

A·N·N·U·A·L E·D·I·T·I·O·N·S

Economics

02/03



Economics

02/03*Thirty-First Edition***EDITOR****Don Cole***Drew University*

Don Cole, professor of economics at Drew University, received his Ph.D. from Ohio State University. He has served as consultant to a variety of public and private organizations, and he is cofounder of the Drew University Semester on the European Union in Brussels, Belgium. An innovator in the use of computer-assisted instruction in the teaching of economics, Dr. Cole is the author of articles on various subjects, including economic policy, monetary theory, and economic education. He is also the editor of other McGraw-Hill/Dushkin publications, including *The Encyclopedic Dictionary of Economics* and two other *Annual Editions* anthologies, *Microeconomics* (6th Edition) and *Macroeconomics* (14th Edition).

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Members of the Advisory Board are instrumental in the final selection of articles for each edition of ANNUAL EDITIONS. Their review of articles for content, level, currentness, and appropriateness provides critical direction to the editor and staff. We think that you will find their careful consideration well reflected in this volume.

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To the Reader

In publishing ANNUAL EDITIONS we recognize the enormous role played by the magazines, newspapers, and journals of the public press in providing current, first-rate educational information in a broad spectrum of interest areas. Many of these articles are appropriate for students, researchers, and professionals seeking accurate, current material to help bridge the gap between principles and theories and the real world. These articles, however, become more useful for study when those of lasting value are carefully collected, organized, indexed, and reproduced in a low-cost format, which provides easy and permanent access when the material is needed. That is the role played by ANNUAL EDITIONS.

This thirty-first edition of *Annual Editions: Economics* has been largely revised since previous editions and continues the tradition of providing the most up-to-date readings on contemporary economic issues. In view of the recent explosion of interest in the subject of economics, it is important that students are given opportunities to observe how economic science can help them to understand events in the real world. This anthology is designed to meet such a need.

The volume is divided into five major units. Unit 1 introduces several general concepts involving economic analysis. At the heart of economics is the notion of "opportunity cost," the idea that in choosing one economic alternative, we must forgo other choices. What, for example, is the opportunity cost of a human life? Where does economic wealth come from? Why do economists disagree over key economic issues?

Unit 2 presents articles that treat economic issues from a microeconomic perspective. Microeconomics studies the way in which market values are established through the interaction of consumers (households) and producers (firms). For instance, what role does the Internet play in the choices consumers make and the size of business enterprises? How do mergers affect the business climate? How does government regulation of industry affect market competition?

Issues of income distribution and economic justice are examined in unit 3. You will find that this is an area of intense controversy, particularly as it relates to government programs that attempt to alter the distribution of income and wealth. Questions raised include, What are the causes of growing income disparities in America? Should the federal government attempt to eradicate poverty and, if so, how? Is federal welfare reform working? Should Social Security be privatized?

Broader economic issues are the focus of the next two units, which involve macroeconomics (unit 4) and the global economy (unit 5). The economy-wide perspective of macroeconomics leads us to consider ways of gauging an economy's health, vis-à-vis levels of employment, the degree of price stability, and the rate of economic growth over time. Readings selected for this unit raise questions of great consequence to the United States. For example, what effect will the terrorist attacks of September 11, 2001, have on a United States economy that is already weakening? What is the current outlook for the U.S. econ-

omy? How do tax cuts and changes in the money supply affect the economy? Will paper money someday be replaced by electronic money?

Finally, unit 5 examines recent changes in the world economy. In the last decade we have witnessed a series of unforeseen events: the globalization of the world economy; the end of the cold war; the rush by many former communist states to embrace the market system; and the impoverishment of many developing countries burdened by staggering international obligations. How did such developments come about, and what do they portend as the global economy enters a new century? Finally, how will the September 11, 2001, attacks by terrorists affect not only the United States but also global economies?

In this edition of *Annual Editions: Economics 02/03* there are *World Wide Web* sites that can be used to further explore the topics, a *topic guide* that suggests how the selections in this book may relate to your course subject, a *glossary* of relevant terms, and a list of relevant documents.

