QUESTIONS FOR DISCUSSION


a. This article is a book review. What’s the book being reviewed? Who is the author? In brief, what does the book’s author say economists do?

b. Two economists can disagree, sometimes strongly. The best of economists do not resort to *ad hominem* arguments in these disagreements, recognizing that they are using different models. What three things characterize an economic model? In the disputes described in the article, which characteristics of economic models create the disagreements between economists?

c. The blog author writes, “Just when economists have reached a consensus, events in the real world proved them wrong.” Sketch out the evolution of thought in the area of macroeconomics, as described in the article. Do you think our understanding of the macroeconomy will continue to evolve over the next few decades? Why? In what ways?
QUESTIONS FOR DISCUSSION


   a. The book reviewed in this article has changed economic discourse. What is the book? Who is the author? What is the UC Berkeley connection? What is the subject of the book? What do we now know about income inequality that we didn’t know before the work reported in this book?

   b. In what way(s) is “the structure of [US] inequality rather clearly different”?

   c. In what ways – economic, social, political, etc. – does rising inequality have an effect? What classes and readings are you drawing on for your answer to this question? How do you suppose the study of economics might add to your understanding of the effect of rising inequality?
QUESTIONS FOR DISCUSSION

3a. “Students with Bridges to Prosperity build bridges, relationships in Panama,” The Daily Collegian (Penn State), October 2014. 


a. Who is Avery Bang? What is her role with Bridges to Prosperity? What does Bridges to Prosperity do?

b. Explain how a footbridge over an otherwise impassable river will affect the economy of a village that had previously been isolated. Use the concepts of production possibilities frontier and gains from trade in your explanation.

c. What are the advantages of building a bridge? What are the disadvantages? Will more and more and more bridges be a good thing? Or is there a limit to the number of bridges that should be built? Discuss.
QUESTIONS FOR DISCUSSION

See also http://www.itsthedishes.com/

a. What book did Paula Szuchman and Jenny Anderson write? What is it about? (Note the book has been reissued with a new title: It’s not You, It’s the Dishes.)

b. What are ways in which husbands and wives specialize and trade within the household? What are the gains from trade? Are the possible gains from trade within the household restricted to heterosexual couples only? To married couples only?

c. Drawing on families and couples you have known – gay or straight, married or cohabiting – what are examples of the gains from trade that go on within these families? Do you think understanding the idea of “comparative advantage” is helpful to couples? Discuss.
QUESTIONS FOR DISCUSSION


a. Where are most hazelnuts grown? How did the March 2014 weather affect the hazelnut crop?

b. Drawing on the article, use models of supply and demand to illustrate the effects on
   - hazelnut prices
   - cocoa prices
   - almond prices
   - the price of Nutella

In each case, clearly state the factors that are shifting supply and/or demand.

c. The article notes that many of these markets do not conform to our simple supply and demand model, but are instead governed by contracts drawn up in advance of the harvest. For instance, a buyer signs a contract with a grower agreeing to purchase a certain quantity (and quality) of nuts at a pre-determined price. When weather destroys part of the crop, though, the grower can’t fulfill the contract because there simply aren’t enough nuts. This practice is called “Contract Farming.”

Make a chart that shows different conditions (bad weather, bumper crop, etc) and, for each condition, who benefits from contract farming and who is harmed. Do you think it is better for agricultural markets to use contracts rather than having prices determined contemporaneously “by the market”? Discuss.
QUESTIONS FOR DISCUSSION


a. Whose study is cited in the article? Who do they find is more likely to buy store brands (e.g., CVS brand) rather than national brands (e.g., Tylenol)? Give three examples of items that are available as store brand and as national brand. In your group, add to this table that shows which items you purchase as store brand and which you purchase as national brand.

