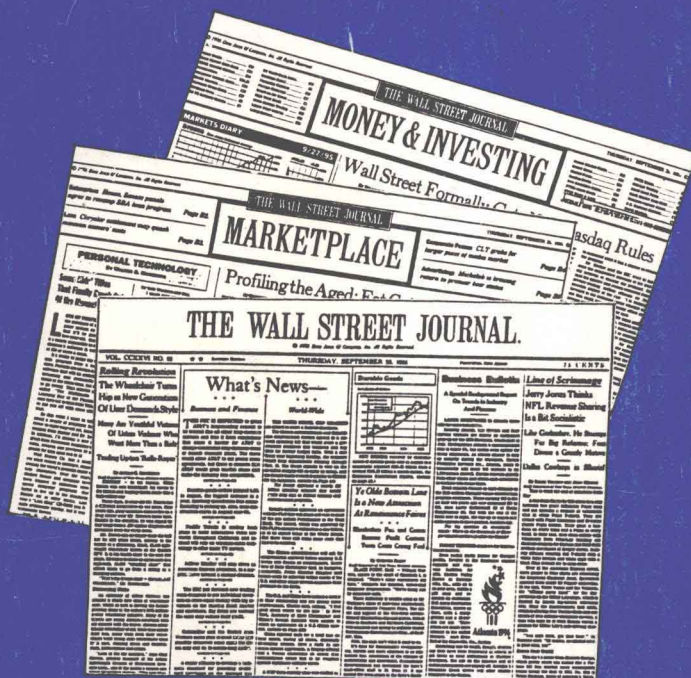


Case Studies in Macroeconomics

selections from
THE WALL STREET JOURNAL.



David Colander
and
Jenifer Gamber

Case Studies in Macroeconomics

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Preface for Professors

Most texts are filled with terminology, concepts, and exposition of the framework used by economists. Somehow, though, the texts fall short of showing students how those concepts work in the real world. There is a simple reason why — there is a lot to cover in a principles textbook. Could you imagine a thicker principles textbook than you already have? To include a case study for each major topic it would have to be, and the task of reading it all would be even more daunting for students.

Still, an economics class needs *something* to make the concepts come alive. Since most of your students will not continue in economics, the introductory course will be their only experience with economics. If we can find a way to show them that the tools of economics can be used to analyze nearly every aspect of our lives, we will have started them on the trail of a better understanding of their world.

After brainstorming about how to make your introductory economics course come alive we decided that a book of case studies from *The Wall Street Journal* would be one of the most helpful tools—hence this book. It provides a case for each of the traditional chapters in a macroeconomics course.

We see it as a supplement to *The Wall Street Journal*, not a substitute for it. Current knowledge of national events and business happenings enrich classroom discussion of the classroom material and the case studies in this book. This book gets students in the habit of relating the articles they read in *The Wall Street Journal* with economics, and it gets them in the habit of relating their text to the real world. The professor can assign the relevant case studies for the chapters the class is covering and have the students search out and discuss other articles relevant to the course that appear in *The Wall Street Journal* that week.

Chapter numbers in this case studies book follow chapters in Colander's *Macroeconomics*. For example, Chapter 14 of this case studies book, "Clearly the Chairman Tries to Obfuscate — Or Maybe He Doesn't," discusses the oratory style of the Federal Reserve Chairman. It is best assigned when covering Chapter 14 of Colander's *Macroeconomics* on central banks and the Fed. If for some reason you are not using Colander's *Macroeconomics* (the only reason we can think of is that you are not teaching an introductory macroeconomics course) *Case Studies in Macroeconomics* can easily be used with other texts or in combination with *The Wall Street Journal* alone. To make it easier to do so, we provide a subject index on page *xi* which lists major topic areas in macroeconomics and relates them to the case studies.

