Economics of AI

1. We discussed two types of the data. The first was that day's sharp decline in tech stocks, triggered by concerns that recent AI investment will not bring enough revenue to justify recent valuations. Teh second was exceptionally high business investment.

2. We discussed the relationship between a stock price and future profits. We defined a bubble as when teh share price cannot be justified by these revenues.

3. We discussed the potential impact of a sustained decline in stock prices. Aggregate demand would shift to the left, reducing inflation and the output gap. In the labor market, firms would reduce hiring, increasing unemployment. Parallels with the dot.com bubble of 2000 were noted.

4. We considered two productions functions, one where AI acts to compliment human labor and one where it substitutes for human labor.

5. We considered the impact of AI if it is a compliment. AS shifts to the right as does labor demand.

6. We then considered the case where AI is a substitute. Labor demand decreases. Although not clear from our model, I argued that AS is likely to shift to the right. Unemployment increases even though output also increases.

7. We considered three different views. One, where AI is a compliment, was described as the "excited." One where it is a substitute is known as the "alarmed." Finally, one where AI starts as a substitute but eventually becomes a compliment, is known as the 'patient."

8. We discussed three different types of unemployment. Frictional, which is benign, and part of the normal workings of a healthy economy, cyclical, which is the type that rises during recessions and is of great concern to policy makers. Finally structural, which is the result of broad changes to the nature of the economy, such as the shift from agriculture to manufacturing during the industrial revolution. Structural unemployment is especially connected to AI.