineering.

John Forbes Nash Jr. who was awarded the Nobel Prize for Economics as well as whose life was the subject of a film titled "Beautiful Mind",

which won four awards at the 2001 Academy Awards, was a mathematician. He was even nominated for the Fields Medal. (Editor's Note: an international prize which has been described as the Nobel Prize of Mathematics.) Here is another example. Vernon L. Smith, who studied electrical engineering at the California Institute of Technology shared the Nobel Prize for Economics in 2002 for his use of laboratory experiments called “wind-tunnel tests” in economic analysis. (Editor's note: An experiment in which airflow is artificially generated in a tunnel-shaped hole. Install objects including terrain, buildings, chimneys into the tunnel and then flow tracers into chimneys to measure drift to investigate the influence of wind direction and fluctuations of wind speed, topography, downdraft) .

Break down barriers between jobs

Economics and science and engineering fields are breaking down the walls of their own domains not only academically, but also professionally. A typical example is financial engineering. Recently it is easy to see that financial companies are desperate for experts who have significant competence in mathematics, statistics, and computers with their financial knowledge as a core discipline. Specialization of the financial services sectors significantly increases the demand for financial engineering experts.

Against this backdrop, there are a growing number of students with engineering and science majors who show their interests in economics.

You might think that ‘this would lower students' interest in economics’ when we consider the fact that many students choose liberal arts as an alternative because they hate mathematics. However, what I want to emphasize here is that economics is a discipline that we can study regardless of the liberal arts or sciences. It is what should be remembered by high school students from natural science who think that economics is neither relevant nor important for them.

Kim Yeon-soo/ KDI Economic Information Center

When you use rational tools of economics, we will have a great strategy for love!

When we study economics, we often fall in love with the principles that fit the real world. When you explain how perfectly the principle of supply and demand predicts human behavior, and draw conclusions with precise numbers, you can naturally nod your head as to why economics is called the flower of social science. That is why I often recommend to students to study economics to make rational choices in their life.

The competitiveness of love and monopolistically competitive market

Economic principles are often applied to everyday life. So I naturally developed a slightly absurd idea that maybe I can use the rational tools of economics to get a whopping return on investment in relationships. At first I thought this was a ridiculous try, but I came to the conclusion that economics could be applied to love if it rationally explains human behavior. This is because, just like the market, there are many principles of competition in dating. There is competition between men and women within the relationship, and sometimes another man or woman intervenes to create a love square or triangle.

When we apply these love structures to market theories, it will be closest to the 'monopolistic competition'. At first glance, it seems that the dating market is close to a perfectly competitive market considering the countless women and men in the world. However, it would be more reasonable to see it as a monopolistic competitive market which features product differentiation as all men and women are different. There are some words that we often say for a man who feels pain from unrequited love. For example, "she's not the only fish in the sea. There are plenty more in the sea." Then the answer you would get back is one-of-a-kind: "I can't live without her!" In a monopolistic competition, the firm has the status of a monopoly for the consumers who prefer a particular product, and this is the case.

The law of diminishing marginal utility and sunk cost

Once you start a romantic relationship, you should keep in mind the 'law of diminishing marginal utility'. Men who are not good at dating often employ money and expensive gifts from the start. According to the law of marginal utility, that strategy would definitely fail. As the gift continues, the marginal utility that she or he feels is bound to fall. Later, you might splash out on a present for someone you love but your relationship would not develop as much as you expect. One of the old mating strategies, 'Playing Hard-to-Get' is in line with this law. Economists from marginal utility schools were the scholars who first explained the paradoxical situation in which water is treated cheaper than diamonds regardless of its value. We learn from experience that many times we have more interests in people who used to play hard to get. Being too nice can also be a factor to fail in dating.

When you are stuck in a relationship and hesitate to break up with someone you love, you should think of the term "sunk cost." Although you think that "she or he is not the one in my life," people do not end a relationship because of the time and cost that they have invested in. Even they said, "I should marry you because I do not want to waste time on you." However sunk costs should not be considered to make a reasonable decision. If it is clear that the person I am meeting now is not my partner in the future, it is reasonable to break up as soon as possible. Since the time and cost spent so far are sunk costs and they cannot be recouped, it should only consider the things to be invested from now on and the future payoff thereof.

Thus far, we have looked at economic principles related to love. It is interesting that economic principles fit well with relationships, but it is likely to fail if you apply only economic principles recklessly to relationships. Because the biggest principle of love is not economic principles, but love.

Jeon Daewon / Shinjang High School
September 2008

Economics and Time

It is said that nothing is fair to everyone having the same 24 hours per every single day regardless of who we are. In this regard, time is certainly a scarce resource. Some save this resource and achieve success, while others ruin their lives with waste. The efficient allocation of time determines success or failure at the individual, organizational, social, and national levels. Then, what about economics? In economics, time has many dimensions, not just efficient allocation. Let's look at how economics treats time through examples.

Since there are only 24 hours a day, it is said that nothing is more fair to everyone than time. Therefore, time is clearly a scarce resource. Some people achieve success by saving money, while others spoil their lives by waste. Allocating time efficiently determines success or failure at the individual, organizational, social, and national level. So what about economics? In economics, time has many dimensions, not just the aspect of efficient allocation. Let's look at an example of how economics treats time.

Quantity adjustment and Time

Compared to manufactured products, it takes more time to adjust the quantity of agricultural goods. If the price of industrial products rises, it can increase production by hiring additional workers. However, when it comes to agricultural products, it is difficult to increase its quantity in a day even if the number of workers increases. This is because it needs time to sow seeds and harvest them.

We even experienced a large price jump when the price of cabbage soared to nearly 15,000 won. A photo of people overwhelmed with joy buying barely three cabbages was on the news. As its quantity could not be increased immediately, we had to import them from China. Since then, farmers have started to sow cabbages which resulted in a plunge in cabbage prices the following year.

Industrial products generally have higher price elasticity than agricultural products. From the farmer's point of view, the strategy to raise prices is correct, but it is hard to realize in reality because of

uncertainty about the future. There are often cases where crops which made a big success in the last year cannot even cope with production costs due to unexpected natural disasters like typhoons. Lack of ability to predict the future is one of main reasons which causes problems but the farmers inability to look to the future is the bigger problem because they regard the future based on the past experience.

The rate of time preference, is it future or present?

Some people save money and increase assets to prepare for the future, while others spend everything they earn and do not think about the future at all. Some refrain from eating delicious food because they are concerned about the fat and unattractive appearance of the future, while others fall into the temptation of food in front of them not thinking about the wonderful body shape in the future. It all causes the difference of time preference. Those who value the present more than the future have a higher time preference.

An interesting example of time preference can be found in the best-selling book "the Marshmallow Test". In the test, children were offered one sweet marshmallow one by one and suggested that "If they waited for 15 minutes without eating it, they got two rewards as a prize." In follow-up studies, the researchers investigated the children who participated in this experiment and found that the children who waited longer for the preferred rewards tended to have better life outcomes but the children who ate marshmallows immediately could not. People are often swayed by small and big temptations hidden in their lives. This is why patience and waiting are key to pursuing satisfaction with the future life.

Gambling addiction is also explained by time preference. Many people expect to make a fortune through gambling which is very rare. Rather than winning money, there is a high possibility of reducing consumption or a heavy financial burden of paying off debts. However, those who fall into gambling are blinded by immediate monetary rewards and ignore future costs. They tend to have a high time preference that values the present more than the future. Tempting to gamble or controlling yourself and enduring it. These behaviors show people's time preference

by evaluating the value of the future.

The time it takes for economic policies to affect the economy

In 2007, the financial market was greatly shocked by the subprime meltdown. Whenever the economy is in great shock, people raise their voices calling for more effective economic policies. Economic instability leads to psychological anxiety of the future for economic actors, causing great impact in our economy. That is why financial and fiscal policies are demanded to prevent the economic fallout.

Fiscal policy has limited scope as it is the use of the government spending directly to companies. On the other hand, it is effective because the target is clear. The problem is that there is a possibility that the policy effect will be halved due to the delay in time as it has to go through political procedures such as drawing up a supplementary budget and adjusting the tax rate.

Financial policy has a broad impact on everyone because the government could not implement policies such as interest rates or monetary policies for certain groups. In terms of effectiveness, the advantage of financial policy, unlike fiscal policy, is not going through a political process. However, we also should focus on fiscal policy which proceeds through a democratic process of coordinating various stakeholders to change existing rules and systems.

So far, we have looked at the value of time in our economic life. Time is important not only in the decision-making of individual economic actors but also in the process of promoting national economic policy. This highlights that we should not neglect the concept of time in economics. While evaluating the effectiveness of policies through changing the system, we can only respond properly when we broaden the spectrum of thinking into long-term perspective, not just immediate effect.

Kim Jin-young/ KDI Economic Information Center

October 2007

Economic thinking that extends to death

Labor economics is an economics that examines the demand and supply of labor as a product, and the difference that the labor market has in reaching its balance compared to other markets. It is somewhat unfamiliar, but the 'economics of death' is not much different from the above description. It examines the economic logic involved in determining various transactions related to death. It focuses on proper treatment of residual property, coping with fatal illness which might cause death, and how to find a more desirable way to solve financial expenditures to pursue the pleasure in daily life.

Economics, the study of allocating resources

Let's take a look at the term, economics. We might get familiar with death economics if we clarify this term further. Economics is a study that systematizes a series of processes of producing, distributing, and spending goods and services necessary for our lives by effectively using limited resources. We can fully understand the lack of resources as we live in an era where everything is measured by the economy. Oil prices skyrocket because oil reserves and production are limited while its demand soars. Real estate issues are due to the shortage of available land. Clear water cannot be obtained without paying the price and the clear air and the sound of birds in the backyard of the apartment are also added to the apartment price. The dispute over the right to access sunlight caused a lawsuit and the court settled it with monetary compensation.

In the era when the wife was weaving for clothes and the husband was plowing for grains to make a living, people produced and consumed minimum goods on their own. It was a self-sufficient economy. However, the industrial revolution promoted mass production and consumption, and the market was developed to more effectively trade those manufactured products. This is called a market economy. On the other hand, there is another economic system called planned economy in which the government controls and regulates what and how much they produce and allocate to those who participate in the production.

Traditional economics is the system that determines items to be produced and not to be produced according to traditional customs. It also decides how to use their products.

Allocation of resources to prepare death

Not long ago, South Korea began its national family planning campaign program that promoted having one-child, however, Korea faces completely different circumstances. Newborn allowances have been newly established for fear of serious concerns that the working age group has sharply fallen due to the declining number of newborns and ongoing entry of the senior population. Ordinary salaried employees can only gather a house and severance payment for their entire life. We are not in the time when children have responsibilities for caring for their elderly parents and the government is not famous for its welfare. Therefore, we have to be concerned about how to live the rest of our lives after retirement.

The financial industry quickly offers a variety of products which make it possible to effectively utilize houses which might be the only asset for retirees. Reverse mortgage loans are the representative example which allow homeowners to convert their home equity into cash income. (Editor's note: a reverse mortgage allows people to borrow money using the equity in their home as security). Several fatal diseases that can occur in old age normally generate high medical costs. Unlike the housing market, the life insurance industry focuses on products targeting younger age groups by expanding its coverage to maintain people's health conditions as well as treat diseases.

Some celebrities might talk confidently that they can realize their dream and life through jobs, but it may fade due to lack of preparation for their later years and death. There is a saying that parents should sacrifice everything for their child because parents see them as a manifestation of parental ego. It is no longer a universal philosophy of middle-aged people. People will stay away from alcohol and cigarettes to reduce insurance premiums and the market for healthy and nourishing food will expand. Workers of this time who have not been able to afford to travel even once in their lifetime, have struggled to think about life

after retirement.

Many companies engaged in developing various goods and services try to seize this opportunity. Currently the number of public and private nursing homes are also increasing, and new types of residential facilities as well as workers of hospice care will increase. The culture of meeting and leaving in the aging group will also develop further, and jobs for seniors will be created to utilize their labor force.

The reason for adding the word 'death' to economics would come from the considerable amount of wealth owned by so many retirees. It seems sad that economics, which is already called 'the dismal science', is broadening its scope to death, but let's think that our economic decision-making process has expanded more than before.

Lee Sung-pyo/ KDI Economic Information Center

March 2007

Straw sandal dealers and Umbrella dealers

When it rained, there was a mother who was worried about her eldest son, a straw shoe seller, and on a sunny day, she was also worried about her younger son, an umbrella seller. Someone advised her to change her mind, instead of worrying all the time, that umbrellas will sell well on rainy days, straw shoes will do on sunny days.

Economic problems as 'two sides of a coin'

This fable emphasizes the importance of positive thinking, but we all can be straw shoes or umbrella sellers in our daily lives. Everything, especially economic issues, has both positive and negative sides, just as the head and tail of coins. This means that there is no single correct answer like mathematical problems because the world is intertwined by complex interests and various thoughts.

Harry S. Truman, then president of the United States during World War II and the Korean War, joked to his staff, "Where was there no one-handed economist?". When he asked about the solution to the annoying economic problem, economists explained the bright side of a policy, and when he tried to listen more, they added the dark side or side effects saying "On the other hand, (on the other hand.....)".

In fact, economic policy has both positive and negative effects, so any government tries to make the least-worst decision. As a result, it seems that all economic policies are consistently plausible but should not be done at the same time.

There is also no correct answer to the exchange rate. If the exchange rate rises, exporters will welcome it, but increasing prices make importers or "goose fathers" who work in home counties while supporting their wives and children who live and study abroad as well as ordinary people difficult. The opposite situation would occur, when the exchange rate falls. The joys and sorrows of exporters and importers will change. The same goes for interest rates. When interest rates rise, depositors would laugh and borrowers would cry, but when interest rates fall, the situation would be changed. The only answer might be the ambiguous expression, "appropriate level that people in the opposite

position can cope with.

Solve economic problems with laws and principles

Everyone knows that the less pesticides we use, the better agricultural products we have. But is "zero pesticides" the right answer? If pesticides are prohibited from the earth, we can prevent any damage from using pesticides, but it becomes difficult to have fresh vegetables on our table anymore. Therefore, the question of using pesticides is how much and how long we allow them to remain in vegetables. In addition, even when there is conflict between preserving the environment and proceeding development, we can pay higher costs due to environmental destruction when we insist on growth. On the contrary, people should give up their daily convenience and return their lifestyle to the 19th century if we neglect development. 'South Korea - American beef scandal', one of the top headlines in the first half of 2008, is also another example which shows two sides of a coin. Of course, public safety is the top priority, but there are benefits and losses. While the import of U.S. beef would financially damage Korean cattle farmers, it will be good news for ordinary people to eat cheap beef if its stability is guaranteed.

That's why some say that Australian beef exporters and distributors of Korean beef are the only ones who had benefit while U.S. beef imports were banned. If U.S. beef imports are banned continuously, we can ensure safety against possible dangers. Instead, Korean families would not easily visit steak restaurants although Korea's per capita national income surpassed 20,000 dollars. That's because Korea is famous as the world's most expensive country for beef.

In the movie <Die Hard 4.0>, there is a scene where criminals immediately paralyze New York City. By manipulating the traffic control network to change all traffic lights to green lights. The "social promise" that people move at the green light and stop at the red light suddenly disappeared. The key to solving economic problems in which good and bad sides, gains and losses exist together lies in such social commitments, 'law and principles'. Only when nations stand with laws and principles firmly, economic actors adjust their interests to them and achieve social compromise just like complying with properly operating traffic lights. That's the principle of the economy, the way of the world.

The Trabant, East German automobile and economic system

In 1989, a historical event occurred when the Berlin Wall collapsed. At that time, a scene in which East Germans drove over to West Germany was aired on TV. The car which got the spotlight is Trabant, the national car in East Germany. It was the only car in East Germany so that East German buyers had to be on a waiting-list up to fourteen years. It is hard to believe that the company didn't go bankrupt even though it kept customers waiting for such a long time…….

Trabant, the automobile made of the planned economy

East Germany made the Trabant in the 1970s. The car was made using reinforced plastic for its body and had a weak two-stroke motorcycle engine. Its design and engine system had not been changed from the first year of its release. Plastic bodies were cotton and it could not easily berecycle. The car also released toxic fumes when it was burned. Tribants emitted severe pollutants that caused huge environmental problems.

Why did East Germany make such a car in the 1970s? Perhaps it was due to the gap with West Germany. Socialist countries promised to create heaven for their people, but reality was often the opposite. At that time, the Soviet Union was on par with advanced countries in the area of defense and space, but daily necessities were often poor quality and insufficient. It was because the government neglected to make people's lives better. Ultimately, the market did not work in the planned economy.

