Economics 101

The Dismal Science

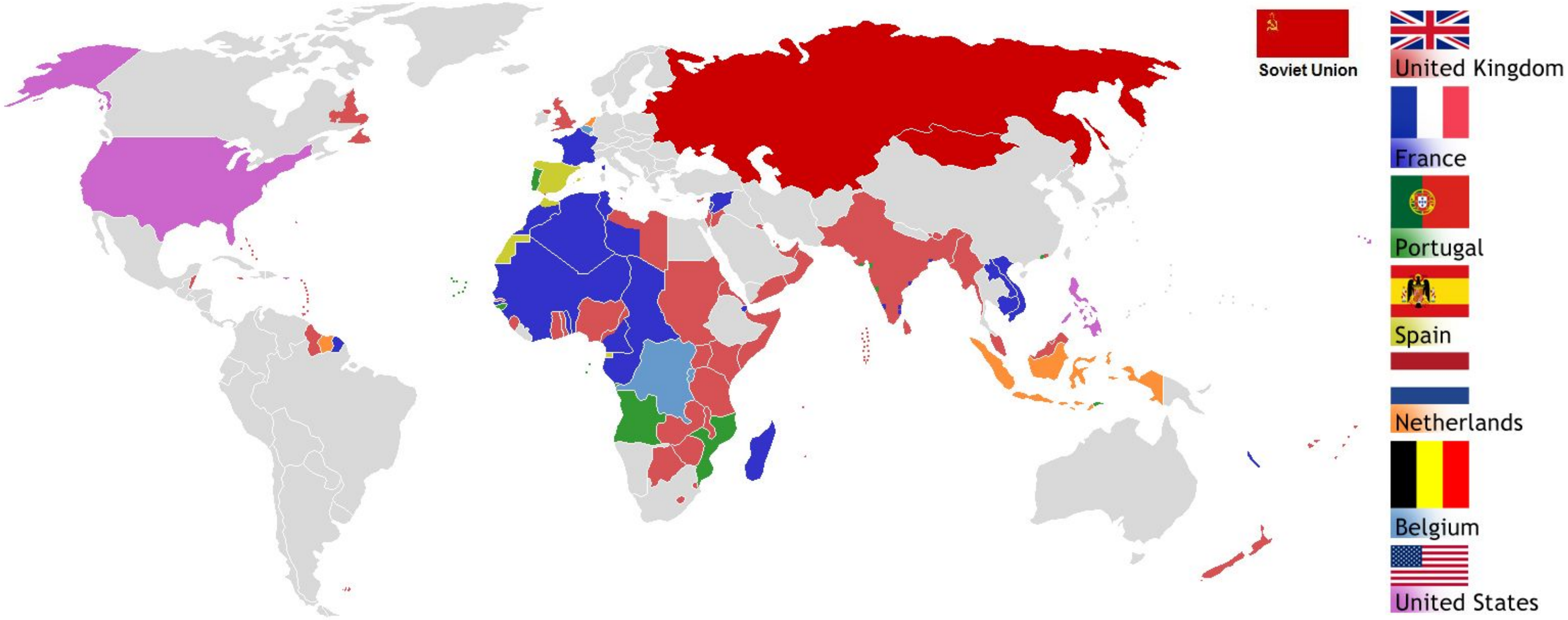
“Economics is the social science that studies the production, distribution, and consumption of goods and services. Economics focuses on the behaviour and interactions of economic agents and how economies work.”

Table of Contents

Part 1: Economic History

Exploring free market vs Marxist thought

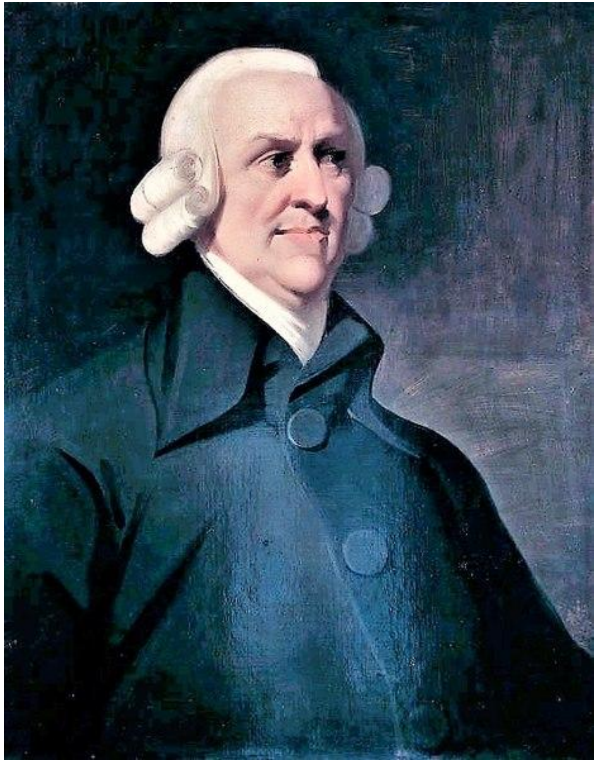
Pre-Modern Economics: Mercantilism



The Change: Adam Smith & Modern Economics

- In 1776, Adam Smith--often called the father of modern economics--wrote the “Wealth of Nations” in which he critiqued this mercantilist model.

