

*2016 Teachers Guide:
The Economy*

Written for the National Student/Parent Mock Election

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Teachers Guide to The Economy

Julio Noguero in Venezuela used to be a baker, according to the Associated Press. But now he spends his evenings searching in garbage dumps for food.

"I come here looking for food because if I didn't, I'd starve" Noguero explained.

Nearly half of Venezuelans can no longer afford to eat three meals a day? Why?

What has happened to the economy in Venezuela?

What is "the economy?"

Is Venezuela a democracy?

Why are 76% of Venezuelans now under the poverty line in what was once South America's richest nation?

Can it happen to the economy in the United States? Why? Why not?



A June, 2016 article in The Economist is headlined,

“Why Brexit Is Grim News For The World Economy”.

Above the headline a small sub-head reads, “Wrecks it?”

“A recession in Britain nevertheless seems likely,” The Economist states.

“Corporate investment will be hurt by uncertainty about future access to both the single market and to other places where Britain has piggybacked on trade deals negotiated by the EU. In unsettled times, businesses defer whatever spending they can.”

“The same is true for consumers. The majority who voted to leave the EU may think that forecasts of recession in the event of a Brexit vote were a tactic to scare voters.”

“If so, they are unlikely to curb their spending overnight.”

“But as bleak consequences for the economy become clearer, spending on the big-ticket items is likely to slump. The collapsing pound will drive up inflation crimping real incomes. Some jobs will go. Hours worked and wage growth will fall. And Britain is big enough for a recession there to have a meaningful effect on Europe’s economy. “

Will Brexit hurt the U.S. economy in your view? Why? Why not?

“A big concern” The Economist points out, “is the extent to which a retreat from financial risk will disturb the existing fault lines in the world economy, notably China and southern Europe.”

Can the European Central Bank intervene to calm world anxiety by buying bonds?

Is there anything else it can do to cure the underlying problems of weak growth?

When will Italy have a referendum of its own (on constitutional change)? What effect might it have?

“If Britain, a champion of free trade, can vote to revoke a regional trade deal,” The Economist asks, “can businesses worldwide put their faith in other international... agreements?”

“Will nationalist ... and protectionist trade forces in other countries be greatly encouraged by Brexit?”

Why? Why not?

“Already at a 30-year low is the pound now vulnerable to further depreciation?” The Economist asks.

Place a map of the globe on a bulletin board or other large surface, with strings leading out from Great Britain to all the other countries that “Britain’s Independence Day” will affect. With each student in the class taking responsibility for describing the effect on one country, place index cards at the end of each string to illustrate the effect of the Brexit vote on economies around the world.



Why has the economy in America been sluggish of late?

Are there serious concerns now about China’s ability to overcome the consequences of its mountainous debts?

“As bleak consequences for the economy become clearer, spending on the big-ticket items is likely to slump,” The Economist, predicts. “The collapsing pound will drive up inflation crimping real incomes.”

“Some jobs will go. Hours worked and wage growth will fall.”

Do you believe that Brexit makes curbs on migration workers a little more likely? Why? Why not?

Paul Krugman, an American economist, has stated: “We have obvious, pressing needs for public investment in many areas.”

“In Washington, the aging Metro is in such bad shape that whole lines may have to be shut down for maintenance. In Florida, green slime infests beaches, in large part because failure to upgrade an 80-year-old dike or to purchase more land as a runoff area is forcing the Army Corps of Engineers to release polluted water from Lake Okeechobee. There are similar stories all across America.

“So investing more in infrastructure would clearly make us richer. Meanwhile, the federal government can borrow at incredibly low interest rates: 10-year, inflation-protected bonds yielded just 0.09 percent on Friday.”



Do you agree with Mr. Krugman that, “spending more now would mean a bigger economy later, which would mean more tax revenue?” Why? Why not?

Do any of our presidential candidates agree with him? Why? Why not?

