



Ethics at the Margin

An Economic Perspective on
Ethical Decision-Making

Background

- DitY (Do it Yourself) moves
- Military pays 80% of its costs, based upon weight (vehicle weighed before and after loaded.)
- May only ship own property
- No building supplies

Court Martial

- Review Actual Case
- Individual was observed attempting to return cinder blocks to store

Applicable Economic Concepts

- **Intensive Margin**
 - The decision point for how intensively to pursue an activity
- **Extensive Margin**
 - The decision point for whether or not to pursue an activity
- **Backward Induction**
 - A decision process starting from outcomes and proceeding backward toward actions.
- **Opportunity Cost**
 - The foregone value of the next best alternative action not chosen by the individual

Strategic Preferences and Social Conventions

- The vast majority of transactions are non-contractual and based upon trust
- Without social conventions, the entire economic framework would break down
- Choosing to act unethically is a break in the social structure with greater consequences than the individual act
- Human preferences have developed to counteract the commitment problems inherent in strategic interaction

Ethics at the Extensive Margin

- The decision to be an ethical individual occurs at the extensive margin
- Acting in a socially acceptable manner removes the question of degree from unethical behavior

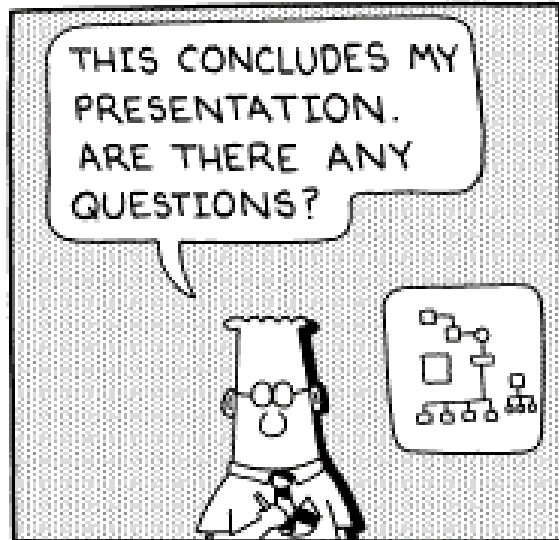
How do I Make an Ethical Decision?

- Identify the Problem
 - Facts
 - Factors (laws, rules, constraints)
- Options
 - Develop a List (and ask around)
 - Test the options
- Make a Choice
- Review

Option Testing

- Harm Test
 - Compare alternatives
- Publicity Test
 - Newspaper article
- Defensibility Test
 - Explain it to grandma
- Reversibility Test
 - Reverse the situation
- Colleague Test
 - Best friend/co-worker
- Organization Test
 - Will you get promoted?
- Straight-Faced Test
 - Can you convince yourself?

Questions?



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