- Instead, he said that competition (both domestic and foreign) was key & the government should play a minimal role. He’s also highly critical of the monarchy and says by leaving things to the people, the economy would be guided by an invisible hand: “private vices may be turned into public benefits.” This laid the foundation for modern-day capitalism.



Other Important Things about Capitalism

- Smith said land, labor, and capital were the three keys to economic growth. Economists eventually included entrepreneurship as the last “factor of production”

- **Land:** Natural resources used in the production of a good or service.

- **Labor:** Most expensive business cost; refers to the workers required.

- **Capital:** Investment in capital goods like buildings.

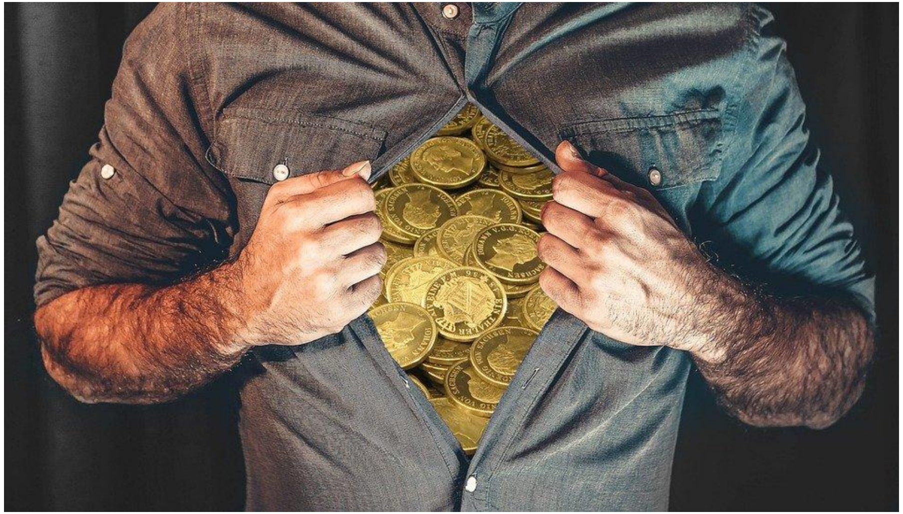
- **Entrepreneurship:** These are the visionaries and innovators behind the process who combine the other factors to maximize productivity.

Capitalist View of Supply & Demand

- Capitalists believe that the supply of any good should be determined by the free market.

- The government is too inefficient at determining demand and effectively coordinating supplies. They should also tax less to encourage risk-taking.

- By leaving that up to people & offering them a share of the pie, they'll be more efficient at maximizing output & meeting consumer demand. And if they don't meet demand? Their business fails.



Another Interesting Concept: Capitalist Peace Theory

Democratic Peace Theory: Democracies are less likely to go to war mainly because of the public accountability factor.

Capitalist peace theory is as an extension of this idea. It states capitalist states are less likely to go to war:

1) Their economies are more liberalized and thus reliant on trade.
2) Their domestic economies are more stable and less likely to succumb to turmoil
3) Capitalist governments tend to have a more limited role and are thus less institutionally capable of fighting wars.
4) War ≠ investment-friendly

Golden Arches Theory:

- Coined by Thomas Friedman in his 1999 book *The Lexus and the Olive Tree*
    - Countries don't go to war after they get McDonald's
    - McDonald's epitomizes a truly global company & thus globalization. Plus, it shows a strong middle class.
- Fun theory BUT take with a grain of salt
    - India-Pakistan in 1999
    - NATO-Serbia in 2000
    - Israel-Lebanon in 2006
    - George-Russia in 2008