Trabant was the most popular car in East Germany. At that time, West Germany was one step ahead of the competition with Volkswagen by opening the age of the 'people's car' when ordinary families could afford to buy automobiles. East Germany tried to create and distribute Trabant

to the public to make up for this situation. However, West Germans made fun of the poorly functioning and polluting automobiles running across the streets. Perhaps that's why there are interesting jokes among West Germans about the planned economic system over the car. Here are some of them.

Trabant that makes you laugh

A Trabant stopped at a red light. Even though it turned blue, the Trabant wouldn't move. People were wondering, "What went wrong?" The West Germans in a sarcastic voice said that someone had dropped chewing gum on the pavement so it cannot go forward." It is mocking the terrible engine that cannot handle chewing gum. Trabant announced that it developed a new deluxe model. However It did not mean that the interior was changed or enlarged to match the meaning of deluxe, but a heating wire was equipped with the rear window. East Germany is famous for heavy snow in winter, so it was to melt snow to secure visibility in the rear. This is the answer from West Germans to those who question, "Why did they put heat wires on the Trabant's back window?" "It was to warm people who pushed from behind." This is another joke. What is the way to double the price of Trabant? The answer "the price will go double when the current tank is filled with oil."

These jokes show a clear aspect of the failure of the planned economy. Under the planned economic system, products are planned and produced by the central government, not by the market, so the market does not work properly and competition is eliminated. Therefore there is no incentive to improve quality or performance. Trabant, which is almost an antique in the perspective of advanced Western countries, could be able to become a 'people's car' in East Germany. Many experts say that one of the main causes of the collapse of socialist countries in Eastern Europe is the limitations of the planned economy which represents the creation of the Trabant. It gives a great implication to us as people living in a country with a market economy.

Difference between employee and owner

It is very ridiculous to try to summarize economics embracing various fields into one word. Perhaps that's why many global economists have different answers to the question, "What is economics?" However, personally, I think that economics is 'a study to help to find the owner'.

Making money requires a sense of having ownership

When I am asked to explain the economy at the level of elementary school, we should work hard to make money, save it, and spend it only on what we really need. At the professional level, the purpose of economics is to maximize profits and utility by appropriately using scarce resources. However, as a result of long studies by economists, we have learned that the people who work hard to produce goods, make money, save and spend it properly are only the owners of factories or shops. Because they have to pay for the all cost incurred.

Sometimes when I go to a restaurant, I can see employees who work especially hard. When I ask later, most of them are the owners of restaurants or their sons or daughters. These owners and their families work hard because all the profits from the restaurant belong to them. On the other hand, employees have incentive to work hard because they receive salaries regardless of sales of restaurants. In this context, employees are not owners.

The same concept applies to spending money. People used to squander all the money when they got credit cards from their parents before getting a job. However, they tend to become frugals after starting to make their own money or get married. They splurge their parents' money, but they begin to have a sense of ownership of the money and spend wisely when they earn their own money. Therefore, problems

would disappear and all the economic theories might disappear into history, if only the owners and their families could run factories, restaurants, and stores, and the money that they earned could be spent by them.

Who is the real owner?

However, I don't worry that this will happen and I, an economist, will lose my job. Fortunately(I am not sure that is the right word though), there are still many cases where employees run factories, restaurants, and stores on behalf of owners, and they spend money instead of owners in Korean society. For example, if you look at large corporations such as Samsung and Hyundai, they have hired “professional” CEOs and they are normally not the owners of companies. Also, it is literally impossible to run a company, restaurant, and store only with family members unless they are large enough to handle it. In addition, people who actually execute the money to build bridges or roads for the people are the public officials of the central and local governments, not the people themselves, although they are real the owners of that money

It is easy to waste money and occur inefficiency, and injustice, when people act as if they own the place. As long as there are such problems, economists should exist to study how to solve them.

How can we make the employees work as hard as the owners? Also, how can we help government officials save taxpayers' money and use it just like their own?

Han Soon-gu / Yonsei University Department of Economics
February 2010

Part 2 Market and Competition

- Professional sports market and the competition
Kim Ye-gi/ KDI Economic Information Center
- Professional sports market and scarcity
Kim Ye-gi/ KDI Economic Information Center
- The reason why professional athletes earn high salaries
Kim Ye-gi/ KDI Economic Information Center
- Why are high school toilets dirty?
Jeon Daewon / Shinjang High School
- Go Ahead and Complain. It might be good for you.
Lee Sung-pyo/ KDI Economic Information Center
- Crop Insurance
Lee Sung-pyo/ KDI Economic Information Center

Professional sports market and the competition

Professional sports is similar to the market economy system in that a series of events in the professional sports market are in line with values pursued in the market economy. In other words, spectators (fans), players, clubs, and referees play the same role as economic players such as households, companies, and governments in professional sports games. Rules and regulation, and fair play are also required in the market economy, and also the market competition plays a big part in the professional sports market. Outstanding professional athletes receive high salaries and the games between rival teams attract relatively more spectators. This is based on the scarcity which is emphasized in economics.

Sports fans can be assumed to be the consumer of the games produced by players and clubs. The fans will turn a blind eye to the games, if tickets cost too much and the performance of players is poor. Players and clubs are the main agents of production that must provide quality games (services) so that fans can be willing to pay and watch them.

The club endeavors to find various ways such as providing high performance to fans (consumers) and scouting best players to earn a lot of profits. Players improve their performance by honing their skills and performing systematic and intensive training to receive a higher salary. These are similar to the behavior of consumers and producers doing their best to maximize their satisfaction or profits when they meet and trade in the market.

Lubricant, what make it easier to operate the sports market

In sports events such as soccer, basketball, baseball, if referees do not stop unfair play and are biased in favor of certain teams, players cannot perform fair games and also the umpire would be criticized and booed by sports fans. When it continues, the fans will leave. However, if the referee regulates and controls even trivial things, the game will be boring. The role of a referee is very important because a sports event heavily depends not only on the player's skills but also on the referee's role. This is why there was controversy over the quality of referees at

the World Cup held in Germany.

The government should establish and supervise rules and regulations just like referees on fields so that the market can operate properly. If the government neglects its role or favors specific companies, harmful effects such as unfair transactions or monopoly can occur in the market. At the same time, if the government tries to regulate and supervise too much, the market will not work properly.

Only when the referee focuses on its role faithfully by applying the rules correctly and executing them fairly, will the players be able to do their best and perform their skills fairly. That role is in line with the government's role which is to create rules and execute them to build an environment for a market economy.

Using the Principles of Athletic Competition in the market economy

Competition in the professional sports market is fierce between teams or among players within the team. The results of competition, in particular, determine players' salaries, and sometimes even their careers as players. The competition within a team for a certain position determines the fate of players whether they become the main roster or reserve players. Some athletes who failed in the blistering competition may leave for another team or give up their career. In fact, before the 2006 World Cup in Germany, 23 Korean players who were already selected as the national team through the intense competition had to compete fiercely again to be chosen for the "Best 11" to play in the game rather than waiting on the bench as candidates.

Competition encourages players to improve their skills and produces good results in national competitions. Having victory in intense competition provides not only honor and achievement, but also substantial monetary rewards to individual players. Apart from a World Cup bonus itself, participating in the global sports games is also a great opportunity for them to demonstrate their competitiveness to advance into the European soccer leagues. For this reason, the professional sports market has no choice but to emphasize competition.

Likewise, competition also plays a fundamental role in the market economy. For the better understanding of market economy, let's apply the concept of competition between players to the one in the market

economy. As mentioned above, players intensely compete with one another to become key or the best players, or to be recognized as top players and to raise their transfer fee. When it comes to the market economy, the competition among athletes to become major or top players in professional sport can be a strategy that stakeholders take to survive in the market and to do their best to become market leaders. Also, endless endeavors to raise their value in dollars and cents would be the strategy for continuous innovation.

Market is such a place for easily entering and exiting which means anyone is likely to disappear in the market. Athletes may be placed on injured reserve for a certain period of time, if they are unable to participate due to injury, However this special treatment cannot happen to the real market players. Market players have to do their best for their own good, therefore It is natural for business people to make the most profit at the minimum cost. Otherwise, they would be eliminated from the market. Therefore all economic players have to be committed to constantly pursuing creative innovation and technology. The competition itself is an incentive to induce all-out efforts. The huge wealth that superstar professional athletes gained is the result of winning through fierce competition, and they are constantly honing their skills to maintain it.

Different results of the competition in the market and sports games

In professional sports, winners and losers from competition are decided more clearly than the result in the market economy. Competition between players gives glory, honor, and financial rewards to the winner, but causes frustration to the loser. On the other hand, the consequence of competition is not always clearly distinguished in the market. This is because there is also a possibility that the outcome of competition in the market economy can create a win-win situation for market participants.

For example, when two companies compete with each other by selling the same products in a market, they would strive to make cheaper and higher quality products. It will improve their technology and competitiveness, allowing consumers to purchase quality products at lower prices. As such, competition in the market is a series of processes

that produce cheaper and higher-quality products, and it benefits most competitors who participate in the competition. This is a small but huge difference between competition in the professional sports market and the market economy.

Kim Ye-gi/ KDI Economic Information Center
September to October 2006

Professional sports market and scarcity

People must consume goods or services, including clothing, food, and shelter to live. However, there are no goods or services supplied unlimitedly on Earth. In this regard, the word that explains people's endless desires and relative shortage of goods or services to meet people's needs is "scarcity".

The professional sports market established by scarcity

Do you think that scarcity also exists in the sports market? Sports economists say the reason why fans are interested in and enthusiastic about games such as soccer, baseball, basketball, and e-sports is the scarcity value. Professional sports provide different values from the one that can easily be found in the general market. So it can create the market by providing sports services and promoting the demand of viewers. Then, what are the scarcity values of professional sports?

The first scarcity value is the skill and trick of professional athletes who are different from non-professional players. We are passionate about the high-quality performance of professional players with excellent skills, and because of the scarcity of their greatness, the crowd wants to watch the games at a cost.

The second scarcity value is the victory of the game. Winning is the ultimate goal to achieve in sports matches. All teams want to win, but

only one team can seize the victory which creates the enhanced scarcity value. Fans are even more entertained with the victory after fierce competition with the opposing team. Only fans who support the winning team can experience real joy that comes with victory because the triumph on the field goes to few teams.

Third value is the existence of a rival team. Uncertainty in the outcome of the game further stimulates people's attention. When the power between two teams is similar, which creates thrills and spills during the match, it would be hard for us to predict the outcome which attracts people more to the game. The excitement and pleasure is from the scarcity that we cannot feel in snooze-worthy sport games.

Fourth value is promoting the common interests of the people. They have a positive impact on people such as uniting each other, creating harmony and establishing national identity. In modern society, few goods are as effective as sports in bringing out national identity. A case in point is the 2002 Korea-Japan World Cup that drove all the people into a frenzy.

Fifth is supply restrictions. Intentional limits on the number of professional sports leagues or matches per season are to increase the scarcity value of professional sports. However, these restrictions on professional team sports operating in the form of monopoly are not desirable.

Limited supply of Elite athletes with the value of scarcity compared to its demand

Professional sports clubs look to profit models by creating associations and commercializing "scarcity" through the market. In the general market, there are limitations in rising prices because when the value rises, the number of suppliers seeking to earn profits increases. However, in the sports market, the limitation of scarcity cannot be resolved as fast as in the normal market due to the lack of supply of excellent players. Therefore, the sports market is characterized by the scarcity created by some super star athletes.

Why do professional athletes earn high salaries?

In general, the salary of famous professional players is substantially higher than that of ordinary people. On the other hand, their salaries are much lower than the earnings from sport players, although we cannot assume that services provided from the front lines of public service such as teachers, police, and firefighters have lower public value than the one from professional athletes.

It can be explained by law of supply and demand and economic rent

First, let's look at the demand side. Consumers of services from teachers, police, and firefighters are limited. Not only spatial constraints but also the restriction of target groups exist. However, the number of people who watch the play of superstar athletes is overwhelming. Considering figures of domestic and global viewers who enjoy the game using the media, including fans in the crowd, the sources of revenue are diverse and huge. Combining network and viral marketing effects, the explosion in demand is beyond imagination.

When it comes to the supply side, when teachers, police, and firefighters are paid more, there will be more potential workers supplied. In general, employers lower wages if there is more labor presented for employment. However, the supply of superstar athletes is limited. In economics terms, it is depicted as a perfectly inelastic supply with straight vertical lines in which there is no change in quantity supplied when the price changes. Therefore, the services provided by star players have limitations in supply. In other words, the fantastic tricks performed by so-called top players have a rare value, and the number of people

who are enthusiastically interested in their play is huge by transcending borders.

There is another opinion which explains the reason for the high earnings of sports stars as economic rent. Traditionally the rent was conceived as payment made to a factor of production whose total supply was completely fixed such as land. However, economic rent is an amount of money earned in excess of the costs needed to produce. Therefore, under the same conditions, when the supply curve becomes more inelastic, the economic rent gets bigger. The reason why star players earn so much is that the supply of services, which represents excellent skills in here, is limited, and it cannot be substituted by other players, therefore, most of the profits generated from sports events are transferred into economic rent.

Media development helps creating star professionals in various fields

According to the theory of supply and demand or economic rent, the reason why star players' salaries are high is that the services they provide are rare. Therefore, thanks to the development of IT technology and explosive demand from fans, the incomes of sports stars and famous celebrities have skyrocketed overnight with millions of dollars in contracts. In recent years, outstanding teachers in cram schools have become star tutors, winning fame and huge salaries, and treating star athletes and celebrities. It is also possible because the demand has exploded thanks to the development of media.

Kim Ye-gi/ KDI Economic Information Center
December 2006

Why are high school toilets dirty?

In 2007, an unusual debate regarding "Cleaning in Elementary School Toilet" took place in the National Assembly's Special Committee on Budget and Accounts. The Ministry of Education and Human Resources Development allocated 23.89 million dollars to its budget to clean school toilets in the project called "Creating Clean School". The decision triggered a heated debate among lawmakers. Those who agree with the bill said that students could not clean schools properly, and the opposition said that cleaning work could be a part of educational activities. They also added that parents had been overprotective of their students these days so that cleaning toilets would provide a great learning opportunity to students.

Finding the tragedy of the commons in school toilets

The poor state of school toilets has never been completely solved so it is often described as a deep-seated problem since the school system has been introduced in Korea. Economically, however, when we look at the characteristics of the issue, it is very easy to find out the reason why it has not been settled. The reason is that school toilets are not-excludable but have rival goods just like most common-pool resources.

Here, exclusiveness means properties that people can prevent others from consuming goods. School toilets are non-excludable because even if I clean them hard, everyone uses them together. "After cleaning the road, a dirty car passes by first." This is a famous quote in Korean that describes the tragedy of the commons. School toilets can be used by anyone without paying for it. Rivalry in consumption means that as the number of toilet users increases, the degree of messiness rises. Those who use it immediately after cleaning can use pleasant toilets, but as time goes by, there are few chances for people to use clean toilets. If they are not controlled properly, no one will try to use it nicely, so eventually we encounter the toilet filled with odors and trash.

The phenomenon that occurs when individuals neglect saving the environment or resources that everyone uses together is called the "tragedy of commons." It is deeply related to environmental matters such as the depletion of whale stock and deforestation. Whales are listed as

endangered animals due to relentless hunting and harvesting, and deforestation occurred as many trees have been cut indiscriminately. International organizations have been strictly banned on whale hunting and the many governments have prohibited cutting down trees and actively promoted planting activities. These are all efforts to resolve the tragedy of shared resources that cannot be resolved by market principles.

How can we make people, who use toilets a lot, clean them?

Schools were also making efforts to solve this problem by taking turns for cleaning, but it was not effective. Teachers did not want their class to be assigned to scrub toilets, and students were also reluctant to clean them. In order to maintain pleasant toilets, teachers have to spend their energy and time to manage and supervise cleaning activities by sacrificing their energy and resources for designing better curriculum for students. In this situation, the condition of toilets would entirely rely on the teacher's charisma and teaching ability.

An economic alternative to address these undesirable situations is to apply the principle of Benefit and Burden. It is to assign individuals in charge of cleaning toilets according to the number of times people use or the degree of mess users make. This method is not easy to measure, and even if possible, it can be inefficient because counting and measuring all the number or degree of using toilets costs more than cleaning activities itself.

