American University
School of International Service

SIS 628: 007—Communicating Economics to Non-Economists

Final Exam: Individual Assignment

> All assignments and exams should be submitted by email to ploungani@imf.org. Please note that the email is an IMF address. Yes, you should it send it to this IMF address. Yes, that means that you should ***not*** send it to the AU address. You can, ***in addition to sending it to the IMF email***, send it through Blackboard but this is not essential.

This assignment should be sent by email to ploungani@imf.org by **5 pm on May 1, 2019.** Please note that this is an individual assignment. You cannot consult your team-mates or classmates. It is an open book assignment.

I. (a) (10 points)
Using the database provided, estimate the 'changes' version of Okun's Law for France and Germany for two separate sub-periods: (i) 1980 to 1998; and (ii) 1999 to 2017. Has the relationship between jobs and growth changed in the two sub-periods?

(b) (10 points)
How would you explain Okun's Law and your answer to part a) above in plain English (e.g. to someone who does not have a background in economics)?

II.
(a) (10 points) Use the database at the link below to compare the trends and cycles in Argentina's and Australia's per capita income since the late-1800s to the present. (Use the 'cgdppc' measure).

https://www.rug.nl/ggdc/historicaldevelopment/maddison/releases/maddison-project-database2018

(b) (20 points) Using the material and concepts discussed in this course (supplemented by other material as you deem necessary), provide an analysis of the factors that can account for the differences in the trend behavior of per capita income in the two countries.

III. (10 points) Predict the statement the Reserve Bank of New Zealand will issue after its May 8 meeting.

IV. (5 points) Predict the action that the central bank of Peru will take at its meeting on May 9, 2019.

V. (a) (20 points) Write a non-technical summary of what you have learned in this course. You should definitely summarize what we've discussed in class (the PPTs) but should also bring in at least some of the required texts and the readings that were assigned for these classes. (Maximum: 1200 words)

(b) (10 points) If you had to give an "elevator pitch" to describe what you've learned in this course, what would you say? (Maximum: 300 words)

(c) (15 points) Produce five "tweets" about the course.

VI. True or False (40 points; 2 points each):

State whether the statements below are True or False. For statements that are False, correct the error(s).

1) U.S. real capita income has experienced cycles over the last four decades, with incomes rising 15 percent above trend during expansions and falling 15 percent below trend during contractions.

2) Global inequality measures the differences between the incomes of the rich and the poor, ignoring race or gender; it has increased over time reflecting increased racial and gender discrimination.

3) Net incomes are what Robinson Crusoe makes after he builds a net to catch more fish.

4) Most countries run at a loss since their capital per worker is greater than their income per worker; the only way to make up the difference is through increased efficiency.

5) The twin goals of economic policies are to boost the cycles in incomes so that incomes can go as high as possible during the expansion.

6) A country with a trade surplus is a net borrower: that is how it obtains resources to run a surplus.

7) The Gini is a measure of how much average incomes would increase if we had a magic genie to equalize incomes across people.

8) The Taylor Rule suggests that the central bank should set policy interest rates based on the deviation of output from trend and the deviation of unemployment from trend, but only if output and unemployment are related through Okun's Law.

9) Economists estimate that in year 0 total world GDP was zero since winners and losers roughly balanced out.

10) Since 1980, average incomes of the richest 1% of the U.S. population have grown by 1 percent a year, reflecting increased taxation of the rich. When income is above trend, the economy has a negative output gap indicating that the economy is likely to slow down in the future.

11) Between 1956 and 2003, average incomes in (South) Korea went up by 6%.

12) Output, production and inflation are all different ways of saying income.

13) Between 1950 and 1973 world GDP per capita grew by just under 3%.

14) The U.S. Phillips Curve is now flat, suggesting that unemployment and output are no longer correlated.

15) Within-country inequality has fallen in all countries as people get richer over time due to efficiency gains.

16) China's phenomenal growth over the last two decades has erased the gap in average incomes between China and the United States.

17) The production function is the relationship between output, inputs and inflation, which is important to do since inflation can erode the real value of output.

18) Gross and net incomes are virtually identical in the United States reflecting the reluctance in this country to redistribute income from the rich to the poor.

