SCIENCE

What Harry Potter can (and can't) teach us about economics

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A new paper authored by Professor Daniel Levy (Bar-Ilan University and Emory University) and Dr. Avichai Snir (Bar-Ilan University) in *Oxford Open Economics*, published by Oxford University Press, explores "Potterian economics"—the economics of the world of J.K. Rawling's Harry Potter series. Comparing such economics with professional economic models indicates that while some aspects of this economy are in line with economic models, many other aspects are distorted, contradicting professional economists' views.

Evidence suggests that the public's economic literacy is low and that it acquires much of the knowledge about economics through books, newspapers, etc. There is also evidence that literature affects readers, shaping their views. It is, therefore, possible that the 7-book series may exert influence and reflect on the public's economic perspectives and sentiments. A conservative estimate suggests that more than 7.3% of the world's population has read the Potter books and millions more have seen their movie versions. Given such extraordinary popularity of the books, their effect on the economic sentiments of the public might be considerable.

The researchers found that the economics of these books mix ideas from different models and worldviews. For example, the Potterian economic model is critical of market-based systems, yet it belittles government. The government is corrupt, yet it has public support.

The money used in the Harry Potter books is made of precious metals (like in the old English monetary system), yet its purchasing power is unrelated to its commodity value (like fiduciary money). The conversion rates between the Galleon, Sickle, and Knut are prime numbers which make transactions that involve more than one type of coin very inconvenient. Also, the money is not easily storable, divisible, portable, and homogeneous, which are essential for it to serve as an efficient medium of exchange or store of value. Lack of divisibility forces retailers to use round prices, leading to inefficient grid pricing. For example, prices denoted in Galleons only change by Galleons, and thus retailers cannot respond to small shocks. Lack of portability means that carrying coins is cumbersome, and thus characters in the Harry Potter books store them at Gringotts bank, where withdrawals and deposits are costly, requiring time and lengthy procedures.

The researchers find that arbitrage opportunities are not exploited, and efficiency-improving transactions go unnoticed. For example, there is a large gap between the commodity value of a gold Galleon and its exchange value which points to an arbitrage opportunity: Wizards could melt the gold, sell it to muggles as a commodity, and then exchange the muggle money for Galleons. However, characters in the novels do not seem to take advantage of this opportunity, although it promises immense profits and no risk. Not even the bankers, including the greediest ones, seem to notice it.

The Gringotts bank, which has a monopoly, does not serve as an intermediary between savers and investors, and it does not offer loans because of biases and prejudices against financial service providers, yet the books are often viewed and described as rejecting stereotypes.

The researchers also note that characters in the Harry Potter books do not seem to experience technological progress, except in the magical broomstick industry, where new models are introduced each year.

“A naïve reader of Harry Potter would get a distorted view of economics,” said Daniel Levy, one of the paper’s authors. “Consider some of the lessons we learn from Potterian economics: markets are not fair for transactions are zero sum; the political process is not transparent; markets encourage crony capitalism; capitalists want to enslave the proletariat; businessmen are deceptive and devious; wealthy people are mean and unethical; no interest is paid on deposits; there is a monopoly on information; power is concentrated; ignorance about foreigners is the norm; domestic producers are protected from foreign competition even if they are inefficient; paper checks are non-existent; creative thinking is rare; human capital does not accumulate; public employees have life-time job-security irrespective of their efficiency; the public sector is the default employer; downward social mobility is the norm; there is a constant class struggle. This is only a partial list.”

“The shortcomings listed above characterize many real economies,” Levy continued. “This perhaps explains why the Potterian economic model resonates with people. Despite its inaccuracies, it is consistent with folk economics, which while perhaps problematic for human flourishing in a Smithian sense, captures and reflects popular views on many economic and social issues.”

More information:
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