Being exclusive of using the toilets may be another option. We can lock the doors to allow only specific persons or classes to use them. It would help us to maintain the toilets clean, but there is a budget problem to increase the number of toilets. The last possible option that is relatively convincing to others is to hire companies specialized in cleaning services. Hiring a professional cleaning service would improve efficiency of cleaning the toilets. This is the easiest way but it requires an additional budget unlike the previous options.

Currently, many schools, like the National Assembly, are discussing ways between the current practice and the final alternative. They focus on which value has to be prioritized between educational effect and school hygiene. Although the two opinions are not necessarily exclusive,

we cannot avoid the situation where both arguments are inevitably divided. I want you to think about how to solve this problem.

Jeon Daewon / Shinjang High School
May 2008

Go Ahead and Complain. It might be good for you.

People who were financially meticulous used to being criticized by people in Korean society. Because money should not be the value that impoverished classical scholars pursued. Although the class of scholars was a minority, the thought was made to resemble the society of children because the influence they had on society was overwhelming. How could we call for the \$5 that my senior borrowed? When I was in college, one of my friends from a rich family used to generously give cigarettes to seniors or friends colleagues, however soon after he separately took cigarettes for others and himself in different pockets. I myself could somewhat relate to him, but some of my friends teased him, saying, "You Too Brutus" (Editor Note: The phrase often represents the betrayal of the person I trusted)."

Advanced society where effective complaints handling system is implemented

Older generations may have some similar experiences with themselves or among their family members. With the collapse of the authoritarian system that distributes the production resources of society, people have started to meticulously criticize every aspect of our society and it has been a part of our culture. For me, It is a little scary that young Korean couples these days exchange the information of their salary with their colleagues. In fact, it is very important to ask and review the

financial resources and characteristics of the future spouse. It is also natural to review the financial status of their partners because getting married determines the individuals' happiness in the entire life, but sometimes it is too much when I hear news reports that marriage is an option.

Sometimes examinations could be done differently by people, but generally it is done based on objective facts. The people's own opinions are in fact developed by various facts they have developed from experiences in their life. Even for a small amount of money, we cannot so-sign a loan or help financially for someone who tends not to pay back well. Even if people persuade us that they will be successful in the future, we won't easily believe it.

When these experiences are accumulated socially, they can be implemented as an institutional system. In various cases, individuals may not have enough information to support their arguments, and even if they do have, their opinion is hardly reflected in the system properly. That's why those experiences built up in various practices should be institutionalized. Of course, the conflicts between classes may occur due to diverse experiences in different environments according to their life, but the one thing cyster clear is that once these conflicts are resolved in a desirable way, the more advanced the society can be created.

Transparency reduces social distrust and cost

Speaking up details sometimes looking unnecessary may reduce social costs because it increases society transparency and reduces suspicions and distrust between people. It will definitely help individuals focus on their work. The market plays such a role in the system. It is a place where people make many economic decisions. For example people might decide whether to buy a wall-mount TV or not this month. After making a decision on the expenditure, they consider which brands or products such as domestic or imported TVs they will purchase. People make their choice based on the satisfaction their products can provide, compared to the amount spent.

This theory applies to not only producers and consumers but also intermediate sellers. A long time ago, when I visited one city, I bought a pack of milk at an intercity bus stop. The store owner surprisingly

received 150 won while the price was 180 won for a pack of 180ml. Do you think that the owner did not know the price? No, the owner changed the price depending on the situation such as commuting time. He asked for 200 won or 150 won differently for the same product. He learned how to earn more money with different price strategies. Someone must pay 20 won more in return for raising their voices on the different price.

There are still many things to be argued about in our society. Wouldn't an advanced society be created only after members of society carefully take care of things around us and let them go through the legislative process if necessary?

Lee Sung-pyo/ KDI Economic Information Center
May 2007

Crop Insurance

The villagers were rattling around on whether Spring came. They said Spring got sick or Spring fell into dangerous condition. According to eye-opening hearsay, Spring had just arrived at the sea and was resting for a while at the corner of the mountain where camellias blossomed. However, some people also said Spring was beaten to death.

It is the beginning part of the poem, <News from Spring>, by poet Dong-yeop Shin, famous for the Geumgang River. Just like what he described in his poem, Spring could not come here because it was severely ill or clubbed to death. Lately, there are many news articles about the unusual weather condition that does not seem like spring at all and the resultant damage. Far from the warm and bright spring, the sky is dark and gloomy, and finally, flowers of fruits such as pears and peaches are frozen due to unexpected hail. Last winter, cold weather,

heavy snow, and also lack of sunlight caused a lot of damage to crops, which made a farmer cry in the news last night. He said "This is catastrophic." He also complained to the Korea Meteorological Administration that crops were hit by hail because they could not prepare an umbrella. Now the news of heavy rain or snow in Australia and Europe is not unfamiliar for us.

Farmers can insure crops

Climate change, especially global warming, causes several economic damages. Extreme weather events can have severe detrimental effects on the agricultural sector. The development of the insurance industry allowed developed countries to purchase insurance for crops. In the United States, the Federal Agricultural Products Insurance Act was already enacted in 1938 and implemented accordingly, and Japan also legislated the Agricultural Disaster Compensation Act in 1947. Canada and France have been operating crop insurance since 1939 and 1964 respectively, and Italy and Spain began in the 1970s.

Korea has introduced the Crop Insurance Program since March 2001. When the program was launched in 2001, only apples and pears were covered, because they were not difficult to apply to the insurance system and those farmers were willing to join the program.

However, the covered items have been expanded to 10 items, including apples, pears, peaches, grapes, astringent persimmons and citrus. The basic purpose of the insurance is to secure a security net for farmers' income by applying the insurance system which covers crops from natural disasters, and to contribute to the stable business management for farmers through the insurance system. However, current coverage of compensation is still insufficient, and the number of crops cultivated in various facilities such as green houses increases. Against this backdrop, farmers raise diverse opinions.

Of course, "moral hazard", the most frequently mentioned issue in the insurance industry, can occur by farmers. The point is whether the insured parties have faithfully made efforts to avoid, because the problem of information asymmetry is common to insurance markets. However, when I look at the news regarding the damages of crops, I think that we do not need to overemphasize the negative aspects. While

poet Dong-yeop Shin wrote a beautiful poem about the harsh spring weather, I keep saying that the damage from unseasonal weather causes a lot of money which makes me feel a little sad. I believe that we will soon enjoy the moment when the spring weather gets to normal, crops grow green, and you truly feel the poem that describes the beauty of spring.

Lee Sung-pyo/ KDI Economic Information Center
June 2010

Part 3 Decision-Making and consumption

- The 'same bed, different dreams' about expanding the number of classrooms

Kim Jin-young/ KDI Economic Information Center

- What is more expensive than a diamond?

Oh Hyung-Kyu/Korea Economic Daily Economic Education Research
Institute

- The reasons why majority rule is preferred

Kim Kwang-ho / KDI Research Fellow

- Economics of burning your boats

Kim Kwang-ho / KDI Research Fellow

- Game Theory explains a penalty shootout

Kim Kwang-ho / KDI Research Fellow

- Looking for a partner in life

Kwon Jae-won / Deoksu High School

- Moral Hazard, Work the system!

Kim Duk-soo
/ Department of General Social Education at Gongju University

- What if the amount of information is different by people

Kim Jin-young/ KDI Economic Information
Center

The 'same bed, different dreams' about expanding the number of classrooms

Every day, we each are presented with a myriad of choices. Even from birth to death, which was considered the realm of God, we choose the date of birth for a better future and decide a date to end their life under the name of 'Death with Dignity'. Economics is all about studying choices. It starts from finding ways to reconcile the fact that people's desires are infinite, but the resources that satisfy those wants are finite. In other words, economics is a study that helps people choose the best option in the most efficient way using scarce resources.

The optimal classroom size for students?

Let's assume that a school needs to build an additional classroom to accommodate 100 students due to the rapidly growing number of students. Then, we should decide whether to build one large classroom for 100 people at a time or split five small classrooms of which each 20 individuals can use. What is clear here is that constructing five more rooms costs more. It requires that not only construction material and school supplies such as blackboards and desks, but also more teachers should be needed. Let's create a scenario where we seek advice from experts in various fields. First, I would like to make sure that the description below is one of the examples to attract readers' interests. It does not intend to denigrate any fields.

What answer can I get if I ask theologians? Perhaps they would answer 'pray hard and god will give a good answer to you.' If I ask jurists the same question, the answer might be, 'the number of classes can be decided as per the relevant law and regulations.' When the same question goes to political scientists, they would respond, 'interested parties can vote for the answer (the principle of majority rule).' The answer from educationalists can be 'the best choice should be to achieve holistic education.' Finally, economists probably say, 'we can choose the most efficient educational option considering the budget constraint.' The most important thing is to decide the party who pays and how much they spend money '. This is because economists think

about the educational benefits and costs of building five classrooms at the same time.

As the number of classrooms increased beyond the population growth rate, the average number of students per class in Korea steadily decreased. One of the main contributions of this increase came from the public interest regarding continuous economic growth and the improvement of the quality of education. When baby boomers including myself (born between 1955 and 1964) were in elementary school, 70 students gathered in the jam-packed classrooms in Korea. Each classroom was overcrowded so schools had to employ a two-shift system for morning and afternoon classes. Currently, 35 or less students on average attend each classroom in school. The sinking birthrate can be one of the reasons for this phenomenon.

We make choices or are forced to make decisions at every moment in our daily lives. It is not emphasized to say that every good choice we make makes our life.

Kim Jin-young/ KDI Economic Information Center

November 2009

What is more expensive than a diamond?

First, here are some simple problems. "What are the common aspects of KTX(Korea Train eXpress), digital cameras, domino pizza, and construction contracts?" If you're not sure about the answer, let's think about this question. "What do fast food restaurants, convenience stores, 24-hour restaurants, cell phones, and cup noodles have in common?" If you still cannot come up with the answer, here is one more hint. "What are the features of instant cooked rice, curry sauce, and coffee mix, a service to print photos for 24 minutes, Fedex in common?"

Now you might notice what I am asking. First of all, they provide 'fast' service in common, however 'fast' is not only distinctive characteristics they have. They help users (or customers) who live hectic lives by saving their time and also they have replaced old products or services using speed as a competitive advantage. If you think of it, you are correct.

The value of Time

Bill Gates, one of the richest men in the world, says he prefers to just pass by a \$100 bill on the street instead of picking it up. He can earn more than 100 dollars for the time he found the money from the ground. However, there is one thing that both Bill Gates and Korean teenagers who are tired of college entrance exams have. It's the time of a day which consists of 24 hours. No matter how rich people are, they are willing to spend their whole money if they can live more. In the movie "The Game," starring Ha-kyun Shin and Hee-bong Byun in 2008, a rich old man offers 3 million dollars in exchange for a change of body with a young man.

In the old-day Korea, Yangban (aristocrats in Korean) did not run even when thunder or lightning struck. Running hastily was considered just for commoners, and the highly educated noble men walked slowly under any circumstances. In the early 1800s when France was governed by Napoleon, the world's fastest transportation was a carriage of which speed was 20 to 30 km/hr. In other words, the world ran that slowly. Economists estimated that Britain's average annual economic growth rate during the Industrial Revolution was only 1 percent. That means that it

would take 72 years for the economy to double at this projection (the Rule of 72 applies to compounded interest rates: the years for an investment to double = $72 / \text{interest rate}$).

However, it only takes seven years for the Chinese economy, of which the annual growth rate is more than 10%, to double. Genghis Khan troopers were primarily light cavalry horse archers different from Europeans heavily armed lancers and the composition of Genghis Khan's army was fast and flexible and it played a big part to subjugate the Eurasian continent in a short period of time. The "speed difference" that doesn't look very significant right now has made history. However, the highest speed on Earth, which was 30km/hr 200 years ago, has currently been replaced by KTX, which has a speed of more than 300km/hr. It does not simply mean 10 times improvement of railway performance. This implies that the distance and space between Seoul and Busan have been reduced by one-tenth. It deserves to be called the magical method of constructing distances.

Time is Money

When we want to move quickly, everything such as preparing meals, lifestyle, and delivery system must all be in line with the same speed. Companies immediately recognize this change. This concept of 'economy of time' has now been widely known. Companies have regarded 'customer's time' as a top priority rather than 'producer's time' and now we are in an era where reducing 'customer's time' is an indisputable way to generate profit.

A 2-in-1 shampoo and conditioner became popular and delivery service companies such as FedEx and DHL stood out as global companies with their own aircraft. Wal-Mart has three satellites for efficient distribution and inventory management. We used to bring a pot of water to cook Ramen, but now all we need is boiled water after the invention of cup noodles. Pouches of instant, microwavable curry reduce efforts to prepare all the ingredients and ready-to-eat microwavable cooked rice brings high quality rice to your table quickly and easily. Now some companies guarantee delivery time. If the time taken to deliver pizzas is more than 30 minutes, they give a two dollar discount and if the delivery time exceeds 45 minutes the pie comes free.

Everyone would welcome rapid-fired delivery because freshly baked pizza tastes better. Of course, the strategy has made competitors face stiff competition. Interpark, a Korean online shopping mall, also guarantees one-day delivery and it gives one dollar to customers in compensation when the delivery is late. The contract between the contractors and the construction company must contain a clause called "time-delay compensation." Exporters also have to pay additional costs if they fail to meet the designated delivery date.

This time is much more valuable than diamonds, but everyone does not agree with it. People who are out of jobs just to "kill, fritter away, and pass time." Psychological factors also influence our perception of time. We feel the time flies when we enjoy something. On the other hand, we experience time passing excruciatingly slowly when we're waiting for something to happen or enduring painful moments.

Time as a factor in capital investment is equal for everyone. However, its return on investment varies widely from person to person. The saying goes, "Today that you have lived in vain is the tomorrow that a person who died yesterday truly wanted to live." How do you live in the present?

Oh Hyung-Kyu

/Korea Economic Daily Economic Education Research Institute

March 2008

The reasons why majority rule is preferred

Just as individuals' lives are full of choices, groups consisting of individuals face numerous choices. We must choose one of the candidates through presidential elections at the national level, and lawmakers must decide whether to pass the proposed bill in the National Assembly. Families decide on the destination for summer vacation in family meetings, and villagers discuss how to allocate the cost of building a community hall in town meetings. majority voting is the most commonly used method for making decisions in these situations. But is this popular voting system really the best option reflecting voter preferences? Is there any problem? Let's look at the following example.

Problems of Majority Voting

[Example] There are three alternatives such as a, b, c, and three voters 1, 2, and 3. Voter 1 prefers each alternative in the order of a·b·c, voter 2 prefers in the order of b·c·a, and voter 3 prefers in the order of c·a·b.

	Voter 1	Voter 2	Voter 3
1th choice	a	b	c
2nd choice	b	c	a
3rd choice	c	a	b

To find the winner between a and b using the Plurality method, voter 1 and 3 prefer a while voter 2 chooses b, therefore alternative a would be decided as the final option. Similarly, the alternative c wins between b and c in the same method. In other words, a is 'socially' preferred to b, and b is a more favorable option than c. Considering the conclusion, it is natural expectation that a would be preferred over c. If someone likes grapes more than apples and apples more than peaches, he or she will like grapes more than peaches. But is this assumption correct? In fact, when we closely look at the alternative a and c using the majority method, c defeats a 2-1, which is different to the previous expectations. Therefore, a is preferred to b and b is preferred to c at a societal level, but an 'unusual' event occurs in which c is preferred to a at the individual level.

As described above, the majority voting system can result in a lack of consistency . Why does this problem arise in the system, and why do we still 'favor' majority votes even though it is gravely flawed? Is there a better way to make decisions than the rule of majority?

Public choice theory, a theory explains collective decisions

To get answers to the question, let's find out how economics seeks the answers to solve these problems. If all members of society have the same idea on a certain issue, collective decision-making will be very easy. However, as people tend to have different ideas, it is very important to create social preferences combining underlying individuals' opinions to make collective decisions. Economists recognized earlier the importance of this process and have made great efforts to find socially desirable models. The study of collective decision process and procedure in economics is called the public choice theory.

However, Kenneth J. Arrow, who was awarded the Nobel Prize for Economics in 1972 published a very staggering study in 1951, which caused a great sensation in academia. He presented minimal conditions which must apply to the decision procedure for its result to be valid, and then Arrow proved mathematically that it is impossible to satisfy all these minimal assumptions. This is the famous Arrow's Impossibility Theorem. Subsequent studies later have been revised to find a way to satisfy the remaining alternatives.

