



# The Bloomsburg Economist



THE OFFICIAL JOURNAL OF THE BLOOMSBURG UNIVERSITY ECONOMICS CLUB

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## Continuing to Expand through Quality and Quantity

As we welcome winter break and see the fall semester come to a close, The Bloomsburg Economist continues to expand thanks to hard work and dedication from a growing staff. This is our fullest journal yet, as we continue to gain interest from club members and students interested in economics.

In our second journal of the semester, we have grown to eight contributors from the Economics Club. I am proud of the diversity of this journal, as we have a balanced journal covering business and political economics. With every new journal we attempt to maintain the excellent work contributed in the past, but strive to improve both through quality of writing and a thicker journal.

This journal contains a brief overview of economic statistics and indicators, as well as nine well-written articles from economics students and club members. The articles are relatable to current events spanning from our state of Pennsylvania, to events across the globe. Again, we thank you for taking the time to read our editorials, and for the continued support. We continue to strive to make this journal a high-quality and reputable publication that is representative of The Bloomsburg Economics Club and Bloomsburg University. Enjoy your winter break!

- Antonio Campanelli



# Statistics & Economic Indicators

**Unemployment rate-** The US Unemployment rate increased to 7.9% in October, up from 7.8 in September (Bureau of Labor Statistics)

**Employment Change-** 171,000 jobs were added in October (Bureau of Labor Statistics)

**Average Hourly Earnings-** The average hourly earnings of a US employee dropped 1 cent to \$23.58 an hour in October from \$23.59 in September (Bureau of Labor Statistics)

**Trade deficit -** The trade deficit in goods and services decreased to \$41.5 billion in September from \$43.8 billion in August (revised), as exports increased more than imports. (Census.gov)

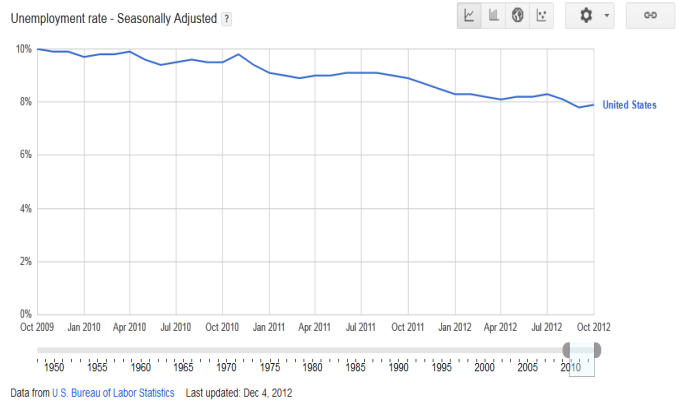
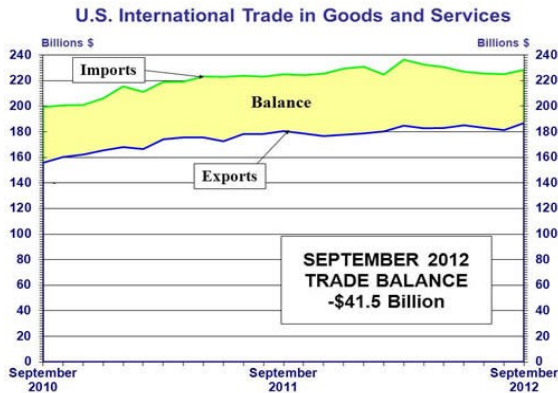
**Inflation rate-** The US inflation rate increased to 2.16% in October, up from 1.99% in September (Inflationdata.com)

**National Credit Score Median-** The current median credit score is 723 (Fico)

**Student debt-** Two-thirds of the class of 2011 held student loans upon graduation, and the average borrower owed \$26,600 (Cnnmoney.com)

**PA unemployment rate-** The Pennsylvania unemployment rate remained unchanged at 8.1% in October (U.S. Bureau of Labor Statistics)

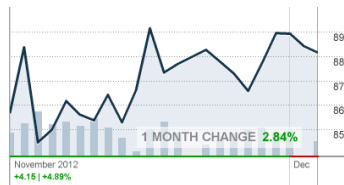
## United States Unemployment Rate



## Commodity Statistics

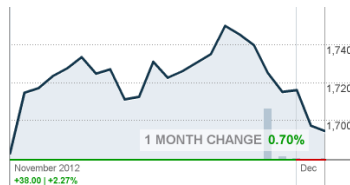
### Price of crude oil

\$88.50 per barrel (12/5/12), down from our previously noted \$92.70 per barrel (10/10/12)(Money.cnn.com)



### Price of gold

\$1695.80 per ounce (12/5/12), down from our previously noted \$1,773.00 per ounce (10/10/12) (Money.cnn.com)



