

MASTER OF LIBERAL ARTS 60643
Economic Controversies
Study Questions for Semester (Spring 2018)

INSTRUCTIONS: You will find below study questions designed to guide your studying. **A subset of these exact questions will appear on your exams.** You are under no obligation to complete them but there is, not surprisingly, a high correlation between doing these and earning a high grade! Please bear the following in mind:

General issues

- The exams are weighted such that a perfect score on all the questions from the list below earns you at least a low B. A's are reserved for those who also answer the "hell" questions correctly. That said, data from previous classes show that there is a high correlation between doing well on the non-hell portion of exams and scoring highly on the hell portions.
- I am also happy to check over your answers to make sure they are correct. Just send a copy to j.harvey@tcu.edu. Please see below for the dates by which I'll need to receive your answers.
- You are free to reword any lecture or reading question however you like. However, always be sure to send it to me on your study question list so that you can be sure that I agree it includes all the important information—don't wait until the exam to find out!
- If I check your study questions and accidentally approve an incorrect answer that you then give on an exam, you get full credit. If I initially subtract points, just let me know and I'll fix it. That's the John Harvey Guarantee!
- If you are resending questions to me, please let me know which ones are new and/or adjusted from last time so I don't have to check the entire list all over again.
- Studying involves taking this list and a blank piece of paper and writing out the answers until, according to your list of answers, you don't make any mistakes. **THERE IS SIMPLY NO SUBSTITUTE FOR DOING THIS!**

Reading questions

- The place where the study questions are the most helpful is on the readings (I write the lecture answers on the board). As a rule, I don't go over these in class and the study question list prevents you from having to guess which parts of "The Blessings of Free Trade" I expect you to remember for the exam. I tell you up front!
- Be sure to actually read the articles and not simply harvest them for the study question answers. If you do the latter, you won't really understand the context and you'll end up having to memorize. There's too much material to do that. Those who use someone else's study question answers face the same problem. I don't actually want you to just know what's on the list, I hope you learn much more than that. However, I'm only going to test you over the list.

Using someone else's answers

- There is no rule against this. The study questions are not an assignment.
- If you and a friend (or enemy or bystander) worked on the questions together, please let me know when you send the questions to me so that I can be sure you both get the John Harvey Guarantee.
- If you did not work together but choose to use someone else's already-corrected study questions, please do not send them to me unedited. In other words, if I indicated on their answers that they needed to make adjustments, make these first. In addition, let me know which ones have been adjusted so I don't have to check the entire list all over again. If you already know they are perfect, please don't send them at all. Just email me saying, "I'm using Victor Boschini's study question answers!" and then you'll get the John Harvey Guarantee based on their answers. (FYI, he's never take this course so you should probably use someone else's. That was just an example.)
- If you choose to use someone else's study questions from a previous semester, all of the above apply plus one more: please see if the questions are the same as in the previous semester (I add and subtract whole questions and change the wording on others). If this hasn't been done, I'll return the questions unchecked. And I will wish terrible things on you and your family.

Study question organization

- Questions are grouped by their source. For examples, questions based on lecture material have *Lecture* before them, and then appear without spaces between them. For questions where answers can be found in the reading, the specific link is given and the questions are then grouped without spaces.
- **Green questions may also appear on the final exam.**

Study question deadlines

- Anyone wanting their exam one study questions checked must have submitted them to me by midnight, Wednesday, February 7.
- Anyone wanting their exam two study questions checked must have submitted them to me by midnight, Wednesday, March 21.
- Anyone wanting their final exam study questions checked must have submitted them to me by midnight, Wednesday, May 2.
- Deadlines apply whether you take that exam at the regular time or not
- I do not recheck the green questions on the final exam list since they were subject to one of the two earlier deadlines.

LECTURE NOTES AND READINGS FROM LINKED ARTICLES

Tools and Definitions

Lecture

1. Distinguish between validity and cogency. [25 words]
2. Define *physical capital*. [16 words]
3. Define *financial or portfolio capital*. [17 words]
4. Differentiate between capital and investment (and what is the latter sometimes called?). [17 words]