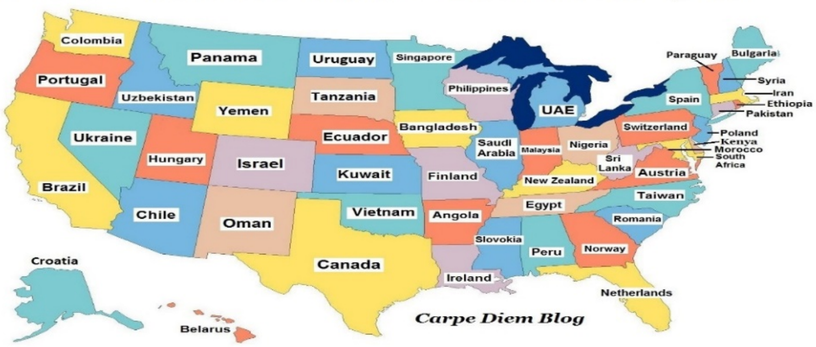
19) IMF research suggests that more inequality is associated with sustained inflation as extravagant spending by the rich boosts prices.

20) Real GDP per capita is the nerd's way of saying average inflation.

VI. Short answers (100 points; 10 points each)

(a) You show your non-economist friend the map below which compares GDPs of U.S. states with that of countries. She's surprised Tennessee is only as rich as Egypt. What do you tell her?

US States Renamed for Countries with Similar GDPs, 2014



(b) Do you agree with the views in the article at the link below? Why or why not? http://mjperry.blogspot.com/2011/04/another-name-for-trade-deficit-capital.html

(c) You have been invited on Fox News to debate the author of the article below. She is expected to repeat these arguments. What points would you make to rebut her? http://www.foxnews.com/opinion/2012/09/07/how-long-will-it-take-us-to-pay-back-16-trillion-in-debt.html

(d) Your non-economist friend wonders why central banks don't set policy interest rates to zero all the time? What do you tell him?

(e) Explain the impossible trinity in plain English.

(f) In July 2011, the ECB raised policy interest rates (see link below). Do you think the ECB did the right thing? Why or why not? https://www.reuters.com/article/us-ecb-rates-text-idUSTRE7662WZ20110707

(g) Your non-economist friend is alarmed by a recent story (see link below) of record global emissions. Can you offer her evidence of some hopeful trends? https://www.greencarreports.com/news/1122285_global-warming-emissions-hit-record-level-in-2018-iea-reports

(h) How do you explain to your non-economist friend how the story of Robinson Crusoe can help describe the evolution of economies?

(i) Do you agree with the views expressed in this article (see link below)? Why or why not? https://www.forbes.com/sites/mikepatton/2012/08/27/the-key-to-economic-growth-reduce-the-unemployment-rate/#40c8d2cd54ce

(j) Read the article below by Ken Rogoff. Do you agree with his views? Do you have any other comments to offer on the article?

THE SUNDAY TIMES

KENNETH ROGOFF
February 3 2019,

Kenneth Rogoff

As the Brexit drama continues to unfold, most of the world, not least the Treasury and the Bank of England, is hoping for the best. But what, exactly, is the game plan in the event of a no-deal Brexit, or some other unscripted chaotic outcome? A lot depends on how events unfold, but here are some thoughts on macroeconomic policy response.

First, a hard Brexit would provide an overwhelming argument for using the government's strong balance sheet to cushion the transition. What's the point of saving for a rainy day if you don't use the savings in an epic storm? Instead of attempting to reduce the UK's debt-to-GDP ratio (now 84%), the government should find ways to strengthen investment in physical and human capital, to help the poorest, who will be hit the hardest, and to incentivise international businesses not to abandon ship. (Of course, fiscal stimulus would be on top of all other measures the government might be contemplating to mitigate potential panic and uncertainty.)

To be frank, it has never been remotely obvious to me why the UK should be worrying about reducing its debt–GDP burden, given modest growth, high inequality and the steady (and largely unexpected) decline in global real interest rates. It is one thing to have an exit plan for controlling the rate of debt increase after a deep financial crisis; it is entirely another thing to be in any rush to bring debt levels down.

Yes, there is a deep-rooted democratic bias towards ever rising government debt, especially from populist governments aiming to spread largesse to their constituencies, as for example the Trump administration has done with its near trillion-dollar deficits in the United States. But again, the whole point of having a political detente on excessive borrowing by incumbents is precisely to be able to better deal with adversity. Governments that entered the financial crisis with very high debt (for example, Greece and Italy) or that were on the hook for large pools of risky private housing debt (for example, Spain and Ireland) were far less equipped to resist the crisis than America and the UK, which both enjoyed far greater fiscal space.

Yes, it is wise not to let debt grow inexorably, but there is also no need to run suddenly into reverse. Sustained very high debt levels have more often than not been associated with somewhat lower growth rates. But there is certainly no magic threshold of debt to GDP at which growth suddenly falls, any more than having one's cholesterol reading go from 199 to 201 means that you are going to have a heart attack tomorrow. Very high debt does matter, precisely because low-debt economies feel less constrained in reacting to unexpected events. But the events of the past decade have surely pushed up any definition of "very high debt".