



# e-news

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## Status of Monroe County Real Estate Market – Third Quarter 2015

Keith S. Torregrossa

The overall tempo of the potential real estate market in Monroe County is experiencing a healthy number of good omens. We are not out of the woods yet, but the data continues to point towards improvement. And there has been good news in household formation.

New listings increased 11.1 percent to 1,523. Pending Sales were up 24.1 percent to 933. Closed Sales increased 13.7% to 807. And inventory levels shrank 7.9 percent to 2,467 units.

Prices are fairly stable. The Median Sales Price decreased 1.5 percent to \$113,500. 'Days on the market' was down 3.4 percent to 112 days. Sellers have been encouraged as Month's Supply of inventory was down 26.7 percent to 9.9 months.

So what does this all mean? The author of this article has been involved in real estate in the Monroe County area for over twenty years and has never experienced a rollercoaster ride like the past 5 years. Our real estate market navigated a huge drop in peak prices plagued by foreclosures and short sales. We have not had a traditional selling season in the area for quite some time. A Realtor's life was simple: list houses in spring, write sale contracts in summer, settle on properties in fall, and in winter...pray that you saved enough in commissions to make it until next April. This has not been the case over the past 5 years. In some cases the busiest selling times were the middle of January, driven by investors.

But it does seem that there is now light at the end of the tunnel. Prices do appear to be stable. However, many do not believe that you will see a significant increase in the average price of homes in our area until we weed through the remaining foreclosures that are still listed among the properties up for Sheriff's Sale in the Monroe County Courthouse. Also, as housing prices continue to rise in New York and New Jersey, the prospect of commuting from the area starts to look more attractive, and this will cause our inventory levels to decrease further and help increase the average sale price.

The threat of an interest rate increase does not typically have an adverse effect on our real estate market. As long as the rate increase is minimal, it typically causes an increase in activity, motivating buyers that have been "on the fence." Also, a quarter of a point interest rate hike only increases the monthly payment by a few dollars on a typical 30-year mortgage. We still have historically low rates, and some of us may even remember rates for housing were above 12 percent!

Albeit we still have obstacles yet to overcome. Overall, local realtors remain optimistic about the future of the Monroe County Real Estate Market. All indicators point to a slow and steady market recovery.

Note: Keith Torregrossa is an Economics major and also the Broker/Owner REMAX of the Poconos.

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## Natural Gas: Economy, Regulation, and Energy Independence

### Adam Hendrickson

Expanding natural gas supply responsibly can generate hundreds of thousands of new jobs, and grow the national economy. Domestic regulation of the natural gas industry addresses environmental and health concerns while limiting the expansion of natural gas supply in the United States by raising costs. With the economy still struggling after the 2008 recession, lasting growth and stable employment are necessary for a sustained recovery. Appropriate regulation in the natural gas industry can provide mutual assurance between consumers and producers while energy independence becomes a goal within reach.

According to the 2011 report by the American Chemistry Council, *Shale Gas and New Petrochemicals Investment: Benefits for the Economy*, a 25% increase in ethane supply would generate 17,000 new knowledge intensive, high-paying jobs in the U.S. chemical industry, 395,000 additional jobs outside the chemical industry, and \$132.4 billion in U.S. economic output. Technological innovation has enabled access to vast untapped shale deposits in many areas of the country hit hard by declines in manufacturing including: Pennsylvania, New York, Ohio, West Virginia, Ohio, Michigan, Colorado, Wyoming, Utah, New Mexico, Montana North Dakota, Illinois, Texas, and Alaska. Without unreasonable restrictions on the supply of natural gas, the competitive advantage of the United States will lead to domestic investment, employment, and industry growth.

In the Pennsylvania Marcellus natural gas development during 2010, nearly 140,000 jobs were supported and \$11.2 billion in value added was generated according to The Pennsylvania State University College of Earth and Mineral Sciences Department of Energy and Mineral Engineering's 2011 report, *The Pennsylvania Marcellus Natural Gas Industry: Status, Economic Impacts and Future Potential*. Pennsylvania has been supplying natural gas in increasing amounts, and the potential for expansion is immense. Forecasts for 2015 include supporting nearly 216,000 jobs and \$17.2 billion in value added in Pennsylvania alone. The Pennsylvania Department of Labor states that natural gas workers earn an annual \$73,000 on average!

The Federal Energy Regulatory Commission (FERC) is charged with regulating natural gas transportation, including pipelines, which are considered a natural monopoly. The FERC regulates to prevent discriminatory service, exorbitant pricing, and inefficient investment among other possible abuses of monopoly market power. It is important to regulate the industry responsibly to mitigate negative externalities while growing this United States' energy industry in a certain way to benefit the economy. Taxes raise prices and reduce both consumer and producer surplus while providing compensation to the public for possible externalities, and funding public goods and services. In 2008, \$7.2 billion was paid into the U.S. treasury and states received more than \$1.4 billion from natural gas companies. Looking forward, with support from the public and productive regulation, the natural gas industry can provide a much needed stimulus to the economy, generate stable, long-term employment and contribute to national self-sufficiency.

With ever growing energy needs, the United States faces challenges in energy independence; a large part of the solution is continued development of the natural gas industry. As of 2013, the United States is the number-one natural gas producer in the world, and thanks in part to natural gas production, the United States' foreign oil dependence is at a 20 year low!