Harvey: *Pragmatic Economics, Chapter 1, "Introduction"*

<http://personal.tcu.edu/jharvey/60643/chapter01.pdf>

5. What is it that people subconsciously assume that makes it difficult to understand the macroeconomy? Please give an example, too. [61 words]
6. Who is economists' primary audience and what is and is not their goal? [38 words]
7. What does rigor mean to economists and what was listed last on Klamer and Colander's survey of graduate students asking what was most important to success as an economist? [11 words]
8. In response to the Klamer and Colander study in 1990, the economics discipline undertook reforms in its graduate programs. However, even though it appears that graduate students are more satisfied, this may simply be for what reason and why does Colander worry about this? [46 words]
9. What is the essential difference between the economics of Keynes (aka Post Keynesianism) and Keynesian economics (aka Neoclassical Keynesianism)? [40 words]
10. Pragmatism means finding out what works how and not how? [29 words]

Harvey: *Pragmatic Economics, Chapter 2, "Macroeconomics Lesson One: Unemployment and GDP Growth"*

<http://personal.tcu.edu/jharvey/60643/chapter02.pdf>

11. With respect to unemployment, what is it that the qualities of the individual determines what does it not determine? [you only need to read the first couple of pages to find this; 13 words]

Lecture

12. What does Harvey say the essential economic problem has become? [three items, 91 words]

Harvey: *An Economic Framework for Studying Cyber Security Issues, under review at Military Cyber Affairs (you can probably skip to section 2)*

http://personal.tcu.edu/jharvey/40223/Framework_for_Studying_Cyber_Security_Issues.pdf

13. According to the discussion on pages 8 and 9, what is the primary determinant of employment? [1 word] How do households contribute to this and how do firms (go ahead and include examples for each, though they don't need to be the same as mine)? [1 word; 38 words]

14. Show mathematically why it must be true that in a world with no government sector or trade, savings must be equal to investment. Upon what important fact (that only exists when we examine spending and income at the aggregate level) does this depend? [3 equations plus 22 words]
15. In a world with no government sector or trade, savings must be equal to investment. Which, however, is the driver? With respect to the one that simply follows, why is it largely a residual? [20 words]
16. What is, in reality, the only way to truly save more and why is that? [23 words]
17. Why is trust absolutely critical to a well-functioning financial system? [18 words]
18. Mortgages, college and car loans, and the financing of appliance purchases all create what? About how much of the answer you just gave is a result of these processes? [1 word; percentage]
19. Why do central banks automatically supply reserves when the banking system runs short of the requirement? [16 words]
20. Because banks can create money from thin air, investment depends in no way on what? [1 word]
21. Investment, the key determinant of demand, is extremely expensive and represents a long-term and largely irreversible commitment. On top of that, the nature of the real world is such that entrepreneurs lack the basis for making reliable forecasts of future profit. Why, then, does anyone invest at all? [5 words]
22. Why will the main part of an economic upturn not continue indefinitely? How does this create a recession (sometimes catastrophically)? [109 words]
23. How do stock prices affect firm behavior and financing beyond the initial offering? [53 words]
24. Replace the question marks on this bank balance sheet with values that make sense given the manner in which double-entry bookkeeping works and follows the Federal Reserve's rule for required reserves. Which asset is the bank's biggest source of income? Which asset is the least safe (the reading doesn't answer this directly but you should be able to figure it out)? [fill in balance sheet plus add two words]

Assets (millions)	Liabilities (millions)
\$? T Bills	\$? Checking
\$? Loans	\$? Borrowed Funds
\$? Reserves	\$? Net Worth
Total \$? million	Total \$? million

25. How is it that a loan shows up on both sides of a bank's balance sheet? While they clearly don't need anyone's savings to make the loan, why do they not (at least initially) even worry about having sufficient reserves to make the loan and when they do look for those reserves, where will they go first? [33 words]
26. What is the real key to an institution's financial wealth? That number indicates what in terms of how far they are from insolvency?

27. What was Lehman Brothers net worth-to-asset ratio in 2008 and what did this indicate? How much did the market lose in about a week in 2008?
28. Why is the fact that individuals are less reluctant to commit to financial than physical investment a mixed blessing? When is the negative side particularly true and why might one particularly expect problems at the top of the business cycle? Last, what are individuals and financial institutions constantly tempted to do? [119 words]

Harvey: Of Course the Government Can Create Jobs!