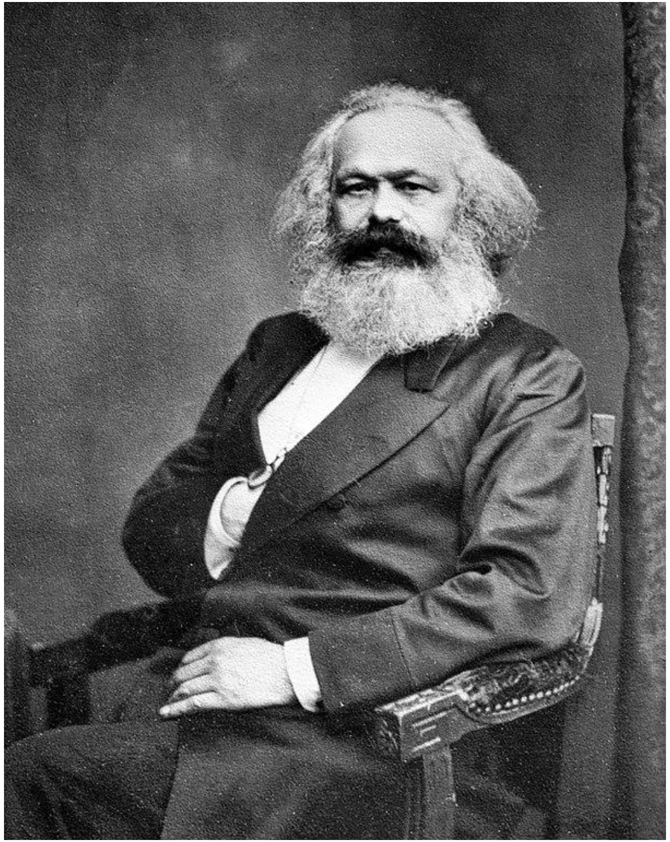
The Other Man: Karl Marx

- While capitalism did increase productivity, it was horrible for income inequality & the environment.

- What's best for society ≠ the cheapest

- In 1867, Marx wrote "Das Kapital" which critiqued capitalism as inherently exploitative. In it, he asserts that surplus value (profit) comes for unpaid labor.

- For example, a worker produces $20 of goods, but gets $10 in wages. That other $10 just got stolen from his. In short, profit)is thus the byproduct of unpaid labor.



Marx’s View of Supply & Demand

- In the “Communist Manifesto,” Marx calls for a dictatorship by the proletariat. In short, the government seizes the means of production.

- In his opinion, government is better force for determining supply that the free market.

- Calls for a “moneyless” society and resources are communally owned. Since the means of production would be communally owned, the community would make whatever amount of whatever was needed.

A Thought Experiment

- You live in this nice farming co-op where everyone tends to one piece of land. In this co-op, everyone gets paid the same; there are no "rich" or "poor." The government also determines what you do & don't need. But, you get a guaranteed job and benefits. Do you work more or less hard?

- Iron Rice Bowl: "After the Communists came to power, all workers and farmers were put under state control. Their work units controlled every aspect of daily life, including the allocation of housing, food and clothing. They also decided who could marry and when, and who was allowed to have children. In return, work units would look after their workers for life." (BBC).

- Deng's Attempted Reforms
    - Household Responsibility System - Breaking of the Iron Rice Bowl

Part 2: Modern Economic Schools of Thought

Discussing Keynesianism, Supply-Side Economics, and Modern Monetary Theory

The Great Depression

- The economy has crashed, banks lack cash, and food is scarce. Unemployment is at 25% and Americans are losing their jobs left and right.

- The poverty rate is at around 50%. And most other countries economies are in similarly-weak positions.

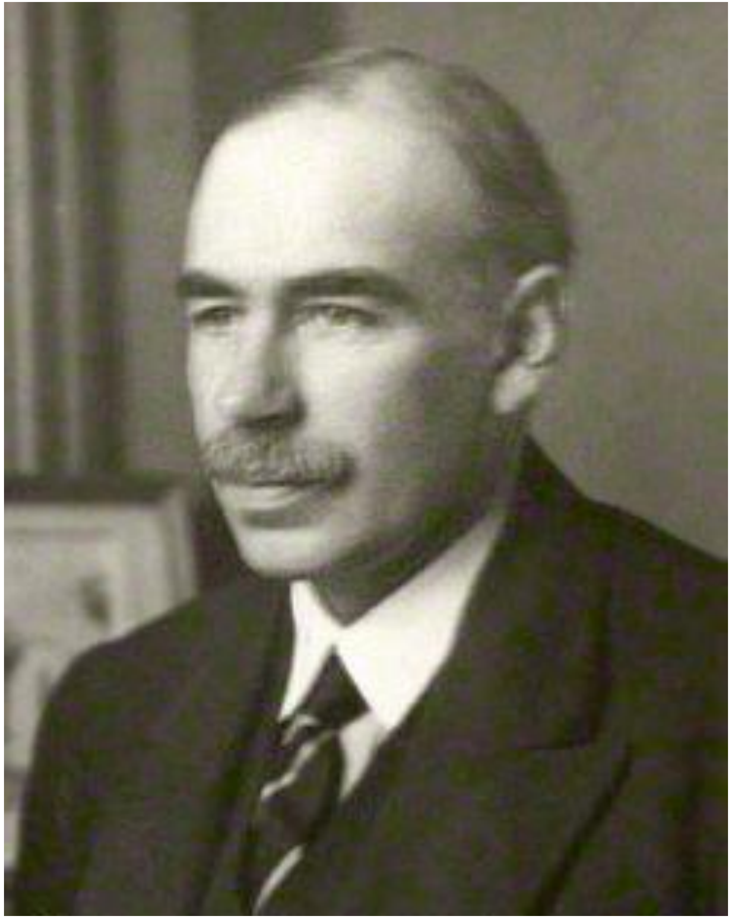
- In other words, the world economy is in the gutter. What the heck are governments supposed to do? Do they just sit idly by or act?

