Structured Summary of Topic 1: The Simple Economics of AI

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Ankara University

In a wide-ranging and critical lecture on the economics of Artificial Intelligence, the instructor dismantles conventional economic theories, arguing that AI necessitates a new, interdisciplinary framework that accounts for its profound political, social, and ethical dimensions. The lecture is structured as a narrative that begins by redefining the very concept of intelligence, critiques the foundational assumptions of economics, and uses macroeconomic data to illustrate AI's transformative and often hidden impact on the global landscape.

Part 1: Recasting Intelligence – Beyond the Human Benchmark

The session commences with a recap of the previous week, immediately establishing a critical tone by questioning the prevailing obsession with Artificial General Intelligence (AGI), the concept of a machine that can perform any task a human can. The lecturer posits that AGI is an "irrelevant question" and a "nonsense turning point," a flawed benchmark for technological progress. This argument is substantiated with an anecdote about the course's own AI assistant, which, when asked about the course content, playfully identified itself by saying, "hey, that's me". This display of a "sense of humor" is presented as evidence that AI can possess traits that many humans lack; the lecturer points out that many people are "boring" and lack social intelligence, so a machine that simply imitates a person is not necessarily a laudable goal.

This critique of AGI serves as a gateway to deconstructing the term "artificial intelligence" itself, which is described as ambiguous. The instructor argues against the common notion that AI is solely about imitating humans. Instead, many advanced machines imitate an abstract intelligence that exists in nature, with examples given of machines designed to mimic the behaviors of dogs or birds. This line of reasoning draws on the 17th-century philosophy of Spinoza, suggesting that intelligence is not a uniquely human, neurological phenomenon but is embedded throughout the natural world.

To provide a historical anchor for this idea, the lecture delves into the mechanics of one of the first programmable machines: the player piano. This device is presented as an *analog* machine that functions on digital principles. Its program consists of a long sheet of paper where a hole represents a "one" (allowing air to blow and produce a note) and the absence of a hole represents a "zero" (keeping the air contained). The crucial point is that this machine does not imitate a human pianist; it imitates an abstract, mathematical ability to produce meaningful sounds. This historical example reinforces the core argument: AI is more accurately defined as a machine

possessing an advanced capability for computation. The seemingly intelligent and conversational responses from models like ChatGPT are, at their core, the result of zillions of complex statistical calculations performed in seconds.

Part 2: The Dark Side – AI as an Intelligence Agency

The lecture then pivots to a more ominous interpretation of the word "intelligence," drawing a parallel with its use in espionage and state surveillance. Agencies like the CIA, MI6, and the former KGB are institutions whose purpose is to collect and process information, ostensibly for national security. The lecturer contends that AI platforms like ChatGPT function as a new form of intelligence agency, collecting vast amounts of information about users, their social networks, their past, and their communications.

This data collection is not a byproduct of their function; it is the central mechanism of their profitability. The immense value derived from processing this user information is what attracts billions of dollars in investment to the AI industry. This economic model has profound political consequences. AI companies are not neutral technology providers; they are politically privileged and powerful actors. They are deeply involved with governments and their power extends into the military domain, with many of these companies involved in the production of drones and other technologies used in modern warfare. The lecturer emphasizes that behind the facade of "smart people with PhDs from prestigious universities working on complex models" lies a dark side of surveillance, political power, and military entanglement.

This critical perspective shapes the course's focus, which is not on software development but on understanding the broader economic, political, and ethical context of AI. The morality of the developers themselves—described provocatively as "digital monkeys" producing code in isolation—is called into question. These individuals create systems that can monitor global financial transactions, process private emails, and collect personal data, raising urgent ethical questions about how this information can be abused.

Part 3: Overstanding Econ 101 – The Collapse of Scarcity

With the political and ethical stakes established, the instructor launches a direct assault on the foundational principles of mainstream economics. Students are encouraged to move beyond mere understanding to a state of "overstanding"—the act of critically questioning the concepts they have memorized. Whereas primary school is for memorizing (e.g., $8*7=56$) and high school is for understanding why it is true, university should be for questioning the very conditions under which it is true. For instance, 1+1 is not always 2; in the context of network effects and social complexity, the sum of two pieces of information or two collaborating individuals can be far greater than its parts.

The primary target of this "overstanding" is the core assumption of economics: **scarcity**. While tangible goods like fresh water, money, and even the coffee in the lecturer's mug are indeed scarce and diminish with use, the digital world operates on a completely different logic. Intangible goods such as information, data, solidarity, and love are characterized by **abundance**. Solidarity, for example, is not a scarce commodity; it grows stronger as more people join a

movement, with no inherent limit. Fashion and viral messages on social media function similarly; their value increases, rather than decreases, with widespread dissemination.

The internet, therefore, works on the principle of abundance, which fundamentally breaks the models of orthodox economics. The traditional economic agent, the rational *homo economicus*, is also an invalid concept in this environment. To describe this new economic activity, the lecture introduces the term **"prosumption,"** a portmanteau of production and consumption coined by futurist Alvin Toffler in his 1980 book *The Third Wave*. When a user interacts with a platform like Google or Instagram, they are simultaneously consuming content and producing valuable data. This concept is absent from traditional economic textbooks, which only recognize production, exchange, and consumption as distinct stages.