<http://www.forbes.com/sites/johntharvey/2012/10/22/government-creates-jobs/>

Reading

29. A job is any routine activity for which we earn income. Those who claim the government cannot create employment are adding what other element to the definition? Also, for what two reasons do they embrace this characterization (specifically, not in general)? [84 words]
30. Harvey says that those arguing that the government cannot create jobs are ignoring what two things? Be sure to explain how, with respect to the second, it is really the private sector that is more dependent on the public than vice versa. [127 words; you'll have to work it out]

The Economist, "Financial Stability: Minsky's Moment," July 30, 2016.

http://personal.tcu.edu/jharvey/60643/Minsky_Moment_Financial_Stability.pdf

31. Minsky distinguished among three kinds of financing. Please explain them. [122 words]
32. What was Minsky's unsettling conclusion? Meanwhile, in mainstream economics, how are debt and finance treated? [17 words]
33. The author argues that Minsky's work was extremely relevant but almost completely ignored (except, ironically, by the actual financial investors). Does the author believe that, in the wake of the financial crisis, influence will increase or diminish? Please explain briefly. [see the last paragraph; 25 words]

*****ABOUT HERE FOR EXAM ONE*****

*Steve Keen (1995). "Finance and Economic Breakdown: Modeling Minsky's 'Financial Instability Hypothesis.'" **Journal of Post Keynesian Economics**, vol.17, no. 4: 607-35.*

You can skip reading his article until you get to the section labeled "The basic Minsky model."

<http://personal.tcu.edu/jharvey/30233/SteveKeen.pdf>

*****Skip to "The basic Minsky model" on page 611*****

Reading

34. Minsky's financial instability hypothesis is best understood by considering the early stages of an expansion, where the economy is growing but everyone (firms, consumers, and banks) is still cautious. This means that most projects succeed. As a consequence, what two things gradually become evident to managers and bankers and as a result, what do they do? [32 words]

35. The general decline in risk aversion that accompanies early expansion sets off what in terms of investment and the price level of assets (he means financial, incidentally)? Also, why is the external finance needed to fund these forthcoming? [38 words]
36. During the euphoric economy, what important actor in Minsky's drama is created? Although their servicing costs exceed their cash flows, how do they expect to profit? [16 words]
37. How does the decrease in firm viability check the asset price boom and what then happens to the euphoria and boom? [25 words]
38. In what two ways does the picture of a bust change when there is a big government involved? [55 words]

*****You may safely skip reading pages 615-631*****

39. Keen says that his model suggests that any policies aimed at lowering interest rates once the collapse has occurred will be futile since the economy has "passed into its catastrophic region." In fact, he says, "the weight of the accumulated debt upon a depressed economy (is) so great that any government action at that time may be too little, too late." What does Keen say is the essential policy message of the financial instability hypothesis and what institutional arrangements are necessary? [64 words]
40. In closing, Keen says that the chaotic dynamics in his paper should warn us against what? [20 words]

Harvey: Post Keynesian Macroeconomics and the Financial Crisis
<http://personal.tcu.edu/jharvey/60643/PKMacroSummary.pdf>

*****Skip to page 16*****

Reading

41. What caused the subprime crisis? List and explain the four systemic and three historical reasons (the first four will likely be pretty short while the last three will take a couple of sentences). [156 words; you'll have to work this out]

The Debt and the Deficit

Harvey: Why You Should Learn to Love the Deficit: Federal Budget Fallacies
<http://www.forbes.com/sites/johntharvey/2011/07/02/learn-to-love-the-deficit/>

Reading

42. What is the most critical fact one needs to know in order to understand the role of the federal budget? [23 words]
43. What is the only entity capable of creating demand from thin air? [1 word]
44. Why is it that cutting the deficit by reducing spending does not put money in the pockets of those in the private sector (two reasons)? [34 words]
45. You can spend your way out of a recession because a recession is caused by a lack of what? [1 word]

46. When would cutting government spending free up resources for the private sector to grow and why is this not true in the midst of the worst recession since the Great Depression (in terms of what is available to the private sector and what they were choosing to do)? [29 words]
47. When was US debt the largest? [four words]
48. When might deficit spending create inflation? [6 words]
49. Government surpluses do not help the economy grow because they represent what? [7 words]
50. What was quantitative easing meant to do and why was it an utter waste of time? [44 words]

Harvey: It Is Impossible For The US To Default

<http://www.forbes.com/sites/johntharvey/2012/09/10/impossible-to-default/>

Reading

51. What is the reason that the US could never be forced to default? [31 words]

Tcherneva: What is Responsible Fiscal Policy?