<table>
<thead>
<tr>
<th>Purchase store brand</th>
<th>Purchase national brand</th>
</tr>
</thead>
</table>

b. Store brands are typically less expensive than national brands. Use a model of supply and demand to illustrate the markets for store brands and the market for national brands. What factors account for the differences in supply between the two markets? For the differences in demand?

c. Based on the findings cited in the article, what is an inexpensive advertising/marketing campaign that would shift demand from national to store brands? In each of the two markets (store brand and national brand), how would your campaign affect supply? Demand? Equilibrium price? Equilibrium quantity?
QUESTIONS FOR DISCUSSION


Note the date of the article: it was written in 2005 one week after Hurricane Katrina hit.

a. Stossel begins with a (hypothetical) story of someone paying $20 for a bottle of water. Use a supply 
   and demand graph to illustrate how the equilibrium price of a bottle of water might have risen, 
   post-Katrina in New Orleans, from $1 to $20 a bottle. Is the increase in price a result of a change in 
   demand, change in supply, or both?

b. When the price of a bottle of water rises to $20, Stossel claims "water goes to those who really need 
   it." Do you agree? Use economic terms and concepts to explain why you think water does (or does not) 
   therefore go to those who really need it.

c. Why might a government want to make a distinction between the provision of water bottles in the 
   immediate wake of a natural disaster and the provision of carpentry services in the months and years 
   of rebuilding that follow? Here, think about the short-run and long-run changes in supply and in 
   demand that can take place, and about the trade-offs between efficiency and equity. How does your 
   answer illustrate the definition of “price gouging”? 
QUESTIONS FOR DISCUSSION


a. What is “Dynamic Pricing”? According to article, what effect did dynamic pricing have on prices for tickets for Rutgers home football games?

In the article, Jan Alan Eglen is quoted, “We have forecasting availability within our algorithms that can predict if we lower prices, a school will probably make more revenue than the fewer tickets we’d sell if we raise prices.” Find that quote in the article. Connect it to the concept of price elasticity of demand.

b. There are three parties in the market for college football tickets: the school, the fan at the game, and the “secondary market broker” (a.k.a., the scalper). Explain how the implementation of dynamic pricing affects the amount of consumer surplus received by the fan at the game. How does it affect producer surplus? Who “wins” from dynamic pricing? Who loses?

c. What should be the goal(s) of the college athletic office: maximizing attendance, maximizing revenue, or maximizing profit? (To distinguish between revenue and profit, think about the additional costs incurred from an additional fan at the game.) Is dynamic pricing a good way for the college athletic office to achieve its goal(s)?
QUESTIONS FOR DISCUSSION


a. What is Uber? How do you get an Uber ride? How do you pay for it? What is surge pricing? What is a taxi medallion? What has happened to prices of taxi medallions in New York and in Boston?

b. Use the model of supply and demand to illustrate (separately) the markets for Uber rides and for taxi rides. Distinguish between a run-of-the-mill weekday and a time (such as Halloween) when demand is very high. What is the effect of Uber on profit for taxi drivers? Do your results help explain what is happening to prices of taxi medallions? Do your results explain why Uber uses surge pricing?

QUESTIONS FOR DISCUSSION


a. Use the article by Prof. Saez to answer these questions. For each answer, cite the page or figure # where you found the answer. (Note that the pagination is odd with the first page as page 0.)
   - What is the source of Professor Saez’s data?
   - How much did real average income per family increase in 2014? What was the rate of change for the top 1%? For the bottom 99%? Did inequality increase or decrease in 2014 relative to 2013?
   - From 2009-2012, by how much did average income per family grow? What was the increase for the top 1%? For the bottom 99%?
   - From 2007-2009, by how much did average income per family decrease? What was the decrease for the top 1%? For the bottom 99%?
   - Approximately what % of income did the top 1% receive in 1998? In 2007? In 2014?
   - What was the dollar cutoff in 2014 for the top 1%? The top 5%? The top 10%?
   