## US Stock markets

(Money.cnn.com) (12/5/12)

**Dow Jones Industrial Average-**  
13,081.68 (+7.07% Year-to-Date)

**Nasdaq Composite Index-**  
2,993.79 (+14.66% Year-to-Date)

**S&P 500 Index**  
1,406.69 (+12.47% Year-to-Date)





- BU Economics Club will resume in the spring, semester enjoy your winter break!
- If you are interested in joining the BU Economics Club, please email Anthony Wagner at [aww99236@huskies.bloomu.edu](mailto:aww99236@huskies.bloomu.edu)
- Follow BU Econ Club on twitter! @BUEconomics



## Top State Economic Story

By: Kelly Murray

### PASSHE Strike: From a Student's Perspective

The buzz around campus lately has been the possibility of the faculty going on strike in order to get a contract finalized. Since July 2011, the faculty have been operating without a contract and using the old contract as a reference for the time being. Faculty would like a contract and the only way to get through to the Pennsylvania State System of Higher Education (PASSHE) would be to strike. Right now the Association of Pennsylvania State College and University Faculties (APSCUF) and PASSHE are trying to come to an agreement but it is a slow process because each side has different views on the proposals being made. Negotiations about the contract have been going on for 22 months now and nothing has seemed to be solved. Some of the topics at hand are fair treatment of adjunct faculty, healthcare issues, and pay. Basically, the faculty are asking to be fairly compensated for the work that they do and the State is trying to stay within its budget and be as fair as possible to the faculty. This is a typical compensation issue, both sides feel they are being fair in their own eyes but neither see eye to eye on all issues.

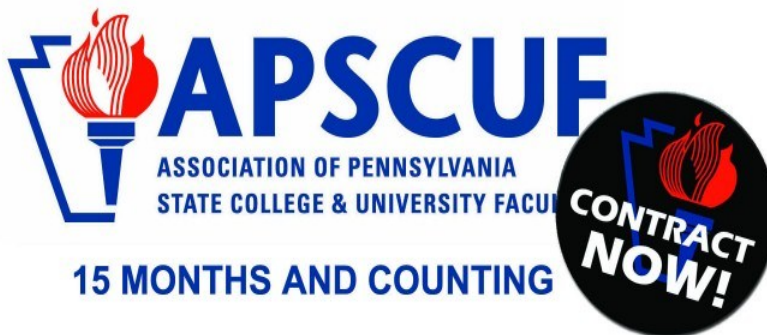
In October, the 14 state schools voted to ap-

mine if they would authorize APSCUF to call a strike in a short notice—95% of the faculty across Pennsylvania state systems voted in favor of a strike. This is the first time in the 30 years since PASSHE has been established that a strike has been authorized. We do not know as of yet when the faculty will strike, or if they will even strike at all. Students will be notified and informed on details if the professors do decide to strike. An email from Dr. Stolz informed us that Bloomsburg University will operate as normally as possible if the faculty does strike.

There are a lot of questions still unanswered, such as when the strike could happen and what this could mean for students looking to

faculty to negotiate a fair contract. This strike not only affects our professors, but students as well. Many of us are concerned that if this strike were to take place during the school year, it could offset our graduation dates and push us back. One thing we can all agree on is that we hope the possibility of a strike will just be a thought and not fact. I believe that the strike is just an effort to show PASSHE how upset the faculty members are and how serious they are for a fair contract. I hope that the state and faculty can

come to an agreement and compromise so that we can continue on without an interruption to our education. The decision to authorize a strike by faculty was not taken lightly, they want to see us succeed and this is the main reason they hold a position at our universities, and negotiated for 22 months before calling and authorizing a strike.



prove a strike authorization. Since then, an authorization vote by all faculty members took place in the week of November 12 to deter-

graduate. The professors say they don't intend to interfere with our education and that they are here for us. The strike was a last resort for

