An Integrated Curriculum For The Washington Post Newspaper In Education Program

The Economy — A Point of Interest

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ROBERT J. SAMUELSON

What to call this economy?

Among our problems is a failure of economic language. We lack the words and concepts to describe observable reality. By conventional wisdom, the Great Recession is long over. "Recession" connotes shrinking output. "Expansion" signifies the opposite. That's how the National Bureau of Economic Research, a group of academic economists, defines business cycles. Following this logic, the bureau determined the economy stopped contracting in mid-2009. Yet, most Americans — 53 percent, says a recent National Journal/Allstate survey — think we're still in recession, by which they doubtlessly mean "bad times."

Who is to say they're wrong? After all, the unemployment rate has exceeded 7 percent for almost five years, despite the withdrawal of millions of discouraged workers from the labor force. Moreover, public attitudes have become deeply pessimistic in ways apparently unprecedented since World War II. In past recessions, more than half of Americans believed their incomes would grow in the next year. Not this time. The share expecting gains collapsed to less than 45 percent after 2008 and is still below half, finds a study by Federal Reserve economist Claudia Sahm. The despondency, she writes, may signal a permanent shift in consumer psychology that undermines recovery.

Something's changed, but our economic vocabulary hasn't kept up.

This hasn't always been true. Language sometimes adapts. In the 1970s, the simultaneous emergence of high inflation and high unemployment — contradicting the then-accepted theory that an increase in one would cause a decrease in the other — inspired the term "stagflation" and the notorious "misery index." (The misery index added inflation and unemployment. A 6 percent unemployment rate plus 6 percent inflation moved the index to 12. In 1979 and 1980, it hovered near 20.)

The economist and *New York Times* columnist Paul Krugman recently suggested that "depression-like conditions" might persist "for decades." I think "depression" is too strong. To be fair, it's a term of art. There's no strict or universally accepted definition. Depression means whatever people say it means. To me, it involves a long period of widespread distress, characterized by continuous double-digit unemployment.

By this standard, the United States isn't near a depression. Granting the disappointments, the economy is still growing (7 million jobs since February 2010), and unemployment touched double-digits in only one month (October 2009 at 10 percent). This is nothing like the 1930s, when — despite a strong mid-decade recovery — the non-farm unemployment rate peaked at 32 percent in 1932 and averaged 20 percent. Note, however, that my standard does put some European countries in depression. At last count, the unemployment rate was about 28 percent in Greece, 27 percent in Spain and 16 percent in Portugal. The odds that these rates will soon decline sharply are slim to none.

"Secular stagnation" has also enjoyed a revival. Conceived in the 1930s, it aimed to explain why the Great Depression had lasted so long. The reason, argued Harvard economist Alvin Hansen in a famous 1938 lecture, was a loss of investment opportunities. Population growth was slowing. The American frontier had been opened. These sources of business investment had evaporated, while technological advances — another spur to investment — had weakened since the earlier railroad and automobile booms.

What resulted, said Hansen, were "Sick recoveries which die in their infancy … and leave a hard and seemingly immovable core of unemployment."

In a recent lecture, former Treasury secretary Lawrence Summers evoked secular stagnation — a "chronic and systemic" economic sluggishness, he said. Krugman, Martin Wolf, the *Financial Times'* chief economic commentator, and

Robert J. Samuelson *What to call this economy?* | *continued*

others also embrace the theme. There is an "investment dearth," Wolf recently wrote. Low interest rates suggest that there are "more savings searching for productive investments than there [are] productive investments."

Why? Unlike Hansen, today's stagnationists haven't identified causes. The problem might not be a dearth of investments so much as a surplus of risk aversion. For that, candidates abound: the traumatic impact of the Great Recession on confidence; a backlash against globalization, reduced cross-border investments by multinational firms; uncertain government policies; aging societies burdened by diminishing innovation and costly welfare states.

Whatever the cause, we are in unfamiliar territory. Some years ago, I coined the clunky phrase "affluent deprivation" to describe our condition. By any historical measure, we are — and will remain — a rich society. Hence, the affluence. But we may feel poorer, "deprived," because the economy no longer satisfies broad private and public wants, including an expectation of economic stability.

Getting the right words to match reality is hard. Secular stagnation is a warning. In the 1930s, it seemed a plausible theory backed by ample evidence. After World War II, it was destroyed by events: a population explosion (the "baby boom"), a new frontier (suburbia), and new technologies (television, jet travel, computers). There was no stagnation. Just the opposite.

Define these terms based upon Robert J. Samuelson's column.

