

# THE OPTIMAL BUNDLE

THE PENN STATE ECONOMICS ASSOCIATION PRESENTS:  
THE OPTIMAL BUNDLE

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## The One Percenters; Ruble, Rand, and Real

The worst might be over for falling oil prices, which is good news for economies that depend on its export. A report published by the International Energy Agency on Monday, February 22nd, forecast that the U.S. will decrease oil production in 2016 and 2017, signaling to investors that oil prices could increase. Russia, South Africa, and Brazil, whose oil exports comprise a significant portion of GDP, all saw their currencies gain more than one percent on the dollar as a result. Even though one percent is relatively small, it reflects a change in attitude towards the markets in which the currencies exist. For example, Jim Reid, managing director of Deutsche Bank, says that "overall sentiment feels improved." While low oil prices have certainly been benefitting the everyday consumer, a price increase would be extremely beneficial for the struggling world economy (read this week's op-ed for more on that). However, only time will tell if the International Energy Agency's forecast is true. - SL

### Upcoming Events

March Madness tournament, prize money for best bracket. Entry is \$5.  
Northwestern Mutual, March 29th 7-8 pm, room TBA  
The Great Debate, March 23rd 7pm, Eisenhower Auditorium  
Don't forget to fill in our survey: [bit.do/psueasurvey](http://bit.do/psueasurvey)

## FBI Tries to Bite at Apple Privacy Policy

An unexpected debate has broken out recently between the FBI and Apple. Stemming from the investigation of the San Bernardino shooter's iPhone, authorities argue that Apple must create a backdoor into their encryption platforms in the interest of national security. However, Apple contends that bypassing encryption would defeat its purpose, saying that if the FBI can use the backdoor, criminals can too. While this is a pivotal debate over the rights and liberties of private business and national security, the implications of Apple's decision go beyond those things. For example, the reputation of tech companies and their privacy rights could be compromised if Apple obliges to the government's wishes. Furthermore, the precedent set by Apple could push terrorists towards using less traceable forms of communication. - DA



## The Ugly Side to Lower Prices at the Pump



The recent drop in crude prices from over \$100 per barrel to under \$30 per barrel has led to a rapid decrease in gasoline prices. In certain places in the United States, one dollar per gallon gas will soon become a reality. While lower gasoline prices effectively increase consumer discretionary income, the negative side could be far worse. With lower gasoline prices and decreasing crude oil prices, the U.S. could become too dependent on foreign oil, sending ripples throughout the economy.

Currently, the break-even point for the average U.S. shale oil producer is estimated at \$30 per barrel. This means that during the past month, when oil first dipped below \$30 on January 20th, these oil producers were taking losses. As low oil prices persist, the question remains whether or not these companies will stay afloat. If U.S. oil companies go bankrupt, it shouldn't be an immediate concern for consumers because high production from OPEC will continue to keep oil

**“The U.S. could become too dependent on foreign oil, sending ripples throughout the economy”**

prices low. However, this may result in the U.S. becoming increasingly dependent on foreign oil, which could have disastrous consequences similar to the 1973 Arab Oil Embargo.



Within the last five years, the growth of the high-yield bond debt market has been spurred by energy companies promising high returns during the crude oil price peak. This debt is often held by banks, and if oil companies start to default, the financial stability of these banks could be affected. In addition, lower oil prices could push inflation lower, something the Fed has been struggling to combat.

Cheap oil prices may seem like a boon for the economy at first, but there are many negative effects. While I enjoy paying lower prices at the pump, the realization that the plunge in oil prices could lead to ripple effect throughout the economy is a sobering thought. I believe that the decrease in oil prices is only justified if there is a corresponding increase in consumer spending, which is not something that has been seen so far. - JN

## The Sky's the Limit for Discomfort

What's lower than the comforts and amenities of regular economy? Basic economy. In an attempt to prevent loss of customers to Spirit and Frontier, Delta Airlines now offers just that. This new seat class aims to increase airline profitability by decreasing seat vacancies and administrative overhead costs. While great for college students and those on a tight budget, the addition of a lower

class raises concerns for business professionals and those with families. Travelers paying this minimal fare will not get to choose their seats in advance and will have limited access to water and other amenities. Despite incessant complaints and low levels of passenger satisfaction, flyers are still buying. In fact, competing airlines have followed suit because of the large profit margins associated with the lower class offering. So far, Americans have been willing to exchange comfort for lower airfare, but just how much

comfort are they willing to give up? — JH



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