Whether you are currently pursuing studies in economics or are just a casual reader eager to learn more about some of the major economic issues of the day, you will find *Annual Editions: Economics 02/03* to be one of the most useful and up-to-date anthologies available. Your input can be valuable for the next edition. Please offer your opinions by filling out and returning to us the post-age-paid *article rating form* on the last page of this book.



Don Cole
Editor

Topic Guide

This topic guide suggests how the selections in this book relate to the subjects covered in your course. You may want to use the topics listed on these pages to search the Web more easily.

On the following pages a number of Web sites have been gathered specifically for this book. They are arranged to reflect the units of this *Annual Edition*. You can link to these sites by going to the DUSHKIN ONLINE support site at <http://www.dushkin.com/online/>.

ALL THE ARTICLES THAT RELATE TO EACH TOPIC ARE LISTED BELOW THE BOLD-FACED TERM.

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- 27. Immigrants Fill Critical Gap in Wide-Open Job Market
- 30. Sometimes the Economy Needs a Setback
- 31. The Mystery of Economic Recessions
- 37. The Science (and Art) of Monetary Policy

Welfare reform

- 21. What Next for Welfare Reform?

World Wide Web Sites

The following World Wide Web sites have been carefully researched and selected to support the articles found in this reader. The easiest way to access these selected sites is to go to our DUSHKIN ONLINE support site at <http://www.dushkin.com/online/>.

AE: Economics 02/03

The following sites were available at the time of publication. Visit our Web site—we update DUSHKIN ONLINE regularly to reflect any changes.

General Sources

AmosWEB

<http://www.amosweb.com>

This site seeks to be the premier Internet site for instructional economic information. Main features include a glossary of over 500 economic terms and concepts, a reading room, and an interactive question-and-answer resource.

The Dismal Scientist

<http://www.dismal.com>

Often referred to as the “best free lunch on the Web,” this is an excellent site with many interactive features. It provides access to economic data, briefings on the current state of the economy, and original articles on economic issues.

UNIT 1: Introduction

Economics: Complete Guide to Economic Resources on the Web

<http://economics.miningco.com>

This frequently updated resource “mines the Net” for information on economic subjects. It includes a large number of links and online articles from economics magazines and journals.

Litigation Analytics: How Much for a Human Life?

<http://www.humanlifevalue.com/index.html>

“How much is a human life worth?” This site provides an interesting interactive exercise involving this question.

Resources for Economists on the Internet

<http://econwpa.wustl.edu/EconFAQ.html>

Sponsored by the American Economic Association, this Web site is an excellent starting place for any research in economics by academic and practicing economists.

UNIT 2: Microeconomics

Antitrust Policy

<http://www.antitrust.org>

Sponsored by the Owen Graduate School of Management at Vanderbilt University, this site provides detailed information on such topics as case studies in price fixing, merger simulations, and the evolution of U.S. antitrust policy.

CEO Express—Business and Financial News

<http://www.ceoexpress.com>

A comprehensive source of news on business, finance, and technology, this site provides users with extensive tools for researching companies through direct links to the home pages of Fortune 500 and many other firms.

Corporate Watch

<http://www.corpwatch.org>

Corporate Watch is an online magazine and resource center designed to provide an array of tools for investigating and analyzing the activities of transnational corporations.

Internet Public Library: Business and Economics Reference

<http://ipl.org/ref/RR/static/bus0000.html>

This comprehensive reference library on the production, distribution, and consumption of goods and services includes many subtopics about consumer issues, employment, business and industry, and labor and the workplace.

New York Times Business Connections

<http://www.nytimes.com/library/cyber/reference/busconn.html>

This page of links to business and economics sites on the Web was prepared for use by journalists of the *New York Times* for their own research purposes. It includes links to such categories as Markets, Companies, Business News, Banking and Finance, and Government.

Small Business Administration

<http://www.sbaonline.sba.gov>

The U.S. Small Business Administration provides financial, technical, and management assistance to 23 million small businesses.

UNIT 3: Income Distribution and Economic Justice

Center on Budget and Policy Priorities

<http://www.cbpp.org>

This nonpartisan research organization and policy institute conducts research and analysis on a range of government policies and programs, with an emphasis on those affecting low- and moderate-income people.