Affluence deprivation

Depression

Expansion

Investment dearth

Recession

Secular stagnation

Stagflation

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The Fed, the Banks and Interest Rates

When consumers borrow from a financial institution, they don't get the money for free. Whether it is a loan for a vehicle, a house or college tuition, they have to pay interest. Interest is the fee a borrower pays for using another's money. (If you have a bank account, the bank pays you interest on your balance because the bank uses your money to loan to others.)

Interest Rate

The interest rate that borrowers are charged will vary. Go to THE MARKETS found on the Economy and Business page in the A or main news section of *The Washington Post* to review the interest rates charged to borrow funds. The Federal Reserve is partially responsible for establishing these rates.

The Federal Reserve has among its responsibilities maintaining full employment (defined as around four to five percent unemployment). When people feel they have more money to spend, they buy items which, in turn, stimulates businesses to make more products. To do this, businesses hire more employees. This is the best economy.

When unemployment is high the Federal Reserve steps in, often lowering the interest rates.

Other requirements of the Federal Reserve influence interest rates. Banks are required to have money available, or in reserve, to give depositors who make withdrawals. When a bank has excess reserves, this money is known as federal funds because it is held in regional Federal Reserve banks.

Sometimes banks need more money to cover withdrawals and loans. The Federal Reserve establishes the interest rate that one bank charges another for overnight loans. As that Federal Funds rate increases or decreases, to compensate banks adjust their prime lending rate that they charge customers. Not every bank will have the same interest rate, therefore. In the note on *The Washington Post*'s THE MARKETS section, readers learn that the *Post*'s method for determining the listed bank prime rate is to poll ten major banks. (See lower right corner on this page.)

When banks cannot borrow from other banks, where do they get the money they need? They try to borrow Euro dollars, then they try to borrow using repurchase agreements (which are loans secured by government debt obligations like T-Bills) and finally they go to the lender of last resort — the Fed. The rate the Federal Reserve charges them is the discount rate.

APR

Banks and other lending institutions have another source of income from the borrower. In addition to the interest rate, most borrowers pay an annual percentage rate or APR. This is the interest rate PLUS transaction costs and fees.

Determining APR includes different factors depending on the lending institution and your plans for the loan. Home loans include points, loan processing fees, title fees and attorney fees. Vehicle loans include credit rating, term and geographic location. APR for student loans can vary from 2% to 10.93%. Be sure to compare APRs in addition to loan interest rates before signing on the dotted line.

PHOTODISC

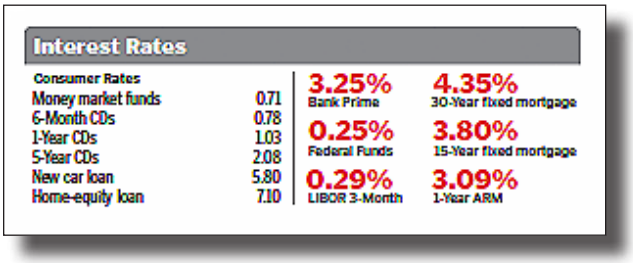
Name _____ **Date** _____

THE MARKETS: Interest Rates

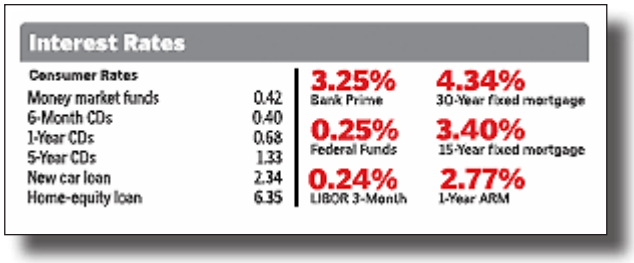
Interest rates indicate what a person will receive for allowing the financial institution in which he deposits funds to use his money. Interest rates also indicate what a consumer will pay the lender for use of funds to make a purchase. *The Washington Post* provides a chart of selected interest rates on the Business & Economics page in the main news section.

The charts of Interest Rates in this activity indicate the rates in two election years, ten years after September 11, and the last week of Ben Bernanke's term as chair of the Federal Reserve's Board of Governors. Fill in the chart for today's rates.