# Top National Economic Story

By: Dylan Huth

## The Economic Impact of Hurricane Sandy

On October 29<sup>th</sup>, Hurricane Sandy, a Category 1 storm, hit the East Coast. "Superstorm Sandy" as expert meteorologists called it, hit New Jersey and New York especially hard with intensive hurricane force winds over 85 mph causing life-altering damages. The damages are estimated to cost up to \$10-20 billion in infrastructure damages alone, and the total losses could be over \$50 billion, making Hurricane Sandy the second-costliest Atlantic Hurricane in history behind Hurricane Katrina (\$108 billion). In comparison, Hurricane Irene was estimated to cost only about \$15.8 billion. In New Jersey, Governor Chris Christie reported estimated damages of \$29.4 billion and in New York, Governor Andrew Cuomo reported that the storm cost New York about \$33 billion. Economic damages include property damage from wind, rain, flooding, and also consist of intangibles such as business interruption and additional living expenses. Damage to infrastructure utilities includes roads, water, power, and municipal buildings that may or may not be insured. According to the Department of Energy, Hurricane Sandy knocked out electricity for more homes and businesses than any other storm in history. Superstorm Sandy's major impact was on the unemployment rate and was estimated to take 0.5 percent of real GDP (Gross Domestic Product). Overall, the storm was estimated to have a modest effect on overall GDP in either the 4<sup>th</sup> quarter or early next year. As a result of rebuilding efforts from Hurricane Sandy, reconstruction and related purchases and hiring may range from \$140 billion to \$240 billion and add 0.5 percentage points to U.S. economic growth next year, assuming the estimated \$50 billion in losses. A large reason why the impact could vary from severe to mild depends on Capital Stock. The rate at which New York and New Jersey transportation infrastructure is repaired will determine how quickly the regional economy bounces back. Airliners can-

celled more than 8,962 flights due to the superstorm and Amtrak suspended train passenger service across the Northeast on Monday October 29<sup>th</sup> and Tuesday October 30<sup>th</sup>. A major impact on the \$33.5 billion tourism industry in New Jersey is the issue of hurricane washing away tons of sand and slimming down beaches. The average loss statewide was 30 to 40 feet of beach width, and in some areas half of the beach width was washed away. From 1986 to 2011, nearly \$700 million was spent placing 80 million cubic yards of sand on about 55 percent of the famous 127 mile New Jersey coastline. In Seaside Heights, Mayor Bill Akers reported that he is working with the Coast Guard to see if the Seaside Heights coaster is stable enough to be left alone because he believes it would make "a great tourist attraction." Construction on the boardwalk in Seaside should begin in January and is expected to be ready by Memorial Day. As of November 21, U.S. unemployment aid remained elevated for the second week in a row as a result of temporary layoffs due to Hurricane Sandy. In the first week after Superstorm Sandy, the number of first time applications for benefits went up by 90,000 to 451,000, an 18-month high. During the second week, the number of applications for benefits fell by 41,000 to a seasonally adjusted 410,000. Before Hurricane Sandy hit the East Coast, the number of weekly applications for benefits fluctuated from 360,000 to 390,000 for 2012 and the unemployment rate for the year is at 7.9%. The number of unemployment claims in Pennsylvania went up by 7,037 due to temporary layoffs

in construction and transportation as a result of Hurricane Sandy. The number of unemployment claims in New York increased by 43,956 making New York the hardest hit due to temporary layoffs in construction, restaurants, and transportation. New York State recently received good news thanks to a \$27 million federal grant that will allow the state to hire 5,000 young and unemployed residents to help clear debris and distribute supplies in areas affected by Hurricane Sandy. The jobs will pay \$15 per hour and could last up to 6 months. In the aftermath of the storm more than 7.5 million people remained without power across the East Coast for days, and as long as weeks in the areas hit hardest by the hurricane. The New York Subway system service was interrupted and was shut down due to flooding from Hurricane Sandy. President Obama declared a major disaster in New York, Long Island, and New Jersey on Tuesday October 30<sup>th</sup> making federal funding available to people in the area. Construction and rebuilding efforts are underway to rebuild the boardwalks, homes, and businesses that are among the many things that need to be fixed.



# Top International Economic Story

By: Jaimie Hoffman

## Accelerating Globally: The Next Eleven Emerging Economies

The world has come a long way since the end of World War II in many aspects. National economies have become tightly woven together creating a worldwide interdependence that is very fragile. International organizations, such as the United Nations, have been formed to bring the countries together on a political level to help resolve issues and to help less fortunate countries. While some countries are developing rapidly, others are moving at a slower pace. For a long time the BRICs (Brazil, Russia, India, and China) were the up and coming economies, but more recently the N-11 has been catching up in development.

Since 2001, the BRIC nations have been emerging politically and economically, and progressing towards the future with rapid development. They have increased their political cooperation and have some of the fastest growing economies in the world. These four countries are comprised of 25% of the world's land and 40% of the population. Today, these countries are developing at phenomenal rates and some could surpass today's developed countries by 2050.

In 2005, Goldman Sachs re-evaluated many countries' advancement levels and added a group of eleven countries that are competing with the BRICs in terms of development. These countries are called the Next Eleven, or simply put, the N-11. The N-11 consists of Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Turkey, South Korea, and Vietnam. Just as with the BRICs, the N-11 was grouped together because of shared characteristics of swiftly rising populations as well as a significant potential for industry to grow to

create opportunities for businesses both locally and internationally, in other words, a rapidly growing Gross Domestic Product. These two factors show that there is a growing consumer market in these countries paired with an increased earning potential for individuals.