<http://neweconomicperspectives.org/2010/04/what-is-responsible-fiscal-policy.html>

Reading

52. If we demand that the government run a surplus, then what are we also demanding? And if we are demanding that the government pay off its entire debt, what are we also demanding?[52 words]

Tcherneva, Pavlina (February 2012). Unemployment: The Silent Epidemic, " Working Paper No.895, Levy Economics Institute.

http://www.levyinstitute.org/pubs/wp_895.pdf

Reading

53. Tcherneva argues that unemployment behaves more like what than a random shock event? She later adds that says the "success" of the current fall in unemployment is largely due to what? [14 words]
54. To make matters worse, unemployment breeds unemployability. Employers view nine months of unemployment as the equivalent of what? [9 words]
55. A metadata analysis of 63 countries revealed that how many suicides are due to unemployment? [5 words]
56. Tcherneva talks at length about the connection between unemployment and the lives of children and youths. Pick out the two or three things you found most significant and list them. [indeterminate]
57. Tcherneva says that, "When it comes to epidemics, preparedness and prevention are essential." In terms of preparedness, by design, the job guarantee will maintain what? In terms of prevention, what are the two preventative features of the job guarantee? [94 words]
58. In her section on Paying for Goods, Not Bads, Tcherneva says that unemployment is already "paid for" how? [25 words]

Lecture

59. Draw the chart that compares traditional deficit spending with an ELR regarding the following: deliberation, size, flexibility, policy entry point, unemployment reduction method, primary beneficiary, efficiency, and abuse. [93words]

FYI: In 2010, unemployment was 9.6%. Social safety net spending (discounting the elderly) was around \$421 billion, while paying every single unemployed person \$10/hour for 40 hours for 50 weeks (+25% for miscellaneous costs) would have been \$366 billion and it would have created 0% unemployment. Meanwhile, the fiscal stimulus package passed in response to the Great Recession (the American Recovery and Reinvestment Act of 2009) spent around \$185 billion in 2009, \$400 billion in 2010, and \$135 billion in 2011. Over the ten years of planned spending from the act, \$250 billion in total was earmarked for health care, unemployment, and housing. Unemployment was 9.35%, 9.6%, and 8.9%.

Social Security

Harvey: *Why Social Security Cannot Go Bankrupt*

<http://www.forbes.com/sites/johntharvey/2011/04/08/why-social-security-cannot-go-bankrupt/>

Reading

60. A common error is conceptualizing Social Security from the micro (individual) rather than the macro (economy-wide) perspective. However, properly understood, Social Security is not what (into which you what?) and is instead what?
61. What is the real determinant of the feasibility of Social Security?
62. What three important questions are not addressed in the article because they are more politics than economics?
63. What is the most straightforward means of financing a social security system in which we have 70 million workers, 30 million retirees, and an equal share for everyone? How is this related to how Social Security operates in real life and how much prior financing is necessary?
64. What is the Social Security Trust Fund?
65. Explain how a buffer for Social Security funding is helpful in a complex economy (include a discussion of revenues versus expenditures)? That said, what remains the sole determinant of our ability to support a class of retirees?
66. What must we do if we want Social Security to “be there” when we retire?

Health Care

Harvey: *Health Care Economics*

<http://www.econ.tcu.edu/harvey/blog/summary2.pdf>

Reading

67. What did Adam Smith say about people of the same trade and what did he really recommend as a means of controlling this (and not what?)? [38 words]
68. What four things do we need if free markets are to yield competition? [16 words]
69. What is John Harvey’s 21st century version of Adam Smiths' warning [43 words; doesn't have to be exactly the same, just those ideas]

70. In terms of the four assumptions that need to hold for markets to yield competition, why is the health care industry not very competitive? [29 words; you'll need to work this out]
71. If we were to decide that health care is a right, for what two reasons would the private sector's need to earn a profit create perverse incentives with respect to our goal? [Look under, "Can You Rely on the Market to Provide a Right?" 23 words]
72. People sometimes complain that if the government provided health care, then it would be rationed. But it already is—by what mechanism? [1 word]
73. How is it that public health insurance can avoid a major cost associated with private health insurance (see Government as Major Provider)? What problem still remains and what is, nevertheless, the big difference? [66 words]
74. If our goals are universal health care, the elimination of perverse incentives, and the creation of accountability for the provider, with which one(s) do current reforms (back when this was written, that meant The Affordable Care Act, or Obamacare) help (omitting Medicare issues, since it already exists)? [45 words]

NOTE: As part of this section, we'll watch Sick Around the World in class. It's really interesting!