Joint Center for Poverty Research

<http://www.jcpr.org>

This site examines what it means to be poor and to live in America. Issues considered include changing labor markets, the causes of inequality, family functioning, the impact of concentrated urban poverty, and implications for public policy.

Today's Unions

<http://www.aflcio.org>

The AFL-CIO Web page provides access to a large number of topics concerning ways in which labor unions might improve the lives of working families.

The Urban Institute

<http://www.urban.org>

The Urban Institute investigates national social and economic problems and analyzes solutions.

U.S. Department of Health and Human Services

<http://www.hhs.gov>

The Department of Health and Human Services is the U.S. government's principal agency for protecting the health of all Americans and providing essential human services, especially for those who are least able to help themselves.

U.S. Department of Labor

<http://www.dol.gov>

This Department of Labor Web site includes information about the department and its agencies, labor laws and trends, press releases, and texts of regulations.

U.S. Immigration and Naturalization Service (INS)

<http://www.ins.usdoj.gov>

The INS is responsible for enforcing laws regulating the admission of foreign-born persons to the United States and for administering various immigration benefits.

Welfare-to-Work

<http://wtw.doleta.gov>

A federal government Web site that examines the transition from welfare-to-work from the perspective of individuals, employers, and communities is found here.

WorkIndex

<http://workindex.com>

This index is an annotated guide to Internet resources in human resources, labor relations, benefits, training, technology, staffing, recruiting, leadership, motivation, insurance, relocation, legal issues and more.

UNIT 4: Macroeconomics

Bureau of Economic Analysis (BEA)

<http://www.bea.doc.gov>

The BEA is the nation's accountant. It issues the Survey of Current Business and is a good source for data on industrial and regional development.

Citizens for Tax Justice

<http://www.ctj.org>

Citizens for Tax Justice is a research and advocacy organization that "seeks to give ordinary people a greater voice in the development of tax laws."

Congressional Budget Office

<http://www.cbo.gov>

The Congressional Budget Office seeks to provide "objective, timely, nonpartisan analyses needed for economic and budget decisions and with the information and estimates required for the Congressional budget process."

Federal Reserve Board

<http://www.federalreserve.gov>

The Web site of the Federal Reserve Board (the Fed) links to all the Federal Reserve Banks and other federal agencies. It provides access to the Fed's "Beige Book," a report published eight times each year on current economic conditions by Federal Reserve district.

History of Money

<http://www.ex.ac.uk/~RDavies/arian/llyfr.html>

An award-winning site that provides a comprehensive chronology of money from ancient times to the present day, this page includes articles on the Origins of Banking, Money in North American History, Britain and the European Monetary Union, and Third World Debt in the 20th Century.

The Public Debt

<http://www.publicdebt.treas.gov/opd/opd.htm>

Features of this site include estimates of "daily amounts to the penny of the debt," interest costs of the outstanding public debt, and long-term trends.

UNIT 5: The Changing Global Economy

The European Union in the U.S.

<http://www.eurunion.org>

Here is a comprehensive Web site for those interested in the nature and origin of the European Union. Topics include EU policies and legislation, information on member states, and EU-U.S. relations.

Institute for International Economics

<http://www.iie.com>

Since its founding in 1981, the Institute for International Economics has provided objective analysis of key international economic problems and has proposed concrete solutions.

Inter-American Development Bank (IDB)

<http://www.iadb.org>

The Inter-American Development Bank was established in 1959 to help accelerate economic and social development in Latin America and the Caribbean. This site offers access to IDB reports and information on member countries.

North American Free Trade Association (NAFTA)

<http://www.mac.doc.gov/nafta/index.htm>

NAFTA's objective is "to provide accurate and timely information to U.S. exporters experiencing market access barriers in Canada or Mexico."

Organization for Economic Co-operation and Development (OECD)

<http://www.oecd.org>

The Web site of the OECD page provides information on OECD activities, news, and documentation. One interesting feature is links to the Centre for Co-operation with Non-members.

Sustainable Development.Org

<http://www.sustainabledevelopment.org>

Extensive links at this site lead to such sustainable development categories as agriculture, energy, environment, finance, health, microenterprise, public policy, and technologies.

