

## Discussions on Economic Policy, Problems & Prospects

Do you want to understand the economic issues in the news as well as the long term economic challenges facing this country? We will hold a monthly discussion for five months on the 4<sup>th</sup> Wednesday from January to May from 1 – 3 pm for AAUW members interested in exploring economics. These discussions grew out of issues raised in the Diversity book group and is being organized by Sheri Borrin, Jo Ann Paulson and Pat Powell.

A brief overview plus a list of the types of questions to be discussed are outlined below. Unfortunately, there is not a single book that covers the topics we want to deal with in these meetings. Therefore we will use published articles, internet sites, and excerpts from some books as the basis for the five discussions. About one month in advance, a draft of the study guide and suggested readings will be sent to the participants. Then, a final version of the notes will be emailed to you prior to the discussion session. It will be very helpful if you review the suggested readings before meeting.

The sessions will be held at member's homes. The first meeting will be held at Sheri Borrin's home in Rehoboth. Please let Pat Powell know if you might like to attend. This is just a preliminary count, not a commitment.

**This will be fun and far from dismal!!!**

**Note:** If you have time over the holidays (who has time over the holidays?) you can look at the [Economic Report of the President 2013](#). It is written by the Council of Economic Advisers and is a quick review of major economic issues with data and helpful graphs. (You may or may not agree with their policy conclusions, but the data is reliable.) It is available on the WEB at <http://www.whitehouse.gov/administration/eop/cea/economic-report-of-the-President/2013>. A book that gives a fairly accessible discussion of economic issues is Greg Ip [The Little Book of Economics: How the Economy Works in the Real World](#).

### **Session #1: How markets work – Wednesday, January 22<sup>nd</sup>**

- What is included in Gross Domestic Product (GDP)
- Supply & demand – using examples from the minimum wage debate
- Regulations
- Debt & deficits
- How the interaction of monetary policy and fiscal policy are supposed to work

### **Session #2: Money & Monetary Policy – Wednesday, February 26<sup>th</sup>**

- The Federal Reserve (Fed)
- How does the Fed 'create' money
- Why the Fed wants more inflation
- Bubbles

### **Session #3: The 2008 Financial Crisis – Wednesday, March 26<sup>th</sup>**

- There were many players who enjoyed the party until it imploded!
- Is this the new normal?

### **Session #4: Deficits & debt – Wednesday, April 23<sup>rd</sup>**

- What they are and are not
- Solutions to them in a perfect world and in our non-perfect one
- How does Social Security impact the deficit fit into Social Security
- Is a little debt a good thing?!?!?

### **Session #5: Globalization – Wednesday, May 28<sup>th</sup>**

- We are all intertwined!

## Questions for Discussion

### **Economic Policy in Market Economies**

- The U.S. is organized as a market economy and most resources are allocated through markets. The national political debate is framed by market fundamentalists who believe that the government should never intervene in markets. Is that the correct answer in all situations?
- Are there times that markets misallocate resources? What conditions are necessary for markets to give the most efficient allocation?
- How should a market economy be regulated?
- What role should the government play directly or indirectly (policy, regulation, etc.) in a market economy?
- As an example, we can look at the debate about raising minimum wage. Will this intervention in markets help low-income people or will it lead to lay-offs?

### **Evaluating Economic Policy**

- What does GDP measure and is it the best gauge of how well the economy is working?
- What are the goals of economic policy?
  - Stabilization to avoid booms and busts?
  - Growth and Jobs?
  - Equality of economic opportunity?
- How do different policies impact the economy?
- How do monetary and fiscal policies impact the economy?
- Understanding the role and tools of the Federal Reserve. (monetary policy)
- Understanding the size and funding of US government expenditures. (fiscal policy) and how those influence the economy.
- How and why should monetary and fiscal policy work together?

### ***Money, money, money!***

#### **Monetary Policy & the Federal Reserve Bank**

- Because Congress is sharply divided on questions of public taxation and spending, the economic news has focused on the role of the Federal Reserve Bank and monetary policy. How does the Fed influence the economy?
- Inflation is just over 1.5%. The Fed is trying to push inflation up to 2%. Why does the Fed want the rate of price rises to increase? (Hint: Deflation or a falling price rate is extremely dangerous for an economy!)
- Because interest rates are close to zero and inflation is very low, the Fed has been creating money rapidly since the Great Recession. This may lead to inflation and/or to a bubble in asset prices, and a crash as asset prices fall. Could that happen here?

## **What hit us?**

### **The 2008 Financial Melt-down & the Great Recession**

- What caused the 2008 crisis?
- Why did so many countries have strong downturns after 2007?
- Were the bank bail-outs really necessary? What about the auto bail-outs?
- What policy measures were taken to prevent a slide into depression?
- Were we really close to disaster? (Hint: the answer is YES!)
- What reforms have been undertaken?

### **Stabilization after the 2008-9 Crisis**

#### **Is it over yet?**

- Was the fiscal / budget response adequate?
- Why does the Fed want the interest rates low? How does QE work and what are the dangers?
- Will it happen again?
- How did the financial crisis lead to large fiscal deficits? Will those deficits shrink as the economy improves?

### **Deficits, Debts, and Defaults**

#### **Oh my!!**

- What are the numbers? What are the real problems? Should we worry about the heat of the political debate?
- How much does the US collect in taxes? Who pays taxes?
- How much does the US spend and on what?
- Do deficits matter and if so, how and why?
- Is the deficit really a threat to the future US economy?
- What will the deficit problems be in the future – an aging population, rising medical costs, foreign military intervention, national security expenditures?
- What is a sustainable level of debt for the US?
- What would happen if the US defaults on debt payments? What would happen to the international economy if the US defaults?

### **How to Boost Economic Growth & Who Benefits from Growth?**

- What should the government do to promote economic growth: stimulus, or deregulate and cut taxes, or work on structural reforms?
- Income distribution has become much more unequal over the last thirty years. Why?
- Does more unequal income distribution make it harder to stimulate economic growth?

**International Issues**  
**Globalization & Trade and Capital Flows**

- What does globalization mean for the US role in the world and our economic well-being?
- Is the world flat? What does broader international competition mean for working conditions and income distribution in the U.S.?
- Which countries are our main trade partners? What do we export and import?
- What is the relationship between our trade flows and countries holding our debt? Why are the Chinese holding US government debt -> understanding the trade & international capital flows.
- If we have time.... Euro zone ..... Impact of international illegal immigration....