Economics 50
Dr. Fayazmanesh

Guideline for the Mandatory Writing Assignment (See also the Syllabus)

Your writing assignment consists of two macroeconomic essays, one in the middle of the semester and one at the end. Each essay should contain at least **500 words**. In your essay you are expected to analyze one or more ***news articles*** (no opinion piece) that are relevant to macroeconomics. *The choice of the news articles is part of the grading process*. Your essay will be graded on content and form according to the following guidelines:

Content

1) The ***title of the news article(s), its source, date (within the semester) and author must be mentioned at the top of the page***.

2) The news article(s) must be ***relevant to macroeconomic analysis***, i.e., something that has already been discussed or will be discussed in this class (if you wish, you can look at the remaining chapters that will be covered to find a suitable topic). ***Your essay must provide a summary of the news article(s) and then apply the textbook and/or class-notes to analyze the article(s). That is, you must use the tools provided in the textbook or class-notes (concepts, theories, and graphs) to dissect the article(s).***

3) The article(s) must come from one of the **following sources only**:

a) Newspapers: *Wall Street Journal, New York Times*, *Washington Post*, and *Los Angles Times (you can use* ***LexisNexis*** *to locate suitable articles in these sources).*

c) Magazines: *Dollars and Sense*, *Economist*, *Challenge, The Magazine of Economic Affairs.*

d) Economic journals (these are usually too difficult to handle for the beginning students and, therefore, they are not generally recommended. For a list of economic journals available in the Madden Library see my website under Economics 50). If you decide to use an economic journal, you should talk to me first.

Any source other than those specified above is unacceptable.

4) The newspaper article(s) must be current, **dated within the present semester**. It must clearly show the date on it and contain at least **1000 words**.

5) Your essay must be in your own words, i.e., you *should not* copy the article(s) or extensively quote from it.

6) The essay must be no less than 500 words, i.e., approximately ***2 pages with 12 point font and 1 inch, justified, margin on each side(including right side).***

Form

1) Grammar and spelling: ***Your essay must be in good English and free from grammatical and spelling errors***. *Before submitting your essay, you can get online help from the* ***Writing Center*** (http://www.csufresno.edu/writingcenter/online.shtml) or the ***Leaning Center*** (http://www.csufresno.edu/lc/).

2) Margins: **1 inch from each side and justified (including right side)**.

3) Font size: Use **12-point "Times New Roman"** font.

4) Spacing: Use **double space**.

5) Page numbering: Each **page should be numbered**.

6) Visual Appeal: Please be organized and neat. Put your **essay on top of the newspaper article(s)** and **staple** them together on the left-hand corner.

See a sample of the grade sheet below

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Grade Rubric for the Mandatory Writing Assignment

Your **news article**(s) is (are) **attached** at the end of your essay.
- ❑ Yes
- ❑ No (the essay will not be read and no points received)

Your news article(s) and essay are **relevant** to our course (macroeconomic analysis).
- ❑ Yes
- ❑ Not quite
- ❑ No (the essay will not be read and no points received)

The title of the news article(s), its source, date (must be **within the semester**) and author appear at the **top of the page**.
- ❑ Yes
- ❑ Not quite
- ❑ No

The sources of your news article(s) are those specified in the guideline.
- ❑ Yes
- ❑ Not quite
- ❑ No

The date of your news article(s) (must be **within the semester**) is clearly shown.
- ❑ Yes
- ❑ Not quite
- ❑ No

A **summary** of the news article(s) appears at the beginning of your essay.
- ❑ Yes
- ❑ Not quite
- ❑ No

Your essay contains at least 500 words.
- ❑ Yes
- ❑ Not quite
- ❑ No

Your news article(s) contains at least 1000 words.
- ❑ Yes
- ❑ Not quite
- ❑ No

Margins are 1 inch and justified all sides, **including the right side**.
- ❑ Yes
- ❑ No

Font size is 12-point Times New Roman.
- ❑ Yes
- ❑ No

Spacing is 2.
- ❑ Yes
- ❑ No

The page number appears on each page.
- ❑ Yes
- ❑ No

Your notebook is visually appealing.
- ❑ Yes
- ❑ Not quite
- ❑ No

Your essay is **well-written** and free from grammatical and spelling errors.
- ❑ Yes
- ❑ Not quite
- ❑ No, please take your essays to LC and resubmit.