## Norway's Big Oil

### Paul Krajewski

Norway's economy had moderate growth over the last couple of years. While they have not had a recession, their mainland GDP grew 2% in 2013 and around 1.75% for 2014. This is compared with a 3.4% growth in 2012. Norway enjoyed a strong energy boom but that started to recede. They are the biggest European producer of crude oil and now that business is slowing down, they are going through an adjustment period. This extremely specialized economy has seen wage rates, inflation, and other costs climb through the roof due to the oil boom, which spilled over to all of the other sectors in the country. Norwegian households currently owe, on average, about twice their disposable income to creditors. Norway's citizens have never had to deal with that before. The Norwegian government is seemingly well prepared to handle this situation, but it still is going to be a rough ride. Everyone, including big business all the way down to each and every person is going to feel this change. Norway is attempting to fight this through monetary policy, entitlement programs, and raising tax revenue via big oil companies.

**Monetary Policy:** Norway's central bank has been keeping their rates depressed in hopes of spurring economic growth. The current deposit rate of 1.0% is keeping steady and looks not to be changed anytime soon. Governor Oeystein Olsen stated that economic development has been in line with expectations and says that prospects of key rates abroad increasing might take longer than desired. With the interest rates being forced south, the currency has weakened 8% versus the Euro over the last rolling 12 months. With that said though, the news that the rates will be staying steady through next summer helped the Krone slightly. Despite Olsen's efforts, inflation is still above the target rate, 2.5%, currently sitting at 2.6%. In addition to inflation, Olsen is concerned about keeping interest rates low and not wanting to create a housing bubble for Norway's citizens to deal with. While these numbers do show a dismal outlook, keeping the interest rate fixed can help steady the economy through this stagflation period for Norway. As long as the central bank can keep interest rates low, inflation can be fought against.

**Welfare to be Proud Of:** Norway's entitlement programs can be viewed as a world leader. This is both a curse and a blessing for the country and its citizens. Registered unemployment is down to 4.5% in June 2015. Although this number is extremely low, it is also very misleading. 600,000 Norwegians are currently outside of the labor force due to welfare and/or pension issues. These citizens are not counted towards the unemployment rate for Norway. Despite this huge concern, Norway has managed a surplus of 9.1% of GDP in 2014, which equates to about \$170,000 per every person in the country. This, along with annual budget surpluses, and AAA credit ratings, will be able to hold Norway afloat, at least for the foreseeable future. Norway is able to keep these unblemished records due to the oil companies and their tax revenue. This is where the tricky part comes into play. What would happen to these surpluses if the oil companies stopped producing and exporting their oil? Norway's only exporting surplus is oil, without it, then they would be accruing huge deficits. While Norway's welfare programs will hold their citizens comfortable for a while, without oil they will need to look into other growth solutions.

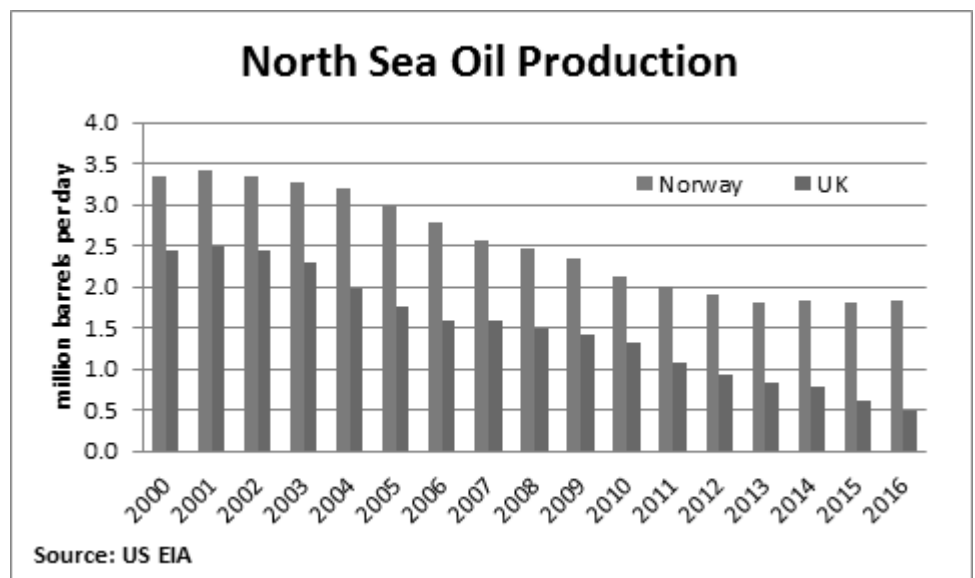
**Big Oil, Big Money, Big Expense:** Norway, being Europe's biggest crude producer and the 7<sup>th</sup> largest in the world, has been facing a difficult situation with stagnant energy growth. Oil and gas production has fallen 20% during the last decade because of the North Sea's depleted resources. Currently holding at less than 2/3<sup>rd</sup> of the peak reserves in the North Sea, oil companies are going to need to look elsewhere to produce. Costs have spiked so high for the energy firms that they have been forced to sell assets to pay dividends. The government and oil companies have been trying hard to revitalize the oil industry and conducting further exploration to find new locations.

The issue that comes into play for the Norwegian government and the oil companies is how the two parties want to handle this situation. Multiple projects have been delayed by several large companies in Norway. One company, Statoil, delayed an oil project in 2013, the Johan Castberg oil project, in the Arctic Barents Seas. The reason that it was delayed was because high costs and tax increases by Norway's previous government. This investment, approximately \$15 billion, includes a new oil terminal at North Cape. They are also reviewing a recovery plan at North Sea's Snorre field. There also has been a scrapped project in building a gas-export pipeline at its Kristin field. Another company, Royal Dutch Shell PLC, shelved a project at Ormen Lange, the Norwegian Sea field, in April 2014. Royal Dutch Shell PLC is Europe's biggest oil company and that field supplies about 20% of the United Kingdom's needs. These company projects, along with The Norwegian Oil and Gas Association, which is a lobby group that includes Statoil, Shell, Exxon Mobil Corp and Conoco Philips, stated that last year's tax increase, combined with new transition rules instituted by the new government, have ground to a halt nearly 80 billion kroner worth of drilling projects.

