

The Economics of Small Things : A book everyone can connect to

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Why are too many choices and incentives bad for an individual? How does everybody in a gathering hesitate to reach out for the last piece of cake? What motivates a driver to worship the God for saving him from an accident rather than wearing the seatbelt? Can a poor person be trusted to be making good decisions? Could the Citizenship Amendment Act in India be averted by including an MP from the communities persecuted in the countries listed in it? Can Economics give answers to all these questions? Yes, it can! More importantly, such are the concepts, that they need neither a graph nor an equation to understand!

The Small things: It is always exciting to read a friend in print. The excitement intrigues when the friend starts his book with something close to one's family, place, and culture. Prof. Sudipta Sarangi was my supervisor at Louisiana State University, USA during my PostDoctoral stint. He is currently the Head of the Department of Economics at Virginia Tech University, USA. He has visited Dibrugarh University on several occasions. Every time he visits me or I meet him somewhere in the world, we discuss the "Economics of

Small Things". He tries to draw analogies of the "small things?" that happen around us with the hard to appreciate theory that exists in the textbooks of Economics and by doing this, he wants to build an organic connection between theory and practice. These ideas have recently culminated in a compilation of essays first he wrote in the Hindu business line and now as a book called the "Economics of Small Things" published by Penguin. The book features twenty-five essays on various sociological and behavioural aspects of human activities. The key ideas of the book can be traced back to some very fundamental principles of Economics. In the following, I would like to briefly mention these principles and their connections to the small things around us.

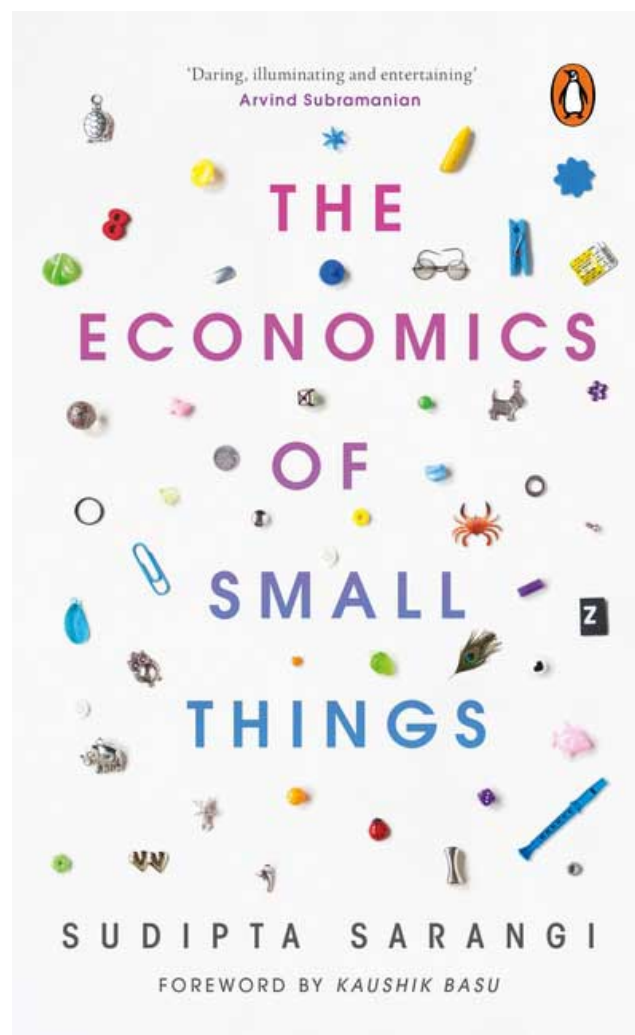
Why incentives are important? Economics is mostly about incentives: be it material or psychological. Citing many examples that the common audience can relate with, Prof. Sarangi justifies why providing incentives has both good and bad outcomes. While giving incentives to the domestic help in India can ease out, to some extent the common issue of their retention, their unmon-

itored and unsolicited use may lead to situations like “moral hazards?”. A typical example is providing reservation benefits to a section of people in the society may invite more undeserving people as beneficiaries. Similar is the case with the provision of car insurance or wearing of a seatbelt that may make the driver drive more and more recklessly. Prof. Sarangi suggests that there should be a balance between “incentives?” and their “unintended consequences”.

