RanchiMall
12nd August 2020.

Consumption and Economic System Design

CONSUMPTION AND
ECONOMIC SYSTEM DESIGN

RanchiMall

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.

RanchiMall

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.

RanchiMall

Initial definition of economic system

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

An economic system decides:

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

RanchiMall

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.

RanchiMall

What is value in economic system

Value has different meanings
in different contexts.

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

RanchiMall

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.

CONSUMPTION AND ECONOMIC SYSTEM DESIGN

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 if value needed to incentivize producers to produce goods or services for per unit of consumption desired by consumers is least.

CONSUMPTION AND ECONOMIC SYSTEM DESIGN

RanchiMall

Value definition of economic system

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

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

Assuming consumers read online news articles in some article generation system, then 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 authors who constitute the producers.

RanchiMall

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

More consumption is more valuation.

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

RanchiMall

Fundamentally, markets assign valuation only to consumption.

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

CONSUMPTION AND ECONOMIC SYSTEM DESIGN

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 incentives to 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 cost of production, then:

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

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

RanchiMall

Introducing currency

We will now introduce the notion of a 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.
A common currency is very important to have low transaction costs in the system.

RanchiMall

How an economic system gets a start

Consumers Initiation:
Consumers select what they want first,
and then producers compete among each other
to produce.
That initiates the economic system.

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

RanchiMall

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 till the consumers are ready to assume full costs.

RanchiMall

First expansion of economic system definition

So we will now expand our basic definition
of economic system to include investors as well.

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

RanchiMall

And we will define 3 phases of economic system

INITIAL phase->TRANSITIONAL phase->STABLE phase

Initial Phase: Source of value is provided by the investor. No consumers exist in the system at this point.

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

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

RanchiMall

So economic system design will have:

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

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

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

RanchiMall

Introducing facilitators:

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

So we get our final definition of the economic system

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

Updated definition of currency

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

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

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

Every economic system needs a currency.

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 keeps on growing-> Trade the unit of value in open markets so that every one knows how much his value share is worth.

RanchiMall

Suppose an economic system consists of many sub-systems.

You can design economic sytems for different subprocess independently.

Assume unity for every unit of consumption.

Later do a swap for all different consumption units in some swap ratio, and unite different subprocesses.

Thats how we can build the whole economic system one sub-system at a time.

CONSUMPTION AND ECONOMIC SYSTEM DESIGN

Participants in the economic system (except consumers) are interested in either their immediate value share be at least equal market wages (Producers). Or their value shares should increase over time (Investors).

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

RanchiMall

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.

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

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

And then everyone knows how much is his value share in the system transparently.

RanchiMall

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

CONSUMPTION AND ECONOMIC SYSTEM DESIGN

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

CONSUMPTION AND ECONOMIC SYSTEM DESIGN

RanchiMall

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

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

Indirect consumption systems have generated more value than direct consumption systems.

RanchiMall

Create Consumption

Grow Consumption

Do it sustainably

CONSUMPTION AND ECONOMIC SYSTEM DESIGN