Why Markets Fail? The Economics of Covid-19

Part 2: The Economic Costs of Covid-19

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Short Run Economic Impacts of Covid-19

What are the short run impacts on the US economy? Impacts on GDP and productivity? What about other economic costs?

1. Shut downs and other precaution taking reduces consumption and production – GDP falls.
2. Social distancing and safety measures reduce productivity – more inputs for the same output.
3. Illness makes people worse off and less productive (though it does increase short-run health care spending).
4. Death makes people *much* worse off, and it lowers total consumption and total production now and in the future.
5. Uncertainty makes people worse off. Planning is more difficult. Activities like hoarding increases, but is inefficient. Consumers save more.

Which industries have been most affected?

- Which are most harmed directly by Covid-19?
- Which are most harmed by the economic shut down?
- What about indirectly?
- Which have benefitted?

How long will it take for GDP to recover?

- Do the economic costs stop once Covid-19 transmission is very small?
- Do the costs stop once a vaccine is introduced?
- Why might total US consumption, or GDP, remain below 2019 levels even after the vaccine is introduced?
- How will your personal consumption change?

Impacts of a Lockdown/Shut Down

Economic shut-downs and mask-wearing mandates significantly reduce negative externalities

How long should the shut down last?

- What is the economic benefit of the lives saved?
- What is the GDP cost of the shut down?
- Is the economic cost of the shut down just the lost GDP?
- What are the GDP benefits of the shut down?
- How much will shutdowns occur if the government doesn't intervene?

Costs Summary

- Costs include lost GDP plus lost consumer surplus, much of which is from non-economic activity.
- Costs include loss of life and lower quality of life
- Many industries are directly affected by Covid, and directly affected by Covid policies
- Many others are indirectly affected by the economic recession
- Costs depend on how long policies last, and higher short-run costs can reduce long-run costs
- Understanding policy requires more - it requires knowing what markets will do, and knowing value of government intervention