Each chapter in this case studies book is organized in the same way:

1. a brief introduction to the case describing how it relates to the chapter, and giving students some ideas to think about as they read it;
2. margin comments highlighting important aspects of the article, and relating them to the textbook;
3. key terms that students should keep in mind as they think about the article; and
4. four or five questions for thought and review.

All margin comments and key terms are followed in parentheses by page references to Colander's *Macroeconomics*.

This book is designed primarily to be used in a class in which students are assigned to read *The Wall Street Journal* each day. In our experience we have found that students need some guidance in reading the *Journal* quickly — hence the preparatory chapter entitled “Reading *The Wall Street Journal*.” It presents a guide to reading the *Journal* in 30 minutes a day.

In our classes, we also use *The Wall Street Journal* as the basis for writing assignments, and our students need some guidelines on writing an essay— hence the preparatory chapter entitled “Hatching an Essay.” We encourage professors to require students to write. Writing is another important tool for students that needs emphasis whenever possible. The questions at the end of each case study can be used as writing assignments in your class.

This was a fun book to write. We like *The Wall Street Journal* and find that it helps us teach economics and helps the students learn economics. We have found that by being required to read *The Wall Street Journal* daily, students will begin to appreciate how knowledge of the real world, along with tools of economic analysis, can improve their understanding of the world around them.

We would like to thank a number of people who assisted in preparing this book — Umar Sarajudin, Shenna Bellows, Kirk Kjeldsen, and Helen Reiff. They helped sift through articles, develop the framework, secure copyright permissions, and finally copy edit and proofread the manuscript. Their contribution was invaluable. We would also like to thank Gary Nelson of Irwin, who was supportive throughout the process; *The Wall Street Journal*; and especially, the reporters and authors of the articles.

How to read the case studies

(for students)

This book of case studies is written to show you how economics can be used to analyze many different topics. Each chapter presents an article, gives you a brief discussion of that article and how it relates to economics, and, finally, asks you questions about the article.

The brief introductory discussion of each case study highlights the economic tools and terminology you need for a full understanding of the article. These are concepts and terms you should keep in mind when reading the article. You will also find these terms listed and defined in the margins of the article and again listed at the end of the article. The numbers in parentheses next to the terms refer to pages where these terms are defined in Colander's *Macroeconomics*, second edition. You may want to refer to your text for more information about them.

After each introduction, *The Wall Street Journal* article is reprinted, with large margins so that we could print key terms and points to guide you through the article. The key points and terms are placed alongside those paragraphs to which they relate. The margin comments highlight important aspects of the article and relate them to the textbook. Again, the numbers in parentheses refer to pages in Colander's *Macroeconomics* which cover the terms and key points. Here's an example of what appears in the first chapter. It is excerpted from the article.

Thought (Joseph Stiglitz, Council of Economic Advisers): "Financial instability of major financial institutions can cause significant externalities in the form of systematic disruptions."

Translation: If a lot of banks fail, it causes problems in the economy.

Externality Effect of a trade or agreement on third parties that people did not take into account when they entered the trade or agreement. (97)

The term "externality" appears in the article and is defined in the margin to give you a better idea of what Joseph Stiglitz is saying. "Externality" is defined on page 97 in Colander's *Macroeconomics*. At the end of each article is a copyright notice with a date of publication.

After each article is a list a key terms. At the end of each selection four or five questions are given. You may be asked to answer these in essay form as homework. We want to emphasize that many of these questions have more than one right answer, and some have no right answer. How your professor grades your answer will depend upon the strength of your argument, the structure of the analysis, and how well you write your essay. If you are writing an essay you may want to refer to the preparatory chapter, "Hatching an Essay," in this book. It gives you 20 rules of writing to get you on the path to an A.

We have enjoyed reading *The Wall Street Journal* for many years. It makes economics come alive. We hope these case studies will give you a sense of the importance of reading *The Wall Street Journal* to understanding the world around you better, and also create in you a spark of excitement for economics. Enjoy.