On the other side of the coin is the Norwegian government. Norway, having a conservative-led government, will not be adjusting the tax rate anytime soon. Petroleum and Energy Minister Tord Lien has been taking a stance that wants to encourage the oil companies to cut costs and produce more efficiently. Lien states, "The overall picture is that petroleum taxation in Norway works well". With that said though, they will be completing a study to note the impacts of the tax increase and the impacts that it has on the company. Despite the lobbyist's pushes to having government play a helping hand in encouraging drilling, Lien and Prime Minister Erna Solberg have taken a tough stance against the oil companies. Lien expects Statoil and Eni SpA, and Petoro AS to still end up developing the Castberg Oil deposits despite the cost and tax challenges. 1/5<sup>th</sup> of Norway's economy is the oil industry. With such a large amount of the economy set into one industry, Norway is in a very tough spot. Lobbyists from the oil companies are going to have a large influence over the government, but it looks that the government is not going to be giving in to large tax breaks for the companies anymore. This will force the oil companies to cut total costs down in order to maintain a profit. They are going to have to develop less expensive ways to produce the oil to survive and thrive in the future.

In conclusion, Norway is one of the richest countries in the world. They have a world leading welfare program that is second to none. Having a work week that averages less than 33 hours a week, low unemployment, amazing benefits, and a per capita GDP of \$100,000 is a truly amazing feat.

Hopefully they can get the cost of the oil companies under control, along with the inflation rate, and housing costs. If the government can manage to keep having the surplus budget then that is a strong step in the right direction.



## Global Food Security

### Jose A. Martinez

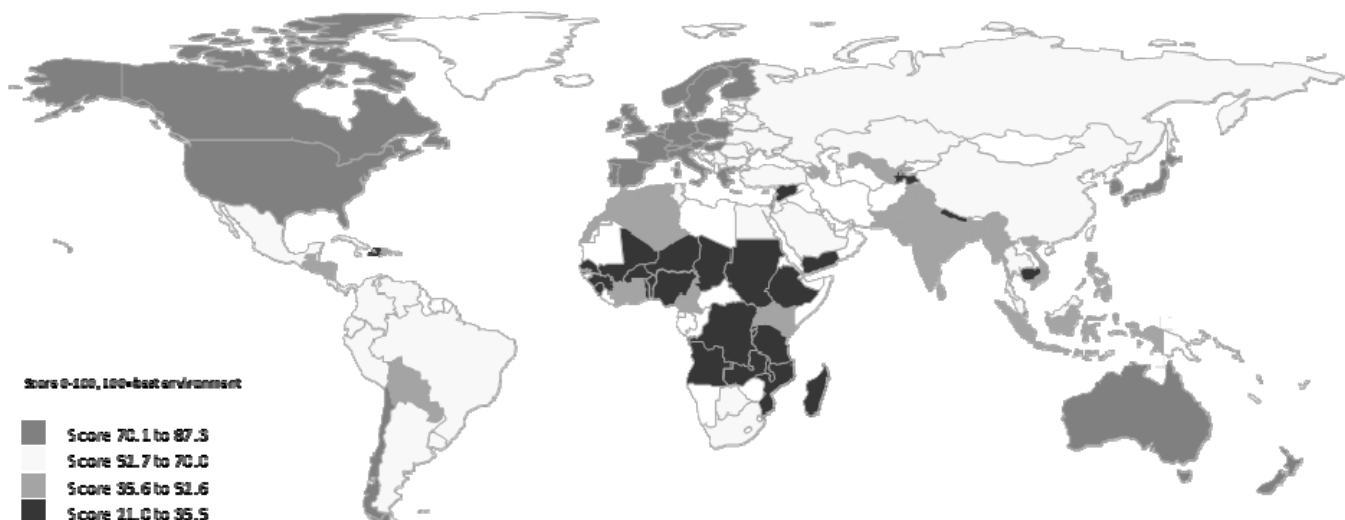
Food security and food production are two very important aspects of our society. The first refers to the ability of a household to consume all the necessary nutrients as well as the availability of food in their region. The second refers to the total amount of food that a region or a country is able to produce. The two concepts are related to each other and both are very important for our society. They have an impact on the rate of malnutrition on a country, poverty levels, and human development. Unfortunately the problem of food security has not been resolved in many low income countries. Millions of households in the developing world are still unable to provide enough nutrients to their families due to income level, lack of food supply, climate change, and poor technologies on food production.

The Figure/Table given below is part of a study conducted by the Global Food Security Index. As the figure shows, most of the countries that suffer from food insecurity are located in Africa, Middle East, and Central America. Unfortunately these countries that are far away from achieving food security are the ones at the top of the list on higher rates on malnutrition as both issues are highly related. Food security is measured in terms of affordability, availability, and quality of food on the different regions. Some of the causes of food insecurity are low supply of food, low incomes, high prices, lack of inclusive institutions, poor agricultural infrastructure and technology, and few safety nets program by the government. The consequences are catastrophic and put the health of the society at risk, lower the levels of human capital, increase poverty levels, and make countries to fall in this vicious cycle of low economic growth.

