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Distinguished Speakers at Seidman

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Distinguished Speakers at Seidman

Robert Lund, Senior Vice President of Marketing at General Motors, spoke to students, faculty, and staff Thursday, November 15. His topic was "The Leadership Role of the United States in Automotive Marketing." He also met over lunch that day with fifteen Seidman School Affiliates to discuss domestic automotive production and the Michigan economy.

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Dr. Steven Skancke, former Staff Director of the White House Conference on Productivity and Deputy Counselor to the Secretary of the Treasury, spoke to students, faculty, and staff Wednesday, December 5. His topic was "Profits and Productivity: Recipes for Success." He met with Seidman faculty at a luncheon to explore a number of productivity issues. Dr. Skancke is Vice President of G. William Miller and Company.

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Dr. James Buchanan, Director of the Center for the Study of Public Choice at George Mason University, was in Grand Rapids and on campus on Thursday, April 18. He spoke to west Michigan area economists at a breakfast meeting, to the Seidman School Affiliates at lunch, and to the Grand Valley students, faculty, and staff in the afternoon. His topic at the luncheon meeting was "Federal Deficits and the Ethics of Default," and his speech on campus was entitled "Public Choice Perspectives and the Ethics of Default." Dr. Buchanan's many publications include *The Economics of Politics, The Calculus of Consent,* and *Fairness, Hope, and Justice.*

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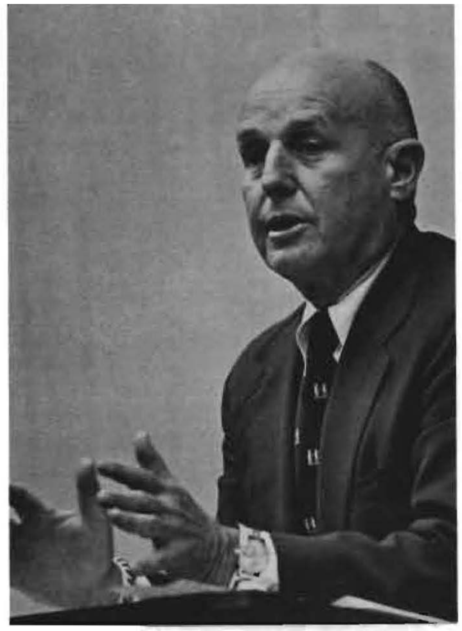
L. William Seidman, Dean of the School of Business at Arizona State University, spoke to students, faculty, and staff Thursday, April 25. His topic was "Productivity and Quality in the United States." Mr. Seidman served as Economic Policy Coordinator for President Gerald R. Ford from 1973 to 1976 and as Executive Vice President for Phelps Dodge Corporation from 1976 to 1981.



L. William Seidman

Barter Clubs and Exchanges: A New Source of Inefficiency and Risk

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These possibilities mean that additional costs might have to be incurred to reduce default risk. Potential members may have to investigate the exchange and its operators and their track records and credit standing. Thus, as transactions costs are lowered by reducing the double coincidence of wants, other costs and risks are higher. But, whatever the mix of costs incurred and risks taken, their total is higher with barter than with the use of conventional money.

It should be noted that the units or points produced by barter groups are an attempt to create another kind of money—an inferior one at that. The use of this "money" is limited to the members of the barter group, of course. It has no acceptability outside the group.

In effect, barter organizations are an in-between case, between straight barter, on the one hand, and the use of money, on the other. They issue a form of money but a limited one.

Inefficiency in Supply And Demand

Another source of inefficiency with bartering is that the prices at which trades take place are not necessarily equal to the "equilibrium" price. This occurs because of the limited market for bartered goods and services, whether that stems from the double coincidence of wants or the limited number of trading partners in barter organizations.

At this point, you will realize that even though goods and services may be bartered, they are traded at "prices." The price of a good or service in a trade is how much of something else is given up for it. A price is an "exchange ratio." For example, if three chickens are traded for one pig, the exchange ratio (the price) of pigs in terms of chickens is three, and the price of chicken in terms of pigs is one-third.

The equilibrium price (P_e) at any particular time is the price that balances the supply of the goods or services being traded with their demand. Consider widgets as the good being traded in a competitive market. P_e is the equilibrium price of widgets. At P_e, the number of widgets demanders want is equal to the amount of widgets offered for sale. At P_e, there are no widgets left over and there are no unsatisfied demanders who are willing to pay P_e. P_e could be thought of as the "true" price of widgets. The higher the proportion of transactions that take place at P_e, the more perfect the market. However, the more transactions that take place away from P_e, the more imperfect the market.

In barter, the source of this market imperfection and inefficiency is the fact that markets for bartered goods are much smaller than those for the identical goods bought and sold in regular markets with money. Consider a combined market for widgets in which most are sold and a few are bartered. In a perfect market with efficient prices, the price of widgets throughout this combined market should be the same for identical widgets, regardless of whether the widgets are traded for money or for other goods and services. However, because there are fewer transactions in the submarket for bartered widgets and fewer possible trading partners, the prices of bartered widgets can be very different from those of widgets bought and sold for money. A person offering widgets in the barter submarket might get a lower exchange ratio (lower price) than would be the case in the monetary market. Similarly, someone needing widgets might pay a higher price than in the regular market. In fact, it has been reported that some business suppliers of goods and services have vastly different prices for their products, one price for the regular market and another (much higher) for the barter market.

There is no guarantee that the goods and services that people want will be supplied through the barter organization. Tremendous imbalances can occur between supply and demand within the barter submarket, and these can allow transaction prices there to be considerably different from the true prices.

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