You Decide: What Economic Lessons Has the Pandemic Taught Us?

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Although I no longer teach students in the classroom – having retired after 43 years at NCSU – I still teach economics in other ways. I continue to write, speak and answer questions about the economy from just about anyone who asks. I'm one of those lucky people whose job has been the same as their hobby. In fact, when my wife asks me about some economic issue in the news, after about 15 minutes of me rambling on she'll jokingly interrupt by saying, "there's the bell ringing, class is over." The message is clear – be more concise next time!

My passion in teaching economics means I'm always looking for ways to communicate the discipline's concepts that are timely and easy to understand. I've found that wrapping economics in a story that is relatable is the best way to teach the insights of the discipline.

Today there's no more relatable story than COVID-19. In a new book titled, *Economics in One Virus*, author Ryan Bourne shows how the circumstances, debates and policies related to dealing with the pandemic and its accompanying recession highlight important economic concepts that are applicable to many aspects of life. Here I'll highlight some of Bourne's lessons as well as a few of my own.

Many economic decisions are made with a high degree of uncertainty: In the classroom I would assign students problems asking for a solution to a particular economic question facing a business or a household. With the information I provided, there was one correct answer.

Unfortunately, the real world often doesn't provide the needed information to arrive at an exact answer, and COVID-19 is a perfect example of this. At the start, medical experts didn't specifically know how the virus was spread, or if and when vaccines would be ready. Economists didn't know how deep the COVID-19 recession would be, or how fast jobs would bounce back when the medical situation improved. Public leaders therefore had to make decisions about closures, restricted travel and masking – to name a few – without knowing precisely what was needed or the impacts. Real life decisions are much more difficult than classroom decisions – something I would always tell students after I graded their assignments.

Economics is about tradeoffs: One of the first things I taught students was that economics exists because we can't have everything we want. If you use resources to buy one thing, you can't use those same resources to buy something else. This is true no matter how many resources a person has.

The need to make tradeoffs became apparent as soon as we realized COVID-19 was a major medical crisis. To initially control the virus' spread and reduce deaths, personal contact needed to be limited. People needed to stay away from others they would normally see, especially in the workplace. Yet if interactions at work were restricted, then the economy would be adversely impacted and both jobs and incomes would be lost.

Hence, the tradeoff became less spread of the virus and fewer deaths versus lost jobs and incomes. States – usually governors – had to make this very tough call. Fortunately, over time as the virus was controlled and the vaccine implemented, the tradeoff became less severe. Yet with debates about masking and opening schools and large venues still alive in some states, the tradeoff is still with us.

Shortages always drive up prices: The two most fundamental ideas of economics are supply and demand. Businesses make products (supply) and consumers buy those products (demand). The balance between the two is price. When there's more supply than demand, the price falls until buying increases. Alternatively, when there's more demand than supply, the price rises until buying decreases.

The worst-case scenario is when supply declines at the same time demand rises. This situation is a recipe for a huge price increase.

This is exactly what happened a year ago with toilet paper and paper towels. Disruptions in the production of these two essentials combined with delivery delays created limitations in supply. Simultaneously, many consumers worried about not being able to find paper towels and toilet paper, and so they accelerated their purchases. The result was a tripling of prices in some markets. Resumption of production curbed panic buying and restored more normal prices.

How to handle negative externalities is controversial: In economics lingo, an externality occurs when an action by an economic agent (person, business) has a major impact on another economic agent. When this impact creates harm, the action is termed a negative externality. A neighbor playing loud music and pollution are examples of negative externalities. Often, government action is required for a solution.

During the pandemic, some argued that people choosing not to be vaccinated were creating a negative externality because they were leaving themselves exposed to getting and spreading the virus. Big debates have occurred over how to encourage vaccinations, from enforcing mandates to providing financial inducements.

The COVID-19 pandemic and recession provide numerous examples of how economic concepts and lessons are everywhere. You decide what we can learn.