Lecture weighs law versus ethics in economics

Rothkoff presents price-gouging in a new light

By Mark Marsella
Correspondent

As part of its Exploring Economic Justice series, the College invited Kurt Rothkoff, an economist and professor of economics and finance at Seton Hall University, to discuss the hidden meanings of fluctuating market prices and what they say about human behavior on Friday, March 13.

"The Information in Prices," sponsored by the New Jersey Council for the Humanities and the Koch Foundation, focused on how the rising and falling prices of anything — especially gas, food and clothing — not only affect how individuals behave but also how they reveal other information about the individuals themselves. Rothkoff started off by dispelling a few myths about economists, saying that most people think economists are greedy and only care about wealth and the stock market. Instead, he said, economists study human behavior.

"Economists may talk about money and prices, but life isn’t about having more money — it’s about having more happiness," Rothkoff said. "When we study the human individual, what we find is people are seeking happiness. One of the ways they seek happiness is through having money."

Rothkoff first illustrated that when consumers buy what makes them happy, they affect major economic decisions, such as the type and quantity of products that companies produce. Rothkoff used farmers as an example — when the price of corn goes up, farmers know they should plant more corn. What caused the price of corn to rise in the first place was usually because the demand has increased. In other words, people want more corn.

Examining the reasons why people want more corn, or any product, is the way economists can gather information from fluctuating prices, according to Rothkoff. Prices can reflect cultural shifts and trends, the health of the economy and even natural disasters.

One real-world application of this principle is the production of hybrid, turbo, electric and diesel car engines, Rothkoff said. Automakers have noticed that more people are buying these expensive eco-friendly cars.

"In response, Ford has just created a whole line of turbo-charge cars that they call ‘eco-boost,’ and Dodge is starting to produce eco-diesel engines," Rothkoff said.

"The price signal has told these automakers that they should respond by increasing their production of eco-friendly cars."

Rothkoff also discussed what happens when the demand for certain products suddenly skyrockets during natural disasters, such as the demand for generators during Hurricane Sandy in 2012. Usually during these emergencies, price gouging — when sellers raise prices to unreasonable levels during emergencies to make more money — becomes illegal. Most people think this is fair. However, Rothkoff argued that during Hurricane Sandy, it discouraged people outside New Jersey from traveling here to sell their generators because they couldn’t raise the price to make up for travel costs.

"If you’re not allowed to sell generators for more than their usual price, are you going to take the extra effort to drive to New Jersey? No," Rothkoff said. "When we invoke price-gouging laws, what we’re fundamentally saying is that because the price cannot go up, we don’t want people to go out of their way to supply us with more generators. And that is scary."

For freshman Dan Apicella, an open options pre-law major, Rothkoff’s stance on price gauging helped him look at the issue in a different way.

"It’s really interesting to rethink something you usually think is unethical," Apicella said.

Another example Rothkoff used was a hurricane in North Carolina, when the demand for ice dramatically increased. When an ice truck from another state drove to North Carolina to sell ice — priced higher than usual to make up for the cost of gas — police locked up the truck for price gouging.

"The police sat and literally let all the ice melt when there were people who had to keep insulin and other medication cold. They needed ice to live," Rothkoff said.

"The price sends a signal, and the signal is, ‘We need as much as possible of this product in our area right now, regardless of cost.’ So when you say price gouging is unethical, I actually say that invoking the law to me seems unethical."

Sophomore philosophy major John Felder was able to look at the law in a new light after Rothkoff’s presentation.

"I never really thought about economics and price gouging from this point of view," Felder said. "It’s cool how much information economics can reveal about people."