Investigate the opportunities for investing your own money in today’s economy.

How can “money make money?” If you put \$100 into an investment now how long will it take to become \$1000?

What would it cost your school to organize a school book fair and invite publishers to send you books on the economy to sell “on approval”, inviting parents to come and buy the books for their children? How much money could your school make? How much could your school lose?

Why?

Would you be willing to take the chance? Why? Why not?

Senator Bernie Sanders has said, “Increasingly, globalized economy, established and maintained by the world’s economic elite, is failing people everywhere. Incredibly, the wealthiest 62 people on this planet own as much wealth as the bottom half of the world’s population—around 3.6 billion people. The top 1 percent now owns more wealth than the whole of the bottom 99 percent. The very, very rich enjoy unimaginable luxury while billions of people endure abject poverty, unemployment, and inadequate health care, education, housing and drinking water.”

“Could this rejection of the current form of the global economy happen in the United States? You bet it could.”

“In the last 15 years, nearly 60,000 factories in this country have closed, and more than 4.8 million well-paid manufacturing jobs have disappeared. Much of this is related to disastrous trade agreements that encourage corporations to move to low-wage countries.”

Can you research one of these factory closings? Was it related to a “disastrous trade agreement?” Which one?

Can your class identify corporations that have moved to low-wage countries? What if anything could bring them back?

“Despite major increases in productivity,” Bernie Sanders continues, “the median male worker in America today is making \$726 dollars less than he did in 1973, while the median female worker is making \$1,154 less than she did in 2007, after adjusting for inflation.”

“Nearly 47 million Americans live in poverty. An estimated 28 million have no health insurance, while many others are underinsured. Millions of people are struggling with outrageous levels of student debt. For perhaps the first time in modern history, our younger generation will probably have a lower standard of living than their parents. Frighteningly, millions of poorly educated Americans will have a shorter life span than the previous generation as they succumb to despair, drugs and alcohol.”

“Meanwhile, in our country the top one-tenth of 1 percent now owns almost as much wealth as the bottom 90 percent. Fifty-eight percent of all new income is going to the top 1 percent. Wall Street and billionaires, through their “super PACs,” are able to buy elections.”

“On my campaign, I’ve talked to workers unable to make it on \$8 or \$9 an hour; retirees struggling to purchase the medicine they need on \$9000 a year of Social Security; young people unable to afford college. I also visited the American citizens of Puerto Rico, where some 58 percent of the children live in poverty and only a little more than 40 percent of the adult population has a job or is seeking one.”

“Let’s be clear. The global economy is not working for the majority of people in our country and the world. This is an economic model developed by the economic elite to benefit the economic elite. We need real change.”



In, 2016, Dr. Mohamed A. El-Erian, an internationally known economist, pointed out, “In sum, the elusive advanced-economy quest for new growth has morphed into a general growth defeat for the world as a whole. In the process, the search for new growth engines has become harder, the stakes have gotten bigger, and the consequences have extended beyond economic and financial... they now also have important social, political, institutional and geopolitical dimensions.”

“According to the Organization for Economic Opportunity and Development ‘income inequality is at the highest for the past half century with the average income at the highest 10% of the population... about nine times that of the poorest 10%.... up from seven times 25 years ago.”

“This already considerable group widens substantially if the richest group is redefined to be the top 5 percent and 3 percent and it flies off the page of it’s the top 1 percent or 0.1 percent.”

“Poverty perpetuates poverty, generation after generation, by working on the brain,” Dr. El-Erian noted.

What will happen to our democracy if we raise generation after generation in poverty? What can we do?

Why do college graduates earn twice the income over their lifetime as those who have only a high school education?

Why has it become so difficult to finance a college education in today’s America?

Do you believe the investment in college is worthwhile for you? Why? Why not?

What is a cost/benefit analysis?

Are all costs or benefits economic? What else needs to be considered?

How can your actions influence the costs or the benefits?