   Based on that last set of answers, do you think someone earning $150,000 per year is earning a “middle class” income?

b. What share of consumption spending was the top 5 percent responsible for in 2012? How much has consumption spending increased since 2009 amongst the top 5 percent? The bottom 90 percent? Why does Schwartz say “just ask the business world”? Who in the business world is experiencing the effects of rising inequality?

c. Some argue that economic policies should focus only on efficiency even if the result is rising inequality. Others argue that a nation is defined by more than simply its economic policies and that equity must also be considered in designing the nation’s “best” policies. Yet others argue there is no trade-off: that inequality lowers economic growth and policies that promote equality are also pro-growth. Enter this debate. What should the nation’s economic policies consider? Only efficiency, or both efficiency and equity? Is your position the same even if there is a trade-off between equity and efficiency?
QUESTIONS FOR DISCUSSION


a. What is the difference between the definitions of income (covered in article #10a) and wealth (covered in article #11)? What is the source of the data used by the Pew Research Center in the study covered in this article? Why does focusing on medians rather than means provide less sensitivity to outlier values?

Fill in this table with data from Kochhar and Fry’s article or the accompanying graphic. (Dollar amounts will be approximate)

<table>
<thead>
<tr>
<th>Year</th>
<th>White non-Hispanic</th>
<th>Black non-Hispanic</th>
<th>Hispanic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td></td>
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</tr>
</tbody>
</table>

What happened to the wealth gap between 2007 and 2013 as measured by the ratios white:black and white:Hispanic?

b. Discuss the role of housing in explaining changes in the wealth gap, 2007 to 2013. As part of your discussion, draw a model of the supply and demand for housing that helps explain why housing prices changed as they did over the last decade.

c. Two forces can create an increase in wealth: increased saving out of income, and increased rates of return on the assets purchased with that saving. To lower wealth gaps, some scholars propose “baby bonds,” granting saving accounts to infants. Another proposal sometimes offered is introducing child savings accounts in elementary schools, to create a habit of saving from a very young age. Do you think baby bonds (or child savings accounts) could help close the wealth gaps? For either approach, are we talking about a “quick fix” or a long term process? Discuss.
QUESTIONS FOR DISCUSSION

   http://www.npr.org/sections/thesalt/2015/06/19/415741354/mexicos-sugary-drink-tax-makes-a-dent-in-consumption-study-claims

   a. How big is Mexico’s tax on sugary drinks? When was it implemented? What externality is being addressed? What has been the effect on the quantity of soda sold? Do these results account for shifts in demand?

   b. Illustrate the effect of the tax in a graph. Be sure to think about the effect on price and quantity, in the long run and in the short run. Is the tax optimal?

   c. Opposition to soda taxes often cites the regressivity of such excise taxes. An alternative is to structure the tax so it is a percent of the buyer’s income rather than a percent of the good’s price. For instance, in Finland, the price of a speeding ticket depends upon the driver’s income. (http://www.theatlantic.com/business/archive/2015/03/finland-home-of-the-103000-speeding-ticket/387484/) Should the tax on soda be based on the income of the consumer rather than the price of the product? Discuss.
QUESTIONS FOR DISCUSSION


a. What are the problems cited in the Loeffler article with the use of laptops in class? What did Professors Oppenheimer and Mueller find in their research comparing taking notes by hand with taking notes on a laptop?

b. In the language of economics, describe the negative externality created when a student uses the laptop during class for something other than note-taking. Draw a graph that depicts the market-equilibrium and social optimal quantity of laptops in class.

c. Is it possible to institute a policy that brings the use of laptops to the social optimum? Does the banning of laptops produce the socially optimal quantity of laptops in class? Discuss.
QUESTIONS FOR DISCUSSION


a. Summarize the data in the first article. Why are pundits saying that Greece in 2015 looks a lot like the U.S. in the 1930s Great Depression?

b. This reader was assembled in early August. You’re reading these articles in late October. What (if anything) has changed in Greece in the last three months? Have they exited the Euro? Is there a new bailout? Are things improving or deteriorating further?

c. At some point – and everyone hopes it is sooner rather than later – unemployment in Greece will be at its peak and the Greek economy will enter the recovery phase of the business cycle. Unemployment may come down slowly during a recovery and may sometimes reverse course and increase for a short time.

