

THE OPTIMAL BUNDLE

THE PENN STATE ECONOMICS ASSOCIATION PRESENTS:
THE OPTIMAL BUNDLE

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That Time the Markets Thought It Was Opposite Day

Last week, the stock market took a downward turn following the Federal Reserve's announcement that it wouldn't increase rates. Despite this atypical behavior, the reasons behind the market's negative move are intuitive. By leaving rates near zero, the Fed signaled to investors that the world economy remains weak. However, despite the factors leading to the Fed's decision, there are many reasons that they should have increased interest rates. For example, the Fed would have

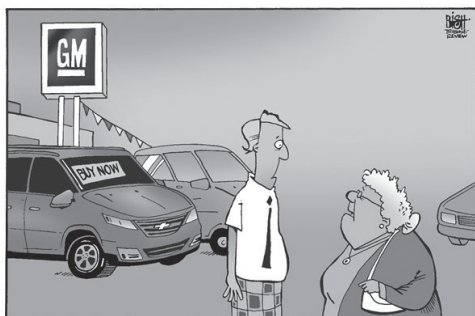


another bullet to use, should the U.S. economy take an unsuspected turn for the worse. Additionally, savers would rejoice, as a rate hike would also increase the interest on deposits, which has been near zero for seven years. Furthermore, a rate hike would indicate that the world economy is healthy, an important confidence factor for consumers looking to make larger purchases like a home. And of course, Wall Street was expecting for a rate hike, as evidenced by the selloff following the Fed's announcement. Perhaps if the Fed could go back, they would vote differently the second time around. – SL



Scandals and Charges

General Motors, America's largest automobile manufacturer, agreed to pay \$900 million dollars in a criminal settlement this past week. An investigation by the Justice Department revealed that GM had been attempting to hide an ignition switch defect for more than a decade. The problem caused cars to stall out while driving, leading to at least 124 deaths and 270 injuries. The company is facing two charges: the first is for the nondisclosure of safety defects for which GM may have to pay an additional \$500 million, and the second is for wire fraud. Additionally, the company has paid more than \$200 million in compensation funds to victims and their families. While GM can afford to pay the monetary fines, its reputation is at stake, and only time will tell whether or not the company can continue to handle the losses. – SG



WHAT DO YOU HAVE THAT ISN'T BEING RECALLED?

BREAKING NEWS

A strong majority of European Union nations agreed on a mandatory measure to relocate 120,000 migrants across the European continent. Many of the refugees have come from war-torn Syria, a country whose turmoil has produced the largest influx of migrants since the end of World War II.

Satellite imagery shows that Russia appears to be building two new military bases in Syria, apparently in an effort to support President Bashar al Assad, whom the U.S.-led coalition intends to force from power.

According to 13 investment banks surveyed by The Wall Street Journal, the average expected price of Brent crude--an international price gauge of oil--in 2016 fell by \$9 from last month to \$58.70.

On Tuesday, Sep. 22, the U.S. Treasury attracted a record demand for government debt in a \$15 billion auction, even though one-month Treasuries were sold at an interest rate of approximately zero.

Apple announced that it is targeting an electric-car shipping target date of 2019. The company spent more than a year assessing the feasibility of producing an electric car.

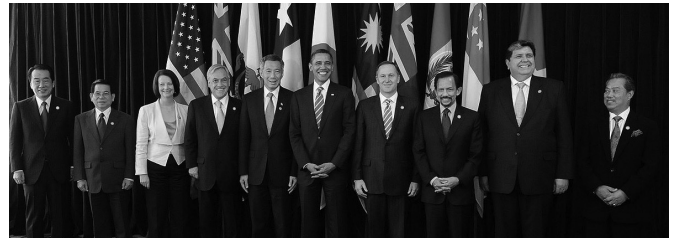
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Embrace the Ends, Accept the Means: Why TPP is Worth It

The idea that free trade benefits all nations might be sufficient on paper, but it insufficiently addresses the complexities of international trade. The Trans-Pacific Partnership (TPP)—a proposed trade agreement between 12 Pacific Rim nations including the United States—operates in a world where diplomatic and legal controversies raise complex problems. These factors bring about legitimate concerns regarding TPP, but they also illustrate the value of this trade agreement. The potential for economic growth in TPP comes from liberalizing trade across nations comprising 40% of global output and one-third of world trade. Due to the scale of its participating economies, TPP provides the U.S. with a valuable opportunity to shape global intellectual property, environmental, and labor laws in its vision, rather than that of rivals like China.

The controversial aspects of the agreement might appall TPP's opponents, but even they should concede the agreement is preferable to the status quo. The Brookings Institute estimates the income gains to TPP nations will total \$110 billion per year and the annual global benefits will approximately equal \$295 billion. Exports have been the fastest growing sector of U.S. GDP over the last decade and TPP's tariff reductions would allow the U.S. to build on these gains. As China tries

to boost its exports, TPP would provide the U.S. leverage by giving it preferential access to Asian markets, consequently reducing annual Chinese output by \$35 billion. However, the U.S. Congress would prevent these gains from becoming a reality if it fails to ratify TPP.



The most contentious aspects of TPP are a necessary price to attain economic power. An investor-state dispute mechanism undermines each nation's ability to regulate businesses, but without it, international organizations would fail to enforce any government's violation of TPP. Meanwhile, some TPP provisions that extend patents are blatant boons to politically influential corporations at the expense of consumers who would pay higher prices. The agreement's imperfections and the Obama Administration's secrecy amidst negotiations give merit to the arguments of TPP's opponents. However, it is short-sighted to ignore the potential of heightened economic growth and a liberalized global economy. To the nations considering TPP, I say this: keep on tradin' in the free world.—JK

“To the nations considering TPP, I say this: keep on tradin’ in the free world”



Volkswagen Diesel Car Scandal Could Harm German Economy

On Tuesday, September 15, Volkswagen admitted that approximately 11 million of its diesel cars violate the Environmental Protection Agency's clean diesel

energy standard. The EPA had previously thought that only 500,000 cars were in violation of this standard. The consequences facing Volkswagen are staggering, with an estimated fine of \$18 billion in the U.S. alone. On top of that, the company has already set \$7.3 billion aside for recalls. Additionally, the company's stock fell 23% on Monday. This issue is concerning for Germany as well because the auto industry accounts for 20% of its exports and employs 775,000 people. Volkswagen, which became the largest automaker this year when it acquired Toyota, owns fellow German auto brands

Audi and Porsche as well. Damage to Volkswagen's credibility could therefore severely hurt the German economy. As the German financial newspaper Hundlesblatt said, this is "a catastrophe for the entire German car industry." – RA

“a catastrophe for the entire German car industry” - Hundlesblatt

Upcoming Events

Cognolink Info Session, Oct 15th, 6pm, 162 Willard
Bates White Info Session, Oct 13th, 6pm, 258 Willard

THON Canning Trip, Sep 25-27. APPLY NOW!!