Even though the N-11 shares many characteristics which group them together, they also have differences that are causing them to develop at different rates. As we know from simply watching the news, countries such as Iran, Pakistan, and Egypt are not places that are going to gain a lot of foreign direct investment because of their international roles. This hinders their ability to grow as fast as a country, such as South Korea, that is considered an ally of the United States. A factor that can explain a country's ability to grow is its relationship with the United States and its close allies. Because of this, they are not at the same level of economic development, so consumer-focused businesses must target and categorize the countries in different ways. These two categories are the "developing economies" and "newly industrialized" economies.

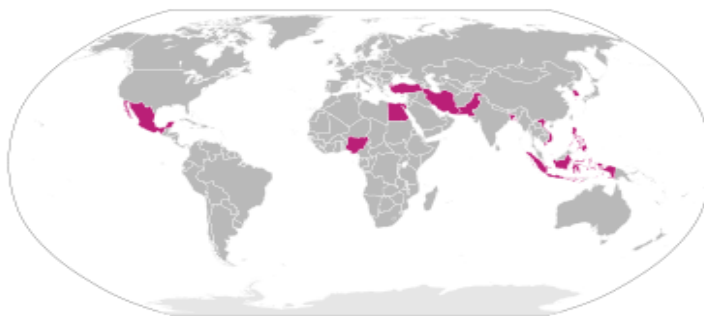
The developing economies have a lower standard of living and less capacity to create products. Developing economies include Bangladesh, Iran, Nigeria, Pakistan, Indonesia, Egypt, Turkey, Philippines and Vietnam (basically all of the N-11 with the exception of South Ko-

rea). The success of these countries is based largely on the business environment that they offer. Take Iran for example, the country has received the least amount of foreign direct investment out of all 135 economies. This could be due to its authoritative regime and sanctions placed by the United States indicating that Iran is investor unfriendly with a bad business environment. Another example is Egypt, that has been in political turmoil and unrest for the past several years. This alone makes Egypt too high of a risk for investors, thus hindering advancement.

The newly industrialized countries, i.e., South Korea, have advanced much more rapidly with a greater industrial capacity and more skilled workers. South Korea is also more technologically advanced and has the capability to export more expensive products, such as cars and electronics.

The future of the N-11 is still blurry as many variables are contributing to their success on the domestic and international scales. The growth of these countries is heavily depended on their exports to consumer countries such as the United States. Stability within these countries will contribute to their growth, as seen in Egypt. The stability of governments will lend greater potential for success. Keeping healthy international relations with other countries will be an important factor for the N-11. If Iran

continues receiving economic sanctions from the United States, this will certainly halt their growth in the long run compared to the rest of the N-11. The future holds much uncertainty for these nations. Keep a close eye on these countries, for they could be the next dominate economic forces in the world.



## Top State Political Economic Stories

### Budget Cuts and their Implications on Pennsylvania

By: Jeremy Reb

Some would argue that the best way to reduce our country's debt is to cut spending and increase taxes. This could generate more revenue for the government, but at what cost? There is a huge debate on whether to continue with government spending or to proceed with budget cuts. According to wsj.com, a lot of economists think that we should continue to increase spending, but 90 percent of them agree that in the long run we will eventually have to cut spending. But the question is a matter of when and how fast. The budget cuts would not only affect the whole country but Pennsylvania as well. An article on post-

gazette.com reported that Pennsylvania could lose more than 78,000 jobs. In a state with unemployment at 7.9 percent (Bureau of labor statistics) can we afford to lose 78,000 jobs? This could be increasingly detrimental to our economy. Less people at work means there is less money to be spent. Therefore businesses make less profit, and have to lay off more people in order to stay afloat. It could be one long vicious cycle. This could also affect those who are planning to retire. The value of their retirement funds could decrease and they may be forced to continue working in order to cover expenses. This could lead to less jobs being

available for recent graduates. Budget cuts are going to have a serious impact if they are implemented. With an economy that is recovering and still struggling to improve, we cannot just cut spending and increase taxes so drastically. It needs to be done in small increments, allowing the government to keep control of the economy, and not potentially putting us back into another recession. College costs and other benefits provided by the government could be in jeopardy. Money to these programs could be affected if our economy is not stabilized.

### The Effects of Senator Bob Casey's Re-election on Pennsylvanians

By: Matt Geiger

Democratic Senator Robert J. Casey (Bob Casey) was re-elected to six more years as a Pennsylvania Senator the same day Barack Obama was re-elected. How many Pennsylvanians made their selection for POTUS and then ambivalently made their choices for the remaining positions on the ballot? Can anyone honestly say they allocated the same amount of time researching, discussing, or fact checking these candidates as they did for Obama and Romney?