Do you think when the economy is in the early part of a recovery that people feel as if there is a “recovery”? Why or why not? If you think people don’t feel as if there’s a “recovery” when economists say the economy is in recovery, is the problem that people need educating about actual economic conditions or that economists need to change their terminology?
QUESTIONS FOR DISCUSSION


   a. What is the definition of GDP? Of per capita GDP? Why does the author, Bill Gates, think per capita GDP is not a good indicator of economic conditions?

   b. Describe two events from the past (actual, not made up) that have impacted living standards but are not well measured by GDP. Try to come up with one event for which living standards rose more than GDP would indicate, and one event for which living standards rose less than GDP would indicate.

   c. If the measurement of GDP were reformed, in what ways would the lives of average citizens in rich countries such as the U.S. be affected? In what ways would the lives of average citizens in poor countries such as Zambia be affected? Discuss.
QUESTIONS FOR DISCUSSION


http://www.businessweek.com/articles/2014-07-17/feds-yellen-goes-beyond-unemployment-rate-to-craft-policy and

http://www.businessweek.com/printer/articles/213940-janet-yellens-favorite-jobs-numbers

a. According to the article, what measures does Fed chair (and Berkeley Professor) Janet Yellen rely on as indicators of the health of the labor market?

b. The article and accompanying graphic give information about the labor market over the last decade. Which measures indicated that the labor market in 2014 is doing well? Which measures indicated the labor market in 2014 is still struggling?

c. The article is from last summer. Go online and find the most recent data for each of the statistics cited in the article. How is the labor market doing today relative to 2014?
QUESTIONS FOR DISCUSSION


a. What is the definition of “marginal propensity to consume”? Express the definition in words and in mathematical terms. Be sure everyone in your group agrees on the mathematical expression. Check with the group next to you to be sure they too agree.

b. According to the study by Chris Carroll et al cited in the article by Bunker, does the value of the mpc depend upon the amount of wealth a family has? Does it depend on the type of wealth the family has? Be specific. Relate the findings in the Bunker article to reader article #11 (wealth inequality).

According to the Bradsher article, in China how did the change in wealth affect consumer spending?

c. One article is talking about the slope of the consumption function. One is talking about shifts of the consumption function. Draw a graph that illustrates the concepts in each of the two articles.
QUESTIONS FOR DISCUSSION


(Note: A recent copy of the full paper behind the blog post is at http://behl.berkeley.edu/files/2015/07/Olney-and-Pacitti-2015_WP2013-04-.pdf)

a. Economies produce, broadly, goods, services, and structures (buildings). What has happened to the share of output that is services over the last several decades? What has happened to the length of business cycles over that same period?

b. According to Olney and Pacitti, why does a rise in the service share of an economy lead to longer recoveries? Can you think of other reasons why a rise in services might be correlated with longer economic recoveries?

c. If the longer recoveries are the consequence of the rise of services, are there public policies we can propose that would hasten economic recovery? Are there costs to imposing those policies? Should we propose and enact such policies?
QUESTIONS FOR DISCUSSION


a. The article starts with Brian Whitfield’s job loss. Draw a diagram that shows each layoff or hours cut mentioned in the article and how they are linked to each other.

b. Define the concept of the multiplier. Connect your diagram in part (a) with the concept. If the article had continued with each and every job loss experienced in the Roxboro, NC area, what industries do you think would have been represented in the additional rounds of the multiplier process?

c. When people are laid off, they have two choices:
   - continue to spend the same amount, paying for goods and services by draining their assets (withdrawing savings, for instance) or accumulating liabilities (charging credit cards, for instance), or
   - cut spending, perhaps as much as dollar for dollar with the loss of income

The more laid-off families borrow, the smaller the multiplier. The more laid-off families cut spending, the larger the multiplier and thus the greater the damage of “one layoff” to a whole town. Is it good for laid-off people to borrow and maintain their spending? Discuss. (It’s a normative question. Start by stating a goal.)
QUESTIONS FOR DISCUSSION


   a. According to the article, what are the factors that affect uncertainty? Which of these factors are out of the control of companies?

   b. Why does uncertainty affect investment? In your answer, be sure to reference the expected rate of return on an investment project. Sketch an investment demand curve, properly labeling your axes. How does a change in uncertainty affect investment?

