

Re: U.S. deficits fine -- Nobel laureate

Source: <http://sci.tech-archive.net/Archive/sci.econ/2004-12/0942.html>

royls_at_telus.net

Date: 12/19/04

Date: Sun, 19 Dec 2004 23:50:06 GMT

On Mon, 13 Dec 2004 13:43:17 GMT, Igor <jjweatherby@houston.rr.com> wrote:

>royls@telus.net wrote:

>

>> On Sun, 12 Dec 2004 10:33:13 GMT, Igor <jjweatherby@houston.rr.com>

>> wrote:

>>

>>>royls@telus.net wrote:

>>>

>>>>On Sun, 12 Dec 2004 06:01:56 GMT, Igor <jjweatherby@houston.rr.com>

>>>>wrote:

>>>>

>>>>They aren't going to sell for less than they cost to make, no matter

>>>>how little they add to productivity, and if they don't add to

>>>>productivity, money spent on them will not add to corporate value, no

>>>>matter how much of it shows up on the books. That's what you can't

>>>>seem to understand.

>>>>

>>>>No what you do not understand is that **THERE IS A MARKET FOR CAPITAL**

>>>>**ITEMS.**

>>>>

>> No, what you and Prescott do not understand is that the market price

>> of past capital purchases is not what determines the extent of their

>> current or future contributions to a firm's profitability.

>

>No you still do not understand that the equation you had a problem is an

>equation that states **RETURNS** on two different types of capital. **RETURNS**

>**HAVE EVERY THING TO DO WITH WHAT YOU PAID FOR IT.**

Yes, but you find your return by dividing by what you paid for the asset, not multiplying.

Idiot.

>Your flow of profit is

>your return to your assets.

Return is profit *_divided_* by assets, not *_multiplied_*.

>I really tire of trying to explain your many misconceptions to you.

You have no idea how tired *_I_* am of trying to make myself believe that your misconceptions can really be as profound and comprehensive as they are.

*>It is obvious you have little knowledge of economics and do not wish to
>change the fact. You scantily understand what George argued.*

You have proved that you understand it not at all.

>So if you

*>can not understand a book without equations explaining theory I am not
>going to waste my time explaining what an equation means to you.*

ROTFL!! Took the words right out of my mouth.

*>>>To say that it will not price under marginal cost is obvious
>>>and illrelevent to the discussion.*

>>

*>> No, it is not. Marginal cost represents a floor cost, but *_not_* a
>> floor *_value_* of their contribution to a firm's productive endeavors.
>> That is the fact you and Prescott ignore.*

>

>IT IS A STATEMENT OF RETURNS.

No, it is not. Adding more costs does not increase the rate of return, it *_reduces_* it. I don't know any simpler way to say this.

>COST OF THE CAPITAL GOOD DETERMINES THE RETURN.

By division, not multiplication.

>WHAT PART OF RETURN DO YOU NOT UNDERSTAND.

The part where spending more money increases returns, without increasing profits.

>It is calculating

>dollars returns NOT PRODUCTIVITY OF CAPITAL WHICH IS A DIFFERENT ISSUE.

You're telling me?

*>A dollar return compares your AFTER TAX REVENUE GAINED TO THE COST OF
>THE ASSET.*

Gibberish.

sci.econ: Re: U.S. deficits fine -- Nobel laureate

>You see that is why taxes are included in the equation.

>*PRODUCTIVITY IS MEASURED BY DIVIDING OUTPUT BY THE AMOUNT OF THE INPUT.*

Right. Dividing. Not multiplying.

>*THE EQUATION IS NOT LONG RUN PROFITS. IT IS A FLOW OF PROFITS.*

No, it isn't.

>Your flow

>of profits is *YOUR RETURN ON YOUR ASSETS.*

No, it isn't.

>*IT HAS EVERY THING TO DO WITH*

>*ACCOUNTING AND NOTHING TO DO WITH PRODUCTIVITY.*

Or economics?

>More productive capital

>gives you higher return therefore \$1000 invested in more productive

>capital is give you fewer units that \$1000 invested in cheap crappy

>capital. Yes supply is also an issue but which is why forms of capital

>disappear. Outmode useless capital is not demaned people quit making

>it and move to making capital that is modern and wanted eventually the

>price rises so high no one will buy it.

?? "It's so crowded, no one goes there anymore!"

ROTFL!!

>Captial that is not completely

>out moded but slightly less productive will sell at a lower price. It

>will have less demand and usually will have less production cost.

Demand does not determine production cost.

>Anyway I have wasted way to much time and you can not begin to grasp the

>argument.

Back atcha, idiot boy.

>>>If the markets for capital goods are

>>>imperfect they will be priced above what it cost to make them. When a

>>>firm list \$1000 in buying new capital *IT IS RARELY PRODUCED IN THE FIRM.*

>>>How many construction business do you know that *MAKE THEIR OWN TOOLS.*

>>>How many electrical companies *MAKE* their own generators? This is not an

>>>issue of transfer pricing it is an issue of how markets will determine

>>>*PRICES and RENTAL* rates for capital.