Now, let's look back to the previous question. We can learn that the majority voting system cannot be free from Arrow's impossibility theorem, and therefore it cannot operate perfectly. More specifically, as seen in above [Example], the majority system lacks the social coherence which is the basic principle in the collective decision-making process. Despite its limitations, why is majority voting so common among many decision-making methods? Perhaps one reason is that people intuitively think that the alternative from this rule is fair because the majority of people voted for it, and also it is the simplest means of determining the outcome of decisions. The other reason is that the situation as described in [example] rarely happens.

Readers who are curious about the Arrow's assumptions can refer to the book 『Microeconomics』 or 『Public Finance』 to closely look at the

examples of decision-making process in our life where minimum conditions are not met. Also, it would be interesting to create your own method of decision-making which names after yourself.

Kim Kwang-ho / KDI Research
April 2008

Economics of burning your boats

"The more, the better" sounds very natural. The more money you have, the better products you can buy, and if the same amount of money is given to everyone, the more various products you can choose, the better you can take. This is not just about economic activity. For example, in baseball games, having the different types of pitches would be good for pitchers to attack batters.

It is also simple to prove this basic truth, "the more and the better", logically. Even if the situation that we face has changed due to the increase of options, we can still make the same choices as before if we want to. Therefore, if the choice that we made in the changed situation is rather worse than the previous one, we just keep the old one. If having more money makes you unhappy, you can just give that money to someone else, and you can continue to buy what you used to buy despite more products being displayed in the market. Also, a player can continue to throw fastballs if the pitcher throws breaking balls and gets more hits. As shown in the above examples, the increase in the number of choices would be beneficial, but not harmful.

More is not always better

Interestingly, however, sometimes this obvious principle, the more choices people have, the better off they are, does not work. In other words, sometimes decreased choice increases satisfaction. Let's take a

look at an example. Jinbeop is the movement and disposition of troops in warfare in Korean language. It is common to consider various things such as the topography, the size of allies and enemies, making it easy to attack and defend. Getting ready for the possible case when the troops retreat is also taken into consideration.

One of these Jinbeop is Baesujin in Korean meaning burning your boats. It means that all possible ways of going back to the previous situation are destroyed. In this art of war, troops would cross a body of water then burn the boats they had used which makes soldiers deploy behind water. When the size of the army is significantly inferior to that of the enemy, soldiers are likely to be scared and try to run away. If you use this tactic in the situation, you can prevent troops from retreating. Therefore, soldiers realize that they have no choice but to prevail over their objective to survive and fight fiercely. Moreover, an enemy who reads the tactic would not be able to attack hastily. This military strategy of the option of retreat for soldiers can be beneficial in warfare.

Similar cases can be found in corporate strategies. Luxury brands such as Louis Vuitton and Chanel are famous for their inventory strategy without having excessive stock on hand. When they have previous season items, they destroy them instead of stacking them as stock. They even publicly incinerate products. The practice of burning products destroys consumers' expectations that brands would not sell off their extra merchandise at sales, it makes customers always pay the same retail price for their products. Moreover, it also plays a role in maintaining the prestige of luxury goods. Of course, this price strategy can be used with stocks that are two or three seasons old. However, companies are tempted to sell unsold items in the situation where they have stock on hand and customers' demand for their products remains high. For example, when sales drop significantly due to the recession, these companies are likely to sell their inventories at markdown. When retailers constantly take a promotion strategy, consumers would be hesitant to buy products at a retail price because they learn that special offers would come soon. An inventory strategy without having excess stock can benefit the company by fundamentally eliminating this possibility.

Let your plan be exposed to succeed in the strategy of burning your boat

As seen above, the choice must be significantly and irreversibly reduced in order for the reduced choice to be beneficial, and also the interested parties should clearly recognize this fact. When we look at the example of Baesujin, it is difficult to expect the effect if there is room for retreat as boats are not completely destroyed, or if troops or enemies are not notified of the tactic. It also applies to the case of luxury goods. If some of the products from previous seasons have been left in stock or customers do not know that those have been destroyed. The unquestionable principle, the more the better, is not always right. Companies can benefit from strategically offering fewer choices. However, there is a precondition that options should be significantly and irreversibly reduced, and also the customers should recognize it. There are factors to consider if you want a desirable result from the tactic of Baesujin.

Kim Kwang-ho / KDI Research
August 2008

Theory explains a penalty shootout

There is probably no moment in sports more nervous than a football's penalty shootout. The kicker and the goalkeeper, who face each other with the ball in between, might feel a psychological pressure like a gladiator fighting a duel on a narrow cliff. Here is the reason why we call the penalty kick "11m Russian roulette". Once the penalty taker strikes the ball, it takes only 0.3 seconds to hit the back of the net, which is too short for the goalkeeper to check the direction of the ball, and block it. Therefore, it is common for the goalkeeper to decide the way to initiate its move before the penalty kicker contacts the ball. If the goalkeeper guesses the wrong direction, there is nothing he or she can do but give up to save the ball. Likewise, the striker should also decide which way to shoot the ball in advance. In other words, both players should move simultaneously without knowing what action the opponent will take.

The typical game theory, a penalty kicks

What is the best way for the kicker and goalies to shoot and jump in a penalty shoot out situation? And what happens when both players adopt the optimal strategy? Game theory provides a useful tool for analyzing it. Game theory studies the rational choice of players in strategic situations where my payoff is influenced not only by my actions but also by the one of the opposing player.

Penalty-kick situation in soccer matches is a prominent example of game theory as its success depends not only on the direction of the kicker's kick but also on the way in which the goalkeeper dives. The first thing to note here is that a striker would not stick to kicking in one direction if he or she is a rational decision maker.

Let's assume that a penalty taker always kicks the ball to the right. In this case, the goalkeeper's optimal response is to always jump over the right to defend. However, in this case, the kicker can increase the success rate by shooting the ball to the left. This shows that the kicker's initial strategy, i.e. always taking the penalty kicks to the right, is not the best option. Likewise, it is not an optimal choice for the goalies to always move in one direction. From the example, we can learn

that both players must take a mixed strategy.

Left or right? What proportion of the initial shot is the best choice? It may sound strange, but the answer is 'until the success rate of both directions becomes equal'. Then if a kicker kicks to the right more, a goalie tries to jump to the right in response so that the right kick has a lower success rate than the left one, and the success rate of the left kick will be higher than right one. Still, if the right kick has a high possibility of success, the penalty taker can increase the success rate by increasing the ratio of shooting to the right. Through this adjustment, ultimately, the success rate for both directions must be the same in 'balance'.

Game theory as a realistic theoretic tool that explains the real life

Professor Ignacio Palacios-Huerta of the London School of Political Economy (LSE) used penalty kicks from European football matches to prove how the key concepts in game theory fit reality. The study reveals that the predictions of game theory are remarkably consistent with reality. For example, both the theoretical prediction of the probability and actual value is very similar. The percentage of a right-footed shooter kicking the ball to the right was 58.01%, while the actual value was 57.69%. In addition, 39 out of 42 kickers in the study had the same success rate of left and right kicks. Such empirical research shows that game theory is not an unrealistic and abstract theory, but a theory that provides a useful tool in illuminating real life.

Game theory, which formed its theoretical foundation in the 1940s, has made remarkable progress in a short period of time, and now there is no denying the fact that the theory has assumed importance in economics which provides a great modeling tool to understand the modern economic theories. It is also widely applied to other fields including military science, politics, business administration, and biology. It will also be very interesting to find some books to look at other examples in everyday life which are explained by game theory.

Kim Kwang-ho / KDI Research
December 2008

Looking for a partner in life

In 2009, the drama "Boys Over Flowers" was popular in Korea. It gained more popularity than the average TV series. The fact that this drama has already gained acclaim in Japan and Taiwan tells us how young people in three countries think of love. However, as we grow older, we start to open our eyes and see the real world. According to an article, unmarried people said that money (economic power) was the key for marriage, followed by personality, job, physical appearance, family and academic backgrounds.

By gender, men weighed "money" as the highest preference, while women said 'personality,' for their ideal mate showing a contrast. In the case of remarriage, the preference for the future spouses are different. Men place the most importance on physical attractiveness while women score men's financial status the highest. Therefore, it seems that men should make a list of assets, and women should look at themselves in the mirror for successful remarriage. Women are seeing more realistic aspects than men in choosing a partner for remarriage.

People who have more preferences have more difficulties to find their partners based on the principle of scarcity. They try to find the loved one through blind dates or matchmaking agencies, but according to what I've heard from others, it seems very difficult. Why is it hard to meet the person who people want? Surprisingly, the profiles that people are looking for conditions are unbelievably hard to find.

There are so many advertisements in the newspaper. The advertisement that looks for people. Now I should pull myself together and find a girl like this.

Five feet three inches tall, ninety nine pound, wavy brown hair, white hands with slim waist and legs. If you've seen a woman like this, please tell me. I want to be in love now.

The above story is part of the lyrics of the song "Advertising for people" (1993) that seeks a lover. When we look at the underlined part, seven physical conditions are presented. Considering the fact that the average Korean woman was 5 Feet and 3 inches tall, it is not too much, but the weight of 99 pounds (the average weight of Korean women in

2004: 118 pounds) is hard to meet. Plus, if you're thinking of wavy brown hair, white hands, slim waist and legs, you may be looking for a "natural monument." The problem is that people do not recognize they are picky and fussy.

I can be horrified to imagine that a woman who is really 5 Feet and 3 inches tall and weighs 99 pounds might be: "too skinny hands making me feel her every single of human's bones when I hold hands tightly, the shapes of bones in lively looking human skeleton, scarily jutting out clavicle..." Scarcity does not simply mean the shortage of things. Even if the number of these women is small, the concept of scarcity cannot be fulfilled when no men like them. In other words, if there is only one ore on Earth, this is not scarce unless it fulfills people's needs.

Men and Melons are hard to know

One more thing that makes you meet the person you want is that it is very difficult to identify the qualified partner. There is a quote that "Men and Melons are hard to know." People easily have a positive attitude towards people who give you a good first impression and also they tend to make snap judgments of others based on their physical appearance. In order to supplement this limitation, it requires time and cost of understanding the other person's personalities in the long perspective.

There are so many couples out there who get married at first sight and break up after. This phenomenon could be similar to what we can feel from the experience of purchasing a used car. Problems gradually begin to emerge after a month or two of buying cars based on their appearance. This used car market is called the 'Lemon' market. Lemon is a fruit that looks good on the outside but is very uncomfortable to eat.

I don't know if it is common, but in the Western society, premarital cohabitation has been widely adapted to overcome the lack of information about their potential partners which might occur in the process of dating and marriage. This is an example of cultural differences as well as different ways of thinking. If couples engage each other, build trust, and be open and honest with each other in their relationship, they would also have the premarital cohabitation effect.

It is spring, the season that awakens people's romantic feelings. If you

want to go on a blind date after posting your profile looking for the loved one, the key to success is whether you are willing to share personal and intimate details of your life to the other person, and whether you actually did.

Kwon Jae-won / Deoksu High School
March 2009

Moral Hazard, Work the system!

One of the terms that economists and sociologists often mention is "moral hazard." Moral hazard refers to the situation that arises when individuals take undesirable actions from the other party's point of view. They take advantage of the fact that others cannot accurately expect their behavior due to the unequal information between two parties'. For example, one representative example is the act of a lawmaker. They should do their best to stabilize the people's livelihoods and promote their welfare, however they tend to pursue private interests before the public by taking advantage of the people's incomplete information.

Society that emphasizes only ethical behaviors can be dangerous

Unfortunately moral hazard has been incorrectly translated as 'moral relaxation' in Korea. Moral hazard has been used without hesitation as a moral relaxation by writers, teachers, professors, ordinary citizens and students. Then how do we correctly translate this word? I think that moral hazard should be translated as 'moral risk', not moral hazard. The underlying clues can be found from the origin of the phrase "moral hazard" in American society. If they had considered morality as the object that can be relaxed or tightened like the one in Korean society, they would have taken the expression 'moral relaxation' without 'moral

hazard'. However, an American economist chose "moral hazard" as a term to describe the situation where an agent does not make his best effort for the principal in the Principal- Agent model of information economics. This suggests that Americans see morals as the object that can be dangerous, not relaxed.

Lao-tzu, an ancient Chinese philosopher and writer, defined the Dao(or Tao) as the universal principle that exists at the source of all existence in his book called Tao-te-ching. The universal principle can be translated as something that humans should do, for example 'children should honor their parents with all their heart' in plain language. However, the essence of his theory lies in the wonderful interpretation of virtue rather than the Dao. He explained "virtue" can be obtained in the process of learning the excellent work of the Dao, such as self-effacement, flexibility, conscience, not having fame, indifference, and austerity and practicing them through experience. The scholar's explanation of morality concludes that "the standard of morality can be a very dangerous logic." This is because it is very difficult for ordinary citizens (the petit bourgeois) like us to practice his noble values of morality in our daily lives.

Establishing a robust system as an alternative

In this context, a society that emphasizes morality is not a society leading the world, but the one that has fallen off a cliff. I think a leading society should be equipped with carefully designed laws and institutions to preemptively prevent the risk of moral hazards latent to every mind. What information economics suggests is a way to reduce moral hazard is to establish a strong system, not rebuild morality. That is a seamless control system that individuals cannot even dream of conducting unethical behavior.

A representative example of the solid support system is the 'queue management system' adopted by financial institutions. Before the implementation of the system, security guards forced customers to queue calmly at institutions, and people also suffered the inconvenience of waiting in a long line in front of a designated staff. However, now the officials, who monitor the queue, and wait in long lines have disappeared. At the same time, the institutions have maintained order in

their rooms in a perfect manner. That is the benefit and strength of having the system.

Things such as particularistic ties, based on kin, educational institution, and region or social demarcation can hardly exert influence on a proper system. Guus Hiddink, who created the legendary story for the Korean team to reach the semi-finals of the 2002 Korea-Japan World Cup, is also not a person who emphasizes morality to players. He was a manager who implemented the systematic environment where athletes voluntarily do their best and made it operate efficiently. That's why I stress that Moral Hazard should be translated correctly.

We should profoundly understand Lao-tzu's oriental values of morality and its limitations as Asian people. However when we try to close our eyes to them, the Americans, who lead Pax Americana, directly faced the inherent problems in Lao-tzu's theory and then developed the strong process as an alternative and operated it properly. It is just amazing and surprising. Maybe it is because we don't have great futurists like Alvin Toffler, Lester C. Thurow, and Tom Peters.

Kim Duk-soo / Department of General Social
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October 2008

What if the amount of information is different

We all face the moment when we have to rely on professional services in our daily lives. At that moment, have you doubted the quality of their service? For example, did I really need tonsillectomy? Did my car really need to replace the engine instead of the head gasket? Did I overpay for a defective used car? Did a clinic push me to take an expensive diagnostic test such as MRI, when a simple blood test or urinalysis was enough? In fact, I have heard many cases where consumers have

suffered great losses from poor or excessive maintenance services using poor Chinese auto parts of which quality has not been verified.

Expertise and information asymmetry

Here are three features in the professional service market as below. First, types of products trading in the market such as medical, maintenance, and brokerage industries are intangible services, not tangible goods. Second, those professional services are deeply based on the expertise and professional knowledge of service providers. Different levels of knowledge or information between consumers and providers cause so-called 'information asymmetry'. Third, the diagnosis and follow-up treatment in professional services normally are conducted by a designated expert. For example, we cannot visit one auto shop only for check-ups and go to another shop for actual repair. Same logic applies to healthcare services. When you are diagnosed with a certain disease at Hospital A, you should go to the same hospital for surgery. When we go to several repair shops and hospitals to examine only one failure or symptom, the formidable cost can occur not only for searching but for diagnosis. What are the economic problems caused by those characteristics?

Diagnosis and treatment are difficult to be processed separately. So service providers have some degree of monopoly power on their services, which allow them to decide the amount of services they would render. On the other hand, customers cannot figure out the extent of the service to purchase preemptively as well as afterwards. Therefore it is difficult for customers to determine the quality of work, and its proper price and level of service. Even in the situation where a provider overcharges customers for the low quality of service, consumers cannot figure out that the price is reasonable. Sometimes service providers may deliver poor quality of services and ask for expensive medical expenses and repair costs from consumers. Such services are called 'credence goods' as they are goods whose qualities cannot be ascertained by consumers even during or after purchase.