In countries with higher incomes, food constitutes a greater share of total household consumption. This means that household in low income countries consume less food, which can be caused by high prices on food or lack of money to buy all the food needed. Food insecurity cannot only be caused by lack of income but also by a lack of food supply. Most of the countries facing food insecurity have low average food supply. In most of the cases the agricultural systems in these countries are based on small family farmers. Overall, small farmers in the developing world face big challenges in today's economy. This kind of farmers are greatly affected by climate change, volatility on the world food prices, lack of proper technology, and high prices on raw materials. These households and their communities might depend just on one harvest season to provide them with enough income and food stream for the whole year. If a farmer has a bad harvest season, he would not have enough food and income to feed their family for a complete year.

The risks that households suffer from the affordability and the supply side can be minimized with proper technology, infrastructure, and government programs. Countries that suffer food insecurity are the ones in which there are almost no government food safety programs. Stable governments can implement policies and programs that will prevent households from facing food insecurity. Countries with poor agricultural infrastructure and fewer resources going to agricultural R&D are the ones that are more insecure. These countries have low incomes, which mean that there are not enough resources to be directed towards agricultural research. On the government side, the lack of resources can be due to high levels of corruption or inability to raise enough taxes. Resources going toward research on agriculture might be low because the private sector does not have enough incentives to invest on it.

### OVERALL SCORE



## 2.2) Public expenditure on agricultural R&D

Score 0-100 where 100=best

Rank	Score / 100	
1 North America (2)	56.3	
2 High income (29)	38.8	
3 Europe & Central Asia (31)	32.7	
4 Upper middle income (28)	25.4	
5 East Asia & Pacific (13)	21.2	
6 All countries (107)	20.2	
7 Middle East & North Africa (9)	19.4	
8 Sub-Saharan Africa (28)	12.9	
9 Latin America & Caribbean (19)	11.8	
10 Lower middle income (26)	6.7	
11 Low income (24)	6.3	
12 South Asia (5)	0.0	

Once we realize how important food security is for our global society and understand the causes of food insecurity, we can find solutions to reduce it. Governments in these regions have to build the proper institutions and farmers have to get the tools that will help them to minimize the risks. Governments can play a key role by providing food safety net programs that could reduce the consequences of food insecurity. There is also a need to improve the agricultural technology, which will make it easier for farmers to reach markets to sell their product as well as to get the raw material that they need. Also farmers need to learn and apply the different techniques that exist in order to reduce production risk. They can diversify the farm, intercrop, or change the seasons in which they harvest. These techniques were discovered many years ago, but farmers in developing countries do not have the proper educations to implement them, so they believe the techniques are very risky. With the proper educational programs and workshops, small farmers will start adopting them. Finally, there are new technologies to consider but due to lack of resources, farmers cannot implement them. One of them is GMO's (Genetically Modified Organism), which are highly criticized, but many people do not realize how important and beneficial this technology can be to improve food security. GMO's can be used to create seeds resilient to different plagues, resilient to climate change, increase the amount of nutrients on food, and reduce the risk for small farmers. Governments need to invest resources researching this new technologies and how they can be applied to their countries. Food insecurity is a very complicated issue but understanding the issues can help us create a better society.

### Should Car Dealerships/Distributors Be Threatened By Tesla Motors?

Sean McGill

Tesla is the leading company in premier electric cars that designs, manufactures, and sells automobiles all by itself. Tesla is a relatively new company founded in 2003, publicly traded on the NASDAQ and has posted profits for the first time in 2013. The company is directed by the vision of Elon Musk, a huge advocate of electric cars and a known investor, innovator and outspoken individual of using electric and lithium batteries as an alternative recourse.

Tesla is having some success in doing what no other automobile company has ever done before. Tesla's business strategy includes selling cars directly to consumers rather than through traditional dealerships. Much of Tesla's success can be attributed to the fact that its models are exceptionally innovative; the cars are run exclusively on a lithium ion electric battery. These unbelievable 85 KW engineered batteries last for a 265 miles/charge, and are guaranteed for eight years in Tesla's most common Model S. However, a 2014 Tesla Model S will end up costing you around \$70,000 bottom line, and may take a couple months to arrive. The company was aggressively seeking a location for their "Gigafactory" which will be the world's largest battery factory with a production capacity of over 500,000 vehicles, reduce lithium-ion battery costs by 30%, and offers 10 million square feet. This factory will have a huge economic benefit to Nevada, the state that was chosen to build future cars.

According to the National Automobile Dealers Association, nearly all states require that manufacturers sell their vehicles through dealerships to ensure that companies don't undercut their own network of franchised dealers. Tesla is essentially attempting to cut out the middlemen by allowing people to view and test their cars in an entirely new way. You can view these cars in over 30 stores and galleries across over 25 states. Tesla also offers service centers, and their goal is to have a ratio of 2:1 service centers to galleries. Tesla has launched galleries primarily in states, where the state law restricts them from discussing the sales in person. So a consumer can merely go to the Mall and check out the Tesla autos, which are sitting in the middle of show rooms. If they like what they see, they can go online and order their desirable model. Tesla chose malls as way to market their products because a string of dealerships would be very expensive. Some locations even keep the automobiles in mall garages and will allow you to test drive them. Additionally a representative at the mall will help you fully design the vehicle in store.