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Reading the Wall Street Journal

This book has three purposes. The first is to familiarize you with applications of economic ideas — as they are applied to real-world cases. The second is to familiarize you with *The Wall Street Journal*, which is one of the best and most relevant newspapers for economics in the world. The third is to give you some practice in reading critically and expressing yourself effectively both verbally and through writing. These are important skills that will serve you well in business, economics, or in any pursuit.

The book is organized around articles in *The Wall Street Journal* because *The Wall Street Journal* is a great newspaper. Reading it is an excellent way to learn about how the economy really works. It is not that the textbook does not tell you how the real world works — it does, but in an abstract way. To make the abstract ideas come alive, most of us need specific examples to bring out the principles, and to show us where the principles apply and where they do not. That is what this case book is designed to do. In it we present one article from *The Wall Street Journal* relevant for each chapter of the Colander text and show how that article relates to principles developed in the chapter, and how these principles work out in the real world. We then give you the opportunity to think, speak, and write critically, using both the article and the tools of economics. Working through this book will give you a much better understanding of economic reasoning and what it means to think like an economist.

Each case starts with a very brief review of the central economic points from the chapter that relate to the article. Next the article is reprinted with key terms and key points from the chapter annotated on the side. The annotations are designed to help you focus on the economic fundamentals in the article. The article is followed by four or five essay questions.

A Brief Introduction

The Wall Street Journal, when you first look at it, is daunting. A likely first impression is “There is no way I am going to be able to read that whole paper every day and have time for anything else.” We agree, if you try to read every page. But that is not the way to read the paper. A successful student will spend about 30 minutes each day reading the newspaper. That, at least, is the length of time businesspeople will spend. They do not have the time to read the entire paper, but nonetheless they can extract the pertinent information from it in about 30 minutes per day.

So, let’s begin by providing you with a brief introduction to *The Wall Street Journal* as we think it should be read by an introductory economics student.

Efficient Information Processing

The key to getting the needed information in a short period of time is *efficient information processing* — scanning the headlines and the places in the *Journal* where the relevant information will likely appear and then reading carefully only those articles about those issues you are studying or need to know about. This process of efficient information processing is central to succeeding as a student and a businessperson.

4 Reading The Wall Street Journal

To process information efficiently, you must know what you are looking for. As an economics student you are naturally interested in economics, which means that 80% of the newspaper can be scanned briefly and is not directly relevant to the course. We focus here on the remaining 20% which relates directly to your economics class.

Structure and Layout

Second, you need to know the structure and layout of the information source. Exhibit 1 gives you the general layout of the six pages of the *Journal* that are of primary focus for economics students.