The fact of the matter is that you sure should have. It boils down to the fact that the policy makers, the empowered individuals that make up the United States Congress steer the direction of our fine country. On an even more specific level, Congressmen "captain" the ship that is state policy. So, how is it that we as the public, the very people who elect these individuals to represent our own beliefs and values put such little effort into researching them? Criticized by many as a "rubberstamp" of President Obama's policies, Casey ran on a platform of domestic job growth, including green initiatives for businesses, increased regulation of financial markets, and strong support of the President's health care law. Chairman of the Joint Economic Committee, Casey holds a significant role in the impending fiscal cliff situation we are currently starring down. In

regards to his position, Casey concedes that spending cuts must be made before any real progress can be seen. The current legislation consists of a tax increase on the wealthy (families earning \$250,000 or more annually) and tax credits to small businesses involved in adding jobs or increasing wages to employees. Is this really going to do the job? The finite question that must be asked is: Will these actions be effective in not only avoiding this fiscal cliff scenario, which is painted as a modern day economic Armageddon, but in achieving a diminished deficit for years to come? Spending cuts, coupled with job creation are the keys to a resurgence of economic prosperity for our nation. To simply push for extensions in the current tax breaks and postpone federal spending cuts is to make no effort at reducing the deficit.

The four major sectors slated as priorities for Casey are as follows: Healthcare, job growth and the economy, foreign policy, and energy and the environment. Casey voted in favor of the President's healthcare law, leading some to speculate if this is policy or party influence. Casey, during his first term as Senator ran on a "pro-life" platform, appealing to the large numbers of conservative Pennsylvanians. Now in 2012 it is to the public's dismay that Casey is such a staunch supporter of Obamacare, cast-

ing him in the lime light by multiple pro-life groups. A topic that hits very close to home for many of us is that of hydraulic fracturing technology in the Marcellus Shale Region. Casey supports the use of "fracking" across the state as a means of revenue as well as job creation for skilled Pennsylvanians. He wants to move in the direction of new alternative energies and away from dependency on big oil corporations. His stance on foreign policy shows a more "hard line" aspect of Casey, calling for the end of sending aid to Israel, as well as raising sanctions against China for its currency manipulation.

Bob Casey's policies seem to transgress the traditional party lines we oh so often distort with our declarations and allegiances. He remains an active proponent for growth and development in Pennsylvania as well as advocate for social rights, all while maintaining an unwavering support of the second amendment rights of our citizens. Is this a politician who has strong convictions on these topics or someone who knows his target market and knows how to get re-elected? Undoubtedly Casey will continue to shape the policies we, not only as Pennsylvanians, but as Americans experience.

# Top International Political Economic Story

By: Antonio Campanelli

## Global Implications of an Obama Re-election

### China

China boasts one of the fastest growing economies in the world. This past year, China had a GDP growth rate of 9.3%. The past four years have been healthy for China with Obama as America's leader, as the growth rate has stayed constantly around 10%. So it came as no surprise that China generally supported Obama for re-election of the 41<sup>st</sup> president of the United States. Romney also was not a popular choice in China after constantly labeling them as "currency manipulators" and promising to crack down on the communist nation. He often accused China of purposely keeping their currency low in order to undercut American goods and services and promote the outsourcing of jobs. While this may be true, it was obviously not taken favorably by the Chinese. With respect to the economy, both the US and China are very much dependent upon each other, and some would argue that a healthy Chinese economy is healthy for the US as well. Another reason that China may have preferred an Obama re-election is the continuity of smooth trade. Had Romney been elected, the Chinese may have had to prepare for new factors when trading with the US.

*"China will look to the future and make continuous efforts for fresh and greater progress in the building of the China-US cooperative partnership"* — **Chinese foreign ministry spokesman Hong Lei**

### Russia

Obama's re-election was also generally supported in Russia. This could be partially because Mitt Romney may have offended the Russian public when he repeatedly referred to the Eastern European giants as the number one geopolitical foe to the US. While the majority of Russians preferred Obama over Rom-

ney, the positivity rating of the US in Russia has dropped from 59% to 53% over the past two years. Obama was famously caught on microphone this past year, whispering to Dimitri Medvedev of promised "flexibility" on certain issues including missile defense. This was seen as a positive in Russia and could have boosted their approval of our president. While Russia is not necessarily seen as an ally or an enemy, I think a positive relationship could be beneficial moving forward considering the economic potential of Russia and their proximity to the Middle East.