Chronic absenteeism from school, research has proved, can have a severe effect on your ability to earn money in the future.

Why were 58% of the students in Detroit chronically absent in the 2013-2014 school years? Why are 27% of Native American students chronically absent, 21% of Black, and 17% of Hispanic and white students?

How will these figures affect our economy in the future?

What solutions do the presidential candidates offer to solve the problems of the economy?

What do you suggest as the ways to solve the problem?

“The Obama administration, in a far-reaching effort to improve the lot of workers, announced that it was making millions more employees eligible for overtime pay,” the New York Times announced on May 17, 2016.

“Under the new regulation, most salaried workers earning up to \$47,476 a year must receive time-and-a-half overtime pay when they work more than forty hours a week. The previous cutoff for overtime pay, set in 2004, was \$23,660.

“This is a big deal to be able to help that many working people without Congress having to pass a new law,” said Ross Eisenberry of the Economic Policy Institute. “It’s really restoring rights that people had for decades and lost.”

“Once the rule goes into effect on Dec. 01st, many workers will receive more pay when they work overtime,” continued, Mr. Eisenberry, “but others may end up working fewer hours if employers move to limit their time at work. In other cases, employers may decide to increase the salaries of some workers to push them over the cutoff or hire additional workers after limiting hours for existing employees.”

Why did more than 60% of salaried workers qualify for overtime based on their salaries in 1975, but only 7% do today?

What are the arguments for and against raising overtime pay at this point? Who would be helped? Who would be hurt?

A New York Times headline on August 29, 2016 read: “Top Bankers Hear Pleas: Turn Focus To Spending.” The story, by Binyamin Applebaum, read, “Central bankers who gathered here to discuss better ways of jump-starting slow economic growth received a surprising message from their lunchtime speaker on Friday: ‘Stop. You’re making things worse.’”

“Christopher A. Sims, a Nobel laureate in economic science, told the annual conference that increased government spending was required to lift the world’s major economies from stagnation. The pursuit of innovations in monetary policy,’ he said, ‘is diverting needed attention from the inaction of fiscal policy makers.”

“‘So long as the legislature thinks it has no role in this problem, nothing is going to get done,’ said Mr. Sims, a professor at Princeton. The best hope, he said, ‘is that people at central banks are willing to say publicly that this is what is necessary.’”

“Developed nations have leaned heavily on their central banks since the 2008 financial crisis. The United States, Europe and Japan have all relied on low interest rates to encourage increased spending by businesses and consumers even as government spending has remained relatively austere. Mr. Sims is among a growing number of experts who warn that this experiment has reached its limits.”

“The central banks have pushed rates to historically low levels. The European Central Bank and the Bank of Japan have even imposed negative interest rates, effectively taxing savings to encourage spending. Yet job growth and inflation remain stubbornly weak. Benoît Coeuré, a European Central Bank official, drew laughter from the audience when he noted the “good news” that eurozone inflation had doubled last month — from an annual rate of 0.1 percent up to 0.2 percent.”

“In the United States, the Federal Reserve responded to the crisis more forcefully than other central banks, and the federal government initially spent more freely. Yet here, too, growth remains slow, inflation remains weak and millions of middle-age people are no longer working.”

“Mohamed A. El-Erian, the chief economic adviser at Allianz, warned in a recent book, “The Only Game in Town,” “that time was running out. If developed nations do not increase spending and pursue structural reforms in the next few years,” Mr. El-Erian predicted, “they will be locked into a new reality of slower growth.”

“Moreover,” he said, “central banks would be handicapped in fighting future crises — they have little room to cut rates should economic conditions deteriorate.”

Do you agree with Christopher Sims? With Muhammed A. El-Erian? With Senator Bernie Sanders? With Paul Krugman? With “The Economist”?

Why? Why not?

Why has Japan struggled with low inflation and slow growth for decades?

What made the bank’s recent campaign to address the problem “perhaps the most aggressive of any developed nation?”