United Nations Development Programme (UNDP)

<http://www.undp.org>

The UNDP helps people in 174 countries to help themselves by focusing on poverty elimination, environmental regeneration, job creation, and the advancement of women.

World Resources Institute

<http://www.wri.org>

The World Resources Institute provides information and practical proposals for policy and institutional change that will foster environmentally sound, socially equitable development.

We highly recommend that you review our Web site for expanded information and our other product lines. We are continually updating and adding links to our Web site in order to offer you the most usable and useful information that will support and expand the value of your Annual Editions. You can reach us at: <http://www.dushkin.com/annualeditions/>.

UNIT 1

Introduction

Unit Selections

1. **How Much for a Life? Try \$3 Million to \$5 Million**, Peter Passell
2. **Building Wealth**, Lester C. Thurow
3. **What in the World Happened to Economics?** Justin Fox
4. **Following the Money, but Also the Mind**, Louis Uchitelle

Key Points to Consider

- Is life priceless? Explain your answer in terms of the opportunity cost principle.
- Where does economic wealth come from, and how might it be increased?
- What are the main schools of contemporary economic thought?
- What assumptions do economists make about human behavior?



Links: www.dushkin.com/online/

These sites are annotated in the World Wide Web pages.

Economics: Complete Guide to Economic Resources on the Web

<http://economics.miningco.com>

Litigation Analytics: How Much for a Human Life?

<http://www.humanlifevalue.com/index.html>

Resources for Economists on the Internet

<http://econwpa.wustl.edu/EconFAQ.html>

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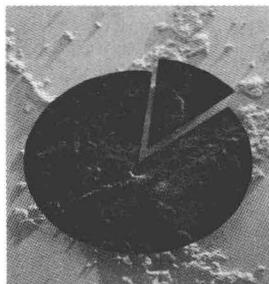
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UNIT 1 Introduction

Four articles discuss some of the basic theories that make up the foundations of the study of economics.

Unit Overview

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1. **How Much for a Life? Try \$3 Million to \$5 Million**, Peter Passell, *New York Times*, January 29, 1995

Much economic reasoning is based on the **opportunity cost** principle, the idea that any decision involving scarce resources must involve costs in terms of **for-gone alternatives** elsewhere. Peter Passell applies this principle to an age-old question: What is the value of a human life?

2

2. **Building Wealth**, Lester C. Thurow, *The Atlantic Monthly*, June 1999

Lester Thurow maintains that the world is currently in the throes of a **third industrial revolution**, in which knowledge—rather than natural resources—is the key to success. The knowledge-based economy is asking new questions, giving new answers, and developing new rules for generating wealth.

5

3. **What in the World Happened to Economics?**, Justin Fox, *Fortune*, March 15, 1999

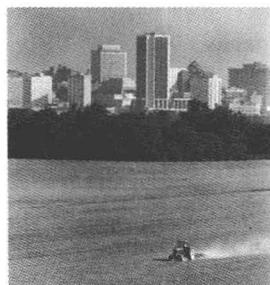
The field of economics has been the scene of some very public battles over the past half century. Recently, economists have attained a state of relative peace and consensus, but they have done so by diminishing their expectations. Justin Fox examines the **current state of economic thought**.

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4. **Following the Money, but Also the Mind**, Louis Uchitelle, *New York Times*, February 11, 2001

For more than a half-century economists have based their theories on the rigid assumption that **people act with rational, unemotional self-interest**. Recently, however, a new approach—known as **behavioral economics**—has emerged, which recognizes that human beings have another, feisty, side to them.

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UNIT 2 Microeconomics

Thirteen articles examine various concepts of microeconomics such as laws of supply and demand, government regulation, oligopoly, competition, and delivery of services.

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5. **The Company We'll Keep**, Joseph B. White, *Wall Street Journal*, December 31, 1999

Joseph White argues that in the **new millennium, corporations will be little more than brand names**, covers for frequent-flying, cyberspace-cruising freelancers who form virtual teams on wireless networks.

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The concepts in bold italics are developed in the article. For further expansion, please refer to the Topic Guide and the Index.