*"Overall the Kremlin welcomes the news of Barack Obama's victory in the elections. We express hope that the positive beginnings in bilateral relations and in international cooperation between Russian and the United States, in the interest of international security, will develop and improve."*  
— **Putin's spokesman, Dmitry Peskov**

### Western Europe

The vast majority of citizens in Western European nations have supported President Barack Obama over the last four years. The US has a healthy relationship with Western Europe, as three of our top 10 trade partners are in this region. Both regions are very counter dependent upon each other, as both markets are woven. British Prime Minister David Cameron and President Barack Obama have an open positive relationship with each other and often speak favorably on each other's behalf. Some Western European citizens are also proud to live in a day of age where a black man is in power of the most powerful country in the world. It leaves hope that one day a man of the same color could lead nations such as Italy, France and Germany.

*"One of the first things I want to talk to Barack about is how we must do more to try and solve this crisis (in Syria). Above all, congratulations to Barack. I've enjoyed working with him, I think he's a very successful U.S. president and I look forward to working with him in the future."*— **British Prime Minister David Cameron**

*"I am convinced that during the new mandate we will once again reinforce our partnership to favour the return of economic growth in our countries, to fight unemployment and to find solutions to crises that threaten us, especially in the Middle East."*  
— **French President Francois Hollande**

### South Korea

South Korea is a very healthy and growing ally to the United States. According to a poll done by Pew Research Center, the US has a 79% approval rating in South Korea, the highest shown during the 10 years of research. Part of Obama's popularity has been his tough stance on North Korea. South Korea also preferred Obama for the smooth continuation of trade between the two nations. In the past decade, South Korean giants such as Samsung and Hyundai have become wildly successful corporations in the United States. South Korean President Lee Myung-bak has worked well with President Obama over the past four years, and the two have an open positive relationship with each other. Recently in 2011, South Korea and the US passed a trade agreement known as the KORUS FTA, which eliminates 95% of tariffs in the following 5 years.



## Global Implications of an Obama Re-election

### Israel

Israeli leader Benjamin Netanyahu has a decent relationship with President Obama, as Israel is one of our main allies in the Middle East. While Netanyahu and Obama's relationship has been described as "rocky" in the past, Netanyahu recently reached out to congratulate Obama after his November win. Israel also looks forward to an election of their own, but it is assumed to be a comfortable re-election for Netanyahu. Some Israelis are pessimistic and worry that Obama may pay less attention to them after securing a second term. Some say they are worried that he may choose to show his "true colors" over the next four years. Israel counts on the United States as an ally in their differences with Iran. Others are more positive and thankful for Obama's support over the past four years. These optimistic Israelis believe that Obama will support Israel if they decide to strike Iran's nuclear facilities.

*"I will continue to work with President Obama to ensure the vital security interests of Israel and the United States"* — **Israeli Prime Minister Benjamin Netanyahu**

### Indonesia

Obama's victory was naturally very popular in Indonesia, as Obama spent a few years there as a young child. Indonesia is currently enjoying a very healthy economic growth of 6% annually. Indonesia is generally supportive of President Obama and hopeful that he can help boost the global economy. More importantly, Indonesia hopes to become a growing trade partner with the US and many reports suggest that the US could double its trade with Indonesia over the next five years. A few critics of Obama in Indonesia claim that he has put Indonesia on the back burner during his first term, and believe that he has shown more interest to other Asian nations in regards to foreign policy.

### Kenya

In Kenya, it was no surprise that the nation

celebrated Obama's re-election. Kenya is the birthplace of Barack Obama's father, Barack Obama Sr. Many citizens were quoted as being incredibly happy and proud to see someone of Kenyan heritage as the leader of the world's greatest nation. Kenyan President Mwai Kibaki released a congratulatory statement following Obama's November win. Kibaki was quick to point out that African nations can learn a lesson from Obama's success- Politics are about issues, not race, tribe or religion.

*"Kenya, as always is proud of our association with you .... We look forward to the deepening of relations between our two countries during your second term in office"*

— **Kenyan President Mwai Kibaki**

### Iran

Iran had mixed feelings about Obama's re-election, but more so negative. Generally considered an enemy to the US, current relations with Iran can be explained as shaky at best. Obama has passed sanctions against Iran's nuclear program in the past and this leads him to be unpopular at times in Iran. One positive note that Iranians generally agree on is that with Obama, Iran has the benefit of dealing with a known quantity. Had Romney been elected, Iran may have been faced with tougher and more direct sanctions, and a more direct approach to prevent Iran from developing nuclear fire arms.

*"During the last four years when Obama was U.S. president, no breakthrough happened in relations between Iran and the U.S. At the beginning of his first term the situation was a bit better, but as he went on the relations got much worse, with the sanctions being imposed. So I think the outcome of the election that was just held will not make any difference for Iran."* —

**Amir Karimi, a resident of the Iranian capital, Tehran.**

### Mexico

The majority of Mexicans preferred Obama over Romney coming into November's election. Surprisingly, only one in three Mexicans thought that the US election was important to them. In an even more overwhelming statistic, 6:1 Mexicans supported Obama in comparison to Romney. This may be a result of Mexicans worrying about a possible crackdown on foreign affairs in Mexico if Romney were elected, which could have a negative impact on Mexico's economy. The criticism towards Obama from some Mexican citizens is that Obama has not done anything substantial to help our neighbors to the south. Many are quick to point out that through Obama's first term, he had yet to push through any meaningful immigration reform.

