

MGX3100 FINAL EXAM NOTES Preview

Holley's Model

1. Holley argues that there are 3 important parameters in voluntary exchange.
 - Knowledge: Both buyers and sellers understand what they are giving up and receiving in return.
 - Non-compulsion: Buyers not compelled to enter into an exchange as a result of coercion, restricted choice or constrained to choose.
 - Rationality: Both buyers and sellers are able to make rational judgment about cost and benefits.

2. Holley's model of acceptable exchange

- What is adequate information?
 - : Misinformation (or lies) undermine the adequacy of the information condition
 - : Truths that intended to mislead undermine the adequacy of information condition

Problem: How much information is a sales-person required to provide?

*It may not be considered adequate for a group that is less able to be involved in the marketplace.

- What is adequate rationality?
 - : A recently bereaved person may be unable to make a rational decision
 - : A child presented with the chance of having the latest craze game may be unable to make a rational decision
 - : Emotional appeals to factors that may be subconscious may lead to decision making that is not entirely rational

E.g. Glamorous people smoking cigarettes, filmstars advertising perfume

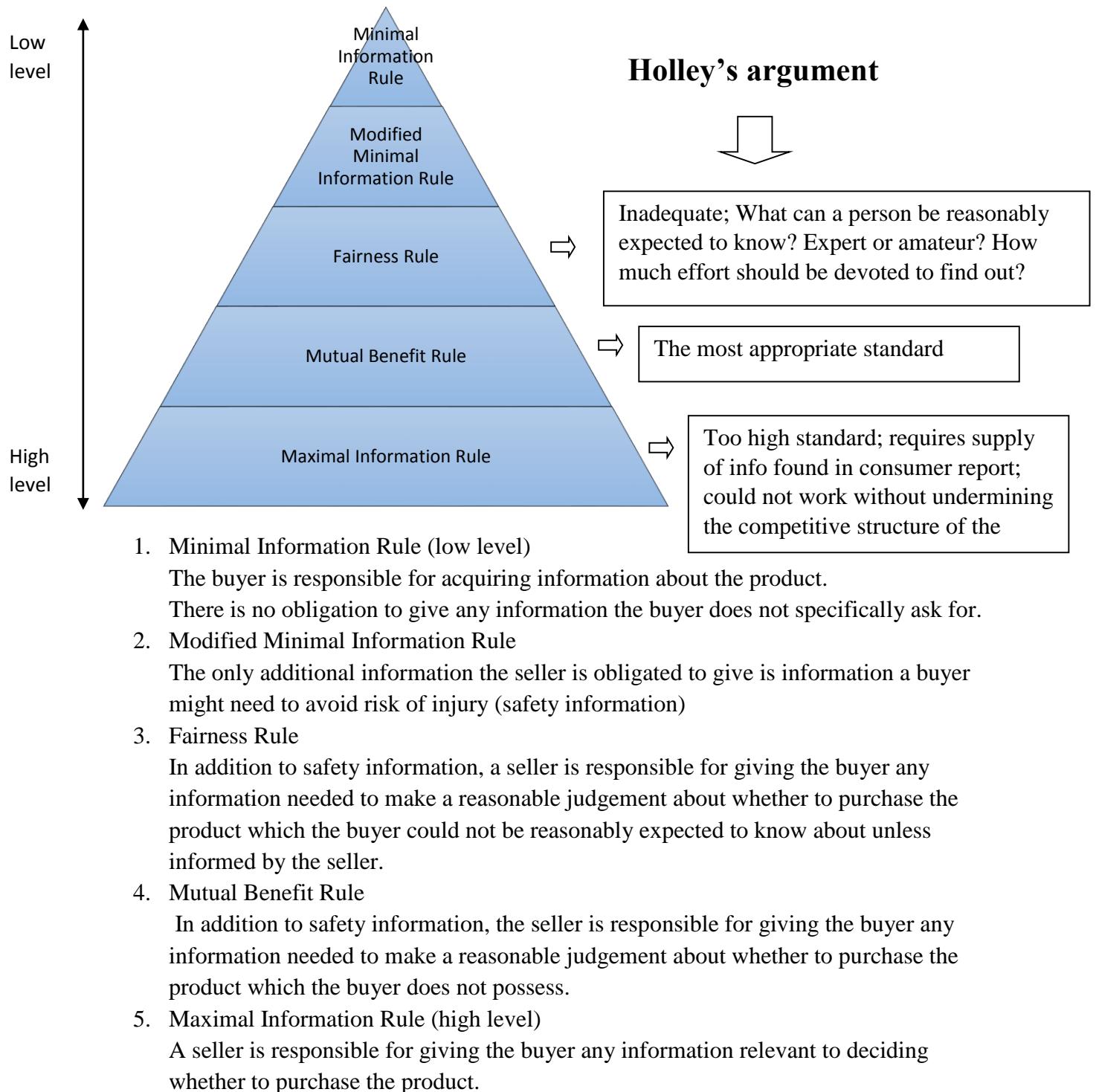
Problem: Is the decision adequately rational?