   c. Should government policy address the level of uncertainty in the economy? If so, is there an optimal level of uncertainty greater than “0 uncertainty” (that is, complete certainty)? What policies might be enacted to address business uncertainty? Discuss.
QUESTIONS FOR DISCUSSION


a. According to the article, what happens to the size of the government spending multiplier over the course of the business cycle? When is it large? When is it small?

b. There are two possible reasons that the size of the government spending multiplier may vary over the course of the business cycle.
   - Consumer spending responds more to changes in income in a downturn than in an expansion
   - In a downturn, monetary authorities do not raise interest rates which would otherwise cause investment spending to fall just as government spending was increasing

Let’s consider the first of those two possibilities. If consumer spending responds more to changes in income in a downturn than in an expansion, why and how does this impact the size of the multiplier? Explain your answer in words and with mathematical terms.

c. Use the production possibilities frontier model, with the types of output divided into government goods and services and all other goods and services. Show the effect of increasing the production of government goods and services. Does it matter whether or not you begin on, versus inside, the production possibilities frontier? Relate this analysis to this article.
QUESTIONS FOR DISCUSSION

   [http://www.stlouisfed.org/publications/re/articles/?id=2258](http://www.stlouisfed.org/publications/re/articles/?id=2258)

a. What is QE? How does it differ from conventional monetary policy? What is the goal of QE?

b. When the Federal Reserve conducts conventional monetary policy (targeting a federal funds rate), they traditionally buy and sell short term government bills, also called U.S. Treasuries. Use the concept of the yield curve to discuss how and why conventional monetary policy is supposed to affect medium- and long-term interest rates. Use the same concept to illustrate the effect of QE2 and Operation Twist.

c. The Fed implemented QE2 because it had hit the zero lower bound. What is the “zero lower bound”? Do you think the Fed should continue (or, depending on events between August and November, should have continued) to keep the federal funds rate at the zero lower bound? Why or why not?
QUESTIONS FOR DISCUSSION


*NOTE:* The article was written in July 2015; you are reading it in November 2015. Did the Fed increase interest rates in September as was widely predicted? Check the news or go straight to the source: [http://www.federalreserve.gov/newsevents/default.htm](http://www.federalreserve.gov/newsevents/default.htm)

a. According to the article, what is the Fed’s current policy with regard to monetary stimulus? What is the nature of the debate at the Fed, as described in the article?

b. The Fed is guided by a “dual mandate.” What does that mean? Use the concept of the Phillips curve to illustrate the tension the Fed faces between addressing unemployment and inflation.

c. Which part of the dual mandate do you think the Fed should emphasize? Why?
QUESTIONS FOR DISCUSSION


a. Make a list of the Fed officials named in the article. Which ones are doves? Which are hawks?

b. What are the definitions of “inflation hawk” and “inflation dove”? Using the concept of the Taylor rule, describe the difference between an “inflation hawk” and an “inflation dove.”

c. Do you think the Fed should be aggressive in removing the monetary stimulus and raising interest rates? Or should the Fed move slowly? Why?
QUESTIONS FOR DISCUSSION


a. What decision did the FOMC make at its July 28-29 meeting? What was their rationale?

b. Go online to find the statement from the October 2015 FOMC meeting. (http://www.federalreserve.gov/monetarypolicy/fomccalendars.htm) What are the differences between the FOMC statements of July 2015 and October 2015?

c. (As I write in August 2015. . .)

There is much speculation as to when the FOMC will begin increasing interest rates. Based on the July and October FOMC statements, what sort of economic indicators do members of the FOMC seem to be watching? What do you suppose needs to happen (or, what did happen) to those indicators before they decide to take action? What do you think the Fed will do next . . . and when?
QUESTIONS FOR DISCUSSION


a. According to the article, what is the GDP growth rate goal in China? What changes did China’s central bank make to interest rates?

b. How and why does a change in interest rates affect GDP? As you tell that story, is there any difference between how you answer the question for the U.S. economy and how you answer it for the Chinese economy? Explain.

c. If you had read this article on August 24, would you have understood it as well as you did today? What did you learn in Econ 1 that helped you to understand this article?