Bryan Guner

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Micro Economics

The Economy’s Achilles’ Heel

What I learned: This article highlighted a lot of common misconceptions that I had held about U.S, Chinese and world wide economic trends. The first tidbit that caught my attention was the fact that the rate of China’s economic growth has been decreasing in recent years. I have long predicted that China’s growth was unsustainable and would come to a period of stagnation similar to the one that followed Japan’s Post War “economic miracle”, but until this article, most projections predicted not only economic growth, but increased rates of economic growth. The article also explained that “emerging market countries” like China, India and Brazil, who were slated to succeed the U.S.A as the world economy’s growth engine, have failed because they are export driven and could not weather a demand-less market. I was even further surprised to discover that China’s debt was 251% of it’s national GDP as of mid 2014, as apposed to the economic surplus the People’s Republic of China had purportedly amassed. According to Robert Samuelson, China’s slowdown created a surplus of raw material inputs that benefited competing consumers, but hurt specialized economies like that of Australia and Brazil who produce China’s factors of production. While not exactly counterintuitive I had never before contemplated the trickle down consequences of a stagnant China. The most puzzling notion, however, was the negative implications a strong American dollar could have such as decreased foreign investment and exports.

What was not clear:

Some of the claims maid in this article defied both common convention and my prior knowledge. For example, Samuelson referenced a Chinese stagnation on multiple fronts, most notably, economic growth; which is confusing in the context of China’s recent assent over America for the world’s largest economy and growth rates that still far surpass those of the states. Furthermore the article asks the reader to consider the consequences of worldwide recession on American recovery with the argument “ they will buy less of what we produce” yet spends the first 3 paragraphs detailing America’s standalone progress in the context of worldwide recession. America is rich in natural resources, intellectual property (innovative capital), and is home to the largest financial markets in the world as well as leverage from resources such as the “petrodollar”, having the world’s most formidable military and an abundance of soft power. The proposition is unclear because it seems to offer America’s success as indication of it’s impending failure. The second to last paragraph makes the even less compelling case that if the American dollar preforms well it will stunt economic growth. The logic employed is that a more expensive dollar will harm foreign investment and exports. Perhaps there’s some validity to that argument, but I can’t help but feel it would be far outweighed by the increase in purchasing power and the lack of evidence to support it in the first place.

How this ties into micro Economics:

A shift to the left in the demand schedule as a result of China’s slow growth resulted in a consumer surplus for raw materials. Low prices of products deter investment and supply schedule resulting in economic recession. Most of Europe and Japan engaged in “quantitative easing” which is a synonym for the sales of bonds by the government to socialize debt.

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Micro Economics

The Twisted Priorities of a Greying Nation

What I Learned : The Congressional Budget Office projects annual spending will increase by 75% (2.6 trillion) by 2025. Of that increase 90% is estimated to be spent on social security, health costs and interest on federal debt. In tandem with these spending increases president Obama has plans to cut defense spending from 6.8% to 5.4 % of national GDP within the same timeline. Furthermore his plans to provide “Obamacare” and “free community college” to the American people will have to compete with existing funding. While none of these statistics are particularly surprising, or even alarming, when weighed against the country’s current economic situation, they were all considerations I had been happy to leave to other people.

What was not clear: This article was very pessimistic. It highlighting the economic obstacles facing America yet failed to mention of potential resources or solutions. This approach made the goal of the very article it’s self, confusing. Weather or not this article was a cautionary tale, a prophesy of doom, or a published rant, the lack of focus was present even within individual arguments. For one, Robert Samuelson cites a non-calculation based estimate of a 25% decrease in The Health Institute’s purchasing power by it’s head, Francois Collins (who has a vested interest in receiving additional funding) to support the argument that “we are allowing demographics to determine our national priority’s”. Even more perplexing is the complete lack of an explanation of what demographics are in this context, or how they dominate our priorities.

How it ties into Micro Economics: The majority of connections between micro economics and this article relate to how governments intervene in free markets and allocate resources. It touches on the economic failures associated with debt crisis and how our current crisis is a result of unfunded liability on a federal level.