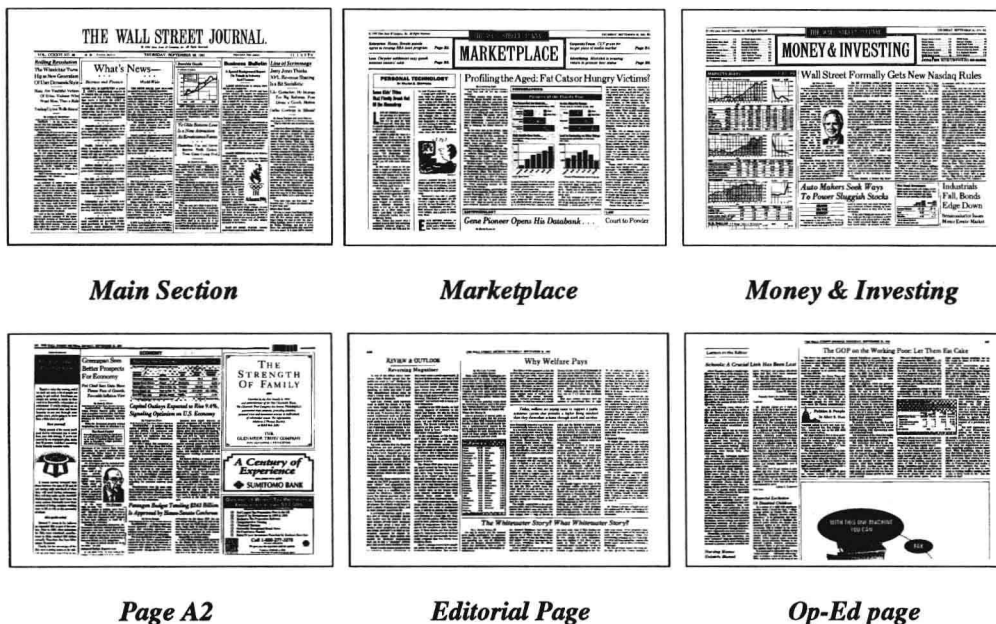


Exhibit 1 The top three pages are the three first pages of each of the three sections. The bottom row is the second page of the first section, and the two editorial pages.

Let's go through a general introduction, and then talk about specific strategies for reading *The Wall Street Journal* in reference to the pages in Exhibit 1.

Note first that the *Journal* consists of three sections—A, B, and C. Section A is the primary section. Section B, titled *Marketplace*, addresses lots of micro issues including advertising, distributing, packaging, law, and technology. The third section, *Money & Investing*, is an in-depth review of financial data and statistics.

For the general reader, or the beginning student of economics, the first page of each section is the most important. That is why they are included as three of the crucial pages. Inside subsections are of interest to particular subgroups. Economics students are interested in page A2 (page 2 of section A) and the two editorial pages. That is why these three pages are shown in the above exhibit. So there it is — the entire *Wall Street Journal* reduced to six pages. That should sound manageable. Now let's look specifically at those six pages and their sections.

Must Reading for Economics Students

First Page, Section A

Most important for students enrolled in both macroeconomics and microeconomics classes is the first page of section A. This page will cover about 50% of what is relevant to an economics course. Looking at several different front pages, you notice that they are arranged in a similar way. The front page has six columns, each of which is home to a different set of columns. *What's News* appears in columns two and three and provides a glance at the contents of the newspaper and other summary stories. The leders (an old British term that implied a story that “led” the paper) appear in columns one and six. Column four provides a quick look at economic data in a *Performance Graph*. Below that follows the A-hed, so named because the box around the headline and the asterisks below the main headline look something like an A. Column five is a rotating column covering issues that affect business. We consider each of the rotating columns in turn giving you examples from specific issues.

What's News. Business executives are busy people without the time to read everything, so their news is predigested for them in the two-column *What's News*. The right-hand column of *What's News* is a rundown of world events — French nuclear weapons testing, rebellion in Iraq, conflict between the Arabs and Jews in Israel, the latest action taken by Congress, etc. While knowledge of these events is only indirectly related to your understanding of supply and demand curves, it is good to know what is going on in the world outside. There is more to life than economics. Really.

The left-hand column is a summary of business and finance events, for which more complete stories can be found in the paper. Skim this for topics that are covered in your courses. A Wednesday, May 24, 1995, issue's list of events includes the fact that the Federal Reserve decided not to change its interest rate. The articles related to this news item reinforce the explanation of monetary policy given in Chapter 14 of Colander's *Macroeconomics*. So since you are in a macroeconomics class, read that article.

Another item in *What's News* mentions a voluntary safety recall to replace or fix faulty seat-belt buckles in over eight million vehicles produced between 1986 and 1991 by U.S. and Japanese auto makers. This raises cost/benefit issues and the valuation of human life discussed in Chapter 19 of Colander's *Microeconomics*. So if you are in a microeconomics class, read that article.

Other events may involve concepts in both your macroeconomics text and microeconomics text. Following up on the brief item about the United States and Japan vying for support from the European Union in their trade conflict helps to connect Chapter 5's introduction to the world economy to Chapter 21 in Colander's *Microeconomics*. This left-hand side of *What's News* is your guide to the inside of the paper.