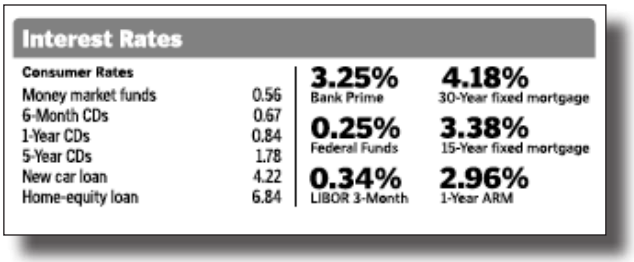
INTEREST RATES
November 2, 2010



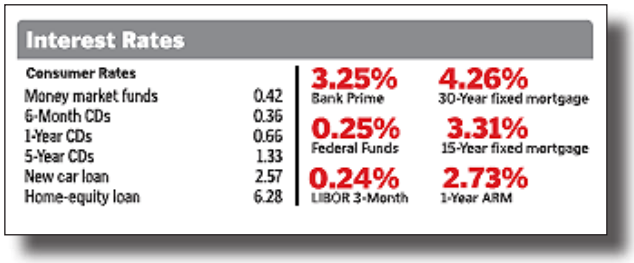
INTEREST RATES
January 29, 2014



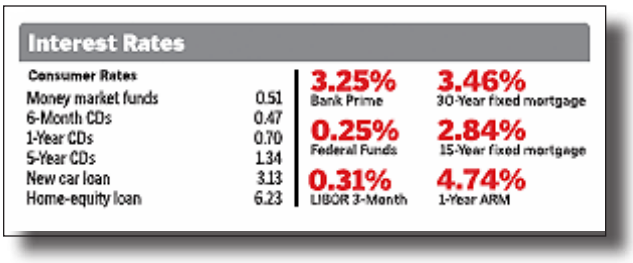
INTEREST RATES
September 11, 2011



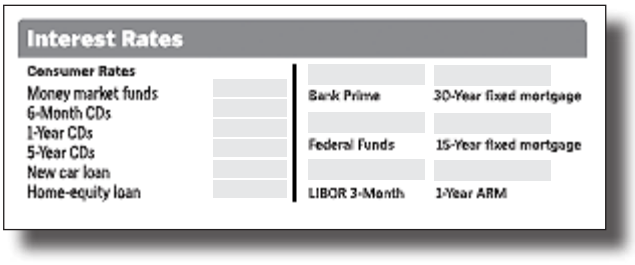
INTEREST RATES
February 7, 2014



INTEREST RATES
November 6, 2012



INTEREST RATES



Name _____ **Date** _____

The Markets: Cross Currency Rates

The cross currency, or exchange, rate indicates a country's relative economic health. The currencies of two countries are compared. The value of the U.S. dollar against another country's currency influences the cost of goods at home and abroad, the return on an investor's portfolio, interest rates and even the number of souvenirs a traveler will purchase.

Use the table of Cross Currency Rates to answer the following questions.

Cross Currency Rates | *February 1, 2014*

Cross Currency Rates

	US $	EU €	Japan ¥	Britain £	Brazil R$	Canada $	Mexico $
US $ per		1.3488	0.0097	1.6443	0.4143	0.8991	0.0747
EU € per	0.7414		0.0073	1.2191	0.3074	0.6666	0.0554
Japan ¥ per	102.0700	137.6800		167.8420	42.3087	91.7730	7.6310
Britain £ per	0.6082	0.8203	0.0060		0.2520	0.5468	0.0455
Brazil R$ per	2.4128	3.2537	0.0236	3.9682		2.1700	0.1808
Canada $ per	1.1122	1.5002	0.0108	1.8289	0.4608		0.0832
Mexico $ per	13.3757	18.0420	0.1310	21.9944	5.5440	12.0260	

1. Review the Cross Currency Rates of February 1, 2014. What information does this table provide?

2. Three people are visiting the United States. One is from Italy, one is from Japan and one visitor is from Brazil. They each buy a $110.00 sweater that is made in the USA. How much will the sweater cost in their currency? Who will get the best buy?

Italy _____ **Best Buy?**
Japan_____
Brazil _____

3. A lady visiting the Smithsonian's Art to Wear sale, is trying to decide whether to buy a jacket that is handmade by a textile artist from New Hampshire. She can pay in euros, pounds or U.S. dollars. How much will the jacket cost in each currency? Which currency do you recommend she use? Why?

Euros _____
Pounds _____
U.S. Dollars _____

4. Find five items advertised in *The Washington Post*. How much would each item cost in foreign currency on February 1?

	U.S.	Brazil	Canada	Japan	Mexico
Item 1 _____	_____	_____	_____	_____	_____
Item 2 _____	_____	_____	_____	_____	_____
Item 3 _____	_____	_____	_____	_____	_____
Item 4 _____	_____	_____	_____	_____	_____
Item 5 _____	_____	_____	_____	_____	_____

5. Find the Cross Currency Rates table in today's *Washington Post*. Select the currency of two countries. Compare the rates with those of February 1, 2014.

Cross Currency Rates |

Country 1

Country 2

6. If someone who works for an international business is given the option to be paid in U.S. dollars or in the currency of the country in which he is working, how does he decide which is the better option? Which will he choose?