Keynesianism

- Named after British economist John Maynard Keynes & popularized during the Great Depression.

- Market economics often experience inefficiencies in effectively changing supply. That means countries experience recessions when demand is low & inflation when demand is high.

- Keynes solution? Government intervention.



Keynesianism Cont.

- “Managed market economy” -- predominantly private sector, but the government has an active role to play, especially during recessions and depressions, but also in ensuring things don’t get too crazy.

- Fiscal policy (Congress) and monetary policy (The Federal Reserve). Used during the Great Depression, Great Recession, & today.

- Let’s say the US economy was crashing, a proponent of Keynesianism would advocate for infrastructure spending or tax cuts.

Trickle Down Economics

- A specific school of supply-side economics focused on cutting taxes for wealthy individuals.

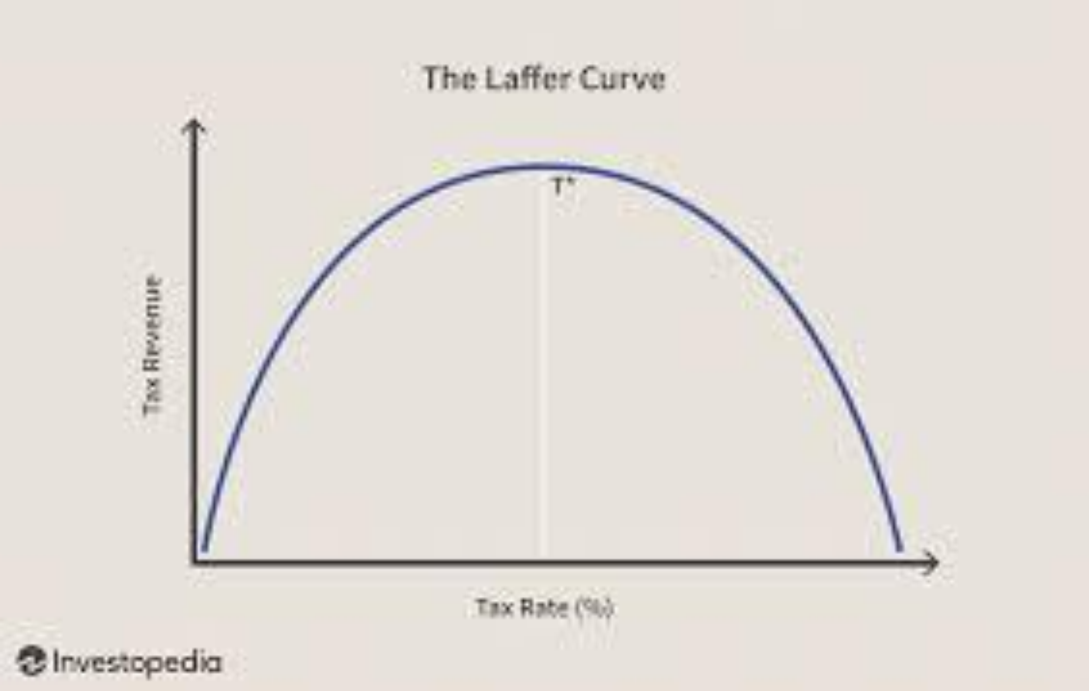
- Popularized during the Reagan administration during his Economic Recovery Tax Act of 1981

- The problem? A lot of those tax benefits remain unrealized, with many lower-income folks actually being harmed by the weakened safety net.

"A 2019 study in the *Journal of Political Economy* found, contrary to trickle-down theory, that 'the positive relationship between tax cuts and employment growth is largely driven by tax cuts for lower-income groups and that the effect of tax cuts for the top 10 percent on employment growth is small.'"