This leads to the final deconstruction of the idea of "free" services. Platforms like Gemini, WhatsApp, and Google Search are not free; in fact, they are "very expensive". The user pays with their data and labor. Every prompt entered, every search conducted, and every message sent is a directive that makes the machine work and generates commodifiable information for the company. In this model, users are effectively unpaid laborers who should, in theory, be compensated for the value they create. This entire system of data extraction and monetization is what has been termed **"surveillance capitalism"**.

Part 4: AI's Macroeconomic Shockwave and the Measurement Dilemma

Shifting from theory to application, the lecture explores AI's impact on key macroeconomic issues, primarily economic growth. The instructor points to the modern paradox where a national economy can be growing while its population becomes poorer, wages stagnate, and job security deteriorates. The central question becomes: does AI contribute to this disconnect?.

In a simplified growth equation ($Y=...+\delta(AI)+\epsilon$), AI is represented as a variable with a coefficient (δ). The lecturer argues that this coefficient is "considerably large" and thus demands scrutiny. A student intervenes with a crucial clarification, arguing that AI is not merely an additive factor but a force that transforms all other parameters in the equation, including labor markets, natural resources, and finance. The lecturer fully agrees, emphasizing that there is no independent AI economy; it is deeply interdependent with every other sector.

This complexity leads to a significant measurement problem, also raised by a student. The impact of AI is difficult to quantify because the technology itself is growing exponentially. A new chip from Nvidia or a new, cheaper model-training technique released by China can change the entire economic landscape overnight. While conceding that long-term prediction is nearly impossible, the instructor maintains that some short-term measurements are feasible, such as tracking investment in data centers or the number of jobs displaced in specific industries.

Part 5: Weaving Narratives from Data

To demonstrate how to analyze this complex reality, the instructor introduces the core methodology for the course: combining "good data" with a "good narrative". Data provides the

objective foundation, while narrative provides the explanatory context. Students are directed to key data sources like Our World in Data, OECD AI, and the World Bank.

The first piece of data analyzed is a chart of global GDP per capita growth from 1961 to 2023. The troughs in the graph are first explained using conventional narratives: the 1970s oil crisis, the collapse of the Soviet bloc, the 2008 financial crisis, and the COVID-19 pandemic. However, the instructor then overlays a technological narrative, pointing out that these same periods were correlated with major technological shifts. The 1970s saw the commercialization of the first personal computers ; the post-Soviet boom coincided with the commercialization of the internet ; the 2009 recovery period saw the publication of the Satoshi Nakamoto paper that created blockchain ; and the post-COVID era was marked by the public release of ChatGPT. The lecturer is careful to label this as a *correlation*, not necessarily *causation*, but uses it to argue for the centrality of technology in economic history.

Investment data further highlights the scale of the AI revolution. Annual private investment in AI totals nearly $100 billion, with the US as the dominant player. This figure, however, doesn't capture the massive public investments made by governments in Europe and China. The newly announced European AI model, Tilde, is offered as an example of a government-backed initiative designed to promote underrepresented European languages.

This influx of capital is amplifying the power of both states and corporations. AI enhances state capacity for surveillance (e.g., Turkey's e-Devlet system), fiscal monitoring, and military might. Simultaneously, it has created corporations with power rivaling that of nations. Seven of the largest AI-related companies are individually larger than the entire Turkish economy, leading the lecturer to suggest we should speak of "nation companies" alongside nation-states. The rise of modern nationalism is also linked to AI, with the technology's ability to rapidly spread fake news and "rubbish ideologies" on social media seen as a key factor.

Part 6: The Environmental Cost – AI's Hidden Factories

The final section of the lecture returns to the "dark side," exposing the immense and often overlooked environmental toll of the AI industry. Data centers are described as "giant factories" that generate enormous amounts of heat from their constantly running processors. This heat requires massive cooling systems, which consume vast quantities of clean, drinkable water and rely on an electricity supply that significantly contributes to global warming.

The energy demand is so extreme that it is pushing companies to become energy producers themselves. The lecturer cites reports that Google is planning to buy a nuclear power plant to supply its data centers, while Microsoft has already built large windmill farms in the Netherlands for the same purpose. Even these "green" solutions have negative externalities, such as the significant noise pollution created by windmills. Data shows that the hardware and energy costs required to train each new, more powerful generation of AI models are rising exponentially, creating a deeply unsustainable environmental trajectory.

In conclusion, the lecture is a powerful call to action for students of economics and social sciences. It demands a move away from simplistic, outdated models toward a more holistic,

critical, and data-informed analysis. By combining hard data with compelling narratives, the instructor argues that it is possible to "overstand" the complex realities of the AI age and to appreciate that understanding the technological environment is no longer optional—it is essential to making sense of the world.