
Freakonomics
Chapter 3
*Why Do Drug Dealers Still Live with
Their Moms?*



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Today

- **Today:** Freakonomics Chapter 3
 - » Highlights
 - » Conclude With Discussion & Questions
 - » **Quiz** (warm-up for midterm) Short Answers
- **Today:** Continue handing out graded material
- **Next Week:** Statistical Methods / New Data Set
- **HW:** Summary Due next week on Chapter 4 (Correlation versus Causation)
 - » Hardcopy due: Friday before class (softcopy midnight before class Friday).

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**Why Do Drug Dealers
Still Live with Their Moms?**

- **Theme:**
 - » Conventional Wisdom is often Wrong?
 - And may be hard to Correct

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Conventional Wisdom

- **Created By Experts (often)**
 - » Not fact based
- **Gains Credibility**
 - » Repeated by Media
 - » Repeated by other Experts
- **Accepted by Society**

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**Drug Dealer's Conventional
Wisdom?**

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Wisdom?**

- **Drug Dealers are Rich**

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Drug Dealer's Conventional Wisdom?

- Drug Dealers are Rich
- Method:
 - » Inspect Detailed Financial Records from Chicago "crack" gang

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Drug Dealer's Conventional Wisdom?

- Drug Dealers are Rich
- Method:
 - » Inspect Detailed Financial Records from Chicago "crack" gang
 - Organization Structure & Financial Dealings
 - Revenue of "a firm"
 - » Sales of drugs
 - » Dues paid to the Gang
 - Costs
 - » Cost of drug
 - » Fees, weapons, salaries down the organization

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Take Home Concept: Tournament Labor Market

- Winner takes all Labor Market
 - » Only one person gets a prestigious high paying job.
 - Other Examples?
- Low Paying jobs?
 - » Many willing to do the job lowers the salary.
- Getting Killed (1 in 4)
- 120 Managers in the Gang, 2.2% (half the profits).

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Quiz (Hand in on 1 Piece of Notebook Paper) Sign Name

- What are similarities between the Gangster's Organization Structure and the Organization structure of McDonald?
- What is a "tournament" form of Labor Market? Give examples.
- Define the term "conventional wisdom." Use examples to illustrate your answer.

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Fixed and Variable Cost

J.1.5 Schedule of Costs at Various Levels of Production

Quantity Produced	Fixed Costs	Cost of Drugs	Dealers' Wages	Payment to Board	Mercenary Fighters	Total Variable Costs	Total	ATC	MC
0	\$2,700	\$0	\$0	\$0	\$0	\$0	\$2,700	-	-
500	\$2,700	\$833	\$1,584	\$833	\$167	\$3,417	\$6,117	\$12.23	\$6.83
1,000	\$2,700	\$1,667	\$3,167	\$1,666	\$333	\$6,833	\$9,533	\$9.53	\$6.83
1,500	\$2,700	\$2,500	\$4,750	\$2,499	\$500	\$10,249	\$12,949	\$8.63	\$6.83
2,000	\$2,700	\$3,333	\$6,333	\$3,332	\$667	\$13,665			
2,500	\$2,700	\$4,167	\$7,917	\$4,166	\$833	\$17,082			
3,000	\$2,700	\$5,000	\$9,500	\$5,000	\$1,000	\$20,500			
3,500	\$2,700	\$5,833	\$11,082	\$5,832	\$1,167	\$23,914			
4,000	\$2,700	\$6,667	\$12,664	\$6,664	\$1,333	\$27,328			
4,500	\$2,700	\$7,500	\$14,205	\$7,497	\$1,916	\$31,818			
5,000	\$2,700	\$8,333	\$15,746	\$8,332	\$2,499	\$36,310			

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