Laffer Curve

- Credited to Muslim philosopher Ibn Khaldun
- Popularized by Reagan economic advisor & supply-side economist Art Laffer
- Justifying trickle down economics



Modern Monetary Theory

- Countries with their own currency (like the US) don't have to worry about debt too much & could hypothetically pay for programs without taxes because they can never default on debt. Also asserts interest rates should be kept low.

- Only inflation limits money creation.

- The problems include that it overestimates how many revenue could be made from money creation, it overestimates our ability to control inflation, and contains too few safeguards against debt.

Part 3: Key Economic Vocabulary & Economic Tools

Economic Indicators

GDP: The market value of all goods and services produced in a nation during a specific time period. Real GDP measures a society's wealth by indicating how fast profits may grow and the expected return on capital. It is labeled "real" because each year's data is adjusted to account for changes in year-to-year prices. The real GDP is a comprehensive way to gauge the health and well-being of an economy.

Labor Force Participation Rate: The percentage of people participating in the workforce.

GDP per capita: Total GDP / total population. Not always viewed as the best metric.

Inflation: Measure of the price level of a basket of selected goods & services over time.

Consumer Price Index: The best measure on inflation we have to rely on. It evaluates several hundred goods across 200 item categories.

Unemployment: The percentage of people looking for a job who can’t find one.

Congress-Related Terms

Subsidies: Money the government gives to a business to help keep their prices low & competitive. As an example, we subsidize corn.

Tax Cuts: Pretty intuitive. This is when you reduce the tax rate to increase spending. When you cut taxes, you are saying that money is better spent in the hands of consumers than the government.

Tariffs: These are taxes on imports used to protect US businesses.

Deregulation: This is when you reduce government oversight over an industry. For example, environmental deregulation may mean allowing companies to drill oil in new areas or not have to clean up pollution. Typically, this oversight is costly so deregulation stimulates the economy in the short-term.

Infrastructure-spending: Think roads, dams, bridges, buildings, power supplies, etc. Helps boost the economy 1) by increasing economic interconnectivity and 2) by creating infrastructure-related jobs.

Federal Reserve Related Words

Interest Rates: The rate at which you pay back a loan. Think back to your high school math problems. The higher the interest (10% vs 0.5%), the more expensive it is to pay back a loan.

Negative Interest Rates (Explain Later): Usually, you have to pay money to take out a loan, but you don't have to pay anything to save money. With negative interest rates, things are flipped. Banks have to pay money to save their cash with the Fed, but can take out loans for practically free. This incentivizes spending & discourages saving. It's used as a last resort.

Quantitative Easing: This is a longer-term move. The government buys up longer-term, safer securities (think treasury bonds). This has two impacts: 1) it increases the money supply 2) encourages riskier, more profitable investment (like stocks).

Ways Developing Economies Can Grow

- **Diversification:** This is when you expand your economy beyond one sector to make sure you're not overly reliant on a singular thing. Non-diversified states are often called rentier states.

