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Prospectus - Notes Section 1

Background economic conditions

* (ERotP 2002) Low economic growth in summer of 2000 &Low morale from September 11th attacks
  + Recession begins
  + Objective to create jobs in private sector, cut taxes to speed economic growth/create jobs
* (the balance) – 2001 tax cuts
  + Conditions – unemployment rising to 6%, mild recession
  + Policy – The economic growth and tax Relief Reconciliation Act of 2001
    - Increased tax deductible contributions to IRA accounts
    - Doubled child tax credit to $1000
    - Expanded earned income tax credit
    - More tax deductions for education
    - Reduced “marriage penalty” by doubling standard deduction for married couples, increased income threshold for married couples in the 15% tax bracket
    - Income tax deduction across the board approximately 3% for all incomes
  + Theory – stimulate the economy and end 2001 recession
    - Gave additional tax relief to families by giving them extra money
    - More money would allow for an increase in demand
    - Increase of economy would lift it out of recession
  + Outcomes –
    - Tax cuts were too gradual to have an effect (through 2009)
      * 1.0% growth 2001, 1.8% 2002, 2.8% 2003
    - Saved taxpayers about 1.35 trillion over 10 years
    - Benefited families with children and 200,000+ incomes the most
    - Rebates were saved instead of being spent
      * High income families already had enough income to cover expenses
    - Hurt economy by decreasing government revenues
      * Increased deficit and US debt
* (https://www.thebalance.com/jobs-and-growth-tax-relief-reconciliation-act-2003-3305769) – 2003 tax cuts
  + Conditions – 2001 Recession still in effect; not fixed by 2001 tax cuts
    - 9/11, war on terror caused economic uncertainty
    - EGTRRA cut income taxes, didn’t help businesses
  + Policy – The Jobs and Growth Tax Relief Reconciliation Act, 5/28/2003
    - Reduced capital gains tax
    - Increased tax deductions for small businesses
    - Accelerated elements of EGTRRA
    - Changes were retroactive back to January 1st of 2003
  + Theory – Supply side economics, put money into the business side to allow them to create more jobs
  + Outcomes
    - Encouraged investment in stock market by decreasing capital gains/dividends taxes
    - Stockholders received more money
    - Dividend stock paying companies saw growth due to increase in dividend stock demand
    - Economy grew 3.8% in 2004
    - Federal Reserve raised interest rates to slow economy down
    - Decreased tax revenues; increased deficit
* 9/11 attacks (<https://www.thebalance.com/how-the-9-11-attacks-still-affect-the-economy-today-3305536>)
  + Economy resilient after initial shock
  + Uncertainty was caused
    - Economy only contracted 1.1% after the attacks for one quarter, amplified effects of 2001 recession, did not cause any new effects
* (https://www.globalpolicy.org/humanitarian-issues-in-iraq/consequences-of-the-war-and-occupation-of-iraq/35722.html) – War on Terror spending
  + Conditions – 9/11 Terror Attacks
  + Policy – US Military action in both Afghanistan and Iraq
  + Outcome
    - About $864.82 billion spent on Iraq/Afghanistan war under Bush (https://www.thebalance.com/how-the-9-11-attacks-still-affect-the-economy-today-3305536)
    - Increased spending was not offset by economic growth, increased deficit by larger margin
    - Less money available for stimulus in 2008
* (<http://www.investopedia.com/features/crashes/crashes8.asp>) – Tech bubble crash
  + Great amount of excitement surrounding the untapped resource that was the internet
  + Investors were looking more for big ideas rather than solid business plans
  + Companies given millions of dollars and told to grow faster than possible
    - Many companies folded quickly
  + Nasdaq Composite lost 78% of its value
* (<http://www.investopedia.com/features/crashes/crashes9.asp>) – Housing crisis and 2008 Financial Crisis
  + Conditions
    - After tech bubble burst and recession, the federal reserve kept short-term interest rates low
    - Nations began to save a lot and created large financial reserves that were eventually invested, driving interest rates even lower
    - Low returns for investors caused them to seek higher risk for higher returns
    - Global financial markets enter “Great Moderation” due to above-average returns and below average spread in returns for an asset
    - Great Moderation coincided with housing boom, prices rising
      * Real estate speculation
      * Excessive consumer spending, difficult to pay mortgage
    - Belief that home prices don’t decline was false, mortgage backed securities fell drastically causing losses for many banks
      * Spread to other asset classes
    - Confidence in large banks fell as Lehman Brothers went Bankrupt
    - Foreclosures - http://multivu.prnewswire.com/mnr/corelogic/56990/
      * 21,000 per month up to 2007
      * Once financial crisis began in 2008, 3.9 million foreclosures occurred between 2008-2012
  + Policy
    - Quantitative Easing (http://www.forbes.com/sites/greatspeculations/2015/11/16/quantitative-easing-in-focus-the-u-s-experience/#2b514c433013)
  + Theory
    - Increase money supply and lower interest rates to increase borrowing and spending to promote economic growth
  + Outcomes
    - Avoided financial collapse, but credit freeze forced global economy into the Great Recession