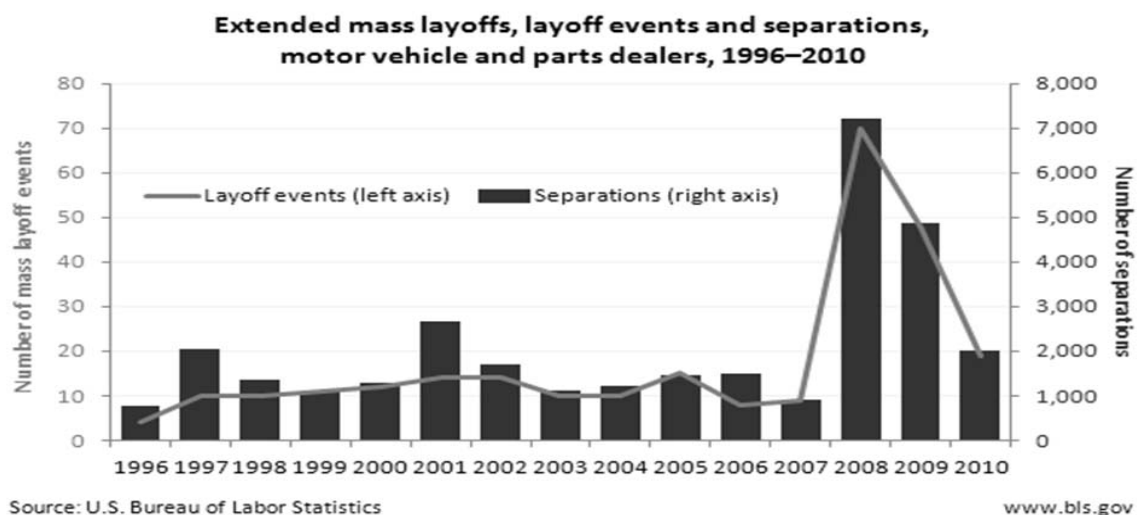
Tesla has the ability to get away with selling cars in every state because the proposed transactions legally take place in California. When you receive the automobile, it comes with a California license plate. You then have to transition it over to your desired state plate. Tesla firmly believes that their models will not translate well to franchised dealers because they have a time-intensive customer service model. “Most consumers would laugh at the notion that they’re better served by the existing (dealership) system” said Diarmuid O’Connell, the Vice President of Business Development at Tesla Motors. Average dealer transactions take around 6 hours compared to Tesla’s simpler strategy that removes the haggling and hassling from the equation. The main concerns that labor unions/dealerships have with the Tesla direct-sales strategy is that it doesn’t allow the best outcome for the consumer. But someone with knowledge on how Tesla operates would tell you that Tesla can diagnose and solve issues remotely and most often know what’s wrong with the vehicle before consumers do. And if that does not suffice, they will dispatch a representative to come to service your vehicle directly.

Tesla is currently experiencing a state by state legal battle in regards to distributing its vehicles to consumers. The primary reason why Tesla encounters so many blockades is because many in the industry believe that Tesla is given an unfair advantage that removes intra-brand competition. Though it is a very fair assumption, Tesla is the only electric company of its kind and the only manufacturer that has been able to get as far as they have in terms of distributing vehicles across the nation directly. Tesla’s management believes that auto dealers aren’t promoting electric cars the way that they need to be. Tesla is trying to gain traction in the industry with direct sales. According to Senator Ellie Kinniard, “Dealerships are one of those basic industries that are the roots of a small town.” The notion is that dealerships invest more locally and show the commitment to communities and customer service at their locations that Tesla just simply cannot match. In the past few years, Tesla has struggled with many states around the nation but they have been able to break ground more and more moving forward. Currently it faces “ban” in 4 states, most recently New Jersey.

Even before Tesla Motors began selling its vehicles, dealerships have been doing mass layoffs. These layoffs are directly attributed to transfer of ownership, reduction in demand due to excess inventory and competition, and corporate reorganization and restructuring. One can speculate that dealerships are a dying industry and Tesla is a pioneer in what will most likely be a slow transition to more direct sale to consumers. It takes out the worst part of buying a car, not knowing what price you’re going to get when you walk into a dealership. Tesla is a young company that is molding its strategy in response to the market.

The auto industry is huge in the United States and all around the world. It accounts for around 5% of the Gross Domestic Product in the US alone. The dealership aspect of the auto industry accounts for the largest sector of jobs. Tesla bypassing the retail part of the industry doesn’t directly replace jobs with technology and innovation per se, but it could be the start of things to come. If other manufacturers follow Tesla’s strategy, we could really start to see jobs decline in this industry. Consumers may no longer need a car salesmen or a parts dealer to tell them what they need. They can equip themselves with the knowledge they need by visiting showrooms and ordering online exactly to their preference. This new way of directly selling autos to consumers could also give a remarkable hit to the tax revenue of each and every state.

If Tesla can overcome the political power struggle, the dealers will lose their power. Other automobile manufacturers may not necessarily want to sell cars directly to consumers because that is not their business model; they want to focus on manufacturing and continue to have long lasting relationships with their dealers. Tesla sells only 20-30 thousand cars a year. If and when they turnover a higher volume, they may change their strategy and adapt a franchise/dealer type approach. If auto manufacturers do follow Tesla’s strategy, we would potentially see an unraveling of the franchise/dealership system. The consensus within the auto industry is that the dealership system is best for both the sellers and customers. Many believe Tesla is not a threat to the franchise system but only time will tell.



