Spectator economics

Economists often make predictions. Recently, they predicted that Trump's tariffs will increase prices. They also predicted that when companies start mining the lithium deposits in Southwest Arkansas, the price of lithium will decrease. Economists have confidence in these predictions for two reasons. First, the effects they are examining will likely outweigh other effects that could also influence the aforementioned prices. Second, the events they are examining have a single well-understood influence on prices.

Joe McGarrity

Other times, events can affect markets in several ways. These events may produce an effect that acts to increase prices and another effect that acts to decrease prices. Just as likely, the events produce effects that lead to opposing predictions about how much of a product people will purchase. When events can affect markets in several contradictory ways, economists can do two things. First, they can estimate the size of each effect. If their estimates are good, economists can look at the aggregate results of the opposing effects and still make a prediction.

In the second case, economists cannot make good estimates about what will unfold. They are relegated to being spectators. After the event occurs and after some time passes, economists can analyze what happened by looking at the size of the different effects. That is, economists can measure what happened after an event, even though they were unable to confidently produce estimates of what would happen before the event occurred.

A record-breaking climb of Mount Everest has relegated me to the role of a spectator. Mount Everest is the tallest mountain in the world and people who climb it gain fame. In the past, ascending the mountain took weeks. Climbers moved up the mountain, traveling from one base camp to another before making their final ascent. They stayed at each base camp for several days to allow their bodies to adjust to the altitude of that base camp. But, as reported in the Wall Street Journal, in the recent record-breaking climb, four climbers traveled from London to the top of Everest in five days. How did they accomplish their climb so quickly? They inhaled xenon gas, which made all the stops at base camps unnecessary. The xenon gas allowed the climbers to acclimate to the ever-increasing altitudes without requiring the climbers to spend time at base camps to acclimate.

The climbers started their ascent from Nepal. They, like all climbers starting from Nepal, had to get the government's permission to climb the mountain. What Nepal will do in the future will be interesting. I cannot predict whether Nepal will allow future climbers to use xenon gas, mostly because the use of the gas has so many opposing effects on the money Nepal earns from catering to mountain climbers.

There are several reasons why Nepal might want to allow climbers to use the gas. First, with the gas, more people will be able to successfully climb the mountain. The quicker climb will put hikers at less risk that a storm will endanger their lives while they are on the mountain. Meteorologists might be able to accurately predict the weather five days in the future, but they can't make accurate forecasts three weeks into the future. When more people hike Everest, Nepal is getting more customers, which could increase the revenue they earn from mountain climbers.

Second, Nepal may lose business to China if it disallows use of the gas. Climbers can ascend Everest by starting in either Nepal or China. So if China allows the use of the gas and Nepal does not, China may become the preferred starting point for climbers.

On the other hand, there are several reasons why Nepal might outlaw the use of xenon gas. First, the gas makes climbing Everest an easier task. Part of the allure of climbing the mountain was that it was a difficult task that few could accomplish. If Everest becomes a relatively easy climb, then climbers will place a lower value on the experience, which will require Nepal to charge lower prices to attract climbers. These lower prices may lower the revenue Nepal earns. Second, if the climbers are not using the base camps for several days at a time, Nepal will not be able to charge climbers for the use of the camps. This may also reduce the revenue Nepal earns from climbers.

So in the case of xenon gas, I am just going to keep an eye out to see what happens. I will be a spectator.

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