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Book Review

"The Economics of Small Things" by Sudipta Sarangi; Penguin Random House India, Paperback INR 299.00. ISBN13: 9780143450375. Ebook ASIN: B08MV138KZ Available on Kindle US $17.59.

The Economics of Small Things is a quirky and, at times, quite personal book containing ruminations by the author Sudipta Sarangi about a host of quotidian issues. Many of these are questions or puzzles that we have often contemplated. Here Sarangi attempts to answer these using lucid prose, an economic lens and an engaging style.

Many of the chapters in the current book appeared as columns in an Indian newspaper. (The author seems to have been fortunate in having a magnanimous editor who gave the author lots of column inches to explicate his ideas!) The author is also of Indian origin. Consequently, many of the examples and situations are more relevant to Indians or possibly Anglophiles, than others. This is not a disqualification by any means since we are used to reading books and watching movies from various other cultures and languages. Often in doing so we not only admire the craft of the creators but also learn interesting highlights of cultures that we are not familiar with. So, not surprisingly, Sarangi has a chapter on cricket and another on P.G. Wodehouse, two things uniquely Indian. (I daresay that cricket and Wodehouse are now dearer to Indians than the British.)

So, having dispensed with those asides, what is this book about? At first glance, one would be tempted to draw parallels to the ouvre of books that include *Freakonomics (Levitt and Dubner, 2005), The Undercover Economist* (Harford, 2007), The *Logic of Life* (Harford, 2009) or *The Armchair Economist* (Landsburg, 2012). The closest comparison is probably to Robert Frank's *The Economic Naturalist* (Frank, 2008). Like Frank, though not always, Sarangi also adopts more of an anthropological approach to human behaviour.

Most chapters start with Sarangi making an observation about humans going about their daily business. Then Sarangi sets about looking at this issue from the perspective of an economist. (As someone who also likes to pepper his books, writings and conversations with similar economic perspectives and often gets rebuked by my wife and/or daughters for making everything into an economics lecture, I extend my sympathy to Sarangi's family.)

For the rest of us with a more open mind, the book is loads of fun. The book contains around 25 chapters excluding some additional material at the end. Most of these are bite-sized, longer than the usual 800- word column but far shorter than a research paper.

Within these chapters, Sarangi's thoughts range far and wild. I am not going to try and attempt to summarize all the chapters but will rather highlight some of the key themes that emerge before I go on to talk about what this book is good for.

Chapter 1 starts with poverty in Bangladesh (a familiar feature in large parts of the third-world and to those of us who hail from that part of the world) and the work done by Muhammad Yunus and the Grameen Bank (Grameen means "rural" in Bengali). Rural poverty in third-world countries is far more dire than urban poverty, with the latter providing greater employment opportunities in a variety of informal activities. The poverty in the former is much more pronounced for the landless who cannot engage in agriculture on their own and work on land owned by others. Many of these can potentially engage in entrepreneurial activities but that often requires some start-up capital. The lack of any collateral prevents these people from getting loans from formal banks.

As most readers will be aware, Yunus stepped into this breach via starting Grameen Bank which makes small loans with two conditions; one is group-lending, one member of a group gets a loan, which must be repaid before another member can get a loan. A consequence of the group lending scheme is the need for and effectiveness of peer monitoring. Grameen Bank's success in alleviating rural poverty is well-documented and in 2006 Yunus and Grameen Bank were awarded the Nobel Peace Prize. The chapter is a good place to start since it is interesting and since it goes against some traditional theories in economics about the role of incentives, strategic thinking and collective action problems. Of course, subsequently, economists have incorporated a lot of the insights gleaned from the Grameen Bank experience (E.g., Ghatak, 1999) but at the time Yunus started, it is likely that most would not have bet on his success. This chapter then becomes not only a discourse on the Grameen Bank experience, which holds important lessons for micro-finance but also an overview of issues of moral hazard and adverse selection that can characterize such transactions. But the story is told using simple language that would be appealing to anyone with a curiosity to understand more about the world around them.