Canadian dollar or U.S. dollar? _____
Mexican dollar or U.S. dollar? _____
Euro or U.S. dollar? _____
British pound or U.S. dollar? _____

7. What influences the fluctuation in the value of U.S. and international currency?

8. The cross currency, or exchange, rate indicates a country's relative economic health. The currencies of two countries are compared. The value of the U.S. dollar against another country's currency influences the cost of goods at home and abroad, the return on an investor's portfolio, interest rates and even the number of souvenirs a traveler will purchase. Give an example of this concept in this week's newspaper.

Name _____ **Date** _____

Big Decision: To Borrow or Not to Borrow

The Situation

A student has been saving to buy a digital camera. She puts a portion of her allowance and earnings from odd jobs in her college fund, some in her camera fund and a small amount toward immediate purchases.

1. Do you think she is making the best decisions in the way she is dividing her income? Explain your answer.

She needs $70 more to buy the camera she wants that is now on sale. The Nikon D-SLR costs $599.99 before the sale.

2. Would you advise her to buy now at the sale price or continue saving? Explain your advice.

The Lenders

She has two parties willing to lend her money. Review both offers. You need to pay attention to the interest rate and the Annual Percentage Rate (APR). The APR is the amount in addition to the interest rate that the borrower must "pay" to get the loan.

Lender Offer 1: Parent Option

Her parents will loan her $70 at 0.2% interest rate. In order to get this rate, her APR requires that she ❶ makes her bed every day; ❷ sets the table and helps with dishes four days a week; ❸ keeps a record of payments made that includes the remaining balance; ❹ plans a family activity for one Friday each month, and ❺ weeds the garden and mows the lawn, if she has not repaid the total loan by summer.

Lender Offer 2: Grandparent Option

Her grandparents will loan her $70 at 0.5% interest rate. In order to get this rate, her APR requires that she ❶ studies harder to improve her grades in two classes; ❷ visits her grandparents one Saturday a month; and ❸ keeps a record of payments made that includes the remaining balance.

3. How much interest does she pay in each option? With which option does she pay the most interest?

4. Compare and contrast the APR requirements of both options. Evaluate the costs as well as benefits.

5. Which of the two options do you think is the better loan to accept?

The Decision

Should the student continue to save as she has, take out a loan or alter her plan in order to make the purchase of a digital camera? Gather more information before making a suggestion.

6. How much money has the student saved toward the purchase of a digital camera?

7. Before you make the suggestion to her, look for digital camera advertisements in *The Washington Post*. Can you find an option she should consider? Provide details.

8. Having reviewed the student's savings, her desired purchase, her loan options and alternatives, what do you advise her to do?

Name _____ Date _____

Car Interest

You have been saving to buy a car. You look at every car that passes, checking out the color, lines and "wow" factor. But you know to look beyond the surface. You have become a regular reader of Warren Brown's On Wheels column. You know the Nuts & Bolts about the vehicles that interest you — and trust Brown's test drive evaluations since he has been reporting on the automobile industry for *The Washington Post* since 1982.

There is another area that you need to know: the cost of buying the vehicle. This is more than the sticker price. This includes monthly payments, interest rate and annual percentage rate (APR). Questions you need to answer include: What term is the best for me? Is it financially advantageous to buy a new or old car?

Monthly Payments

Know how much you can budget each month to make car payments. As much as you love a car, do not go beyond the amount you can comfortably pay each month while meeting your other obligations.

The Annual Percentage Rate (APR)

The APR is what a consumer pays for receiving a loan. Included in the APR for an automobile loan are a variety of factors that make this rate vary considerably. The borrower should carefully consider not only the interest rate, but also these other charges.

Read the Fine Print

Always read the fine print to know the details of an offer and a contract.

Rates subject to change at any time and are based on creditworthiness, so your rate may differ. Rates available on 2013 and 2014 model years with 30,000 miles or less. Rate discounts can be applied, but cannot cause the rate to fall below the 1.49% APR minimum. Payment example: Loan amount of $20,000 at a rate of 1.49% for 36 months would have a monthly payment of $560.00.

Rates and offers are current as of January 17, 2014, and are subject to change. Promotional rate is not available to refinance existing car loans. Rate depends on amount borrowed and term. Rate applies to online applications only. *Higher rate will be assessed if you do not apply online. Other restrictions may apply.

Figure the APR for a Car Loan

	New Car	Used Car
• Credit Rating (credit payment history, credit score)		
• New or Used Car (New car usually a lower interest rate)		
• Length (term) of the Loan (Shorter term, lower rate)		
• Geographic Location		
• Factory-to-Consumer Rebate And Other Incentives		
• Source of Loan (Dealership, credit union, bank)		
• Down Payment and/or Trade-in Credit		
• Additional Dealer Markup (ADM) (Rust proofing, undercoating, VIN etching, dealer prep)		
Interest Rate		
Total APR		