*"the governments of both countries will keep widening and deepening our cooperation and coordination to reach prosperity, security and competitively in Mexico and the United States."* — **Mexican President Felipe Calderon**



## What's in the news?

### What is the Fiscal Cliff?

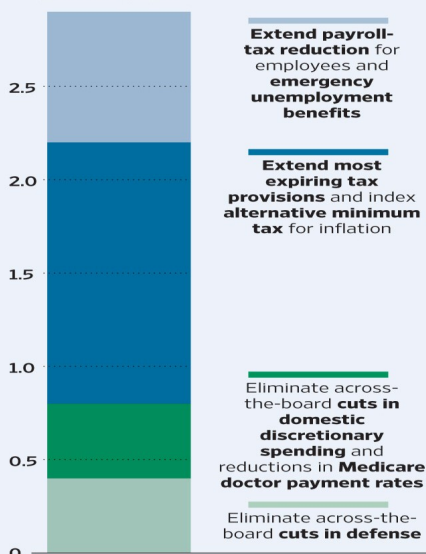
By: Melanie Merse

The term "fiscal cliff" has been seen and heard in our media repeatedly these past couple of weeks. The U.S. government is facing the expiring tax cuts and government spending cuts (this is referring to the Bush tax cuts as well as the proposed spending cuts of the debt ceiling deal of 2011) that will expire on January 1. With the expiration of the Bush tax cuts, we are going to see changes in households disposable income, tax breaks for businesses, change in the minimum tax, and the upcoming taxes related to Obama's health care act. On top of that, we will see spending cuts of over 1,000 government programs – including programs such as the defense budget and Medicare. The Republican Party wanted spending cuts and to avoid raising taxes, whereas the Democratic Party is seeking for a combination of spending cuts and tax increases for the top 2%. Both parties do not want to see our economy go over the fiscal cliff, but if the spending cuts and tax increases go into effect, we could see detrimental effects on our economy. With higher taxes and spending cuts, it is estimated that our deficit would reduce by \$560 billion, but at the same time it is estimated that our GDP would decrease by 4% in 2013, thus sending our economy into another recession.

#### If We Step Away From the Edge

Change in the CBO's forecast for GDP and employment in the fourth quarter of 2013 of waiving various spending cuts and tax increases due at the end of 2012, avoiding the 'fiscal cliff.'

Change in GDP forecast, adjusted for inflation  
3.0 percentage points



\*Or the equivalent

Source: Congressional Budget Office

The Wall Street Journal

### The European Union Slashes Growth Forecasts

By: Emily Gavigan

In a recent report, the European Union is expecting a standstill within the next year. It is believed that the domestic demand in Europe is likely to remain weak along with high unemployment rate in the next year. The forecast of the 17-nation Eurozone economic growth is slashed to just 0.1 percent for the next year. This was six months after tipping a much stronger recovery of 1.0 percent. It is expected that it will take until the year 2014 for the European Union to fully recover. The expected growth by then will be 1.4 percent.

EUBusiness reported that "Europe is going through a difficult process of macroeconomic rebalancing, which will still last for some time." EU Economic Affairs Commissioner Olli Rehn predicted that the gradual pick-up will begin early next year. "While major policy decisions have laid the foundations for strengthening confidence, leading to a reduction in market stress, there is no room for complacency," Rehn added.

For sustainable growth to happen, Europe must continue to combine sound fiscal policies with structural reforms. This will then take unemployment rate down from the currently high levels. Two troubled economies within the European Union are Italy and Spain. Another issue adding to the dreary economic outlook is unemployment. Eurozone unemployment rate is expected to peak at 11.8 percent in 2013 before reducing to 11.7 percent in 2014. The rate is forecast to jump to 11.3 percent this year from 10.1 percent in 2011. Only a continuation of policies putting the focus on greater economic and fiscal integration could bring unemployment down from the current unacceptably high levels.

## Featured Article

By: Emma Brown

### Causes and Effects of the Housing Bubble

The housing bubble in the United States originated and evolved in conjunction with the stock bubble in the '90s decade. Extraordinary run-up of stock prices raised the wealth of people considerably, leading to an increased spending and consumption boom. The savings rate out of disposable income fell from "close to 5.0 percent in the middle of the decade to just over 2 percent by 2000" (Baker 73). People began to invest in purchasing larger and/or higher quality homes, wishing to spend a portion of their new stock wealth on housing. A housing bubble resulted due to the higher demand of homes, which first lead to an increase in price in the short-run. Price increases then became incorporated into expectations in the housing market, leading homebuyers to pay far more for homes than they would otherwise. Some economists believe policies of the Federal Reserve such as "subprime" mortgages caused the housing bubble, while others credit the lower interest rates as the explanation for the global crisis.