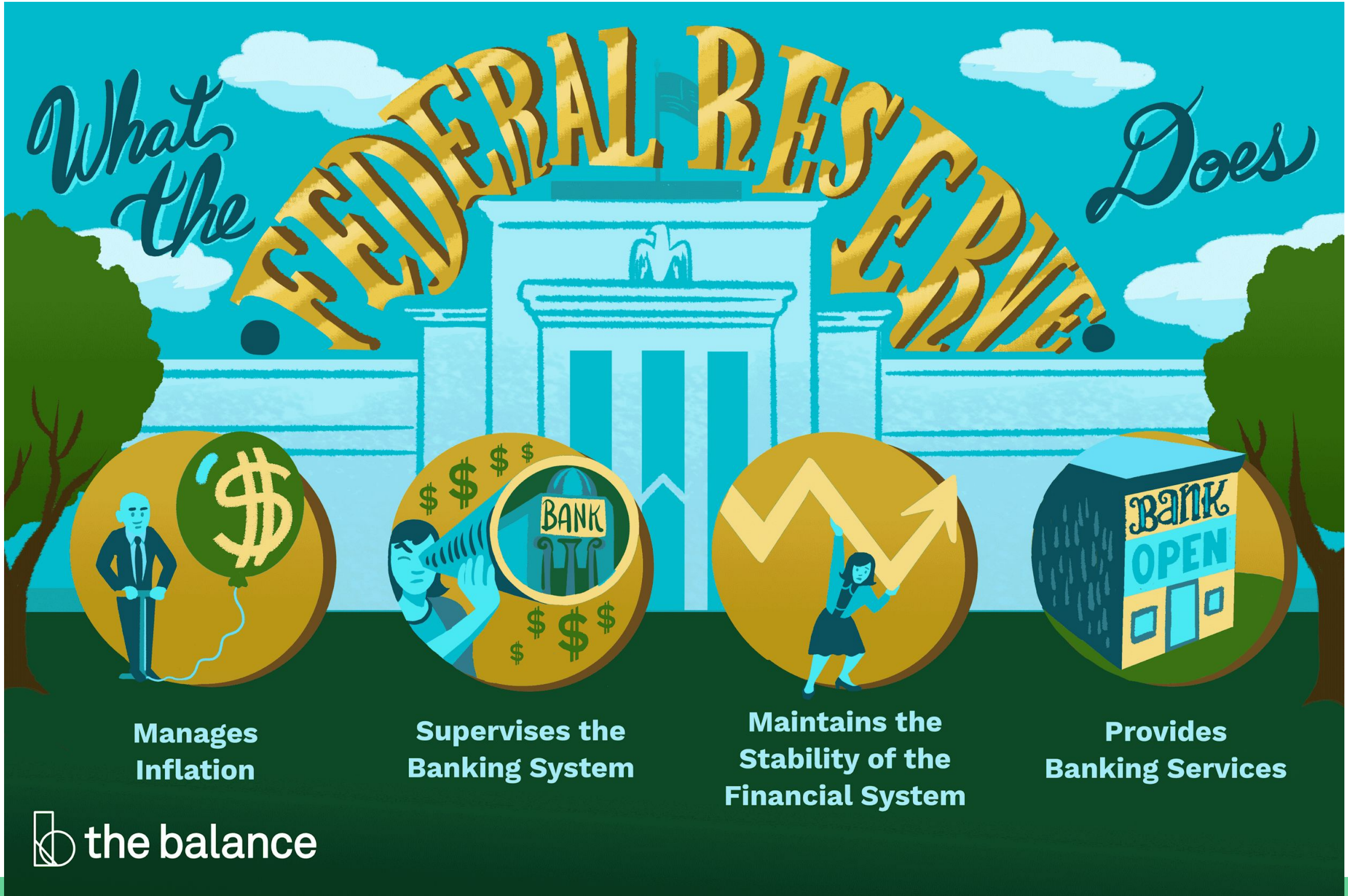
- **Education:** By expanding primary and secondary education, you can create a more educated and thereby skilled workforce. This only formalizes the economy. Women's education is especially important.

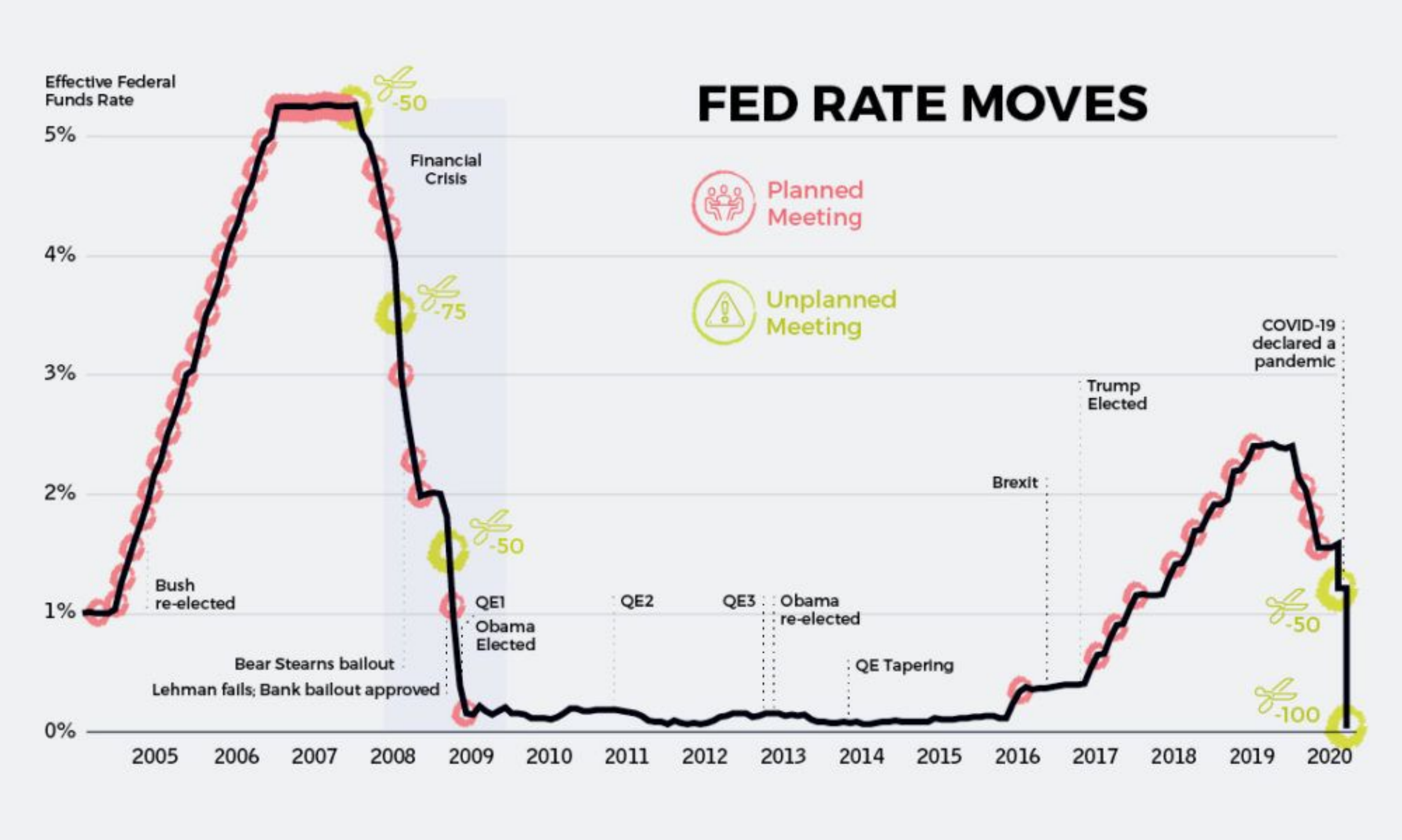
- **Infrastructure:** We talked about the benefits in a previous slide; those are magnified in developing economies.

