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

**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.

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

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

**Conventional Wisdom**

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

**Drug Dealer’s Conventional Wisdom?**

- Drug Dealers are Rich
Drug Dealer’s Conventional Wisdom?

- Drug Dealers are Rich
- Method:
  - Inspect Detailed Financial Records from Chicago “crack” gang

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

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).

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.

Fixed and Variable Cost

<table>
<thead>
<tr>
<th>Quantity Produced</th>
<th>Costs of Drugs</th>
<th>Wages</th>
<th>Rent (to Board Fighters)</th>
<th>Total Variable Costs</th>
<th>Total AFC</th>
<th>MC</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>$2,700</td>
<td>$0</td>
<td>$0</td>
<td>$2,700</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>500</td>
<td>$2,700</td>
<td>$833</td>
<td>$1,584</td>
<td>$3,417</td>
<td>$6,117</td>
<td>$12.23</td>
</tr>
<tr>
<td>1,000</td>
<td>$2,700</td>
<td>$1,668</td>
<td>$3,167</td>
<td>$6,033</td>
<td>$9,503</td>
<td>$9.53</td>
</tr>
<tr>
<td>1,500</td>
<td>$2,700</td>
<td>$4,750</td>
<td>$2,499</td>
<td>$10,249</td>
<td>$12,949</td>
<td>$8.63</td>
</tr>
<tr>
<td>2,000</td>
<td>$2,700</td>
<td>$3,333</td>
<td>$6,333</td>
<td>$13,085</td>
<td>$17,082</td>
<td>$8.63</td>
</tr>
<tr>
<td>2,500</td>
<td>$2,700</td>
<td>$4,750</td>
<td>$1,584</td>
<td>$17,082</td>
<td>$23,014</td>
<td>$8.63</td>
</tr>
<tr>
<td>3,000</td>
<td>$2,700</td>
<td>$6,000</td>
<td>$1,584</td>
<td>$23,014</td>
<td>$29,500</td>
<td>$8.63</td>
</tr>
<tr>
<td>3,500</td>
<td>$2,700</td>
<td>$8,000</td>
<td>$1,584</td>
<td>$33,014</td>
<td>$35,118</td>
<td>$8.63</td>
</tr>
<tr>
<td>4,000</td>
<td>$2,700</td>
<td>$10,500</td>
<td>$1,584</td>
<td>$43,014</td>
<td>$40,618</td>
<td>$8.63</td>
</tr>
<tr>
<td>4,500</td>
<td>$2,700</td>
<td>$13,000</td>
<td>$1,584</td>
<td>$53,014</td>
<td>$46,118</td>
<td>$8.63</td>
</tr>
</tbody>
</table>

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).

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.