- When is a choice free from compulsion?
 - : Choice is free from compulsion when there is no coercion
 - : E.g. Buy this or I will shoot you (compulsion is present)

But what about children obsessed with pokomon?

Problem: Choice is free from compulsion if a monopoly exists (or a cartel)?

3. Holley 1998 Information Disclosure in Sales



Paternalism in Marketing

Issue: How far should we go to protecting consumers?

What is Paternalism?

1. Paternalism is interference with a person's liberty of action that is justified in terms of the wellbeing of the person interfered with.
2. E.g. forcing children go to school or to take medicine that they do not like; making it an offence not to wear a seat-belt; restricting the sale of alcohol to aborigines

What is wrong with paternalism?

Sometimes violate some individual liberty or work against personal autonomy.

E.g. Restrictions on the sale of alcohol to adult aborigines

John Stuart Mill's Argument

Liberty and Interference

The only justification for interfering with the liberty of another individual is the prevention of harm to others.

Mill argues that we are only justified in interfering with the actions of another individual if that individual's actions will cause harm to others.

Liberty and Paternalism

Mill (like most of us) believes that paternalism is frequently appropriate in the case of e.g. children, the insane, and the intellectually handicapped.

Mill's discussion is a discussion focused upon sane, adult individuals of normal intelligence.

Mill argues against paternalistic interference with the liberty of another individual and that the other person's good does not justify our interference. The most Mill will allow us to do is explain to the individual why he should act in this way.

Why against Paternalism?

Firstly, liberty (or freedom) is such an important good that we can only curtail it when we have very good reason, e.g. harm to others. Hence, the state is entitled to interfere with my liberty to kill others or cause them serious injury. He argues against paternalism on the ground that each (normal adult) individual is best able to judge for himself what is in his own best interests

Secondly, for utilitarian reason (actions with most good consequences are morally correct).

Anti-paternalistic View

1. The Shareholder/Narrow View (sole responsibility to increase profits) of CSR is ethically justifiable with Smith's Invisible Hand Argument (pursue own self-interest).
2. The Stakeholder View
 - : The Stakeholder or wide view of CSR argues that corporations should be managed in the interests of all stakeholder groups.
 - : Does not seem to justify paternalistic interference since the interests of the stakeholder groups would be stated interests of those groups
 - : However this assumes that stakeholder groups have the capacity to determine their own interests, to voice these interests and to press their claims (consider dependent stakeholders).
3. Consumer Protection and Paternalism

| |
|---|
| Issue: Are anti-paternalism and consumer protection incompatible? |
| Issue: Can we have a system that does not allow for paternalistic interference (in the case of sane, adult individuals) but that still provides protection for consumers and workers? |

| Strong vs. Weak Paternalism | |
|---|---|
| Justified in interfering to prevent a person from harming himself <i>even when his decision is fully voluntary or totally unimpaired.</i> | Justified in interfering to prevent a person from harming himself <i>only when there is a defect (impaired decision) in his decision to engage in the self-harming activity.</i> |
| Mill is against strong paternalism | |
| When people are fully rational, we agree that they have a right to determine their own end. | E.g. A man crossing the bridge. If either a public officer or anyone else saw a person attempting to cross a bridge which had been ascertained to be unsafe, and there was no time to warn him of his danger, they might seize him and turn him back, without any real infringement of his liberty: for liberty consists in doing what one desires, and he does not desire to fall into the river. Once the person has been informed there is no justification for continuing to constrain him to crossing unless he is incapable of making unimpaired decision |
| Reason for impaired decision making | |
| <ul style="list-style-type: none">• Lack of information | |

- Unaware of consequences, like a child, mentally ill, suffering from addiction

Paternalism in the Marketplace

1. Relationship between salespersons and customers can range from caveat emptor (buyer beware) to (strong) paternalism
2. Limited Paternalism
3. **Ebejer and Morden** argue that within the marketplace the only kind of paternalism that is justified is one where the consumer is protected from an uninformed decision that may be detrimental to him
4. According to them, technical expertise imposes a duty on the seller (Arrow and his point about the asymmetry of information).
5. They argue that in the case of Limited Paternalism the only liberty violated is the liberty to be ignorant.
6. The consumer is protected from an uninformed decision that could be detrimental to him.
7. Limited paternalism is a form of weak paternalism. Once the individual has been informed of the relevant facts he is free to act as he wishes.

Application of Paternalism

A woman takes her car to the garage and tells the mechanic that she need a new muffler and exhaust pipe because it is making too much noise. The mechanic examines that car and concludes that the noise is occurring because there is a hole in the tail pipe.

Option 1: He can replace the exhaust pipes and the muffler as requested by the owner (cost \$400).

Option 2 (Strong paternalism): He can refuse to do as she has requested since all that is needed is a new tailpipe (cost \$100). If he tells her this and she still want new tail pipes and muffler and the mechanic now refuses to do as she requests this would be a case of strong paternalism.

Option 3 (Weak/limited paternalism): He can talk to the owner, explain the situation, and let her decide what to do.