## Zuckerberg's Zeal

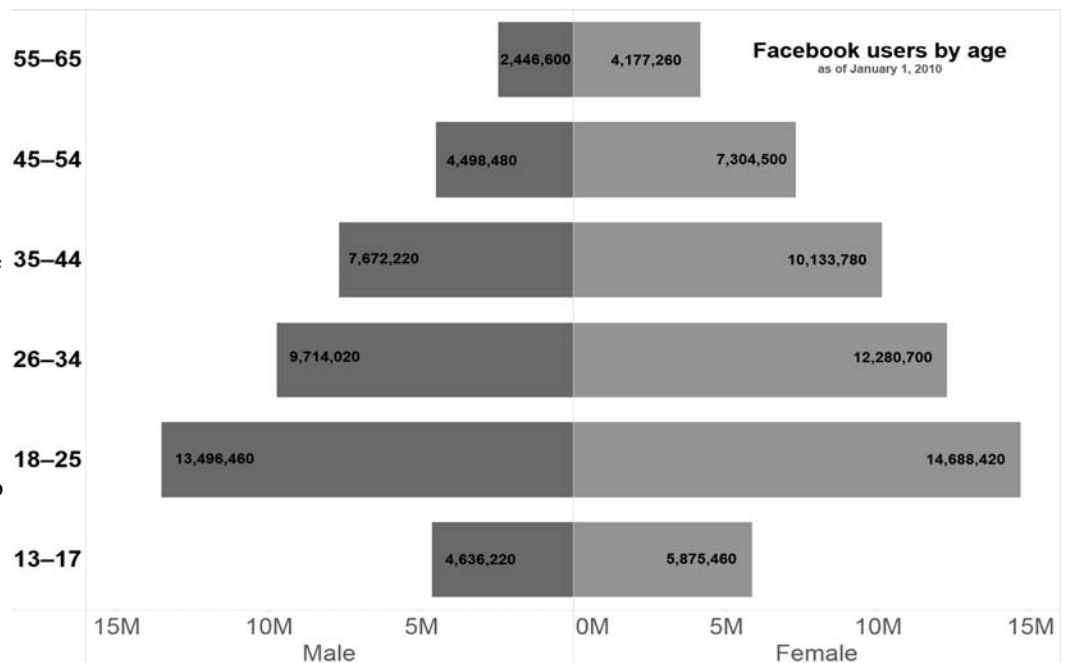
### Ryan Adhari

It's hard to believe that just a little over a decade ago in 2004, Facebook launched and changed the social media world forever. Today, it's a tool that plays a part in an extraordinary amount of people's lives. 1.39 billion individuals use the site monthly, and there are over 500 million active users. Of those 500 million, 50 percent of those users login daily. It's safe to say that Zuckerberg was on to something when creating the social media monster. Through his venture with the social media monster, Zuckerberg has amassed massive wealth. With a net worth of approximately 35 billion at the age of 30, he is toward the top in earnings among the world's wealthiest individuals. However, Zuckerberg claims that he doesn't care much for material wealth. In many interviews Zuckerberg has come out saying that "he doesn't care much for money," and "only wants to change the lives of as many people as he can." In fact, he has vowed to donate 99% of his Facebook shares for Charity. With an unmatched thirst for innovation, Zuckerberg has investors flocking to him in hopes of getting a return on his next big idea.

Facebook has been making substantial amounts of money on advertising. Text and display ads, in particular, contribute greatly to Facebook's revenue stream. Social Ads and self-serve ads can be highly targeted to appear to specific users. Facebook's revenue on these ads is based on pages that are visited. Companies bid on rates on these advertisements. Facebook offers numerous options for bidders such as cost per click and cost per thousand impressions. Cost per click is a mechanism, where advertisers pay when users click on the ad. Cost per thousand impressions is another mechanism, where advertisers pay based on the number of times these advertisements are displayed on user pages. Yes, revenues have been growing for Facebook, but what is the real reason behind the massive inflation of Facebook's stock and its ability to consistently beat the S&P? The answer is Zuckerberg himself. The story can be told by some of his recent transactions.

On February 19, 2014, Facebook purchased *Whatsapp*, a communication app that had been picking up steam and had a massive network, for 19 billion dollars. This was a questionable move according to many analysts, but still, days after the acquisition when prices were supposed to fall, they rose. Consumer sentiment, according to *Marketwatch* rose during this time. The move was extremely tactical. *Whatsapp* has a user base that involves countries all over the world; developing countries in particular. Zuckerberg is clearly targeting this market. The more people the social media site can reach, the greater its revenue stream will be from ads. Zuckerberg was quoted in conference call saying, "*Whatsapp* is the clear leader in the global messaging market." The move made perfect sense. Zuckerberg's goal is to eventually reach 3 billion users, and he is taking exceedingly well-thought out measures in attempting to reach that goal. Another billion dollar acquisition Zuckerberg made was one that had ordinary people scratching their heads, but had investors watering from the mouth. Many were not quite sure at first why the move was made. A social media giant buying a virtual reality entity? *Oculus*, the company, in question was founded by 23 year old tech wiz, Palmer Luckey. The acquisition just goes to show how forward thinking the visionary Facebook's founder is. Zuckerberg understands that today we have the mobile platforms leading the industry, but what about in the future. 40, 50, or even 100 years from now things will change and advance. Virtual reality, where you can put on a device, or step in to a machine and be able to fraternize with friends, who live hundreds of miles away, is the kind of thing that Zuckerberg has in mind with this move. It may not be a profitable move now, but the 2 billion dollar investment that was made may soon lead to Facebook being an industry leader in not just social media, but virtual reality gaming and communication.

He continues to look not just in to the near future, but years ahead as he tries to combine his prowess in the social media space with other areas in which he thinks he can expand. Investors believe in him, and they should. The fact of the matter is Zuckerberg has all the money he will ever need. He is now trying to solidify his place in history as a true visionary, and all signs point to his success. Fearless determination, perseverance, and an uncanny ability to dissect today and visualize tomorrow is what will keep Zuckerberg in people's memory for years to come.