Why did the Japanese government undermine those efforts by imposing a larger tax increase?

Read the remainder of the New York Times story for the views of central bankers from other countries at

<http://www.nytimes.com/2016/08/29/business/economy/central-bankers-hear-plea-turn-focus-to-government-spending.html> .

What other economists can you find with still other ideas for a solution?

What other options can you think of for solving the problems of our economy?

How can we make certain that reality, not rhetoric, underlies the economic decisions that will affect everybody’s future?

Thomas Jefferson said of Alexander Hamilton, our very first Secretary of The Treasury: "We were at each other like cocks every day."

Why did Jefferson and Hamilton disagree so strongly on how to protect the economy of the new nation?

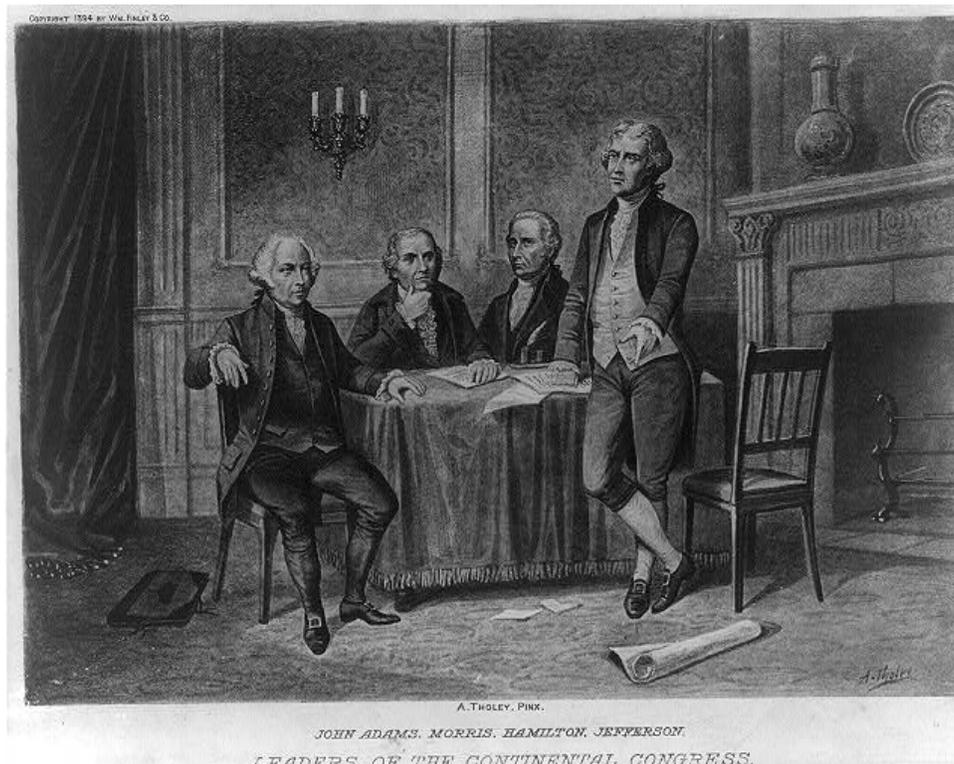
What would each have to say about the situation we find our economy in today?

What possible solutions do you believe either Jefferson or Hamilton would have suggested?

Could we lose our democracy "by default"? Whose fault would it be?

Do we have the luxury of being wrong?

Did Venezuela?



What do you think you should do, as a citizen, or citizen-to-be, of the world's longest lasting democracy to help solve some of the problems of your democracy? (Check as many as you wish)

- A) Nothing?
- B) Write a letter to the editor of your local newspaper?
- C) Contact your local radio or TV station?
- D) Contact the authorities responsible for the area of your concern and ask what they are doing and what help they need?
- E) Use social media and the internet to find others who are concerned?
- F) Put together a group who share your views to work for change?