- **Microfinance:** By improving microfinance--a practice of providing loans to people who cannot access banks--you can help people invest in basic capital goods to start their own businesses.

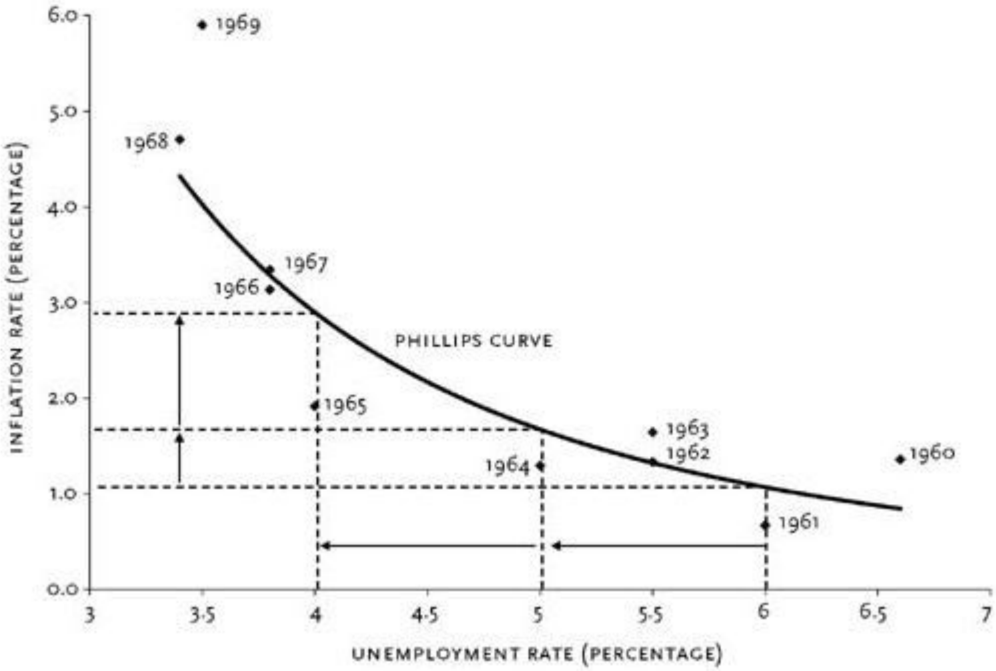
- **Improving Fiscal and Market Institutions:** This means creating a stable tax-collecting apparatus, regulating banking, and empowering economic policymakers with important tools.

- **Rooting out corruption:** Every dollar poached by the top is a dollar less for the economy. This decreases investment (domestic and foreign).