The heterogeneity that makes a difference! The society we live in is full of heterogeneity: heterogeneity of choice, preference, information, and tastes, etc. For each of these attributes, there arises a nice story to portray intuitive human behaviour. The idea of product differentiation, for example, is efficiently used by the big marketing firms to exploit heterogeneity in consumer characteristics. One way of doing this is by producing several types of commodities with little or no differences in tastes or qualities. This explanation beautifully fits to the abundance of several variants of toothpaste or breakfast cereals in the market with slightly different tastes that appeal to different market segments characteristic of their income and taste differentials.

Complementarity matters! The notion of complementarity can be observed in many economic situations. A very interesting metaphor is the human instincts that is compared with the “crabs in a big bucket with no lid”. The story tells that no crab in the bucket would allow the other crabs to forge ahead and therefore, the chance of rising high by individual crabs is significantly low. This behaviour in general is synonymous with peer jealousy whereas Prof. Sarangi argues that the possibility of reduced group performance by losing the rising crab would be the driving force of such crabby behaviour! There are many more such in-

teresting sorties in the book to explain the complementarity prevalent in the society around us. He has a very interesting solution to the common problem of chappal theft in the Indian temples that uses the idea of complementarity.



Why Information asymmetry makes a difference? The word is full of information asymmetry. Despite living in such an asymmetric world, one has to take decisions, predict others' behaviours, or build an impression of something which is not fully known to one. Is carrying a fountain pen in the front pocket a signal of an educated person? What connection does it have with the last piece of pizza that visibly remains on the table in a gathering? Prof. Sarangi argues that this can be explained by the notion of

common knowledge that everybody wants to grab the opportunity of showing her/his superiority by simply announcing that she/he does not want the last piece. The success of the Grameen Bank in Bangladesh initiated by the Economist and Nobel Laureate Md. Yunus has a fair share of the idea of information asymmetry. The responsibility of repaying the bank loans by a group of individuals is shared equally and by this, they would minimize the risk of not paying their individual loans even though all these agents possess different level of information about each other.

Poor people are bad decision maker?

Prof. Sarangi has referred to several experimental studies to show that our decision-making capacity is affected by poverty. Thus, being poor affects our cognitive ability for which he suggests that while making plans for the development programs for the poor section of the society, sufficient measures should be taken to educate them, to make them aware of these programs in an as simple as possible manner. Moreover, age is another factor that affects our cognitive capacity. Therefore, too many options for choosing from can never be better, especially for the older generation. This idea is exploited by the marketing firms to have benefited from poor decisions by the customers. This essentially explains why we have so many insurance plans or pension plans to choose from.

Strategic Behaviour makes a difference:

When two or more people interact for their own benefits, it is important for them to think strategically and plan to maximize their utilities accordingly. Trust and reputation are some of the attributes that complement the strategic behavior of individuals. Imagine two people sitting on a dual and trying to hold their breadths as long as possible. Whoever holds his breadth for a period longer than the other will be the winner. But by holding breadth for ever one can die. This is indeed the

situation, Game Theorists would call the Game of Chicken! It is the honour and reputation of the individuals that matters more than their lives. A typical example can be the longtime stand-off between the Indian and the Chinese army in Ladakh where no one wants to play a back-foot in order to keep their honour and reputation in front of the citizens back in their respective countries.

Simple law of supply and demand: This story was told by Prof. Sarangi during his visit to Dibrugarh last year when I asked him why the best tea produced in Assam could not be accessed in Assam, but somewhere else in the world? He addressed my question indirectly by answering an augmented question: why the best mangoes of India are never found in India but are exported to the first world countries? This according to him is a clear application of the simple laws of supply and demand. Then there are similar explanations of why the Indian drivers are reluctant to wear seatbelts and rather would like to worship the Gods for saving them from accidents.

The beauty of the book lies in its bringing different analogies of economic situations with the subsequent unconventional explanations through the lenses of the subject Economics. The Introduction provides a bunch of small stories that are neatly woven to the subsequent chapters. It was a sheer delight to go back to the introduction after I had finished the book. This made further strengthening of the relations between those stories and their explanations in the subsequent chapters. I felt speechless when I first saw that the Introduction started with my reference in Dibrugarh describing my luxury of the morning tea on a fine bone china cup. Such an unusual style of introducing a subject, I have rarely come across! This is essentially the essence of the book and I am sure, the reader will not be deprived of it till the end. Happy reading!