The Leders. After scanning *What's News*, look at the titles of the right- and left-hand leders. These are the day's feature stories, and cover a wide range of topics which may or may not be significant to an introductory class in economics. A glance at the title usually tells you. The June 7, 1995, issue's left-hand leder, “More Russians Work Harder, Boost Income, Enter the Middle Class,” intertwines the subjects of inflation and weak currency, raised in your macroeconomics textbook, with a microeconomics discussion of the changing definition of the Russian middle class.

The right-hand leder is titled “A Big Bet Made Intel What It Is Today; Now, It Wagers Again.” The article's subtitle, “Can Demand Grow So Fast?” gives you a clue that the article is worth reading, especially if you are also studying microeconomics. But it is relevant to macroeconomics because it gives you a sense of business's investment decisions. A quick read-

ing reveals a discussion of the interaction of supply and demand in the microprocessor market. The concept of economies of scale presented in the textbook makes sense as one reads about Intel's success. The leders are not always so relevant to economics, but you should always look at the titles.

The A-hed. Next, take a look at the A-hed, the fourth column. This column is often offbeat and humorous. It may not address any economics concerns you thought you had, but you will probably enjoy the story. "The Fur is Flying Over Rare Cat Breed Called the Munchkin" crows a June 12, 1995, A-hed. Laughing all the way through the commentary on a debate in the cat fancier's world over a new breed of cat with legs that are half as long as those of a normal cat, one also obtains an understanding of how demand can be created.

After the A-hed, take a look at the *Performance Graph* above the A-hed. It gives you a picture of what has happened to some economic variables such as steel production or unemployment. A glance a day at this will give you a quantitative measure of various sectors of the economy.

The Rotating Column. Finally, check out the rotating column, the fifth column. Each day of the week is reserved for specific report of issues that affect business. Let's take the week of Monday, May 22, to Friday, May 26, 1995, for example.

Monday's Outlook. Monday's *Outlook* contains information useful for macroeconomics. Articles in this column are both domestic and international in nature and cover mainly markets and investing. Articles in this column, unlike those on page A2, are written with a specific point of view. They begin with a statement regarding a trend or policy and then provide evidence to support their perspective. This column is open to any *Journal* reporter, and articles are chosen by competition.

Let's look at the article for May 26, 1995: "Poor Auto Sales Shock and Puzzle Detroit." Bells should ring if you have read Chapter 6 of Colander's *Macroeconomics*. An understanding of coincidental and leading indicators, as well as the relationship between the business cycle and unemployment, helps you to understand the article, which in turn helps you to understand those terms in the context of our economy. The relationship is reciprocal. Reading the text enables you to understand happenings in the business world, just as reading newspaper articles helps you to assimilate the textbook information better.

Tuesday's Work Week. Tuesday brings the *Work Week* with news on trends in employment, government action on the labor front, and labor/management relations. Again, the trick is to sort the relevant from the irrelevant. Your professor may not care whether or not you form an opinion about a possible confidentiality breach in the anticorruption campaign within the Laborers' International Union, but pay attention to statehouse battles erupting over changes in laws governing the workplace. The invisible foot may not always step softly.

Wednesday's Tax Report. Wednesday hosts the *Tax Report*. As an old saying goes, you can be sure of two things in life — death and taxes. Reading over the tax report can help you understand the role taxes play in the economy and in redistributing income. Unless he is a relation, in which case you should write him a letter of congratulations immediately, you do not need to remember or even read that John S. Nolan won a 'distinguished service award' from the American Bar Association's tax section. However, do ask yourself why tax revenues are not growing as quickly as incomes grow.

Thursday's Business Bulletin. Thursday brings the *Business Bulletin* covering trends in business and finance. Butter and bad drivers are on the rise. So what? Well, ask yourself why. The increase in quantity of butter demanded reflects the decrease in price brought about by the elimination of government price supports. Supply and demand curve movement, government