>>

>> No, it isn't. It's an issue of how well managers utilize the

Re: U.S. deficits fine -- Nobel laureate

>> *potential productivity represented by past purchases of capital.*

>

>*Then you lose again.*

All I lose is the time I waste trying to get you to understand economics.

>*If managers reach technical efficiency they will all*

>*use the most productive capital meaning they all have similar capital*

>*that is similar prices.*

And if you had any brains, you'd be educable.

>*So your argument \$1000 of mud pies is not as*

>*good as \$1000 of apple pies does not matter. NO ONE WOULD BUY \$1000 of*

>*mud pies.*

The same people who buy lottery tickets wouldn't spend \$1K on the capital equivalent of mud pies? I think you need to consider including some facts of objective reality in your theory.

>*If they did market analysis would tell us those who chose to*

>*do this got more utility out of \$100,000 mud pies at a penny a piece*

>*than 100 apple pies at \$10 a piece.*

Or not.

>>>*The rental depends on the*

>>>*productivity of the asset and the depreciation caused by used as well as*

>>>*how many people want to rent it.*

>>

>> *No, the "rental" does not depend on the productivity of the asset.*

>

>*You claim to have read and Understand George and you make this argument?*

Yes, because I know, as you all too obviously do not, that what you call "rental" is not economic rent.

>*You better go back and read what rents is all about. I would start with*

>*Ricardo On the principle of Taxation read the chapter on rents.*

Rent has nothing to do with depreciation, idiot boy.

>> *At best the rent depends in part on*

>> *the asset's _potential_ productivity. That is another fact you and*

>> *Prescott ignore.*

>

>*Even if it is in part more productive assets will highly more demand and*

>*likely higher prices.*

?? Uh, OK, I think I can do that, too:

But if you did that other part productive was not the only assets, and highly assets of price never did that demand for a higher one.

Pretty good, huh?

>>>Returns on other assets and forms of
>>>capital will affect price. If capital markets are perfect then EQUAL
>>>returns on investment will be made.
>>
>> You and Prescott assume they are perfect, in the face of the obvious
>> fact that they aren't.
>
>You do not even know what perfect means.

Yes, I do, and I can prove it:

You are a perfect idiot.

>Must less why in modeling the
>assumption is made and how it still fits the evidence fairly well.

Garbage.

>>>Many crappy capital sells CHEAP.
>>
>> And much capital that does not sell cheap is nevertheless crappy in
>> its contribution to the firm's profits. You and Prescott ignore that
>> fact.
>
>Why is this?

I guess because it does not fit your theory.

>Evidence?

Penn Central. Atari. Pan-Am. How big a list do you need?

>Why would PEOPLE PAY A HIGH PRICE FOR CRAPPY
>CAPITAL?

Because they aren't perfect.

>YOU DO NOT PAY THE SAME AMOUNT FOR A MACHINE THAT ALLOWS YOUR
>WORKERS TO PROCUCE 2 UNITS AN HOUR AS YOU DO FOR A MACHINE THAT ALLOWS
>YOUR WORKERS TO PRODUCE 4 UNITS AN HOUR. This is irrational.

Wrong. It depends on _all_ the costs, and how much you can sell the units for.

>Any
>business who paid high prices from les productive capital when he could

>buy more productive capital for the same price or a little more would be
>OUT OF BUSINESS.

Well, Hallelujah! There is a functioning brain cell there, somewhere!

Now, all you need to do is take a couple of months off work (I'm sure it will do your students a power of good) to think about whether any companies went out of business after 1929.

>>>I had never thought of that.

>>

>> Yes, well, that does not surprise me.

>

>Obviously tongue in cheek statements are beyond your ability to detect.

Or is it that tongue in cheek responses are beyond yours?

I know where I'd put my money...

>>>There are cases

>>>where this may be the case. Say for instance a farm in Mexico versus a

>>>farm in the US. In the US you buy the tractor and hire fewer workers

>>>because labor is expensive. It makes sense in Mexico they may use

>>>shovels because the tractor is too expensive and the labor is cheap. So

>>>to assume a priori that using 500 or a thousand workers instead of 1 or

>>>2 units of labor and a tractor is going to be more expensive is NOT

>>>always the case. In this example the difference was extremely but we

>>>could have had a example where the more productive capital was 1.5 times

>>>as expensive.

>>

>> You miss the point. There is no law that says American or Mexican or

>> any other executives always buy the right kind of capital for their

>> firms.

>

>Oh yes there is.

You have just proved that you are an idiot.

>NATURAL SELECTION. Firms that do not explore the right

>technologies are either driven out of the market or bought out by those

>who do.

?? <sigh> And this millennia-long process was just coincidentally completed some time before 1929, was it? And all the firms driven out of the market in the 1930s were some kind of illusion, a mass hallucination, because by that time all managers had evolved to the point of perfection??

"Idiot" somehow seems too mild in this instance....

>You can not compete if you buying \$1000 shovels and using them
>when you smarter competitors are buying \$1000 backhoes and using them.

Wrong. You can if you get the work and your competitor doesn't.