To stop fraudulent behaviors

The existence of information asymmetry between suppliers and consumers substantially incentivizes suppliers to behave opportunistically. If service providers cannot ensure they receive sufficient income and compensation for their works such as car maintenance and healthcare services, they would prioritize profitable tasks rather than proceeding with urgent issues. Therefore, there is a need for an appropriate mechanism or procedure that refrain from fraudulent or deceptive behaviors. Separation of prescribing and dispensing drugs in the healthcare industry can also be one example to solve this problem. In addition, we should improve the market incentive system by imposing legal responsibilities of proving the quality of work to service providers in case a problem is occurred. It would enhance the environment of the service market and protect customers from any unjust practices. We can take the 'reputation' of service providers as a significant key to deal with problems. Especially, in the age of information, companies, having the intention to deceive customers to seek immediate gains, would lose their reputations and encounter a business crisis in the end. Consumers are also responding to those suppliers' behaviors in their own way. They visit professional or reliable car repair shops and find local shops for regular visits. People also request a quotation or ask for a list of services provided in response to possible disputes. These are the examples of customer's responses.

Kim Jin-young/ KDI Economic Information Center
February 2006

Part 4 Economic Growth and Social Welfare

- The principle of good taxation
Kim Ye-gi/ KDI Economic Information Center
- The economic principle in coal briquettes
Jeon Daewon / Shinjang High School
- The economic thermometer, as the barometer of the economy
Kim Jin-young/ KDI Economic Information Center
- The catch-up effects
Kim Chul-hwan / Department of Economics at Ajou
University
- What's your happiness score?
Kim Jin-young/ KDI Economic Information Center
- Life with 'Prosuming'
Yoon Sung-in/ KDI Economic Information Center
- Clinical Economics and Prescriptions for Polarization
Kang Young-mok/ KDI Economic Information Center
- Production and consumption for 'All'
Park Chang-soon/ Korea Fair Trade Union
- Let's reset health inequality
Kim Jin-young/ KDI Economic Information Center
- A gambling of European Countries
Jang Kyung-deok / Maeil Business Newspaper
- Lessons learned from the Republic of Nauru
Seok Hye-won/Metro Bank

The principle of good taxation

Today, the government plays various roles. It takes responsibility for managing national defense and safeguarding the people's security. Besides those basic tasks, the government also maintains economic stability and growth, provides compulsory education and healthcare services, and promotes culture and art projects. Most of them are not operated in line with the principle of supply and demand as it does in the market. Nevertheless, the government raises funds to carry out projects that are socially and economically essential, and we call these government economic activities "fiscal policy." The government accumulates funds through tax, non-tax income, capital income, and aid, and most of which are from tax.

Tax, from (the) cradle to (the) grave

Tax is a compulsory financial charge imposed by the central or local government on an individual or business entity in accordance with legal regulation. It is a fundamental way to generate public revenues without providing a benefit in return. In other words, taxes are not goods traded in the market, but are mandatory contributions levied on the incomes from corporations or individuals without any consideration. Therefore, taxes are calculated according to the requirements prescribed by the law, and if the tax is not intentionally paid, taxpayers will get punished by the tax law.

Taxpayers are very sensitive to taxes. They consider taxes as the issue that causes headaches or even some troubles. I can imagine why a famous scholar once said, "taxes are the only thing that follows people from birth to death in the world." People want to receive government benefits such as using public facilities, getting health and medical care and welfare services as much as possible. However, when it comes to the payment, they try to pay lower tax or not at all, if possible. In addition, the government's tax increase faces resistance from taxpayers when people think the tax increase has little benefits or is unfair for them. Historically, one of the factors that caused the civil revolution and movements was the excessive tax burden. Today, people express their opinion by refusing to pay taxes or exercising voting rights, therefore

the governments are not easy to raise or create taxes for the governmental spending and projects.

Taxation is the art of plucking the goose without making it squeal

Many economists, including Adam Smith, the progenitor of classical economic theory, Adolph Wagner, Fritz Neumark, and Richard Abel Musgrave, presented the desirable principle of taxation. The most representative principles are principles of efficiency and fairness. Fairness, in that taxation, means that everyone should pay taxes according to their abilities without recognizing the privileged class. Under the principle of efficiency, the government should tax people without social loss, and at this time, taxes should be imposed as a way to minimize complaints from taxpayers.

When explaining the principle of good taxation, the quote from Colbert, the celebrated finance minister of Louis XIV of France is often used. Colbert said that the most desirable technique of taxation is the same as pulling out goose feathers. In other words, taxation is the art of plucking the goose without making it squeal. When you pluck the goose recklessly, it would scream or run away. This means that even if the same amount of taxes is collected, taxpayers should be treated gently so that paying taxes itself does not cause any inconvenience.

In addition, all geese should be dealt with fairly which means fair taxation on all taxpayers. The credit card and cash receipt systems, implicit taxation in the lottery system, and the decision to disclose the list of people and companies who do not pay taxes regularly are schemes designed to pluck feathers fairly. Also, feathers should be pulled out considering the condition of each goose. If the same amount of feathers are plucked from young and sick geese as healthy ones, they will grumble and complain. This means that we should do our best to minimize complaints about taxes by taking into account the economic conditions of taxpayers. If the goose's feathers are forcibly pulled out, they will die and eventually be unable to produce feathers. Pulling off goose feathers while helping geese to stay healthy can be a way to harvest more products in the long run, therefore it also provides greater benefit for the tax authorities.

The economic principle in coal briquettes

Yeontan or Coal briquettes were considered a daily necessity to warm up poor Korean households, and are also common products for winter volunteer work for low-income families. When I was young, most houses used briquettes as heating fuel, and in the cold winter, the burnt-out husks were stacked outside houses and the scenery showed the poor Korean society. We used to hear sad news that the whole family died due to gas poisoning while they were sleeping in winter.

The changes brought by coal briquettes, the inferior goods

The economic characteristic of briquettes, which used to be the fuel to heat Korean houses in the past, is that this is an inferior good. Unlike normal goods, where consumption increases as income increases, inferior goods decrease their consumption along with an increase in income. Common examples are margarine and a substitute for butter and ham.

This characteristic brought about the decline of cities in the Gangwon-do province, famous for the coal industry. Taebaek city was a representative region for coal mining. The population has decreased to 50,000 from 125,000. The demand for briquettes dropped as the economy grew and income levels rose, and it ended up in the collapse of the coal industry.

With the decline of the coal industry, abandoned mining cities such as Taebaek and Jeongseon had to find new growth engines to revive the local economy. These cities with abundant natural resources tried to foster a tourism industry using a natural environment, but there was a lack of competitive edge to attract people from the metropolitan areas. So the former mining regions had to develop the casino industry as an alternative option. Unlike others in Seoul, where only foreigners can

enter, the facility was the only one that Koreans are allowed to enter and play at. It was the idea to invite many tourists.

This is the background story of how a casino and large-scale leisure facilities including golf courses, accommodations, and ski resorts were built in Jeongseon, Gangwon-do. In the end, the inferior nature of briquettes directly made cities in Gangwon-do become gambling cities. I believe that the story shows us that the influence of the 70s and 80s is still alive and has a great impact on our lives.

Subsidies, the collection of everyone's duty

If anyone thinks they have nothing related to a casino or have never gone there, that is a mistake. The Korean government has been keeping briquette prices below the production cost by subsidizing manufacturers to keep heating prices low for poorer families. Domestic coal industry has long lost its competitiveness edge in terms of its quality and productivity, but huge subsidies have been paid in the name of protecting the coal industry and supporting the low-income households. This funding has been provided through indirect taxes imposed on oil and electricity bills.

In the end, people who did not use briquettes also paid subsidies indirectly, it seems like they have been using coal as fuel. Interesting fact is that 57% of its consumption from the private sector is used for commercial use, not for low-income families. That means people in the floriculture and restaurant businesses have been doing their business with fuels paid by the people.

Jeon Daewon / Shinjang High School
August 2009

Economic thermometer as the barometer of the economy

People compared the price mechanism to thermometers. It's like taking your temperature first when you go to the hospital. After taking temperature, people get other tests such as blood tests and X-rays to find out more. Just like health checkup, economic indicators such as production, import, investment, and unemployment indexes need to be reviewed for better understanding of the economic status. The long-lasting high fever and hypothermia can be described as inflation and deflation. If these symptoms are temporary, they can soon get well and recover. However, if they persist for a long time, it is a signal that something is wrong with your body.

The Price and Monetary value as the two sides of the coin

How will people respond if inflation continues? If you can think of the fact that the value of money drops significantly from time to time, you might come up with an answer. People will try to hold goods rather than money because a continued rise in prices means that the value of money falls that much.

Price fluctuations are linked to the value of money, so people try to prevent monetary losses. If the value of money persistently declines over time, people would hesitate to execute long-term transactions, plans, and borrowing. The lender will ask to pay more to compensate for the loss of principal amount. If low inflation is expected, interest rates can decrease as the prices of goods and services may not go up. In this respect, price fluctuations and the value of money can be compared to two sides of the coin. Inflation makes the time horizon of economic agents become shorter. Conversely, if a price level is persistly stable, interest rates will also stabilize by lowering inflation expectations. This decreases corporate's borrowing costs, enabling long-term investment. However, when high inflation is expected, people would concentrate on avoiding inflation risks rather than focusing on production activities which result in economic distortions.

Price Index, Another Meaning in Numbers

Prices are interpreted as the 'price index' which measures the individual prices of various goods and services necessary for our lives. A typical example is the 'consumer price index', which is calculated by taking products purchased by consumers in their shopping basket. Economists including professor Michael J. Boskin have published research on whether the price index based on traditional statistical techniques was accurate. Their basic ideas are the following three.

First question to answer is: "whether possibilities of substitutions were considered when prices changed while measuring the price index." When products' prices are changed, consumers are likely to buy a substitute. However, the traditional price index did not take the fact into account. In economic terms, they assumed that Elasticity of Substitution is 'zero'. When the price of beef rises, it does not capture the consumer spending pattern that they would buy chicken instead of beef. In general, the possibility of replacement always exists. The greater the degree of substitution we have, the easier it is to disperse the price effect, which can lead to overestimation of inflation.

Second is that the CPI sufficiently reflected quality change. Considering quality changes is also an important factor. Compared to what I used five years ago, the current cell phone includes various additional functions, which increases the satisfaction level of consumers. Without adjustment of quality change, if the CPI measures that mobile phone prices have risen, the index would overstate inflation.

Third is whether the CPI could capture the emergence of new goods in a market basket of goods and services. As the life cycle of the product has been shorter, new products are released into the market day by day. It is clear that the CPI market basket, which is adjusted on a five-year basis, cannot perfectly reflect what is being purchased in real time. Products that used to be a household burden in the past may not anymore, and the burden (weight) of new products should be reflected. It would be especially hard to consider the price of products that innovated quickly in line with technology development.

I am not trying to point out that the traditional consumer price index is wrong or does not accurately reflect the price. The traditional CPI reflects the cost-of-living for the people, playing a role as a reference for compensation of living costs. However, when it comes to considering

cost-of-goods, I would like to underscore the necessity to apply economic theory and principles more thoroughly. The reason why we need to have an accurately calculated CPI is also linked to the problem of pension deficits which has been identified in developed countries. As the speed of the low birth rate and aging population accelerate, the insufficient financial resources of the pension have emerged. Considering that pensions are usually paid in proportion to inflation, the difference in inflation rate of 1%p will have a great impact on the deficit of resources.

Kim Jin-young/ KDI Economic Information Center
April 2007

The catch-up effects

Here is an outdated joke. Depending on the father's job, the pattern of raising children's grades is different. Scores would go up punctually for children of oriental medicine doctors, as no one knows for children of plastic surgeons, brightly for children of shoe stores, automatically for the ones of car dealers, before being on fire for children of real estate brokers, aggressively for children of department store workers, as grow bigger for children of vegetable farmers, in an anticipated manner for children of fortune-tellers. Children of drivers in bullet taxis would get a double score, and the school grade of children of cabbage farmers would increase before letting us know. How about the grades of the children at the Korean bathhouse? They would go up after scouring the theoretical foundation.

The higher grades you have, the harder it is to get even better grades

The biggest concern of students is their grades. Students in the university I work for are no exception. When students take exams, the corridor of the professor's research building, which used to be silent

without visiting people, becomes crowded like a marketplace before the holiday. It is filled with students who want to check their grades. Under a social structure in which life is determined by the score of the college entrance exam, it may be very natural. It is sad that young people who are excellent in many areas and have good personalities have little opportunities to demonstrate their natural abilities and talents in the academic background-oriented society with the reasons that they do not have good grades. All students put their heart and soul into improving their grades. It is not that difficult to raise the ranking by about 10 places when the grades remain at the lower level. It is relatively easy for a student who ranks 60th in the class of 60 to go up to 50th. However, it is not easy to raise the ranking from 20th to 15th. An even more difficult task is getting into the top 10. It is significantly hard to be in first place after entering the top five. Maybe it would be possible if you are lucky enough that a student who ranked 1st and 2nd go abroad to study.

The catch-up effects on economic development

These principles apply in economics as well. Underdeveloped countries with low income levels are able to achieve high economic growth if the existing resources are used efficiently with appropriate economic policies. China has increased the size of its economy every year after opening its market and switching to a market economy system. The same applies to Vietnam.

Korea also economically developed with the average annual growth rate of 9% in the 1970s. In economics, a catchup effect or convergence of growth is the term that describes the phenomenon that the growth rate of low-income countries that began economic growth late is higher than that of high-income countries, and thus the income gap between countries is resolved in the long run. In the initial state of economic development, it is easy to catch up with other countries thanks to the rapid economic growth, while the growth rate decreases as the economy develops, making it difficult to narrow the gap with countries ahead of their own countries. The countries with larger the economy and the higher the income level would face more difficulty to

catch up. In the early stages of development, Korea also easily caught up with countries that were better off than us at the time, but now it is not easy to catch up with countries that stayed ahead of us because Korea is already on the threshold of entering advanced countries. Korea may worry about the reality that it can be pushed back by countries that are chasing us.

We should explore the policy direction for the economy to enter advanced countries. It would not be easy. However, the answer can be found unexpectedly in our lives. It may be a better approach for students in the top five to strengthen their cultural and artistic talents to unleash true potential instead of forcing them to study more. Now, the Korean economy must also find its inherent potential in other fields. Rather than blindly pursuing economic growth, it is necessary to promote domestic demand or find soft technological innovation by sharing the fruits of growth.

Kim Chul-hwan / Department of Economics at Ajou University

September 2010

What's your happiness score?

There is a limitation to measuring subjective happiness only with economic factors. It is too much that people hope that economics can contribute to solving problems that they encounter to find happiness. However, according to OECD surveys, income, the indicator showing people's economic status, is somewhat related to people's happiness. Let me ask you a question. What is the happiest country in the world? The answer is Vanuatu (with a population of 210,000), a small island country near Australia. The result, of course, is based on the 'happiness index' published by the British New Economics Foundation (NEF) in 2006. Korea ranked 102 out of 178 countries. It is interesting that national economic growth is not proportional to rising happiness, and that material

abundance would not make us happy.

What makes a small island in the South Pacific one of the happiest places in the world?

The rankings take into account life satisfaction, life expectancy, area required for life, and energy consumption. Korea's low rank would reflect the harsh conditions of life since the 1997 Asian financial crisis. As the term well-being is used here and there, people might feel a sense of relative deprivation. There is another index that is the opposite concept to the happiness index. It is a 'misery index'. The index reflects only the economic aspect which combines the rates of unemployment and inflation. Although this misery index did not deteriorate sharply, we cannot deny the possibility that prolonged economic difficulties have worsened the happiness score. However, what makes this tiny nation so happy? Even if happiness reflects the satisfaction of the individual's subjective experience, we can assume that this country is not equipped with underlying economic development that creates high quality of lives.

The survey found that food such as fruits and crops are easily accessible in Vanuatu, therefore people do not need to perform economic activities. As people want for nothing, there is not much to choose or give up. Having no economic incentive make them appreciate their lives without desiring something more. Although happiness depends on subjective judgment of people, the relative external factors also play an important role. People may not be able to consider the relative aspect of happiness because people around them have similar lifestyles. Moreover, we also point out how people can realize their dreams and hopes. I would like to ask whether it is possible to develop and realize their ideals and expectations as well as hopes and dreams of the future generation.

At the end of 2006, Economist, the British weekly magazine, covered "happiness" with a feature and cover story. The content is that capitalism provides humans with the opportunity to be happy and the freedom to be unhappy by promoting material affluence and wealth. The magazine opposes the recent movement that "economics should be responsible for people's well-being."