The **economic analysis is strong**, i.e., you have used the **tools provided in the textbook or class-notes** (concepts, theories, and graphs) to **dissect** the article.
- ❑ Yes
- ❑ Not quite
- ❑ No

Overall, given the content and form of your economics notebook, your grade is:

/15

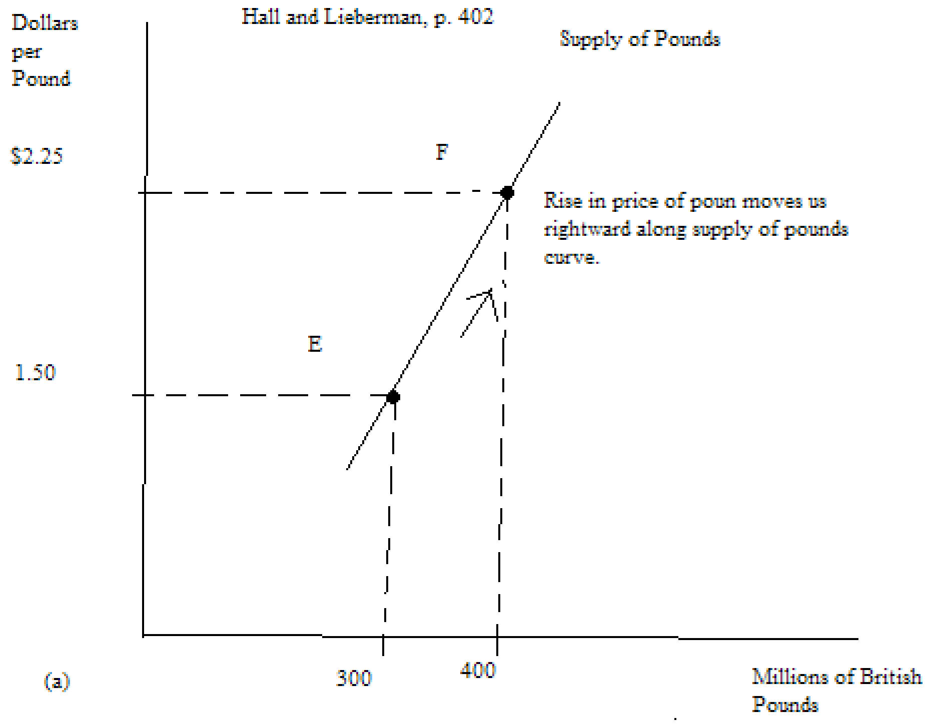
David Ricardo
Economic 50, MWF 9:00

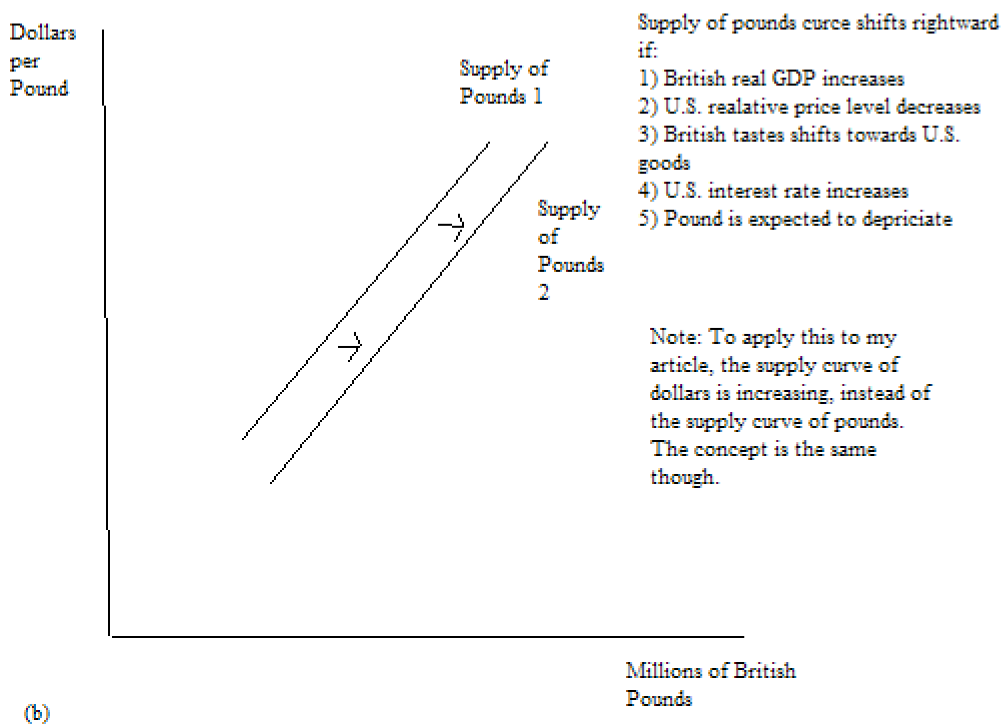
"Weak Dollar Helps U.S. Firms, for Now
Long-Term Effects Worry Economists"