<https://www.pbs.org/wgbh/frontline/film/sickaroundtheworld/>

*****ABOUT HERE FOR EXAM TWO*****¹

Illegal Immigration

Adam Davidson, "Do Illegal Immigrants Actually Hurt the U.S. Economy?" *The New York Times*, Feb 12, 2013

<http://www.nytimes.com/2013/02/17/magazine/do-illegal-immigrants-actually-hurt-the-us-economy.html>

Reading

75. What are the undeniably negative economic effects of illegal immigration? [You don't need any of the numbers at the end; 40 words]
76. In states with more undocumented immigrants, who makes more money and works more hours? [2 words]
77. How much of their money do immigrants (I assume the author still means illegal) tend to spend? [1 word]
78. What role may illegal immigrants play as baby boomers retire? [8 words]

¹I actually don't think we'll get this far for exam two, but it's easier to remove questions from the exam material than add them!

Vernon Briggs, Presentation to the commission on Illegal Immigration and African American Workers, C-Span2, April 4, 2008.

<https://www.c-span.org/video/?204714-1/illegal-immigration-african-american-workers>
Watching!

Skip to about 29:10 and watch until about 33:04

79. What group does Briggs think has benefitted less and been harmed more than any other by immigration? [2 words]
80. Briggs argues that what percent of the foreign born population entered the US illegally (despite the fact that their status may have changed later)? [percentage]
81. Briggs says the most distinguishing characteristic of the illegal immigrant population is what? [percentage and six words]
82. One of Briggs' worries is that in addition to the 50 million people in the low-skill labor market (legal plus illegal), who else can access it when times are tough? [three words]

Tami Luhby, "The black-white economic divide in 5 charts," CNN Money, November 25, 2015
<http://money.cnn.com/2015/11/24/news/economy/blacks-whites-inequality/index.html>

Reading

83. About how much larger is White median household income than Black? [it's almost exactly this; one word]
84. About how much larger is White median household wealth than Black? [it's a bit more than this, but I picked a round number! 2 words]
85. Over the past 25 years, the gap between White median household wealth and Black has done what? [2 words]

Ruben Navarrette, Jr. "In Mexico, racism hides in plain view," CNN, November 20, 2012.
<http://www.cnn.com/2012/11/20/opinion/navarrette-mexico-racism/index.html>

Reading

86. In Mexico, complexion betrays whether one is a descendant of which two groups? [3 words]
87. Which skin color and ethnic group tends to be in charge and which therefore doesn't? [10 words]
88. This is not covered in the article, but which ethnic group do you suppose is emigrating to the US (legally and illegally)? [one word]

Inflation

John T. Harvey, Money Growth Does Not Cause Inflation!

<http://www.forbes.com/sites/johntharvey/2011/05/14/money-growth-does-not-cause-inflation/>
Reading

89. What assumptions are made regarding M, V, P, and y in the "money growth ==>inflation" view? [123 words]
90. The Post Keynesian view argues that since V and y can and do vary in the real world, there is no reason to believe that changes in P can necessarily be linked directly to changes in y. However, the real nail in the coffin of the "money growth==>inflation" is

what? Explain it briefly. [136 words]

Harvey: *What Actually Causes Inflation*

<http://www.forbes.com/sites/johntharvey/2011/05/30/what-actually-causes-inflation/>

Reading

91. What are the four factors Post Keynesians say actually do cause inflation? Explain each very briefly, give an example, and tell to whom income is redistributed. [173 words]

Lecture

92. Explain the process by which the inflation of the 1970s occurred and show how it is that a rise in the money supply may accompany a rise in prices, even though the former does not, indeed cannot, cause the latter. [95 words plus diagram]

Gas Prices

Harvey: *Why You Are Paying So Much for Gas*

<http://www.forbes.com/sites/johntharvey/2011/04/26/why-you-are-paying-so-much-for-gas/>

Reading

93. What does Harvey say was left out of the equation in most explanations of fluctuations in gas prices?
94. In December of 2000, President Clinton signed into law the *Commodity Futures Modernization Act*, allowing speculation in a market that had previously been dominated by actual end users of oil. This meant that those in charge of your investment portfolios and retirement funds ventured out of stocks and real estate and started buying oil futures. How did this create the possibility of higher oil prices without any fundamental change in demand or supply? [74 words]

International Trade

Lecture

95. Show the import/export graph for China and the US and give the US a trade deficit. Why is it in China's best interest to buy US financial assets and thereby lead us to accumulate debt? How is this related to China's ownership of a percentage of US national debt? [94 words plus graph]

Politics!

Lecture

96. Define socialism. [41 words]
97. Define communism. [85 words]
98. Define fascism. [36 words]