Capitalism has made a great contribution to turning luxury goods in

the past into necessities of today. There are many products that belonged to only an exclusive class in the beginning, but now they can be enjoyed by the general public. Automobiles are one of its kind. In the United States, buying a pair of pantyhose required about an hour and 40 minutes of labor in 1900, a century ago from now. However, now we can buy it within 15 minutes of working. People had to work for two and a half hours to earn enough money to buy a fried chicken in 1919, but these days, 10 minutes is enough. Cell phones also required more than 450 hours of work in the mid-1980s, but 20 years later, now eight hours of work is enough. Since the price of the product has risen, there is no significant result to simply compare these prices. However, when we try to compare the hours of work to earn money to get goods and services, we can realize that our lives have improved tremendously. Happiness economics says that enjoying leisure and working less will make people happy which means that people become happier when they get out of the hard work. But how do they explain the fact that unemployed old adults die earlier than working seniors?

Economics of happiness also criticizes the materialism of capitalism. If it is correct, how can people like the islanders in Vanuatu be happy even though they live with nothing special or big changes? Only some exclusive classes can get benefit in a stagnant society and goods and services, and resources can be monopolized by them. If it goes wrong, the class can become more entrenched. Growing countries are more likely to break down a deep rooted social class. In this society, people can realize their dream. "Economist" says that market capitalism should help nations develop economic growth as well as give opportunities to be happy. However it also adds that we should not give too much pressure to capitalism. Capitalism can attract people to better lives, but people feel happy depending on individual choices.

Correlation between GDP per capita and happiness

In late 2006, the OECD published a report called Going for Growth. The final chapter of this report describes 'alternative measures of well-being'. The conclusion is that well-being (happiness) has various dimensions, so it is difficult to measure it with an economic indicator that considers only financial aspects. However, certain social conditions

that can maintain or create a relatively healthy life, such as a clean environment and quality education, have correlation to GDP per capita. Of course, well-being is a more fundamental goal than GDP. Well-being is a concept related to an individual's comprehensive welfare, while GDP focuses on production and income. GDP does not exclude the production of socially "bad goods", and ignores the depletion of non-renewable resources directly linked to the happiness of future generations. Since GDP does not take into account the income distribution, it does not reflect the relative deprivation of the underprivileged. Nevertheless, the subjective happiness and life satisfaction responded to by the citizens of OECD member countries generally showed a proportional relationship with the size of GDP per capita.

So far, I have reviewed the economic meaning while introducing various data on happiness. All in all, the index indicating subjective happiness should include more beyond the monetary factors. Measuring happiness with only non-monetary factors also has limitations. In addition, it is too much to hope that economics will give an answer to problems that people have faced while pursuing happiness problems. Nevertheless, income as an economic indicator, is somewhat related to people's happiness. In this respect, we can learn there are various factors that influence happiness. Therefore, research on happiness requires follow-up studies considering factors such as jobs or unemployment, family ties, health conditions (explaining the proportional relationship between normal blood pressure and happiness), education, and income distribution. As a result, it means that comprehensive measurement of people's happiness can be possible only by including economic variables such as GDP but supplementing other variables.

Kim Jin-young

/ KDI Economic Information Center

June 2006

Life with prosuming

I visited the house of a close friend as she repaired her new house. There were DIY (do-it-yourself) items such as paint, floor stickers, wallpaper, glues and various tools on the living room, and she organized tips and the secrets that gained related online communities on the portal site in her notebook. Watching my friend and her husband put up wallpaper that day, I thought of the prosuming that was coined by Alvin Toffler.

Pay attention to Prosuming

Elvin Toffler explained in his book "The Third Wave" that people who produce products, services, and experiences for their use or satisfaction rather than sales or exchanges will become more important in the future. He also added that the boundary between consumers and producers becomes increasingly ambiguous to distinguish each other. Household work and child rearing, which are mainly women's responsibility for families, are traditional prosuming work, and as living standards rise and information and communication technology develop, new prosuming activities such as house repairs, furniture reform, and even car repair and UCC (user-created-content) are increasing.

Is there any other prosumption? The listed above can be for the purpose of using or satisfying oneself, and there are also prosumer activities that help others and feel satisfaction while doing them. In other words, here are some examples of them: helping out each other's farm in the past agricultural society, volunteers at disaster sites, medical services in remote areas with poor medical facilities, and transport services for the elderly who live in mountain villages. In recent years, such volunteer work has begun to attract social attention because it not only reduces social costs, but also creates a sense of satisfaction and trust for both beneficiaries and providers of work.

Social value of prosuming

Recently, the demand for social welfare has been increasing as various

social problems such as falling growth potential, deepening income polarization, aging, unemployment, and the collapse of the traditional family system have occurred. The state is coming up with various measures to solve problems, but the current social welfare system and infrastructure are insufficient to respond to them. However, a shift in thinking about welfare needs to be proceeded. Welfare is a task that the state and individuals should work together rather than a responsibility of the state, and individuals can also participate in the process to improve welfare through volunteer activities. By doing so, individuals can feel the meaning of life by sharing public interest, public good, and community value, which ultimately plays a pivotal role in forming solid social capital. The local community is where volunteer activities can take place most actively. Residents can easily relate to welfare issues arising within the community, and as a result, residents can actively engage in the process of solving problems. Accordingly, in July 2005, the government established a "local social welfare consultative body" at city, county, and district units across the country. It plays as a local communication system aiming to solve local problems by cooperating with the government and the private sector. This can be a new attempt that the state and individuals solve welfare issues together by utilizing the social value of prosuming. Although there are no tangible results yet, we hope that it will become a successful participatory welfare system.

Not long ago, the Wall Street Journal and others defined the acronym, YAWN. The Young and Wealthy but Normal (YAWN) demographic is a group of people who typically have generated their own wealth in their 30s and 40 but live modest lifestyles. They spend a lot of time and money on volunteer activities such as poverty and disease eradication, and nature conservation in the third world, and they place high values on the mental satisfaction and feeling of reward by doing so. Just as Elvin Toffler underscored the value of prosuming, and highlighted that "The wealth of the future is not just a matter of money," the "YAWN" are the people who live in pursuit of new wealth in the future. As the new class of wealthy individuals show us, having material wealth is not a precondition to create the new wealth. The process of having fun applying wallpaper, visiting neighbors in need and giving them the best help, and attending meetings to discuss local issues even despite a busy schedule, will be the way to build the new wealth for all of us.

Clinical Economics and Prescriptions for Polarization

When you go see the doctor, the doctors want to examine your body and measure your blood pressure and body temperature. If the symptoms are severe, they also undergo a thorough physical examination such as X-ray, CT imaging, and blood collection. The prescription is given according to the results of this testing. Sasang constitutional medicine (a traditional Korean medicine, in that individuals are classified into one of four types of Sasang constitution, namely Tae-Yang, So-Yang (SY), Tae-Eum (TE), and So-Eum (SE)) suggests type-specific medical herbs for more safe and effective treatment. Side effects can occur when doctors overlook an individual's characteristics, and give the same prescription because they suffer from the same disease. Shouldn't the policy-making process for solving economic problems be similar to this?

Here is the idea of clinical economics proposed by Jeffrey Sachs, a professor at Columbia University who is famous for his research on reducing the gap between the rich and the poor.

He strongly criticized the IMF for imposing a high interest rate, just as the IMF did to other countries in crisis, when Korea faced the foreign exchange crisis in the late 1990s.

He found out the main idea of clinical economics while observing the essence of good clinical medicine from his wife, a clinical pediatrician. He said that complex economic problems should be solved with the same precision and attention to medical science providing a good differential diagnosis to understand the patient's conditions. In the late 1980s, when he served as an economic advisor to the Bolivian government, he helped lower the superinflation rate of 40,000% to 10%, and through this experience, he solidified his belief in clinical economics. In particular, he points out that in order to solve economic problems, unique and

complex institutional, environmental, and historical factors of each country should be considered.

Economic Growth and distribution should be considered based on clinical diagnosis

Let's think of polarization, one of the diseases our economy is suffering from. The growth rate is decreasing, income inequality is rapidly deteriorating, and the poor are also on the rise. The income quintile share ratio is calculated as the ratio of the total income received by the 20% of the population with the highest income to that income received by the 20% of the population with the lowest. It was around 3.7 in early 1990, but increased to about 4 in 1996 and 1997 (Editor Note: 6 in 2010). Studying the relationship between growth (efficiency) and income inequality, and the one between distribution (equilibrium) and growth can be an area of empirical economics which requires thorough verification without intervention of values. However when it comes to exploring solutions, a clinical economic approach can be useful.

In addition, the 2 Clause of Article 119 of the Korean Constitution stipulates, "the state can regulate and coordinate the economy to maintain the growth and stability of a balanced national economy, prevent market dominance and abuse of economic power, and democratize the economy through harmony among economic actors." Regarding the nation's responsibility, people's opinions are divided into two; at one end the government should actively involve people's livelihood to improve their lives, and at the other opposite end, let the market operate itself with minimal government involvement." The problem is that this polarization on opposite extremes of the spectrum is the result of wasteful debates and social conflicts that damage our social capital. This is the reason why the government can't ignore the aspect of clinical economics?

Recently, active discussions on growth and distribution have drawn attention to clinical economics. As a result, people are trying to find a way to reduce the social polarization in balancing between growth and distribution. Current efforts from academia to find a Korean economic development model can also be regarded as recognizing the importance

of clinical economics.

Kang Young-mok
/KDI Economic Information Center
August 2007

Production and consumption for 'All'

Do you like chocolate? There are few people who may hate the bitter but sweet taste of chocolate, but not many people would know how it is made. About 284,000 Children working in cocoa harvesting are exposed to physical and chemical hazards without proper training or personal protective equipment. Those children aged 9 through 12 are using sharp tools called machetes from 6 a.m. to 6:30 p.m. at Kakao Farm in Cote d'Ivoire, Ghana, Nigeria, and Cameroon, where 70% of the world's cocoa is produced. These children harvest tons of cocoa beans, which is the raw material for chocolate, but they have not either tasted it or seen it.

Producing cacao beans with few advantage

The average annual household income of a small farm is about 30 to 110 dollars. Parents cannot afford the cost of sending their children to school with this small income. Instead of that, they let their children work on the farm. Falling cocoa prices makes farmers unable to bear the cost of production and eventually leave them indebted, especially for those who heavily rely on producing cacao beans as a means of their livelihood. The farmers face difficulty to know for certain what prices they will obtain for their products. So they are easily deceived by a middleman, and then sell beans at a bargain price. After several steps of the distribution process, cacao bean prices rise like a snowball. Those prices are reflected in the chocolate before releasing to the market.

According to the European Fair Trade Association, if a farmer earns 5 percent of total profits, trade organizations and chocolate companies will

earn 70 percent, which is 14 times higher than the share of a farmer. Some people say that cocoa growers would only receive 20 cents when a dollar chocolate bar is sold. The situation for farmers in developing countries who produce coffee, sugar, and cotton are similar. They say it is difficult to earn a dollar a day even if they work extremely hard. Trade structures favorable to developed countries, and importers, and multinational corporations which make tremendous profits from buying raw materials at low prices, have long entrenched this unfair trading practice. Many countries, mostly located in the southern hemisphere, have not escaped from poverty while participating in lucrative international trade. Waste and environmental impact generated in the process of mass production and consumption are also the main drivers to accelerate climate change and global warming.

Fair Trade to fulfill the social responsibility

At this point, we need to stop the train running with endless desires and find a way for people to live happily together interacting with nature? One of the ways is fair trade. Fair trade, the global movement for more than 60 years, encourages environmentally friendly ways for the poor to produce their products in developing countries, especially for small-scale producers and workers who have been marginalized from free market economic structures. People pay a fair price to their labor and provide educational opportunities and decent working conditions to improve the lives of producers. The central principles of fair trade are the guarantee of a minimum price and the return of social excess profits. The minimum price system guarantees that producers receive a price which covers what it costs them to grow their crop and live their lives, even if prices of cacao and coffee fall in the global market. It allows farmers to continue to engage in stable production activities. The Fair Trade Producers Association implements various projects necessary for the community, such as building schools or digging new wells with social excess profits. According to the International Fair Trade Certification Authority, the lives of 7.5 million people, including 1.5 million farmers, workers and their families, have improved.

Fair trade is an economic activity where companies fulfill their social and environmental responsibilities and consumers can practice ethical consumption. What could be better than this if producers and

consumers can coexist and the environment is conserved while everyone can eat sweet chocolate together? Our small practices in daily life that examine producers, manufacturing processes, child employment, and environmental issues can create a more ethical and sustainable world.

Park Chang-soon/ Korea Fair Trade Union
May 2010

Let's reset health inequality

Just as humans have never been free from disease in history, it is of everyone's interest to live healthy without contracting diseases. Recently, topics related to health and wellness such as well-being, appearance, and fitness are booming without any sign of slowing down. Furthermore, alternative medicine began to emerge as a therapy to defeat incurable diseases with people's attention.

Health Inequalities calling for consistent social attention

Behind people's growing interest in health, there is gloomy news that more and more people are not receiving appropriate medical service. In the United States, 17% of the total population, except for the elderly, cannot receive any medical benefits. That number is exceeding the total population in Korea. In particular, the US healthcare system does not cover medical costs for the unemployed. In Korea, more than 5 million people are in the blind spot of medical service. They include those who are delinquent payers for contributions, the poor who cannot afford not covered medical services, homeless people, and people who suffer from rare and incurable patients.

The so-called health inequality is not only a problem in developed countries, but is now an emerging social concern in Korea. Currently healthcare related discussions have been regarded as a personal issue, not the one that should be deleted at social level. In other words, health is a personalized issue which can be different from person to person, influenced by various factors such as genetics, diet, and exercise habits.

However, if people's health status varies depending on different levels of education, income, and job, this problem needs to be solved at a social level.

Health inequality, the extended concept of income inequality

How do you measure 'health inequality'? Let me introduce the data of Japan a few years ago. Basically, it is easy to think that the concept is derived from 'income inequality'. The concentration curve plots the cumulative percentage of the health variable on y-axis (medical examination, hospitalization, medical expenses, etc) against the cumulative percentage of the population, ranked by living standards, beginning with the poorest, and ending with the richest on x-axis. In other words, it plots shares of the health variable against quantiles of the living standards variable. The curve dividing the cumulative value by the sum of the total health status of society (e.g., total medical expenses) is called the concentration curve.

If there is no health inequality, the concentration curve lies on the 45-degree line. However,

When it lies under the diagonal, health inequality is considered pro-rich (i.e. the rich have better health than the poor). When the curve lies above the 45-degree line, health inequality is referred to as pro-poor. Health inequality can be a concept that expands income inequality. A Lorenz curve, a graphical representation of income inequality, has the biggest difference from the concentration curve. The graph plots cumulative income on the horizontal axis, rather than "health status", so the curve cannot be above a diagonal straight line because the income of low-income households cannot be increased beyond absolute balance in income distribution. Therefore the Lorenz curve is always convex, while the concentration curve can be convex or concave.

Necessity of A systematic study and analysis of health inequality

The policy meaning is more important than the difference in shape on the curve. In a society with high levels of income inequality, it became a rooted social problem. Therefore it is neither possible nor desirable to equalize national income even if policy efforts are taken to correct it.

Such policy goals bring unintended effects including lowering the value of long-term investment in labor or education. There's a clear correlation between income and education level and the job so We should not overlook that appropriate level income inequality can incentivize people to work and study hard.

However, health inequality is based on the fact that having different health conditions by class is not desirable. In reality, lowering or eliminating health inequality is an easier policy goal to achieve than reducing income inequality and it is also backed by social justice. A recent report suggested that 'health inequality' should be addressed as a social agenda. Developed countries began to pay attention to the agenda in the 1980s, however Korea still lacks statistics of datas, and its social interests are still low.

In the coming future, resolving health inequality will be a task that is familiar to us. Just as the experts' endeavor and academic results to overcome the limitations of "income inequality" have brought about the attention for social policy and its solutions, systematic research and analysis on "health inequality" is also of important significance.

Kim Jin-young/ KDI Economic Information Center
December 2006

A gambling of European Countries

European Countries voluntarily gave up their monetary sovereignty. This is the story of 11 countries (Germany, France, Italy, Spain, the Netherlands, Belgium, Austria, Finland, Portugal, Ireland, and Luxembourg) that formally abandoned their national currencies from January 1, 1999. Since then five countries (Greece, Slovenia, Cyprus, Malta, and Slovakia) have joined the Economic and Monetary Union (EMU) (Editor: Estonia joined in January 2011 and now it consists of 17 countries).