By Jonathan Weisman
Washington Post Staff Writer
Monday, January 26, 2008; Page A01

The above article points out several interesting facts regarding the U.S, dollar compared to the euro and the British pound. The article is dealing with the idea of "exchange rates," which Hall and Lieberman define in their book as, "the amount of one country's currency that is traded for one unit of another country's currency" (*Macroeconomics Principals and Applications*, p. 397). According to Weisman, the British pound was worth $1.83 on January 23, 2004, up sixteen percent since the end of August, while the euro was valued at $1.26, up nineteen percent in one year. This exchange rate means U.S. goods are far cheaper for European consumers and European exports are considerably more expensive in the U.S.

The slide in the U.S. dollar was been beneficial to U.S. businesses. For example, Weisman claims California's wine exports to France increased by seventy-eight percent. Hall and Lieberman discuss relative price levels as reason for the shifts in the demand for the euro and British pound. Hall and Lieberman explain that if price levels of the euro rise at a greater rate than that of the U.S. dollar than the price of the euro or pound has increased *relative* to that of the dollar. As a result, Europeans will shift from buying their own goods to buying the relatively cheaper American goods. The result is an increase (rightward shift) of the U.S. dollar (Hall and Lieberman, p. 400).





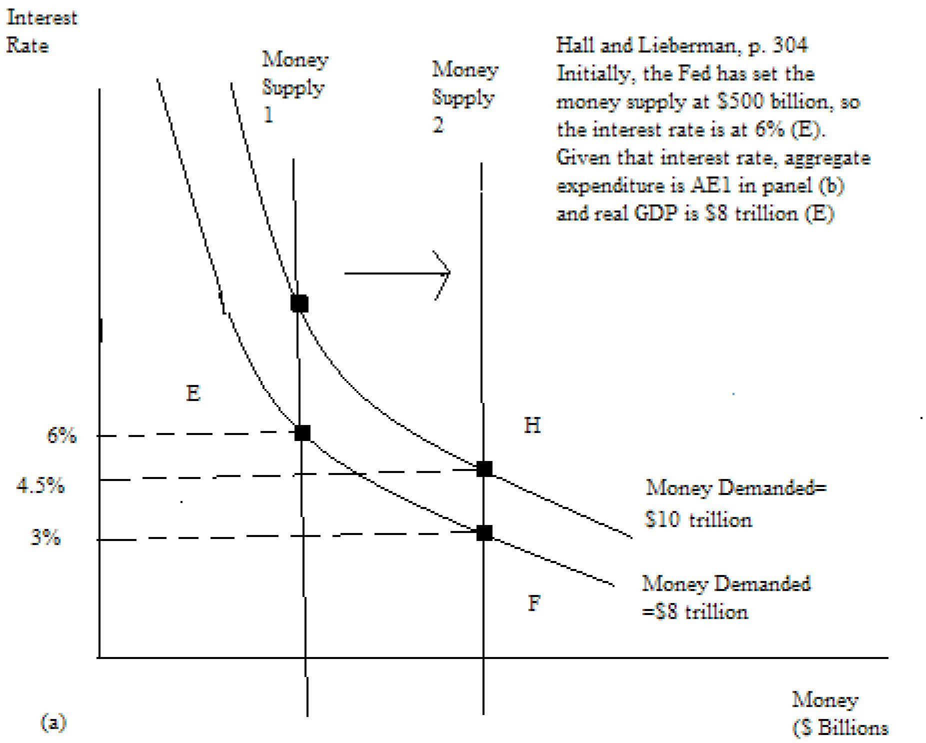
While, the weaker U.S. dollar has helped businesses, consumers, particularly travelers, have not been so happy with the new exchange rate. Weisman gives the example of a five dollar Coke in