6. **Smoke Signals**, *New York Times*, New Jersey Sunday Edition, January 10, 1999
 One of the more useful concepts in microeconomics is **demand elasticity**, which measures the responsiveness of consumer demand to changes in prices. Recently, the New Jersey legislature doubled the state cigarette tax in an effort to reduce smoking. This article examines the impact this has had on cigarette sales in both New Jersey and nearby states. 28
7. **Entree Economics**, Eileen Daspin, *Wall Street Journal*, March 10, 2000
What does that restaurant meal really cost? Eileen Daspin calculates the prices that six American eateries pay for the food they serve and finds some surprises. Among them are that markups can amount to several hundred percent and that vegetarians tend to subsidize meat-eaters. 30
8. **How Burger King Got Burned in Quest to Make the Perfect Fry**, Jennifer Ordonez, *Wall Street Journal*, January 16, 2001
 Burger King wanted to be french fry king. Instead, as Jennifer Ordonez shows, it created a fast-food fiasco. This case study provides interesting details on the **importance of product differentiation** as a strategic device used by highly competitive firms. 33
9. **What Price Fairness?**, Paul Krugman, *New York Times*, October 4, 2000
 Recently, Amazon.com has been charging different customers different prices for the same items. The company insists that the price differentials were random, a way of testing the market. But, as Paul Krugman shows, this may suggest that Amazon is practicing **price discrimination**, which may be illegal under the Robinson-Patman Act. 36
10. **The Core of the Problem: Three Hard Years Push West Michigan Apple Growers Out of the Business**, Kathleen Longcore, *The Grand Rapids Press*, September 23, 2000
 Increased global competition, plus smaller crops resulting from freezes and blights, have recently **forced many apple growers out of business**. 38
11. **Is Big Bad?**, J. Bradford De Long, *Los Angeles Times*, April 9, 2000
 Should the 110-year-old **Sherman Antitrust Act** adapt to the changing nature of monopoly? J. Bradford De Long asks, How can we gain the benefits of efficient bigness and still keep the benefits of intense competition? 40
12. **As Mergers Get Bigger, So Does the Danger**, Louis Uchitelle, *New York Times*, February 13, 2000
 Seldom since the late nineteenth century, when corporate trusts dominated oil, steel, copper, and railroads in the United States, has there been such a **march toward concentration**. Louis Uchitelle considers the ramifications of megamergers. 42
13. **OPEC Is Back in the Driver's Seat**, Anna Bernasek, *Fortune*, July 9, 2001
 "Three years ago energy problems appeared to be the economic equivalent of smallpox—a once frightful scourge that had been eradicated." Then, in February 1999, the price of oil suddenly began to climb, and soon oil prices nearly quadrupled. Anna Bernasek explains **the crucial role that OPEC has played in this process**. 44
14. **The Real Price of Gas**, *International Center for Technology Assessment*, November 1998
 The retail price that Americans pay for gasoline appears to be very low in comparison with prices prevailing in most other nations. Adding in the many **external costs** that consumers pay indirectly by way of increased taxes, insurance costs, and retail prices in other sectors, this study estimates that **real per gallon price to be in excess of fifteen dollars**. 47

15. **Patent Medicine**, Dean Baker, *The American Prospect*, January 29, 2001
Absurdly high prices have put lifesaving prescription drugs out of reach for millions of Americans and for hundreds of millions of people in developing countries. According to Dean Baker, in large part, **patent protection** is to blame. 49
16. **Making Green Policies Pay Off: Responsible Climate-Change Package Can Benefit Environment, Workforce**, James Barrett and J. Andrew Hoerner, *EPI Issue Brief*, April 21, 2000
Because the economy is largely dependent on the consumption of fossil fuels that result in carbon emission by-products, concerns exist about the economy's ability to reduce these emissions without sacrificing output and employment. The authors show how **responsible policies might benefit both the environment and the economy**. 52
17. **Congested Parks—A Pricing Dilemma**, Dan M. Bechter, *Monthly Review (Federal Reserve Bank of Kansas City)*, June 1971
Overcrowding at public parks creates a **classic microeconomic dilemma**: Outdoor recreationists face insufficient parking spaces, which must be allocated through adjusting park fees. Dan Bechter investigates possible solutions to the problem. 56



UNIT 3

Income Distribution and Economic Justice

Ten articles discuss income distribution and economic growth by looking at income equality and welfare reform.

