

trying to reduce the supply and not the demand, heavy penalties for the suppliers and not for the people who buy it even if that means living in a society that breeds addicts; is not good is because billions are spent every year as expenditure on prohibition enforcement – arrests, prosecution and incarceration. Legalization would reduce this deficit and will allow government to collect tax revenues on legalized sales. Not only that, drug related crimes are the external costs related with drugs. By decreasing the supply and creating a shortage, murders, mugging and mayhem will increase for sure since the addicts have an inelastic demand. The price does not bother them.

If the focus is shifted on demand – A drop in the demand will create a supply side generated surplus in the market as a result of which the prices will go down. With quantity and price both low, the total revenue shall also fall along with a drop in associated crimes. But how would this demand fall? Education and awareness, drug treatment programmes and rehab centres would come to our rescue here. Alternative occupation possibilities and training and making sure the low income group has a reasonable employment and educational level will push down the demand. Embracing information, public awareness, early intervention, counseling, treatment, relapse prevention can reduce the demand for drugs tremendously. As long as there is demand, someone or the other will supply. Therefore the focus should be shifted on tapping the demand instead of supply. Humans have always been tempted by the 'forbidden fruit' since the time of Adam and Eve. It is quite possible that once drugs are legalized for a period of time, they will no longer be seen as 'cool' by the rebellious youth and the demand might actually plummet. Imposing taxes can also help keep a check just in case the usage is increasing. There's a difference between what is easy and what is right, it's high time we all make a call.

I predict a riot

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'Ethnic riots sweep Assam as the clash continues between the indigenous Bodos and the Bengali speaking Muslims.'

'Violence erupts in Greece as anti-austerity protestors clash with riot police ahead of key vote on spending cuts.'

'The battle for London- the madness spreads as unemployed youth, the product of a crumbling nation and an indifferent political class riot and pillage.'

Headlines such as these accompanied by images of burning buses and vandalized private property often emblazon the front pages of our newspapers. Some puzzling questions linger on in our minds- what goes on in the mind of the rioter? Are they even rational thinkers? Could there be a rational decision making process which determines whether an individual remains neutral or becomes a member of the rioting mob? These are the questions I seek to explore.

Starting with a basic definition-an individual is rational if his/her preferences are utility maximizing, internally consistent and if he/she seeks to maximize the net gain in the most efficient manner possible. At first glance, riots defy any rationale. What could drive a person to participate in such destruction, knowing the high costs involved for the nation as well the individual? Two economic theories attempt to explain the decision making process involved- the riot threshold model and the dual processing model.

The Riot Threshold Model

According to this model, the following relation determines the mechanism by which an individual decides whether to participate in the riot or remain neutral.

$$G = R + E(n) - P(n) - I - C$$

G= Net gain (or loss) to individual from participation in the riot rather than remaining neutral.

R= Private revenue and reward (e.g. income, power) to individual for participation in the riot.

E= Emotional benefit from participation

P= Penalty imposed on individual for participation in riot.

I= Potential for injury suffered in action.

n= Expected number of persons participating in riot at time of evaluation and decision.

C= Cost of individual's time and other resources

- (R)- Private revenue and reward is independent of the number of people expected to participate as it depends on the individual's ability to steal, pillage and hold on to the looted goods.
- (E)- Emotional benefit derived through the rush of emotional excitement and gratification is increasing in 'n' due to the increased acceptance and encouragement by the group. $E'(n) > 0$
- (P)-As the mob size grows (n increases), the probability of facing a penalty decreases as it becomes increasingly difficult for security forces to effectively stop and penalize the entire group as a whole, giving participants a chance to hide within the numbers. $P'(n) < 0$
- I)- As the number of rioters increase (n increases), possibility of injury could theoretically decrease (due to participant's ability to hide within the numbers) OR increase (greater chances of a panic run or fatal stampede). Thus in this analysis, I is kept constant.
- (C) - personal opportunity costs of time and effort invested by joining the riot is independent of how many others participate i.e. it is independent of n.

