THE OPTIMAL BUNDLE

THE PENN STATE ECONOMICS ASSOCIATION PRESENTS:
THE OPTIMAL BUNDLE

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What's Next for the TPP?

Last Monday, yearslong negotiations between the United States and eleven other American and Asian countries climaxed with the announcement of a deal on the Trans Pacific Partnership. While the full text of the pact has not yet been released, details on the rules governing the massive new free trade zone are coming to light. Its scope is impressive, extending beyond conventional trade barriers and regulations to address regional cooperation on ecommerce issues, the role of stateowned enterprises, market access for small businesses, and development. Its structure, too, is forwardlooking, designed to accommodate additional members in the future and set precedents for similar accords. Still, in spite of the milestone

reached, the agreement has a long way to go: in order to be implemented, it must be ratified by every national legislature. In the United States, it must survive Congress' 90day review as resistance on labor and environmental grounds battles broad consumer and producer support. The outcome of this dialogue will crucially determine long-term prospects for output growth.—ET

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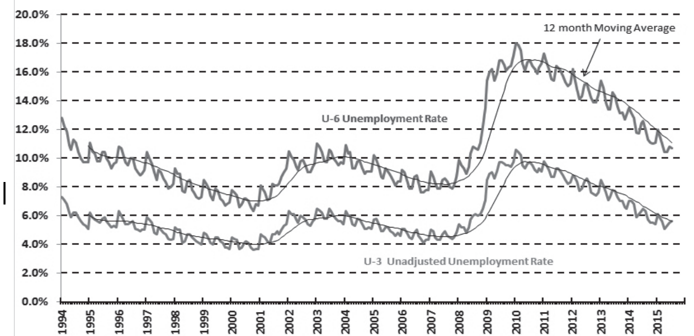
The UN and World Bank to the Rescue

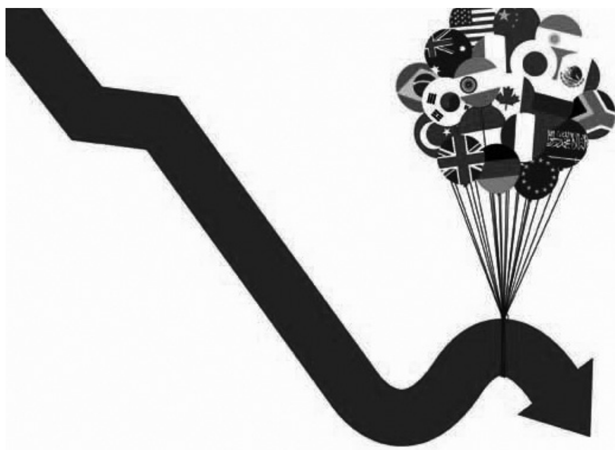
Throughout the years, the Middle East and North Africa have been faced with devastating political, economic, and social challenges. The global financial crisis, flat economic growth, rising food prices, increasing unemployment, ethnic conflict, and an influx of refugees to Europe have forced international agencies like the UN and World Bank to respond. Their proposal involves issuing billions of dollars in bonds to raise finances on behalf of affected countries, making it more affordable for them to help the displaced refugees and support reconstruction in the warscarred region. The money, effectively acting as loan guarantees, will allow the affected countries access to financing at previously unattainable rates and volume. In the face of several economic crises and a deteriorating humanitarian situation, the plan will lend stability to a troubled region, allowing it to return to a path of growth and development. If all works out well, refugees can return home sooner rather than later.—OA

U3 or Not U3, That is the Question



Since the financial crisis of 2008, economists have had their eyes glued to the unemployment rate in the United States as an indicator of economic health. But which unemployment rate should they be looking at? The U3 rate, which is the rate traditionally reported by media, is the percentage of the labor force that is unemployed and has actively searched for a job in the last month. This statistic, reported for September 2015 as 5.1%, paints a different picture than the oftenoverlooked U6 rate, which stands at 10%, as of the same date. The U6 is similar to the U3 rate, while also including those who work parttime but are looking for fulltime employment. The Federal Reserve desires to keep unemployment at roughly 5%, and while perhaps satisfied by the U3 rate, the U6 rate gives a reason for continued concern. As the Fed looks to time its interest rate liftoff, it should market health.—BE

Article Spotlight: Op-Ed



Slumping Global Demand Deals Second-Blow to Emerging Markets

Emerging markets have taken a beating this year, as traders anticipate and adjust to the effects of changing global capital flows. In the aftermath of the Great Recession, excess money had been flowing from the United States to developing countries, as U.S. monetary policymakers sought to flood the U.S. economy with financial stimulus. But with tightening monetary policy on the horizon, growth has slowed in less developed economies. A bigger issue is that many countries in the developing world remain economically dependent on commodity exports, such as Angola and Indonesia, and are now slumping due to a fall in commodity prices. Some of these countries have anticipated the risks to their economies and have set aside sovereign wealth funds to help weather the storm, while others have been caught offguard. Regardless of the shortterm safety nets accumulated during commodity boom years, only a few of these countries have successfully diversified their economies to accommodate this downturn. Countries such as Venezuela and Nigeria, where oil revenues make up 50% and 65% of their respective fiscal budgets, are struggling to earn money to fund much needed imports and plug spending deficits. These trends have caused currency values to plunge, inflation to rise, and forced governments to slash budgets while many citizens struggle.

"Decrease in demand is hurting commodity prices, slashing the export revenues of developing countries"

Many people are aware of the crash in oil prices. However, falling prices are not isolated to oil. Other industrial commodities like metals have fallen in value, which is causing problems for countries like Brazil, South Africa, and Australia, where mining makes up a large sector of the economy. In the postrecession economic environment, companies have optimistically looked to developing economies to drive growth through investment, as developed countries adjust to the "new normal" of slower growth. Yet, this summer's concerns over a slowing Chinese economy now pose a secondary threat to developed economies. Since China is a large importer of natural resources and industrial commodities, mainly sourced from other developing nations, its slowdown poses a threat to the growth of these economies. The resulting decrease in demand is hurting commodity prices, slashing the export revenues of developing countries. In turn, companies in developed countries are more reluctant to invest in these economies to drive their growth.

Many commodity exporters experienced booms in the 2000's because of high oil prices and increased demand for natural resources due to Chinese economic growth. Unfortunately, as reforms and economic diversification efforts have stumbled, the countries that were once a sign of hope for Wall Street are now ironically looking to the US monetary policy to keep them afloat and Western growth to get them out of trouble. As US officials consider the timetable for the inevitable tightening of monetary policy later this year, they will have to resist temptations to hold off in order to support developing economies, even as the US economy and job market improves. —FK

Upcoming Events

Cognolink Info Session, Oct 15th, 6pm, 365 Willard

Citigroup Global Head of Trade Finance, Oct 23, 11.15-12

Assasins will begin this week, money due by Oct 15

Designs for t-shirt contest due by Oct 20