>Firms that fail to adapt to better technologies lose market share and
>therefore are bought out by a firm who can more profits than current
>management or are forced out of the market because they CAN NOT MAKE
>ECONOMIC PROFITS. Profit maximization says that firms will find cost
>minimizing production or be driven out.

When exactly was that market selection process complete?

>>>>>The paper showed RATIONAL EXPECTATIONS WORKS.
>>>>
>>>>ROTFL!! It showed only that false assumptions are not made truer
>>>>through being consistently adhered to.
>>>
>>>If you had RTFM you would have realized too things. First you had no
>>>clue to what the equations in the second section where getting. Simple
>>>algebra even escaped you much less taking a derivative to see that
>>>decreasing sales WOULD NOT LEAD TO HIGHER PROFITS as you claim the model
>>>predicted.
>>
>> You are lying again. I did not claim decreasing sales would lead to
>> higher profits in the model.
>
>You made some argument like that.

Thank you for admitting that you lied.

>Do you not recall after seeing the
>equation $profits = iKT + (1-g)(1-t)KI$ making the statement that
>increasing your output DROPPED profits because g is the trend rate of
>output growth? Do yo not recall that.

Do you? Maybe you could find a quote to that effect, in order to have
some chance of convincing someone reading this that you are not a
lying idiot.

>Simple algebra tells you if
> $iKT > (1-g)(1-t)Ki$ positive profits exist even if $g > 1$.

<snicker> What happens if $g < -1$?

>>>>>People set expectations
>>>>>and act on them. People saw the increases in taxes by Hoover and the
>>>>>movements the Fed was making and knew to expect a negative impact on the
>>>>>economy. THAT IS WHY PRICES WERE FAR LOWER THAN EARNINGS OR EQUITY.
>>>>>PEOPLE EXPECTED PROFITS TO FALL AND WERE SELLING BEFORE THE CRASH.
>>>>

>>>>IOW, Prescott's fundamental assumption is that government officials
>>>>can make bad decisions, but corporate executives can't.
>>>
>>>No. The assumptions are that PEOPLE SET EXPECTATIONS.
>>
>> Lie. The assumption is that those expectations are met.
>
>No it is not. IT IS THAT PEOPLE CAN SET EXPECTATIONS CORRECTLY.

ROTFL!!!!!!!!!!!!!!!

>This is
>not sunspot equilibria that says if people believe something has an
>effect then it will. This says people set expectations given current
>information and THEY CAN INTERPERT THAT CURRENT INFORMATION TO MAKE
>ACCURATE PREDICTIONS ABOUT THE FUTURE.

Which must be why no one lost any money in the dot.com crash...

>>>Expectations are not always correct sometimes people
>>>get surprised.
>>
>> Except in Prescott's model.
>
>ABSOLUTELY WRONG. YOU DID NOT EVEN READ THE CITATION FOR THE PAPER THAT
>WON THE NOBLE DID YOU. This is what time inconsistency is all about. It
>says inconsistent policy surprises people and causes expectations TO BE
>OFF. There is nothing about these results that says expectations ARE
>ALWAYS 100% right.

Except the assumption that profits depend on spending more money...

>The extrapolation of the results which is MINE not
>Prescott's is that the fact stocks were undervalued meant people saw the
>recession coming and tried to dump stocks before profits and dividends
>drop.

?? That's called being overvalued, not undervalued.

>In other words they tried to sell while they still could.

Because they had to get out of those undervalued stocks before the
price went up. Got it. <wink>

>That is
>why the market was undervalued. People correctly expected a future drop
>in profits and tried to sell stocks before profits and dividends
>dropped. So they could invest in assets that would perform better under
>the coming conditions.

So they sold their undervalued stocks in order to buy overvalued stuff. Check. Sure sounds like their expectations would have to be correct...

>>>*Read something besides Henry George.*

>>

>> *<yawn> I have read, I daresay, more economic theory and history than you. Certainly I have understood it better.*

>>

>> *My advice to you: read Henry George. Or if you have, read him again, until you understand him, because you very obviously don't yet.*

>

>*As usual, those who are uneducated in an area try to brag about how much they have read and know. Your post show this statement is a misconception on this part. You misunderstand some FUNDAMENTAL concepts. The reality is that it is easy to fix if you admit it. If you are willing to understand a couple of concepts instead of having the attitude you can not be wrong you would be on the right track.*

Oh, I admit I can be wrong. I was wrong when I assumed you could be educated.

>>>*Catch up to the last 100 years of theory or at 70 years and you will begin to understand the model.*

>>

>> *I understand the model fine. I just don't believe it says anything interesting or relevant to the real world.*

>>

>*No you do not. It is obvious from your statements you do not have a clue and have not even read the paper. How can you understand the model when you have read the paper?*

You claim to have read the paper, and you obviously don't understand it.

>>>*That is often the problem with the lay*

>>>*person reading something like Presscott they do not know the basic theory needed to understand the model and its results.*

>>

>> *I know Prescott's theory: government can do nothing right, private interests can do nothing wrong.*

>

>*You are so far off. This is not even theory. Not even application of the theory Prescott uses.*

The assumptions of the model make it very clear that is his theory.

-- Roy L