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12nd August 2020.

Consumption and Economic System Design

CONSUMPTION AND
ECONOMIC SYSTEM DESIGN

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What is Consumption

To initiate this subject, we need to first define consumption.

Consumption is getting people to spend
- their money or
- their time or
- their attention

for something you offer them.

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Consumption decides production

In an economic system, only those things gets produced that gets consumed. Any production that will not be consumed is a waste.

Initial definition of economic system

So that gives us a bare bones
definition of an economic system.

An economic system determines:

- What gets consumed.
- Who gets to produce.
- What are the rules of interactions between consumers and producers.

Consumption is the origin of value

Because consumers decide what gets produced, the consumers are the originators of value in an economic system.

Source of all value in an economic system are consumers.

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What is value in an economic system

Value has different meanings
in different contexts.

In the context of economic system design,
we define value as the gains accrued
as a result of the operation of the system.

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Since consumers are the source of all value in an economic system, it is the consumers that provide incentives needed to be distributed to all other participants in the system.

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So, in our bare bones economic system, consumers initiate the value and producers try to capture the value released by consumers.

An economic system is efficient when the value needed to incentivize producers to produce goods or services per unit of consumption desired by consumers is the lowest.

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Value definition of an economic system

Now we are in a position to give a value definition to our basic economic system with just two entities: Consumers and Producers

An economic system is the flow of value from consumers to producers.

Assuming consumers read online news articles on a particular article generation system. In this case, we can denote every article-view as a basic unit of consumption.

In such a system, 1000 article-views will originate more value than 10 article-views.

If we were to assign one token to represent one article-view, then consumption of 1000 article-views will originate 1000 tokens as value.

These 1000 tokens are then available to be distributed to the authors who constitute the producers.

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As consumption is the source of all value,
consumption is valuation.

More consumption is more valuation.

If a unit of that consumption is assigned to a token, those tokens could be traded in open markets to discover its market valuation.

Fundamentally, markets assign valuation only to consumption.

Stocks, Commodities and Crypto markets are assigning value only to either present or future value of that consumption.

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So, in our article generation system, open markets will assign some market valuation to 1000 tokens of consumption value.

This market valuation of consumption tokens is the real incentive for the producers.

So, we have now completed the flow of our basic economic system:

1. Consumers originate value due to the process of consumption.

2. Rules of economic system transfers the consumption value to producers.

3. Open markets discover the monetary value attached to consumption value.

Stability of economic system

Assuming the allocation of consumption value to producers is termed as the cost of production, then:

If the costs of production is higher than the consumption value, then it's an unstable system.

If the costs of production is lower than the consumption value, then it's a stable system.

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Introducing currency:

We will now introduce the notion of currency in an economic system. Currency is a common platform where consumers, producers, investors and facilitators agree what constitutes value.
It provides a common base for value transfers and value flows in the system. It is very important to have a common currency. This ensures low transaction costs in the system.

How an economic system gets a start

Consumer Initiation:

Consumers select what they want,
Then producers compete with each other
to produce what the consumer wants.
That initiates the economic system.

Producers Initiation:

Producers create new kinds of products
and services and offer them to consumers.
If consumers develop a fancy for the new offering,
it initiates the economic system.

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Introducing a new role: Investors

In both consumer-initiated as well as producer-initiated economic systems, the initial value for producers to be able to produce is provided by a role called investors.

The role of investors is to provide for the shortfall of consumption value to producers until the consumers are ready to assume the full cost.

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First expansion of economic system - definition

We will now expand our basic definition of economic system to include investors.

An economic system determines:
- What gets consumed
- Who gets to produce
- Who gets to invest
- What the currency of the system is
- What the rules of interaction are between consumers, producers, and investors.

We will define 3 phases of economic system:

INITIAL phase->TRANSITIONAL phase->STABLE phase

Initial Phase: The source of value is provided by the investor. There are no consumers in the system at this point.

Transitional Phase: The source of value transitions from investors to consumers in the transitional phase. Consumers start building in the transition phase.

Stable Phase: The source of value is provided by consumers. Consumers have stabilized in the stable phase.

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So, the economic system design will have:

Rules of value transfer from investors to producers in the initial phase.

Rules of value transfer from investors-consumers to producers in the transitional phase.

Rules of value transfer from consumers to investors and producers in the stable phase.

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Introducing facilitators:

In a real-world economic system, we often need more entities like marketers, designers, propagators, and auditors. We will call them facilitators.

Here is our final definition of the economic system:

An economic system determines
- What gets consumed.
- Who gets to produce.
- Who gets to invest.
- Who the facilitators are.
- What the currency is.
- What are the rules of interaction between consumers, producers, investors and facilitators.

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Updated definition of currency

Currency is a common platform where consumers, producers, investors and facilitators agree upon what constitutes value.

Currency also simplifies in that economic system what is meaning of increase in value, and what defines decrease in value.

This provides the most efficient way to facilitate transfer of value.

Every economic system needs a currency.

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Steps to design an economic system:

Define Consumption-> Assign a unit of value-> Specify contributions of producers, investors facilitators in terms of that unit-> Create value exchange flows-> Create a system where consumption continually increases-> Trade the unit of value in open markets so that every one knows how much his value share is worth.

Suppose an economic system consists of
many sub-systems.

Economic systems can be designed independently for different subprocesses.

Assume unity for every unit of consumption.

Then swap different consumption units using a determined swap ratio to unite different subprocesses.

In this way, the whole economic system can be built one sub-system at a time.

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Participants in the economic system (except consumers) are interested in either their immediate value share to be at least equal to market wages (producers) or for their value shares to increase over time (investors).

Consumers are interested in consumption by itself, and that sources value to every other participant.

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Role of Data Integrity

Data integrity is very important in creation of economic system.

Every participant must be able to trust consumption value metrics.

It should be ensured that consumption data is fraud proof, and spam proof.

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Fundamentally, we are just measuring consumption and denoting other participant shares in terms of that unit of consumption.

Then markets will assign a monetary value to that unit of consumption.

And then everyone transparently knows their value share in the system.

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If you can initiate consumption and keep the system costs lower than the consumption value of the system, a stable economic system will be established.

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If all participants grow their total value in the system over time,then the system will be interlocked to perpetual growth.

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If consumers originate value directly by paying for it, then it is a direct consumption system.

If consumers originate value indirectly through investing attention or time, then conversion of time-attention value to money needs to take place through indirect means like advertisement or token appreciation. This is an indirect consumption system.

Indirect consumption systems generate more value than direct consumption systems.

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Create Consumption.

Grow Consumption.

Do it sustainably.

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