An individual will become a rioter if and only if the benefits of participating (rewards and emotional benefits) are strictly greater than the costs involved (possible penalties, injuries and opportunity cost of time and efforts invested).

$$R + E(n) > P(n) + I + C$$

As n increases,

- emotional benefits (E) are increasing
- potential for penalty (P) is decreasing

Thus, as the number of people participating in the riot increase, net gain of participation ($G = R + E - P - I - C$) increases as R, I and C are constant. Beyond some $n=n^*$, perceived benefits will exceed costs and the person will want to participate. Thus, an increase in number of people participating increases the probability that another person will join. This explanation is consistent with rationality as rioters undertake a full and deliberate cost benefit analysis to form their decision and do not regret their decisions later on.

The Dual Processing Model

This is another model for understanding the decisions of a possible rioter who is presented as less rational as compared to the previous model.

During the riot situation, the stress levels are high and sufficient to restrict thinking to a short sighted intuitive level. Thus in a riot situation, a person tends to reason 'intuitively' and not 'deliberately' focusing on short-run costs and benefits (the instant emotional and monetary gains) while long-run costs such as damages to infrastructure, possible penalties imposed by authorities and injuries are discounted or ignored. Thus intuitive thinking dominates over deliberate and reflective reasoning and it may result in individuals holding a preference to participate in the short run. The period after the riot ceases has lower levels of stress and

involve both intuitive as well as reflective reasoning in the decision making process. This could explain why many stories of regret emerged among the accounts of those participating in the 2011 London Riots as the full long run costs and consequences of riotous activity are realized.

This area of decision-making is yet to be extensively researched on but nonetheless the two above mentioned models present some striking ideas. The participation of an individual in such riots doesn't stem from a surge of irrationality and a suspension of optimizing behavior but may, in fact, involve a conscious consideration and evaluation of the pros and cons associated with riotous activity.

Understanding 'Gangnam Style'- Economics Style

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'I work as a finance lawyer, and I'm paid very well (Rs.70,000 approx). My colleagues and I work all day long with investment bankers and private equity people who make more than Rs.1 lakh),so I feel poor'

I've been a proud owner of a Samsung champ s300 phone for over two years. Well, I was, to be real. With all the iphones and Blackberrys and the Ericsons -the gamut of the highly privileged devices that command respect – this champ surely shrinks to a chimp! And that is the power of an exogenous force –which productively shapes our perceptions and even actions. One of the major drivers of an economy is competition –there is interplay of forces in

an economy- wherein not only the producers but also the consumers, in a way, constantly compete.

Relative poverty is a conception that people are poor when they are very much worse off than other people in a society. As living standards rise, the level at which people are said to be poor also rises. More aptly, it is the deprivation of certain comforts of life of some people in relation to others.

In the famous article –Catherine Rampell explains the notion of relative poverty. In her study, she visions a society being something like a long street running up a hill, wherein rising altitude implies rising income. And each person evaluates himself/herself relative to his/her neighbours on a horizontal basis (which implies similar income group). But as income rises and the income differences become more pronounced in the same community, what people end up doing is a vertical comparison; precisely an upward one (which relates to different income levels-which is not reasonable). The reference of this hypothesis here is apropos-in the above statement, even when the lawyer is objectively satisfied with his salary, the resultant discontent is because of the comparison with his uphill neighbour-the banker. This gets even more aggressive in an unequal world, as in an egalitarian society, people find other relevant (personal) yardsticks to define their well being. Per se, Conspicuous consumption –of products that are a mark of status and class-become more pronounced as the income ladder reaches new heights, as in a developing economy characterised by rising income levels. This manifests into a full grown paradox- a society where the 'winners are whiners'!

In the wealth of nations, Adam Smith identifies the inherent problem in concept