## The Impact of OPEC's 'No Cut' Decision

Alex V. Camaerei

The Organization of Petroleum Exporting Countries, otherwise known as OPEC, is the largest conglomerate of oil producing countries in the world. This organization, responsible for over 40% of worldwide oil production, found itself in a conundrum in November 2014. Faced with a global oversupply, OPEC had a choice to cut production and keep prices high or maintain its current level of production causing a drop in prices. An unwillingness to yield market share to non-member nations pushed OPEC to maintain its level of production. The rest is history. Over the past several months, oil has hit near four-year lows. As early as January of 2014, crude oil was trading at over \$120 per barrel but by the end of 2015 oil was trading below \$40 per barrel. The side effect of OPEC's decision has been beneficial to American consumers but the effects have been negative for the OPEC member nations and some non-member nations such as Russia and Venezuela. This paper will explore the impact of OPEC's decision to maintain its high level of production in the face of global oversupply.

OPEC is comprised of 10 nations which include: Libya, Iran, Algeria, Nigeria, Venezuela, Saudi Arabia, Iraq, UAE, Qatar, Ecuador and Kuwait. These countries not only produce oil but their economies are largely dependent on oil. Many of the member nations even balance their budget based on what the price of oil is. The organization had a long standing policy of cutting production when demand is low so they could manipulate the price to stay high. As global demand is slowing due to emerging markets in turmoil, and American production of shale energy rising, oil lost its premium. According to Jay Solomon and Summer Said of the Wall Street Journal, the Saudi Arabian leadership felt threatened by the market share gains by American shale producers. If they decided to cut production, it would leave room for American companies to gain more market share globally.

This threat perceived by OPEC may be well conceived. Within the last four years, the U.S. has increased its oil production by almost 2 million barrels per day and has since become the largest oil producer in the world, according to the *Economist*. Many economists predict shale production in the U.S. will only slow if oil dips below \$40 per barrel or even below. The problem with OPEC's strategy is that it hurts its own members. Currently Libya, Iran, Algeria, Nigeria, and Venezuela have budgets dependent on oil trading over \$100 per barrel. Recently, Venezuelan President Nicolas Maduro spent time in Qatar speaking with OPEC leaders to change their policy. Venezuela's economy has suffered since the price drop in such a way that they have sought economic relief from other OPEC nations. Currently, 95% of Venezuela's export revenue comes from oil.

The nation with the most influence in OPEC is Saudi Arabia. They currently produce over 9 million barrels per day, which is almost three times more than the second leading producer in OPEC (Iraq). While their budget actually depends on oil trading at \$106 per barrel, they're able to withstand lower prices for an extended period of time because of their national wealth. They currently have over \$750 billion in foreign exchange reserves and experts say they can withstand oil hanging around \$60 per barrel for at least five years.

**Impact of Low Oil Prices on Russia:** Russia is a nation that's already been suffering financially due to sanctions imposed by the United Nations because of Russia's hostile takeover of the Crimea peninsula. With oil prices still trading low, Russia's economy has been even more devastated. Experts estimate that Russia stands to bleed \$100 million annually if oil doesn't trade at \$90 per barrel. This amounts for around 7% of Russia's economy lost every year. This is due to two-thirds of Russia's economy coming from gas and oil exports. The aforementioned sanctions have magnified Russia's woes by cutting them off from potential trade partners and preventing them from new oil exploration. The sanctions forbid Russian companies from initiating oil exploration projects that would be geared toward increasing their supply. With demand low due to level production, even if Russia could explore new reserves, the market wouldn't want them. With an already tarnished reputation, many companies are avoiding striking up joint-ventures with Russia that would be aimed at finding new oil.

**The Future of OPEC's Policy:** In June of this year, OPEC met for the first time in 2015 to discuss their policy on oil supply. The general sentiment for this meeting is that they will maintain the policy of keeping production levels at their normal level. According to Alex Lawler of Reuters, the nations of Venezuela and Algeria will appeal to OPEC leadership to reconsider their position because their economies continue to suffer from lower demand. Another issue that may play a role in whether OPEC changes its policy in the near future is the ongoing U.S. led negotiations with Iran. For the past several years Iran's economy has been crippled with sanctions. These sanctions have caused unemployment to skyrocket and inflation to increase. If a deal with the U.S. gets done, the Iranian economy could experience a surge, which would lead to another increase in oil production. Since the world is already facing an oversupply, pushing more oil into the market would cause prices to drop again. Because Iran's economy is largely driven by oil revenues, it seems logical that an industry jolt would take place if sanctions are eased.

The OPEC cartel has accounted for almost 40% of the world's oil production for over three decades. Their influence has been felt throughout our nation's history and now the world is feeling the effects of their power. Due to their decision to maintain current levels of output in the face of decreasing demand, a global drop in the price of oil has been sustained for almost 9 months now. With no sign of easing this policy in the near future, it seems consumers can continue to enjoy low gas prices in the short-term. The main motive of OPEC's decision to not cut production can be traced to the boom in American energy. With natural gas and shale oil production causing America to be a top producer in the world again, it seems OPEC felt threatened and did not want to lose market share.



## Department News

### Prof. Pats Neelakantan

On March 2, 2015 the Department of Economics moved from the College of Arts & Sciences to the College of Business and Management, and was renamed The Department of Economics and Finance. We are thankful to Dean Hawkes, Associate Dean Weber and faculties in the Arts & Sciences, especially the Social Sciences for their great collegiality and support over the years, and looking forward to continue the same level of collaboration in our new home.

During spring 2015 Commencement, 13 students graduated with B.A. Economics. In the fall 2015 Commencement, 10 more students graduated with B.A. Economics, bringing the total to 23 graduates in 2015. The department wishes them a bright and successful career. Some of them have gone on to pursue graduate education, and many more received employment offers right out of college.

The Business & Economic Research Group made many significant achievements during the year. BERG updated the results from the last year's study on "Monroe County Regional Economic Score Card," a funded research grant from the ESU Research & Economic Development, which was sponsored by many regional partners. The findings were presented by Prof. Behr at the ESU Economic Outlook Summit on September 11, 2015.