What the
FEDERAL RESERVE
Does
BANK
BANK
OPEN
Manages Inflation
Supervises the Banking System
Maintains the Stability of the Financial System
Provides Banking Services
the balance


FED RATE MOVES
Effective Federal Funds Rate
5%
4%
3%
2%
1%
0%
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Planned Meeting
Unplanned Meeting
-50
-75
-50
-50
-100
Financial Crisis
Bush re-elected
Bear Stearns bailout
Lehman fails; Bank bailout approved
QE1
Obama Elected
QE2
QE3
Obama re-elected
QE Tapering
Brexit
Trump Elected
COVID-19 declared a pandemic

Zero Lower Bound



Part 4: How to Answer Economic Questions

Step 1: Familiarizing Yourself with Economics

1. This lecture is a great first step

2. Check out other videos & Wikipedia articles

3. Brush up on your old high school economics textbook and gloss over the most repeated words. Those are really important concepts. Read other books too.

4. Read some more advanced sources too like the Peterson Institute of International Economics, the Economic Policy Institute, the Brookings Institute, the American Enterprise Institute, the Economist, and the National Bureau of Economic Research

5. Find an author you like & keep up with their work.

Step 2: Know Your Economic History

- Remember Jimmy's past/present/future substructure? What about problem/solution/impact? Both of those work really well in economic speeches and can be aided with some knowledge of economic history.

- Let's look at an example of this on the next slide via Extemp Central.

I have written a strategy piece this season about incorporating history in your extemp speeches and I cannot emphasize enough how important that is in economic rounds. Many of the economic problems that erupted in 2008 came from years of overspeculation in the housing market, whereby people bought homes that were well above their market value, as well as years of deregulation, which caused banks to make risky investments and allowed them to swallow up competitors so that they became “too big to fail” and threatened the international financial system. There was a precedent of this type of behavior before and that was the 1929 stock market crash that precipitated the Great Depression. Similarly, the United States has had a history of people overinvesting in a resource before, whether it was the Western lands in the Panics of 1819 and 1837 (“panics” were the name given to depressions/recessions in the nineteenth century) or in the railroads with the Panics of 1873 and 1893.

Also, the two nations in the world that are experiencing the highest inflation rates, Argentina and Venezuela, have had prior histories of massive inflation crises. Argentina had a hyperinflation problem in 1989-1990 and Venezuela has seen riots over consumer prices in previous administrations. This information can enhance a speech by showing continuities and changes over time for your audience and you can compare how government’s reacted to those problems to what policies are being enacted by policymakers today. This is how you can reach sound conclusions about where these economies are headed and make stronger speeches as a result.

Step 3: Keep It Simple & Humanize!

- Don't dump statistical information & technical knowledge at your judge. Instead focus on 1-2 important statistics per point.

- You should be contextualizing EACH STATISTIC. Why is a 1000% inflation rate bad? Why does it matter that income inequality is increasing? Who cares that the unemployment rate is so high?
    - Example: "40% of low-income Americans--roughly 2 out of every 5--have lost their jobs since the pandemic struck. This means that the most vulnerable in our society (many of whom have little savings) have lost their income and, in many cases, their healthcare too, adding lots of uncertainty during an already fraught time in US history."
    - Example #2: "Nearly 700,000 Americans--the population of Denver--have lost their food stamps and thus a means of physical & economic security under their Trump administration, subjecting countless families to unneeded suffering.

Contemporary Economic Issues

The Trade War

- President Trump views trade as a zero-sum game--one which America is losing.

- In turn, the United States has applied $550 billion in tariffs at China. The country has applied $185 billion in tariffs at the United States. These are huge costs for the average consumer, increasing the average consumer cost by $57 billion yearly and costing 300,000 jobs.

- Phase One deal struck in March of 2020 and reaffirmed in May of this year, which calls for $200 billion in increased Chinese consumption over the next two years.

Why Trade Wars Don’t Work

1) They lead to retaliatory tariffs.
2) They, by definition, increase import costs.
3) They decrease a country’s legitimacy
4) There is no guarantee jobs will come back.

Antitrust Laws

Regulations to protect our economy and consumers by ensuring fair competition.

Without these, consumer choice would significantly go down and large companies would hold monopolies over important products, jacking up the price whenever they want.

3 main laws:

- Sherman Act of 1890
- Clayton Act of 1914
- Federal Trade Commission Act of 1914

3 big things

- **Sherman Act:** Limit cartels (not drug cartels) that have prohibitive practices to fix prices and restrain trade in the sector.
    - OPEC

- **Clayton Act:** Prevents huge merger & acquisitions that would significantly decrease competition
    - T-Mobile & Sprint
    - Exemptions: sports and to an extent media & utilities

- **Sherman Act:** Also prohibit abuse of monopoly power.

Examples of broken up companies

- Standard Oil -- Exxon, Mobil, Chevron, Texaco, and many more
- American Tobacco Company -- 2/4 largest tobacco companies today
- Northern Securities Company
- AT&T -- broken into the 7 baby bells
- Microsoft (reversed on appeal)

Questions & Discussion?