

IP: BUSINESS ETHICS

Ethics and Economics and Game Theory

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How does Arrow answer arguments such as Friedman's? Well, Arrow argues five things:

1. The forces of competition are not always so strong, and firms may be able to exercise *market power*, in the limit as a monopolist.
2. Even if perfect competition exists, and no firm can exercise market power (facing a downwards-sloping demand curve), there is no guarantee that the market allocation of income and wealth will be *equitable*, even if the market is extremely *efficient* in transforming inputs into outputs.

3.

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3. We may be unhappy and uncomfortable about an appeal to our selfish, self-centred natures — where is a rôle for other-centred *altruism*?
4. Further, market *externalities*, such as pollution and congestion, mean that firms and individuals may not be paying for all costs they impose on others.
5. And *information asymmetries* may lead to bad decisions and to deceit: the “lemon” new car, the new pharmaceutical drug.

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- d. ethical codes**

We shall examine these.

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Smith speaks of virtue as the “fine polishing” on the wheels of society, and vice as the “rust” on the wheels.

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The 1998 Nobel laureate Amartya Sen wrote in *On Ethics and Economics* that value judgements are pervasive, that ethics doesn't subvert economics as a science, that ethics is part of economics as a science.

Game theory and the evolution of fairness

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Darwin's evolutionary biology was used by others (such as Herbert Spencer, who coined the phrase “survival of the fittest”) to argue that altruism was unnatural and weak.

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There has recently been evidence of the concept of “fairness” among monkeys in the lab, which suggests hard-wiring via evolution in the brain.

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2. The *good*: happiness/satisfaction is good.

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 - or to punish the innocent for maximum gain, against *retributive justice*
 - or against duties of *truth-telling* or *promise-keeping*

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Utilitarianism missing a link to *morality of the person*.

Efficiency v. Equity

Less efficiency,
greater equality.

*Smaller cake,
more even slices.*

more equal

• A

Greater efficiency,
greater equality.

*Larger cake,
more even slices.*

• B

Status Quo Ante

efficiency

Less efficiency,
less equality.

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less equal

Efficiency v. Equity or Fairness

(lexicographic ordering)

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Consequences?

Confucian Ethics

Kong Zi or Confucius (550–479 B.C.) has influenced over 2000 years of thought in China and beyond.

Master Kong developed the three principles of *Li*, *Jen*, and *Chun-Tzu*.

Li: the ideal standards of conduct: religious, moral, and social

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The Silver Rule:

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The Silver Rule:

“Don’t do unto others what you would not like them to do to you.”

Li provides a structure for social interaction
Jen makes it a moral system.

Chun-Tzu

Chun-Tzu (or Junzi, ruler's son):

**the true or virtuous gentleman or person
he who lives by the highest ethical standards,
and displays the five virtues:**

- 1. self-respect**
- 2. generosity**
- 3. sincerity**
- 4. persistence**
- 5. benevolence**

Chun-Tzu

Relationships:

as a son	loyal
as a father	just and kind
as a husband	righteous and just
as an official	loyal and faithful
as a friend	faithful and tactful

Note: Confucius held that we are inherently good creatures.

Against Christianity: ?

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Against Christianity: ? Original sin.

see <http://www-chaos.umd.edu/history/ancient2.html> for discussion of his disciples Meng Zi and Xun Zi and the schools of Literati and Legalism and of yin-yang and of Mo Zi.