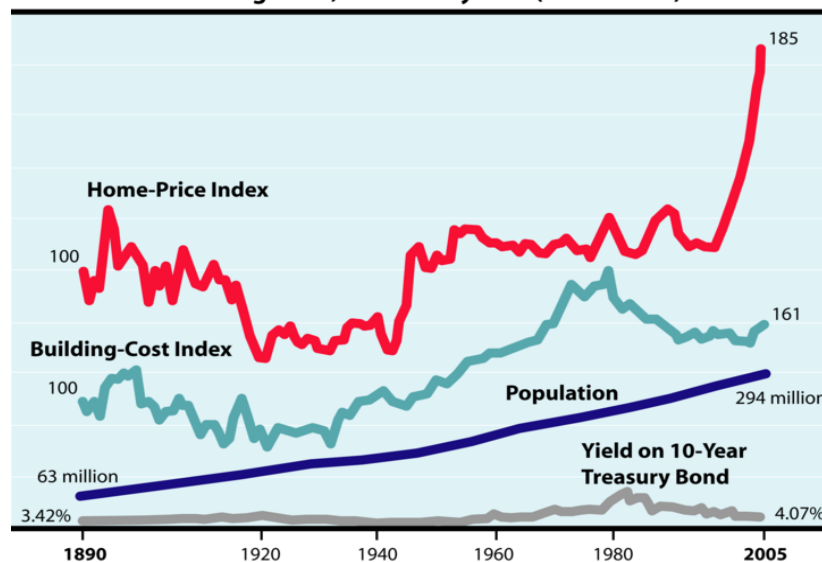
Adjustable rate mortgages grew in share of mortgages issued during the boom. However, these mortgages were often issued with below market "teaser rates" and did not provide the security of fixed rate mortgages (Baker 76). In addition, subprime mortgages - loans issued to people with poor credit histories - exploded in popularity during this period, creating opportunities for working families to obtain mortgages and buy their own homes. Wall Street began to bundle together thousands of mortgages and treat the bundles as securities, allowing them to trade freely on global financial markets (Pollin 119). Government-sponsored agencies, such as Fannie Mae and Freddie Mac, aimed to facilitate home ownership by buying mortgages from private lenders, bundling those mortgages as securitized debt, and then selling those on the open market to financial investors (Paley 21). During the

housing bubble, mortgage issuers desired high appraisals in order to earn more money on the issuing the mortgage. Market players were persuaded that subprime mortgage lending was safer through the securitizing process, and as a result, money rapidly entered the market and housing prices increased. Economists believe that the blame lies in the Fed allowing abuses in the credit markets, therefore allowing the housing bubble to grow unchecked.

Another explanation of the cause states that the decline of lower interest rates, particularly the long-term, fixed-rate mortgages spawned the housing bubble. By 2006, "long-term interest rates and the home mortgage rates driven by them had declined to single digits" (Greenspan). Former chairman of the Federal Reserve, Alan Greenspan believes that accelerating the path of monetary tightening that the Fed pursued in 2004-2005 could not have prevented the housing bubble, and global forces beyond the control of domestic monetary policy makers should be blamed.

The crisis of the housing bubble concerns current homeowners, potential first-time home buyers, and the Federal Reserve, as well as economists. As a result of the conflicting views regarding the causes of the housing bubble, certain audiences may not agree with specific possible roots of this crisis explored in the essay. For example, Alan Greenspan directly disregards theories that place blame on the Fed in causing the housing bubble; whereas other economists such as Dean Baker, co-director of the Center for Economic and Policy Research in Washington D.C., insists the government's lack of regulations during the 1990's resulted in the current predicament. The Fed views financial bubbles as natural and does not believe in the possibility of prevention of such. However, other economists believe financial bubbles can be contained and they stress the importance of stricter regulations created by the Fed or central banks to ensure that the bubbles do not grow to such dangerous proportions.

**Inflation-adjusted U.S. home prices, Population, Building costs, and Bond yields (1890–2005)**



Source: *Irrational Exuberance*, 2d ed. (Fig. 2.1)

**Resources**

[Google.com/publicdata](http://Google.com/publicdata)  
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[Bls.gov](http://Bls.gov)  
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[Creditkarma.com](http://Creditkarma.com)  
[Money.cnn.com](http://Money.cnn.com)  
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