Unit Overview

18. **Growing American Inequality: Sources and Remedies**, Gary Burtless, *Brookings Review*, Winter 1999
For the better part of two decades, the **gap in earnings between rich and poor Americans** has increased steadily. The incomes of poor Americans shrank and those of the middle class stagnated while the incomes of the richest families continued to grow. Gary Burtless asks, Should we care? And, if we do care, what should be done about it? 62
19. **How to Define Poverty? Let Us Count the Ways**, Louis Uchitelle, *New York Times*, May 26, 2001
In public opinion polls, most Americans say that **poverty** begins at an annual income of \$20,000 or less for a family of four. Not even the Census Bureau (the official agency charged with gathering income statistics) believes its poverty numbers. The question is, How much (or little) money is enough? 70
20. **Debating the Minimum Wage**, *The Economist*, February 3, 2001
According to conventional economic analysis, increases in the **minimum wage** could result in two things: those who remain employed get higher incomes, while other, less productive workers lose jobs as employers trim payrolls. **The Economist** examines recent evidence and finds that this view may (or may not) be incorrect. 73
21. **What Next for Welfare Reform?**, Wendell Primus, *Brookings Review*, Summer 2001
William Primus explains why the **impact of welfare reform** has been neither as grim as its critics feared nor as encouraging as its advocates promised. He offers specific suggestions for remedying flaws in the present program. 75
22. **Social Security Reform, Privatization, and Political Ideology**, John B. Williamson, *The Gerontologist*, April 2001
The current debate over **Social Security reform** can be viewed as the contemporary manifestation of a long-standing contest between the right and left over the role of government in society. John Williamson examines the key issues concerning the privatization of the Social Security system. 79

23. **A New Medicare for the New Economy**, Jeff Lemieux, *Blueprint*, Winter 2001
 Jeff Lemieux argues that **Medicare reform** requires not only improving benefits for recipients but also using market forces to shore up the system's creaky inner workings. 83
24. **How to Slip Out of America's Housing Squeeze**, Christopher Farrell, *Business Week Online*, February 16, 2001
 A close look at the supply-and-demand equation suggests that the **affordable housing squeeze** is relatively easy to fix. As Christopher Farrell demonstrates, it is politics, not economics, that makes this problem so difficult. 87
25. **Equality in Hiring Remains the Key to Civil Rights Goals**, Alan B. Krueger, *New York Times*, June 22, 2000
 Since 1965, when the Civil Rights Act went into effect, median earnings of black full-time workers have gained ground on the earnings of their white counterparts. Alan Krueger shows that **discrimination** still persists, taking on more subtle forms that are less amenable to correction by legislation. 89
26. **New Unions for a New Economy**, Stephen A. Herzenberg, John A. Alic, and Howard Wial, *The New Democrat*, March/April 1998
How will American trade unionism fare in the twenty-first century? In the so-called New Economy, very few new jobs are broken down in classic production-line fashion, and productivity improvements depend more than ever on the ability of employees to solve problems and to improvise. The authors recommend ways in which unions can meet these challenges. 91
27. **Immigrants Fill Critical Gap in Wide-Open Job Market**, Dina Temple-Raston, *USA Today*, June 23, 2000
 With more than 9 million legal immigrants arriving on its shores in the past decade, the **current immigration wave** is the largest in U.S. history. Dina Temple-Raston traces the impact of this wave on U.S. job markets and wages. 95



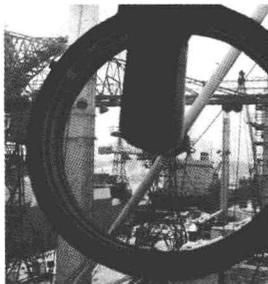
UNIT 4 Macroeconomics

Twelve articles examine various concepts of macroeconomics such as unemployment, deficit, fiscal policy, taxes, U.S. monetary policy, and globalization.