European leaders, who went through the terrible experience of two world wars, expected that monetary integration would play a key catalyst for political integration to create a true European community. At the launch of the euro, the commissioner of the European Union (EU) monetary commissioner was excited and said, "It is the first time that European countries have a single currency without a war." However, there were many opinions that the single currency would harm European integration. Martin Feldstein, a professor at Harvard University, warned that monetary union could lead to political conflict within Europe. Will this dangerous experiment in Europe succeed?

The single currency denies countries the ability to adjust monetary policy

The financial crisis of the so-called PIIGS (Portugal, Italy, Ireland, Greece, and Spain) clearly shows the fundamental problem of the European monetary union. The national central banks in 16 eurozone countries are not allowed to print currency that they are using or control interest rates at will. It is possible for them to participate in the decision making process for monetary policy initiated by the European Central Bank (ECB), but they cannot independently adjust the volume of currency and interest rates depending on their special economic circumstances. For example, PIIGS countries cannot lower interest rates and increase the supply of money to boost their economy. The increase of public spending cannot be the option for the countries who already suffered from financial deficits. This is because euro area member states have promised not to recklessly increase public deficits and debt to

stabilize the value of the euro. Countries within the euro zone cannot strengthen their export competitiveness, lowering the value of their currencies as they all use the same currency.

Such concerns in eurozone countries can be explained by the hypothesis of "impossible trinity." This is a concept in international economics that it is impossible to have all three of the following at the same time; a fixed (stable) foreign exchange rate, free capital movement, and an independent monetary policy, therefore the government should give up one of them. Eurozone countries, which decided to spend money to eliminate the costs and risks of the exchange rate fluctuation, gave up their own monetary policies in exchange for the benefits of exchange rate stability. Thanks to that, capital movements between eurozone countries have become much safer and more convenient. After the launch of the euro, foreign capital with low interest rates were wildly available in countries such as Ireland and Spain, fuelling an enormous property bubble. When the bubble popped, financial companies became insolvent and the government tried to find itself borrowing and spending to stop its economy from collapsing altogether. Therefore, it was also a predicted result that the monetary union would make the country fall into the crisis.

In order to reduce the negative impact of its uniform monetary policy, a fiscal policy that encompasses the entire euro area is needed. In other words, redistribution should be made by collecting large amounts of taxes from countries with stable economies and distributing them to the poor countries just like what the U.S. federal government does. However, it can be nonsense that hard-working 'ants' in the North who have saved money for the future help 'the grasshopper' in the South who have spent time playing and then beg the ants for food. Even though those ants made more money from monetary union, they would not want to help grasshoppers facing a bigger crisis due to the side effects of the integration. However, it is also not easy for grasshoppers to go to the North to make money, because the labor mobility in the euro area is not yet completely available.

The more cracks appear in the monetary union, the more instability of the euro will be shown. The political will of European leaders to further strengthen their monetary union is now on the test. Economists are also excited about this rare historical experiment.

Lessons learned from the Republic of Nauru

Many people have a series of concerns in their life. How great would it be if Korean students can get quality education from public schools without going to cram schools? When can I buy a house with my monthly salary? With a tight financial situation, it would be a big problem if my family member gets sick. These are the worries for ordinary people. However, there was a country which took care of everything for free, from education to disease treatment. The government provided a new house with two bedrooms for newlyweds. The Republic of Nauru, a tiny island north-east of Australia situated south of the equator, was the country.

The wealthiest country in the world on the back of bird poo

The Republic of Nauru is a tiny island located in the Pacific Ocean, with a circumference of about 10km and a total area of only 2.5 times that of Yeouido, the island city in Seoul. By the 1980s, however, the Republic of Nauru was one of the wealthiest countries in the world. In 1981, Korea's per capita income was only \$1,800, while that of the Nauru Republic was about \$20,000. It was more than 10 times.

All of that was possible thanks to bird droppings. The people of the Nauru Republic used to live by fishing in a primitive way without a decent ship, but all of sudden everyone became well off. The island was covered with a thick layer of bird droppings and this bird poo had an incredibly high level of phosphorus. Phosphate was widely used in agriculture and is an essential component in fertilizer and feed. Bird droppings were a resource exclusively owned by the Republic of Nauru and the Gilbert Islands, now the Kiribati Republic. The government of the Republic of Nauru provided fantastic benefits of welfare to the people with the money earned from exporting phosphorus. Foreign

workers were mainly in charge of digging phosphorus, and the Nauruans stopped working for their livelihood, and just played, ate, and enjoyed their lives. Most products were imported instead of producing them on their own.

Not give a man fish but teach him to catch a fish

The government of Nauru invested in buildings and hotels in Sydney, Melbourne, Guam, Saipan, and Hawaii to protect itself from the depleting phosphate stores. However, real estate investment was not very successful due to lack of experience. Resources were supposed to be used up, so phosphorus was depleted in the 1990s. The government decided to promote Nauru as an offshore tax attracting money from mafia and terrorists. However, after the terrorist attacks in the United States on September 11, 2001, the US Treasury announced sanctions against Nauru over concerns that it was a center for money laundering and terrorist activity. Nauru agreed to shut down its offshore banking industry and a year later, Nauru went bankrupt. Many banks around the world also joined forces to fight against terrorist funds.

Nauru tried to borrow money from banks in other countries with overseas real estate as collateral, but the interest increased like a snowball, and eventually its real estate overseas was repossessed. The country has suffered from persistent political turmoil and economic difficulties and is now trying to find a way to live with the help of Australia.

There are parents who want to bequeath their fortunes to children for the rest of their lives. However, the example of Nauru reminds me of a person who lives doing nothing but spending his money, and eventually went bankrupt and lived in difficulty. Inheritance is like phosphorus in Nauru. If people don't have the ability to manage money in the ever-changing economic situation, no matter how much money they have, they soon lose the whole money.

Let's help our children develop the ability to manage money rather than just passing on an inheritance! Looking at the fall of the Republic of Nauru, I can realize the wisdom from the philosophy of Jewish education that "give a man a fish, and you feed him for a day; teach a man to fish, and you feed him for a lifetime."

Seok Hye-won/Metro Bank
November 2010

Part 5 Marketing and Branding

- Difference between corporate with core competencies and corporate without them

Kim Duk-soo

/ Department of General Social Education at Gongju University

- What are the survival strategies of individuals and businesses?

Oh Hyeong-gyu/Korea Economic Daily

- "2080 Law" in our daily lives

Jung jae-man/Kanghwa High School

- "Made in Japan" vs. "Made in China"

Oh Hyeong-gyu/Korea Economic Daily

- Impact of Weather and Sales in leisure industry

Kim Dong-sik/ K-weather

- Investment in youth talents

Kang Chang-hee/ Mirae Asset Investment Education

- Girls, Be Ambitious!

Chun Kyu-seung/ KDI Economic Information Center

Difference between corporate with core competencies and corporate without them

When we think about 'eup'(meaning work, job, karma or deed in English) in Korean, different interpretations will come to their mind depending on their characteristics or the situation they face. I associate the 'karma' in buddhism, up in golf, and work in business with the korean word 'eup'. In Buddhism, karma (業) refers to the retribution received in the present world as a consequences of the good or deeds evil done in the previous lifetime. It suggests that we as people who are living today, should not hurt or give pain to others for the sake of the welfare of our descendants. As a golf term, 'up' is written in alphabet letters rather than describing it in the Chinese character and also refers to 'the number of long holes in a golf game'.

The key of a corporate is to build its own 'competencies'

In Chinese characters, a corporate is described as 企業 (企业). These words are composed in the form of '人(person)+ 止(stay)+業(panel/ business). This suggests that the conventional concept of 'corporate' should be newly updated. Until now, economics and business administration have defined companies as 'the subject of production making and selling products'. However, with this conventional definition of corporate, companies cannot survive in the 21st century, an era of infinite competition.

I would like to establish a new concept of a corporate from the equation of '人(person)+ 止(stay)+業(panel/ business). In other words, a corporate means an organization that allow excellent talents(人) to stay (止) to create a business that can be totally differentiated from other companies. It simply means a "core competency that can be clearly differentiated from other competitors."

Looking at the changes in the economic environment these days, the overall environment is no different from the square ring where mixed martial arts are fought. If companies fail to respond to the changing market trends, the challenges of competitors, and the silent needs from customers, they will be forced to get out of the market at the hands of invisible forces. In that regard, companies and individuals have their

own survival inequality. The key keyword of survival inequality is none other 'Core Competencies'.

First, the coprate's survival inequality is defined as 'marginal utility per unit of product > price per unit of product > cost of production per unit of product'. When a company wants to manufacture a product, the minimum requirement is that the marginal utility per unit perceived by the customer should be greater than the unit price per of the product. Also, in order for a firm to make a profit through sales activities, the price per unit should be higher than the cost of production (average cost). If either of these two conditions is not met, the odds of surviving are very low.

On the other hand, an individual's survival inequality can be depicted as 'the value of the monthly service that individuals contribute to the organization > the salary they receive from the company > the monthly cost of living they spend'. In other words, in order for employees to not be fired from the company, they must make value for the company at least more than their monthly salary. Also, in order for individuals to not go bankrupt, their monthly salary must be higher than the cost of living, so that they can save money for housing, children's education, and retirement.

To survive, build 'Core Competencies'!

Now, let's look at the correlation between a core competency that is clearly differentiated from other competitors, and the survival inequality. Companies with this competency create world-class products that customers would desire to have, no matter what they make.

Nike (sports goods), McDonald's (hamburgers), Nintendo (game software), Wal-Mart (discounted prices), and Samsung Electronics (anycall) are some examples.

What these companies have in common is that they have succeeded in building a strong foundation of their own brand across different countries while dominating the global market with a specific product in a specific field. Whether or not the survival inequality of firms is established in the market depends on the decision of companies. Some might become companies which try to build core competencies (企業) or the ones which abandon its own business (棄業). In other words, only a

company with a “core competencies” (企業) will enjoy high-speed growth as a world-class company. However, when the company has been stigmatized by customers as the one that has given up its 'business', it would be impossible to survive in the market.

The same goes for individuals. Nowadays, it is a well-known concept that an individual is also the CEO of a one-man company. Therefore, individuals now have to build their own 'competencies' as their unique brands, just like other companies. Koo Sung-ae, a former nurse who is famous for an sex education, Jang Gyeong-dong, an interesting pastor, Lee Mi-ja, a signer also known as the queen of Elegy, and Kim Su-hyun, a popular screenwriter are the people who have their own competencies in their field. They are all enjoying their own social honor and economic wealth while creating their own survival inequality.

So, what is the secret to building 'competencies'? To answer this question, what we need to consider the most is to realistically judge which field (or specialty) we are best at. Doing good at everything is a way to establish competencies. It is developing the abilities that can be done exceptionally better than other people or companies. Once you've figured out your specialty, the next step is to focus all your potential on it so that you can stand as the greatest leader in your field in the near future. Then you will confidently stand shoulder to shoulder with successful people. 'Competencies' is an economic concept that gets more and more attractive the more you know it!

Kim Duk-soo

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June 2008

What are the survival strategies of individuals and businesses?

This is an anecdote of Pau Casals, one of Spanish best cellists in the

20th century. A reporter asked a question when Casals was 95 years old, three years before his death. "You are generally regarded as the pre-eminent cellist of all time. Why are you continuing to practice six hours a day?" Casals replied. "I feel that I am making daily progress little by little." Jascha Heifetz, a Lithuanian violinist who was called the "Legend of Violin," left a similar quote too. "If I don't practice one day, I know it; two days, the critics know it; three days, the public knows it."

Guard against carelessness and laziness

There is a TV comedy program that has been broadcast in Korea for 18 years. It is the Bongsunga Hakdang(The Touch-Me-Not Village School), a highlight of the show called 'Gag Concert' which is a collection of short skits. It began as one of sketches from "Comedy Highway" in 1990 and there are an incredible number of popular characters from "Bongsoonga Academy", including Maenggu and Oh Seo-gu during the initial phase, and Sebastian, returning student, teacher Byun, and Wang Bi-ho and Professor Park.

What is the secret to maintaining a high viewer rating of around 20% after being aired for so long? It would be the nerve-racking competition stained with the sweat and tears of comedians behind the scenes which makes viewers laugh with hilarious jokes on the planet.

The PD in charge even affirmed, "In the show, restructuring happens every day." Even popular comedians cannot be guaranteed to participate in the show, and also people cannot continuously take their roles with one or two times of glittering performances. In other words, the competitiveness of this Korean comedy show is the system that allows even rookies to appear if they are fun, and if not, anyone would relentlessly be kicked out at any time. (Editor Note: The show ended in July 2011).

We might not relate to the stories from global performers such as Casals and Heifetz, but the long-running show provides many implications to us. Personally, "Bongsoonga School" reminds me of Manchester United, England's professional football team, which has a great many fans world wide. Manchester United has made the world's best football team through fierce competition by position. Even Park Ji-sung, who is one of the best footballers among Korean players, has

always worried about whether he would be named in a starting line-up. The one of the most prestigious and feared teams in the world does not accept carelessness or laziness at any moment.

Have a positive mindset!

Even in the economic sector, global top companies can collapse with careless decisions in the blink of an eye. One example which demonstrates this is the 2008 financial crisis on Wall Street in the U.S. As subprime mortgages became insolvent, three world's top investment banks (IB) including Merrill Lynch, Lehman Brothers, and Bear Stearns were disappeared. Before filing for bankruptcy, Merrill Lynch, Lehman Brothers, and Bear Stearns were third, fourth and fifth largest investment companies in the world.

This series of bankruptcy would be in line with the quote from Warren Buffett, one of the most successful investors of all time. He said "the reputation is one that takes 20 years to build, but only five minutes to lose.

In Korea, a vast array of venture company leaders used to be in the spotlight as "stars" in the dot-com bubble period of the early 2000s, however only a few people have remained and still worked at the front line of their businesses. It is just like the current situation in Korea. Only two companies, including Samsung and LG, were listed in the top ten among Korea's ten biggest companies 40 years ago. Unlike Daewoo and SsangYong, which have disappeared now, Samsung and LG were able to be named global companies because they properly responded to the process of industrial advancement. Two companies, which used to produce sugar and toothpaste in the early stages, turned their eyes to heavy and chemical industries and information technology (IT) for further development.

These cases precisely show that tomorrow is never guaranteed unless companies constantly pursue innovation, changes, and make efforts. The secret for long-lasting businesses or individuals, who have been successful for decades, is surprisingly simple. Passion, effort, and positive thinking are the answer. Kazuo Inamori, a founder of Kyocera corporation which produces electronic components and devices, is famous for his own success formula in life. Chairman Inamori's success

equation is "The result of our life or work = ability × effort × attitude."
Among the three factors that make up the outcome, Effort and ability range from 0 to +100 points which means zero is the lowest level, and always have more (+) values. However, the attitude ranges from -100 to +100, which has a decisive role making the whole equation positive or negative. This equation shows that no matter how capable or passionate people are, the overall value becomes negative if people think in the right way. On the contrary, if people have a positive mindset, the result becomes positive even if the ability is somewhat mediocre. This basic principle of management shares the fundamental value of the attitude of life.

Oh Hyeong-gyu/Korea Economic Daily
November 2008년

The 80/20 rule that we encounter in our daily lives

The Pareto principle is named after Italian economist Vilfredo Pareto. He stated that "approximately 80% of the land in Italy was owned by 20% of the population." The Pareto Principle, also known as 80/20 rule, states that 80% of outcomes result from just 20% of causes. In other words, 'a small portion of wealth, effort, input, and cause results most'. Many examples of the 80/20 principle have been validated around us: 80 % of your sales come from 20 % of your clients, 80% of the country's wealth was concentrated in the hands of only 20% of the population. In the rule, when companies prioritize the 20% of consumers that are responsible for 80% of revenues, they would produce the best results. The term "noble marketing" is also used to describe the strategy using the 80/20 principle as it focuses on only 20% of the upper class.

Bye Bye 80/20: The 90/10 Rule Explained

While discussing the phenomenon of social inequality in class, I explained the 80/20 principle and let students search examples of this. Students presented various cases that were identified in their daily lives, and some of them shared their ideas about different aspects of the principle with unconventional approaches. They focused on the fact that 80% of ordinary consumers consume only 20% of the total sales. They also pay attention to the widening polarization between the rich and the poor, highlighting that 80% of all citizens own only 20% of the country's wealth. Students raised their voice by emphasizing that this phenomenon should be regarded as a social problem which arose from fundamental faults in the structure of a society, therefore an appropriate solution should be implemented.