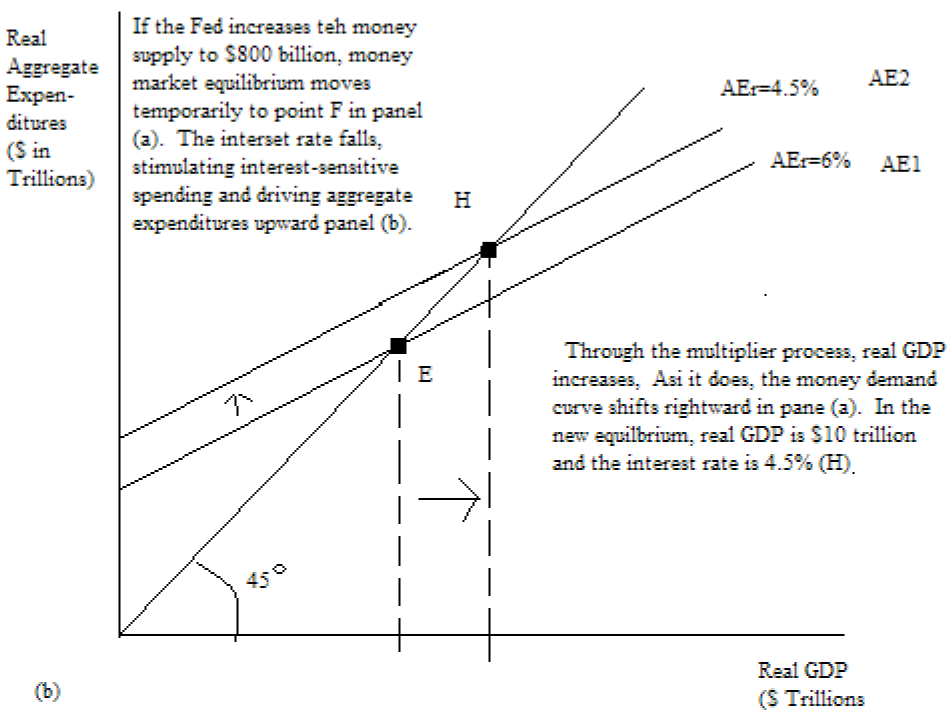
Paris, or, " a first-class hotel [in Paris] that may have cost $500 dollars a night a year ago could run $700 now." This unfavorable exchange rate for consumers should balance out if the purchasing power parity (PPP) theory holds. Hall and Lieberman say "according to the purchasing power parity (PPP) theory, the exchange rate between to countries will adjust in the long run until the average price of goods is roughly the same in both countries" (Hall and Lieberman, p. 408). In other words, the U.S. dollar should bounce back and the exchange rate will balance out between the dollar and the euro and British pound.

Despite the PPP theory, Weiman's writes the following:

> Currency traders fretting over that dependency [America's dependency on foreign investors] have been selling dollars fast and buying euros furiously. The fear is that foreigners will tire of financing America's appetites. Foreign investors will dump U.S. assets, especially stocks and bonds, sending financial markets plummeting. Interest rates will shoot up to entice tem back. Heavily indebted Americans will not be able to keep up with the rising interest payments. Inflation, bankruptcies and economic malaise will follow.

Higher interest rates will encourage foreign investors to invest in the dollar because they will be receiving a greater return on their investment. Conversely, Hall and Lieberman claim that, "by lowering the interest rate, the Fed can stimulate aggregate expenditures and increase GDP through the multiplier process" (Hall and Lieberman 313). Hall and Lieberman define the aggregate expenditures as follows: "the sum of spending by households, business firms, the government, and foreigners on final goods and services produced in the United States" (p. 235).





Thus, the real normative economic question is should the U.S. raise the interest rates to encourage foreign investors? Weisman seems to believe that the economy seems to be on the upswing and an increase in the interest rates could slow this growth. In order to achieve one of the macroeconomic goals of expansion, a low interest rate is needed. Weisman gives a quote from Steve Englander, chief North American currency strategist for Barclays Capital, "If we see U.S. interest rates going up not because the economy is improving but because foreigners are not bellying up to the bar, the Fed and Treasury will consider that dangerous. But we're far from that, and before we get there, the Europeans will cry uncle and cut their interest rates." This quote supports the conclusion that the weak U.S. dollar is not a big concern at this time. The economy is expanding and a low interest rate will encourage an increase in GDP. Foreign investors are still investing in the dollar, despite the low interest rates. In terms of the exchange rate, many economists would recommend taking a *laissez faire* approach.