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28. **End of an Era**, Marianne Lavelle, Noam Neusner, and James M. Pethokoukis, *U.S. News & World Report*, October 8, 2001
 The economy was in deep trouble before the **terrorist attacks on September 11, 2001**, but what additional effects these horrendous events will have on our economy is the topic of this article. 100
29. **Terror's Toll on the Economy**, Jon E. Hilsenrath, *Wall Street Journal*, October 9, 2001
 The **effects of the September 11, 2001, terrorist attacks on the economy** continue to spread. Aftershocks trickle through almost every sector of the U.S. economy. In this essay, Jon Hilsenrath discusses the potential damages now and into the future. 105
30. **Sometimes the Economy Needs a Setback**, James Grant, *New York Times*, September 9, 2001
 The **boom-and-bust pattern** has characterized the United States' economy since before the railroads. Growth has been two steps forward and one step back, cycle by cycle. This fact tends to be ignored by those unwilling to accept the current downturn in the United States. 110

31. **The Mystery of Economic Recessions**, Robert J. Shiller, *New York Times*, February 4, 2001
Economists have yet to be able to pinpoint **what ultimately causes recessions**. Contrary to what many economists believe, changes in the level of confidence in the economy, not the Federal Reserve, is what basically determine its ups and downs. 112
32. **Just How Productive Are U.S. Workers?**, David Friedman, *Los Angeles Times*, July 9, 2000
Why did **U.S. productivity**, the nation's economic output per labor hour, suddenly accelerate in 1995 after decades of stagnation? David Friedman suggests that the answer will determine whether America is truly leading the world into a new, prosperous era, or whether its good times reflect unique circumstances that can, and likely will, change for the worse. 114
33. **Notes From Underground: Money That People Earn and Spend Outside the Realm of Official Economic Calculations Is Nonetheless Real**, Elia Kacapyr, *American Demographics*, January 1998
A large share of economic activity occurs in the **underground economy**, where goods and services—some legal, some not—are produced but not reported. Elia Kacapyr considers possible implications of proposals for regulating such activity. 116
34. **Taxing Terminology: A Primer**, Albert B. Crenshaw, *Washington Post*, February 11, 2001
The debate over President Bush's tax cut has produced a good deal of ill-informed or outright tendentious rhetoric from both sides, which serves as a reminder of how confusing the working of our tax laws are to ordinary citizens and to some government leaders. Albert Crenshaw shows how **an understanding of basic tax concepts** can demystify the debate over tax cuts. 117
35. **Go Figure**, Jodie Allen, *The New Republic*, July 31, 2000
If tax breaks aren't simple, neither are they very efficient. It has been documented that **tax preferences mostly subsidize activities that would have occurred anyway** (such as saving money, hiring workers, or having kids). Much of the money doesn't go toward the intended purpose at all. 120
36. **What Should Central Banks Do?**, Frederic S. Mishkin, *Review (Federal Reserve Bank of St. Louis)*, November/December 2000
In the last 20 years, there has been substantial rethinking about **how central banks should do their job**. Frederic Mishkin discusses seven basic principles that can serve as useful guides for central banks to achieve their objectives. 122
37. **The Science (and Art) of Monetary Policy**, Carl E. Walsh, *FRBSF Economic Letter (Federal Reserve Bank of San Francisco)*, May 4, 2001
While economists have identified broad principles to guide monetary policymakers, making policy is not a science. Good policymaking requires good policymakers since it requires **combining the science of the economist with the art of the practitioner**. 133
38. **The New World of Banking**, Jim Campen, *Dollars and Sense*, May/June 2000
The Gramm-Leach-Bliley Financial Service Modernization Act of 1999 makes possible a new kind of corporation—called a **financial holding company**—that allows any number of banks, insurance companies, and securities firms to be brought together under the same corporate umbrella. Jim Campen suggests that the result is likely to be another wave of financial megamergers. 136
39. **Who Needs Money?**, *The Economist*, January 22, 2000
"E-cash" (or electronic money) is money that moves along multiple channels largely outside the established network of banks, checks, and paper currency that are overseen by the Federal Reserve. **The Economist** discusses what e-money might mean for the future of banking and the monetary system. 140



UNIT 5

The Changing Global Economy

Thirteen articles examine the impact that current events have on the overall stability and alignment of the world economy.