Currently, Professors Behr, Christofides and Neelakantan of BERG are working on the final report for the \$15,000 research grant from the Center for Rural Pennsylvania, a legislative agency of the Pennsylvania General Assembly on "Economic Outlook for Rural Pennsylvania over the Next 10 Years," which will be submitted in the beginning of February 2016. Recently, BERG was awarded another \$15,000 research grant on "The Impact of Minimum Wage Increases in Rural and Urban Pennsylvania" which will start in January 2016.

On Tuesday, April 7, 2015 the Economics Department conducted its very first ETS Field Test in Economics, which was taken by 23 students. Results from this test will be benchmarked for future improvements in the subject test. In addition, on Thursday, April 9, 2015 Economics Department, in collaboration with the Department of Business Management, and the Econ Club organized the Bloomberg Aptitude Test (BAT) on our campus. The test is widely used by many employers in the finance and banking industry when hiring for jobs and internships. The department is proud to note that our students performed better than US and World averages in many areas.



The Economics Department hosted a guest speaker on April 21, 2015. An Econ Alumni, Alfredo Garcia spoke about "How to prepare for a Career on Wall Street?" Topics covered included internships, employment and life in New York City.

Cadia Woods, an Economics & French major, was chosen to be the Commencement Student Speaker at the spring 2015 Graduation Ceremony on May 9, 2015. Cadia served as president of the International Student Organization and as a member of the French and Economics club. With an impressive 4.0 GPA, it is no surprise Cadia (and another Econ graduate Christopher Smith) was hired by Sanofi right after graduation. We wish her the very best.

On Saturday, October 24, 2015 the Department of Economics and the Desi Student Organization (DSO) organized the annual multicultural event, the "Festival of Lights (Diwali) Program." The event was held in the Innovation Center, which was attended by over 120 people of diverse backgrounds. Prof. Pats Neelakantan serves as the advisor to DSO. Provost Bruno was our Chief Guest, who started the event by lighting the lamp and stayed till the end.

Prof. Warburton took more than a dozen Economics students to the prestigious CATO Institute's 33rd Annual Monetary Conference in Washington DC on November 12, 2015. Our students were fortunate to meet with Professor John B. Taylor, Mary and Robert Raymond Professor of Economics at Stanford University, who was famous for his influential work on monetary policy with the 'Taylor Rule.'

Finally, the department ended the year with its Annual Holiday Party on Thursday, December 10, 2015. It was a busy day with attendees including students, faculty and many from the administration. We were heartened to see so many people taking time from their busy schedules to wish everyone Happy Holidays. What a nice way to end the year and prepare for another great year ahead 2016!



## The Local Economy

### Prof. Constantinos Christofides

On September 11 2015, the Business Economic Research Group (BERG) of East Stroudsburg University presented the 2015 Economic Scorecard of Monroe County at the Annual Economic Outlook Summit held at the University's Mاتيoli Recreation Center.

The Scorecard compared the economy of Monroe to those of Carbon, Lackawanna, Lehigh, Luzerne, Northampton, Pike and Wayne counties.

The economic comparison of the eight counties focused on employment, income, the business environment, healthcare, housing and education.

The labor force of Monroe County decreased by 2.3% from 2013 to 2014, and even though the labor force of the remaining seven counties also decreased, Monroe County's labor force decline was the greatest. The labor force is a measure of the supply of labor and it includes all adult individuals that reside in the county and are either employed or seeking employment. The total number of employed Monroe county residents declined in 2013 and the total number of jobs created by county businesses also declined. The employment-to-labor force ratio in Monroe County was 0.926 meaning that 92.6% of the county's residents were employed. Most of the other counties in Northeast Pennsylvania actually had higher employment ratios.

The residents of Monroe County had the lowest per capita income among the eight counties in 2013, even though it grew by 1.8% during the year. Per capita income measures total income received by individuals from all sources and it includes wages, pensions and government transfer payments. Average earnings-per job is a better measure of worker productivity because they consist primarily of wages and salaries. Average earnings-per job in Monroe County were only 77% of the state average and they actually declined by 0.9% in 2013.

The business environment in Monroe County received relatively low grades because of high crime rates, low proprietors' income and low rates of business diversity. The county received higher marks for relatively high employment by small businesses, higher-than-average "creative class" employment and high rates of technical occupations. Monroe County lagged behind the more urban counties in Northeast Pennsylvania in healthcare availability and accessibility. More specifically, Lehigh, Luzerne, Lackawanna and Northampton counties had more hospital beds, greater numbers of physicians, registered nurses and medical facilities per person than Monroe.

Housing statistics in Monroe County reveal that the 2007-2009 recession was more severe in this county than all the other surrounding areas. This is probably due to the extraordinary population growth and construction activity that preceded the recession and created a significant decrease in building permits that still persists in Monroe County. In spite of the decline in the building activity, housing affordability remains lower in Monroe than the other counties in Northeast Pennsylvania.

Monroe County earned the highest marks in the education category because of very low high school dropout rates, higher than average college-educated residents and the highest investment rates in public education.

The unemployment rate in Monroe County has decreased steadily in 2015 but has remained higher than the state average. In August 2015 the unemployment rate was 6.5% in Monroe county compared to 5.4% for Pennsylvania.

Building activity has continued to decrease throughout the first part of 2015. The various townships in the county issued a total of 75 building permits from January to August 2015. This should lead to a lower annual total in 2015 than the historically low 154 permits issued in 2014.

Thus the local economy appears to be very slow in recovering and lagging behind neighboring counties.

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