A chapter, which feels extremely anachronistic at this point discusses the very high late fees for video/DVD rentals. Given that both these things have now gone the way of the Dodo with the availability of streaming services, this chapter feels dated but nevertheless the author deftly turns this into a story about price discrimination much along the lines of Landsburg's story about why popcorn costs so much at the movies in *The Armchair Economist*.

A later chapter about Mahatma Gandhi's supposed penchant for only travelling in third-class train coaches in India also revisits the issue of price discrimination and goes on to explain why things like economy class in airplanes are so dreary. This is not necessarily predicated on making economy class passengers suffer (though that is the inevitable outcome) but to make the non-economy classes so much nicer that people will readily part with some extra cash to move up.

Similarly, a discussion of why the best produce is often earmarked for export markets (in this case a particular breed of mango from India called Alphonso) becomes an extended discussion on the importance of relatives prices, fixed, variable and marginal costs; a topic that is often painful to teach for teachers and equally painful to understand for students. This is a common question not only in India but elsewhere. In New Zealand for instance the best strawberries are earmarked for the export market. But Sarangi explains this extremely artfully. While a full

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explanation is beyond the scope of this review, here is a rough sketch. Let us say that Mango A is better and costs $30 per kg (I am sticking with the metric system and so treat the dollars as Australian or New Zealand dollars) while Mango B costs $3 per kg. So, in the domestic market, Mango A is ten times more expensive than Mango B. But now suppose it costs $6 per kg to export mangoes. So, now a kg. of Mango A costs $36 in Australia while a kg. of Mango B costs $9; or in other words, in Australia Mango A is only 4 times as expensive as Mango B and therefore in terms of relative prices Mango A is actually cheaper in Australia than Mango B. So, Australians will be more likely to demand Mango A since it is relatively cheaper vis-à-vis Mango B in Australia.

There are other interesting and quirky chapters. For instance, there is the chapter about thieves who were stealing shoes in Sweden, where shops customarily display the left-shoe. They were then putting together a full pair by stealing right shoes in Denmark, where shops routinely display those. This in turn leads to a discussion of complementarities and coordination failures with applications to different areas.

More than one chapter explores the implications of time as a resource and the consequent cognitive load on decision-making. One of these starts by ruminating on the demise of the telegram where one could, once upon a time, send short messages urgently at a fairly high cost. With the advent of e-mail and chat messages, those have disappeared. But Sarangi uses this as a segue to discussing the fact that e-mails have essentially zero marginal cost with the consequence that our inboxes get filled adding to time-pressure and cognitive load. In another chapter, he extends this discussion regarding cognitive load as an impediment to good decision-making to talk about how the insidious effects of poverty also contribute towards higher cognitive load for the poor. (Mani et al., 2013).

Finally, for the curious, the Wodehouse chapter deals with a relatively unknown short-story *The International Affair* by the author about the fight between Cook's, a small mom-and-pop general story in a small British hamlet and an American chain-store, Ring's. Sarangi's point here is to highlight the demise of small stores (or the town centre) at the expense of chain stores and mega-malls. Of course, now a different version of this is playing out as brick-and-mortar stores struggle for their existence against on-line retailers.

This brings me to the question: what is the book good for? One cannot use this as a textbook. But the book should appeal to the same audience that enjoyed reading Tim (Harford, 2007) ***The Undercover Economist***, (Frank, 2008) ***The Economic Naturalist*** or Steve (Landsburg, 2012) ***The Armchair Economist*** and for the same reasons. Sarangi proves equally adept at bringing to life economic principles lurking behind the seemingly mundane. I particularly recommend this book to all those who teach under-graduate economics, especially at the first-year level. Here, you will find plenty of examples that will allow you to enliven your classroom discussion of economic principles. I routinely use examples from the books I have mentioned above. I anticipate adding examples from Sarangi's book to that list in the near future.

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