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40. **Counting the Costs**, Alkman Granitsas, *Far Eastern Economic Review*, September 27, 2001

The September 11, 2001, terrorist attacks on the United States has had and will continue to have a **significant effect** on almost **all world economies**.

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41. **Global Economy Just Got Weaker**, David R. Francis, *The Christian Science Monitor*, September 26, 2001

The world's economy was facing a slowdown before the terrorist attacks in New York and Washington on September 11, 2001. But, as this article points out, **economic forecasts have been reassessed**, and they are found to be even more gloomy than expected.

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42. **The Internet Economy**, Robert E. Litan, *Foreign Policy*, March/April 2001

New technologies change the ways that firms throughout the economy do business. Governments are starting to regulate the **Internet**. Robert Litan asks, Will some kind of international collective action be necessary to ensure that various national regulations do not artificially choke global Internet commerce in the future?

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43. **The Fall and Rise of the Global Economy**, John G. Fernald and Victoria Greenfield, *Chicago Fed Letter (Federal Reserve Bank of Chicago)*, April 2001

The worldwide integration of national economies—through goods and services trade, capital flows, and operational linkages among firms—has never before been as broad or as deep. John Fernald and Victoria Greenfield describe developments that contributed to the globalization process.

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44. **Reforming Globalization**, Jay Mandel, *Challenge*, March/April 2001

While **globalization** has reduced barriers to the movement of goods and capital across national boundaries, it **has also created a series of problems**, including job losses, increasing income inequality, and stagnant or deteriorating real wages. Jay Mandel examines the role that multinational corporations have played in globalization.

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45. **America's Record Trade Deficit: A Reflection of Economic Strength**, Daniel T. Griswold, *USA Today Magazine (Society for the Advancement of Education)*, May 2001

According to Daniel Griswold, "the **contention that trade deficits somehow damage the U.S. economy** is directly challenged by its superior performance during times when they are rising."

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46. **Eliminating Child Labor**, Miriam Wasserman, *Regional Review*, Second Quarter 2000

Much of the developing world continues to rely on **child labor**. Miriam Wasserman asks, Can we learn from the U.S. experience about what is required for its elimination?

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47. **Trade in the Americas: All in the Familia**, *The Economist*, April 21, 2001

The **Free Trade Area of the Americas (FTAA)** would create the world's largest trading zone, stretching from Alaska to Argentina. The Bush administration is all for it; South America's biggest economy, Brazil, is not so sure.

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48. **The Core of the Global Economy**, William Richard Smyser, *The World & I*, April 2001

The combined gross domestic product of the United States and the **European Union** is \$18 trillion, dwarfing all other economic relationships in the world. The author investigates recent trends and future prospects for this alliance.

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49. The Rap on Russia , Phillip Merrill, <i>The International Economy</i> , March/April 2001	
According to Philip Merrill, <i>Russia is a Third World economy</i> with a government that still considers itself a First World power. The country is in an economic mess, but it is not a threat to the West. Merrill argues that the job of U.S. policymakers over the next few decades is to fully integrate Russia (and China) into the world economy.	181
50. China's Economic Power: Enter the Dragon , <i>The Economist</i> , March 10, 2001	
Although still poor by traditional standards, <i>the Chinese economy</i> could potentially experience extraordinary growth over the next two decades and become the second largest economy in the world. In this article, <i>The Economist</i> considers possible implications for both China and the world economy.	183
51. Some Nations Fail to Close Gap , Lester C. Thurow, <i>Boston Globe</i> , February 20, 2001	
Big <i>differences in per capita GDPs across countries</i> are a rather recent phenomenon. Poor countries like to talk about the digital divide making the economic divide bigger, but, according to Lester Thurow, the digital divide is not a divide among rich and poor—it is a divide between those with and without education.	186
52. Changing Today's Consumption Patterns—for Tomorrow's Human Development , United Nations Development Programme, <i>Human Development Report</i> , May 1998	
<i>World consumption</i> has expanded at an unprecedented pace over the twentieth century. As this United Nations report shows, competitive spending and conspicuous consumption have turned the affluence of some into the social exclusion of many.	188
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