According to the article in OO news newspaper on November 30, 2010, the sales amount of department stores are usually significantly influenced by big spenders, so-called "big hands," adding the top 10% of customers account for 90% of their total sales. While reading this article, I was concerned that Korean society might change to the one where the 90/10 rule would be applied, beyond the '80/20 rule'. Maybe this phenomenon has already been identified frequently in our education system. Following examples show us the aspect of this change. The universities that high school students aim for are concentrated in the top 10% of universities. After the college entrance exam, high schools are ranked based on the result which shows us which prestigious universities the top 10 % of graduates from each school go on. When we narrow down to look at the classrooms of the humanities department, if 20% or only 10% in the worst, instead of 80% of students, actively participate in the class, it will surely lead to the collapse of the school system, and the failure of public education. This will not happen in reality, but some people are extremely concerned that this tragic phenomenon will arise in our schools.

Now is the time when we make our best efforts to overcome fundamental problems underlying our school system, not just limit ourselves to understanding the social phenomenon of 80/20 rule, as it is. For example, to achieve active student engagement with more than 80% of students participation, we have to develop classroom strategies using various and interesting learning materials, and also schools should

provide opportunities to many students by adopting a class leader rotation system, so they can equally participate in classroom events. If a series of small actions of each person come together, I think that our society and the educational system would provide more reasonable and equal opportunities to all.

Jung jae-man/Kanghwa High School
January 2010

'Made in Japan' vs 'Made in China'

Japan cut a strand of hair in two lengthwise and sent it to Switzerland. Japan wanted to show off its technical advancement to Switzerland, which was regarded as the country with the world's best precision technology. Then, Switzerland divided that hair into 4 parts, and sent it back without any specific reply. In order not to lose the battle, Japan splitted into 8, and sent it back. Then, Switzerland made a hole in each of the eight strands, and returned it to Japan. After that, there was no further action from Japan.

It is an anecdote that Japan, known as the best country in technological development, cannot beat Switzerland. Of course, this story is not real, but it shows just how famous Switzerland's precision technology is. Switzerland produces the most exquisite and pricey timepieces in the world. Even now, there are a number of brands of which watches are more expensive than a luxury car. Omega has monopolized the role of Official Timekeeper at the Olympic Games including athletic and swimming events.

Reliability, an important factor of economic development

Japan is also the best in the world, when it comes to small electronics. From Sony 'Walkman' in the 1980s to digital cameras, and Nintendo's Wii, Japan has maintained its top position in the technology for small appliances for the past three decades. Against this background, the joke of 'cutting a hair' would have come out. Consumers all over the world buy with confidence, if the product is made in Japan or Switzerland. Even if you have never heard of the name of a manufacturer, national brands such as Switzerland and Japan are recognized as symbols of trust.

What about China? I admit that the prices of Chinese products are cheap, but it is true that their products are not reliable in terms of quality, performance, and technology. There are no products that China can counterfeit, including fake alcohol to fake eggs, and scandals related to food forgery are constantly proliferating. Against this backdrop, the product 'made in China' is recognized as another name for 'cheap and nasty.' No matter how good a product is, if it is made in China, consumers start to suspect the quality. If people are going to use it once and throw it away, they would buy this cheap Chinese product, but people would never buy it, otherwise.

Why are products treated differently depending on the country of origin?

This is because there is a crucial difference in the social capital of 'trust'. Depending on whether a country can be trusted or not, the price of products in that country varies significantly. Products from countries with high credibility are expensive and products originated from countries with low credibility are cheap. Kenneth J. Arrow, the Nobel laureate in economics, noted that much of the economic backwardness in the world can be explained by the lack of mutual confidence. It means that trust is as important as money and technology as a factor of production for economic development.

Let's specifically think of transactions between individuals. When people lend friends a few dollars, they usually do not write an IOU. It's because transactions are done based on trust between friends, unless they would never see each other again after meeting once. There is a belief in their relationship that they would not betray each other for a few dollars. However, when it comes to buying and selling a house, it is

a whole different story. A third party (broker, judicial scrivener, etc.) is involved in the transaction, and the buyer and seller thoroughly review the contract before signing off. Both parties should stamp documents several times while proceeding a contract. A substantial amount of down payment is also proceeded at the outset of a large transaction to prevent the counterparty from breaching the contract before finalizing it. This is because this is a contractual relationship between the buyer and the seller not the one based on mutual trust. There is a big difference in cost between a trust-based relationship and a contract-based transaction. When you borrow money with friends, there are no other costs. An oral contract is also possible. However, when buying or selling a house, you must pay extra fees for brokers and attorneys to handle everything according to the required law.

Building trust doesn't happen overnight

Let's go back to the previous story of 'Made in Japan' vs 'Made in China'. For example, when I buy a diary, I like to purchase products made in Japan, unless the price is ridiculously high. Because the quality of the paper and design are perceived as good, superior, and trustworthy in my mind. These days, products 'made in Korea' are also treated as good as the Japanese ones. LCD TVs from Samsung and LG are gaining a higher level of trust than Japanese TV products. This is because the brands of Samsung and LG guarantee reliable performance and a good quality after-sales service. People prefer local foods such as vegetables, fruits, Kimchi, and beef over the imported products regardless of expensive price because they can trust those domestically grown products.

This kind of trust doesn't build overnight. Just as it takes a long time for a company to accumulate capital, a brand requires an enormous amount of time to build the capital of consumer trust. Customer's trust can not automatically be obtained with massive advertisements. Companies should provide high quality. That is why countries or companies value their image. No one would not believe that some country in Africa, always associated with hunger, epidemics, poverty, and military coup, will produce high-quality products. Korean products are often undervalued and trade at a discount relative to Japanese

products. This is because overseas consumers are more exposed to protests, fights, accidents, and strikes on Korea than positive news about Korea. That is the fact that we cannot ignore it.

'Trust' is the driving force for economic, social, and historical development. Francis Fukuyama, in his book『 Trust』, said, "When distrust prevails in society, people must pay fees like tax for all economic activities that does not need in a society with high trust". It would be easy to understand, when you compare the time when cars take turns moving into the single lane and the time cars push each other to go first in the lane where two lanes merge to one .

Oh Hyeong-gyu/Korea Economic Daily
February 2009

The influence of weather on sales in leisure industry

As people's leisure activities increase with the introduction of the five-day workweek, industries related to leisure, travel, lodging, and food service are in the spotlight. As the weather is a key to directly influencing outdoor activities, leisure companies associated with beaches, amusement parks, golf courses, and ski resorts focus on the weather.

In the leisure industry, sales are heavily impacted by various factors such as the country's economy, income level, proximity, convenience facilities, and marketing strategy. However, here is one more to add and that is 'weather'. The number of visitors to leisure facilities is directly related to sales, as that number is often affected by the weather. In particular, apart from resorts equipped with condominiums, golf courses, and ski resorts, complex facilities with seasonal amusement and recreational establishments are severely affected by the weather, as multiple facilities are concentrated in one complex.

For example, if the weather is bad due to heavy rain or snow, the reservation cancellation rate rises, the room utilization rate decreases, and the sales of subsidiary facilities decrease. In addition, due to the

increase in operating costs, the damage and impact caused by the weather are shown differently in various places. That means a complex facility operating many establishments is affected several times more than a place that operates a single facility. As a result, the resort business is inevitably sensitive to the weather. Against this backdrop many resort companies in Korea have been adopting weather information effectively for a long time.

Weather information is money

Company A operates an all-season resort and has a business which is closely related to outdoor activities. Most of its facilities are located in mountainous areas, so the business is greatly affected by local weather. Accordingly, Company A systematically analyzes the weather information provided by private meteorological companies in the headquarter's integrated information system. Based on the analysis, each site uses information in real time and gets a weather consulting service with meteorologists, if necessary.

Depending on the business division, the company tries to minimize the cancellation rate with the following strategy. The company provides the relevant weather information to customers in advance and convinces them to change the travel plan or guide them to do indoor activities, when the weather is bad on the reservation date. According to the weather conditions, the company may hold appropriate events including promotional events. In addition, construction or maintenance costs can be reduced by adjusting the work and construction schedules. The weather information is also used to make artificial snow at the ski resort.

Company A spends about 7 thousand dollars per year in exchange for using weather information, but it analyzes that the company is having about 5 million dollars worth of benefits by activating customer reservations, preventing cancellation, promoting outdoor events such as performances and events, and resolving risk factors in resort facility management and operation. Furthermore, by subscribing to specialized weather insurance, the company obtains additional effects worth hundreds of thousands of dollars by reducing insurance premiums,

compensating operating losses, preventing industrial accidents, and ensuring customer safety.

The company has not been satisfied with it. It has plans to develop various indexes related to leisure activities such as golf and ski indexes using the weather information database, and provide the relevant information to existing members and customers. By doing so, it hopes to additionally implement the business model for target marketing to attract more customers.

Just like the example of company A, companies can establish work plans in advance and prepare appropriately as per its plan by actively utilizing variables including weather. This business model improves work efficiency, reduces management costs, and even increases sales. It clearly shows that a company's small effort can give customers great satisfaction and impression, as well as secure customers and increase sales.

Experts noted using the weather as one of the effective marketing methods for a successful business. The weather is one of the factors that influence a person's mind. Therefore when we harness their psychology which changes depending on the weather, we can have a positive effect on increasing people's purchasing behavior. Of course, it would be perfect if we could perfectly predict the weather condition, however, there are still limitations on the accuracy of weather forecasts even in the present state of science.

We cannot secure the weather just like other goods, therefore, appropriate strategy and wisdom are required to optimally utilize weather information for corporate management in consideration of the uncertainty of the weather. Above all, in order to keep ahead of the competition, it is necessary to develop a management strategy that maximizes the company's profits through the understanding of weather forecasts and the use of valuable weather information.

Kim Dong-sik/ K-weather
September 2009

Invest in my talents!

It happened a few years ago in London, England. One student named Caroline Eleanor aspiring to be an actress, was accepted into a prestigious acting school. However, she couldn't pay for the £10,000 of tuition as her family could not afford that money. She sent dozens of letters to famous people around her saying, 'If you subsidized the tuition, I would have paid it back after I got succeed.' But there was no response. While she was thinking whether she should give up the school, a middle-aged gentleman came to her and said to help her.

"First, let's make a company."

His idea was to establish a company with a student who has just graduated from high school.

"Yes? a company?" "First, we should think about its name. Let me think.. We can take your name. 'Caroline Eleanor, Inc', the company named after you."

In Korean, it sounds like Hyori Lee Corporation. and Ji-Hyun Jun.Corporation.

"Next we should issue stock."

"What is stock?"

"Stock is a certificate that ensures 'you are the owner of this company.' If you issue 100 shares of £100, you could raise £10,000 by selling them. Anyone who buys one share of £100 stock will own 1/100 share of Caroline Eleanor corporation."

As per the British commercial law, she printed 100 shares of £100 stock, wrote the company and the CEO's name, and finally signed off her name on the papers.

"Who is going to buy these pieces of paper?"

"Don't worry. First, you need to make the proposals necessary to convince investors. The proposal's title can be 'Investing in Talent'."

[Proposal]

'Investing in Talent'

I am Caroline Eleanor, and I just got an acceptance letter from a prestigious acting school in London. I have participated in various acting contests and won

several grand prizes. I am confident that I will succeed as an actor, after graduating from theater school. The chances of becoming a successful actor would be guaranteed by my college admission. When I become a top star with my blossoming talent, my annual income could rise to £1 million or £10 million. My income will be directly linked to the company's earnings. Then the stock prices that you invested at £100 could go up to £1,000 or £10,000. You can get the same result as investing in stocks of 'Microsoft' or 'Apple' and earning 50 or 100 times of its value.

Please trust me, see my talent and invest in Caroline Ellenor's stock.

Just as a venture company issues stocks to raise funds by promoting its technology which is in the process of commercialization as an asset, she uses her talents as an asset to raise funds in the same way. This is to raise funds by issuing 'talent stocks' rather than 'high-tech stocks'. Musical composers, drama writers, movie stars, and entertainment companies who received the proposal invested dozens of shares each, so she was able to sell all 100 issued shares. With the £10,000, Caroline Ellana could successfully graduate from the school and made her stage debut.

Previously, when people wanted to start a business with their special skills or useful ideas, it was common for owners to use their own money and personal savings or to look to relatives and friends for support. This is the so-called owner financing. After starting a business when it scaled up, an owner could borrow money to expand its business from official financial institutions. When the start-up experienced greater success again, it offered stock publicly and sought a stock exchange listing which allowed the company to raise funds from an unspecified majority. It was impossible to raise funds directly from the stock market only for the company which had achieved considerable success.

However, times have changed. As in the previous example, a way has been opened for all companies, from newly established startups to mature scale-ups, to raise funds through direct financing. If venture companies even in the beginning stage of business have only one promising idea, they can get financial resources through venture capital (a company that invests in venture companies in the form of stock investment) or angel funds (individuals who appear like angels and provide necessary funds to companies in the early stages of startup). When a company reaches the growth stage like the childhood of

humans, it registers its stocks in the over-the-counter market (KOSDAQ in Korea, NASDAQ in the United States, etc.) and when it becomes mature, like people in middle-ages, it lists stock on the exchange market. The way is open for larger-scale financing. In this era, not only large corporations, but also small and medium-sized enterprises (SMEs) can find various means of financing by using their company's strengths as a weapon.

Kang Chang-hee
/Mirae Asset Investment Education
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Girls, Be Ambitious!

When you look at the recently popular Korean dramas, there are many talented and adventurous women. Mi-sil and Deok-man in 'Queen Seon-deok', Dong-i Jang Hee-bin, and Seo Hye-rim in 'Bing Thing (Daemul)'. They exert hard and soft powers depending on the situation by showing soft leadership. With their professional work and endeavor, the 'traditional image of women' has long been regarded as a relic of the past. A similar trend has been shown in reality. Women's leadership is 'hot potato' in the political, business, and cultural fields. In 2009, women accounted for 36% of those who passed the bar exam, 47% of those who passed the administrative exam, and 49% of the students who passed the foreign affairs official exams, and also dominated 90% of the students who passed the state teacher recruitment examination. What about politics, known to be a very conservative field? Women in the 18th Korean National Assembly made up 13.7% which is still insignificant by global standards, however, it is a remarkable transition considering that in 2000, only 5.9% of females worked in the 16th National Assembly.

The current transition has shown in the young generation that the social structure which used to be male dominated by men in the past has been dramatically changed. Considering this trend, we might

encounter the day when people feel awkward to say the word, 'gender equality'. However, as more and more women take on important roles in our society and their status improves, we need to think about the ten or twenty years to come. The question is how better all women's lives will be at that time. In other words, it should be deeply concerned that the fruits and benefits of achieving 'gender equality' will be evenly distributed to all women.

Economic education contributes progress towards gender equality

Everyone knows that the low fertility level in Korea has become a big social problem, and it is because women view marriage and childrearing as an 'optional' rather than an 'essential part' for social activities. According to data from the National Statistical Office in 2009, more than half of the economically inactive female population (67%) said the burden of childcare and housework pushes them out of the labor forces. In dual-income families, the husband spends an average 42 minutes participating in housework, which is far less than half of the 3 hours and 27 minutes that women did. The similar results are identified for education and other parenting issues. With insufficient policy support, women have no choice but to become Alpha Female/Super Moms themselves in order not to be held back from the fierce competition in society.

It is possible for a woman who has financial capability and excellent searching skills for relevant information to become Super Mon. However, the situation is totally different for underprivileged women who are facing growing difficulties. 52.9% of multicultural families where married immigrant women manage their households earn below the minimum cost of living, and the number of single-mother and child families in their 30s is rapidly increasing due to the rising divorce rate. It is an unrealistic wish for these women facing immediate livelihood problems to become Alpha Females and Super Moms.

It is pointless to discuss the measures to improve women's social status and to realize 'gender equality' while ignoring these issues. If the benefits of improving social status are unevenly delivered to privileged women, educated women, and successful women in business, then

gender equality will be a far-fetched story for ordinary women. It will cause severe gender inequality, the gap between the rich and the poor, the achievement and economic activity gaps

If we hope that women's overall decision-making capacity will enhance through substantial progress of gender equality, we should help women develop their ability to view economic trends in different perspectives, rather than just interpreting the economy as it is. It is why the relevant economic education should be done for women, not just for young people and the elderly. In order to strengthen our economy and achieve equal distribution even within women, the economic leadership of women is truly what we need now.

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