

# E-NEWS

FALL 2013

## 2014 Economic Outlook

By Alek Liskov

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### Quick Data Facts

**GDP:** Slowly building momentum; growth projected to reach 2.6%

**Interest Rates:** Short-term rates expected to remain low

**Unemployment:** Fluctuating between 6.9% and 7.2%

**Business Spending:** 4.5% increase; businesses hoarding cash

**Housing Sales:** Existing home sales up 4%; new home sales up 16%

**Trade Deficit:** Narrowing about 5%; crucially – oil imports declining

### Analysis:

**GDP** (Data – Dept. of Commerce): The pickup in growth in the third quarter of this year, to 2.8%, was misleading, because businesses showed strong additions to inventory. Due to the government shutdown, fourth-quarter growth is expected to be around 1.6%. Congress remains a potential deterrent to the recovery. The Federal Reserve will also start to slowly cut off its spending, which will create some headwinds.

**Interest Rates** (Data – Federal Open Market Committee): Because core inflation will most likely remain below 2% and expected economic growth will be modest. Federal Funds Rate is at a historical low of 0-0.25% for about 5 years now. Fed has announced plans to leave it as such until early 2015.

**Unemployment** (Data – Dept. of Labor Statistics): Job creation has steadily improved since the beginning of 2013. Almost every statistic, from average hourly rate to total jobs added has improved. Earnings have outpaced inflation indicating that real income has also risen. This should help consumption.

**Business Spending** (Data – Census Bureau): Due to uncertainties generated by Washington, big business will be reluctant to undertake large capital expenditures. However, businesses are still expected to continue gradually increasing spending.

**Housing Sales** (Data – Dept. of Commerce): Housing will continue to recover strongly. Housing inventory in some areas has actually been experiencing shortages, which has lead to slight inflation of prices, due to the significant difference between demand and supply.

**Trade Deficit:** (Data – Dept. of Commerce): The trade deficit improved very healthily throughout 2013. The biggest driver for the next year will be the increasing production of domestic oil and gas. According to the International Energy Agency, the United States will be the top oil producer by 2015.

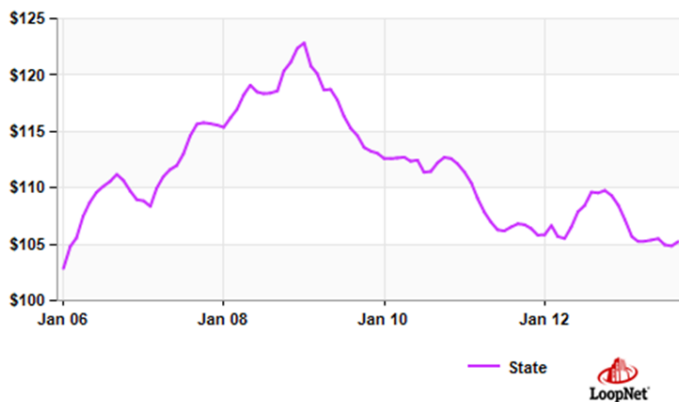
## Lower Retail Prices Are Creating an Economic Renaissance for the Poconos

**By Alek Liskov**



Scheduled to open in 2015, Kalahari Resorts Pocono Mountains is a \$230 million, 150-acre complex in Monroe County at Pocono Manor. The ground breaking begins phase one of the resort project, which will include: 457 luxury guest rooms and suites, a 100,000-square-foot indoor waterpark and seasonal outdoor waterpark, a 65,000-square-foot convention center, a 30,000-square-foot family entertainment center and 6,000 square feet of retail space. The resort will also feature three full-service restaurants and will offer something for everyone, including a high-end steak and seafood option, a gourmet buffet, a cozy lounge and snack areas. Other signature amenities include Spa Kalahari and Salon, daily kid's activity programs, and plenty of indoor and outdoor adventures for the entire family to enjoy. Additional recreation and entertainment options are expected to include black light mini golf, arcade games, horseback riding, archery, fishing, sledding and more.

Phase II will add another 100,000 square feet of indoor waterpark space, 400 more guest rooms and suites and expand the outdoor waterpark to a total of 3-5 acres. The project is expected to create more than 1,500 new jobs upon completion and will help boost the Poconos Mountains \$2.1 billion tourism industry.



The Pocono Mountains resort marks the company's first foray into the East Coast market and third Kalahari Resorts & Convention Center, joining successful properties in Wisconsin Dells, Wis., and Sandusky, Ohio. Since its conception, Kalahari Resorts has acted as a unique, family-owned and operated business, which is evident in the company's overall family oriented business plan and its day-to-day operations.

One of the primary reasons why the company chose the Poconos as one of its destinations is the decline in retail prices since the Great Recession of 2008.

According to the data provided by LoopNet, prices have fallen more than 20% since their peak in late 2009. This, however, is nowhere near the 89% average drop in real estate prices in the area, according to Zillow, the largest website for real estate price comparison.

## Assessing the Economic Understanding of U.S. High School Students

By Michal Jezowski

William B. Walstad and Ken Rebeck published an article in the American Economic Review called “Assessing the Economic Understanding of U.S. High School Students.” The article simply discusses the economic literacy most high school students have given the amount of economic instruction they receive. The beginning of the article talks about the two ways economics is currently taught in high schools across the United States. About half of high schools across the United States either offer an elective economic course or require a course in economics. A majority of the students within these classrooms, roughly 95% according to Walstad and Rebeck, enroll in a basic economics course. The rest of these students are signed up for honors or advanced placement economic courses. The other half of the students in the U.S. take what is called an “infused” or “integrative” course which is a blend of two courses in one. When I was in high school during my senior year, I was taking an American Political and Economic Systems course which exactly was an “infused” course. Half of the semester would be spent teaching American Politics, while the second half was spent teaching Economics. The study that Walstad and Rebeck examined was how much basic economics do students understand depending on their exposure to the subject. The data for this experiment came from the Test of Economic Literacy (TEL). The reason the two authors chose this test was because they saw it had a high alpha reliability. This indicated to the authors an accurate measure of economic understanding for students. The test was spread out among 7,243 students, across 384 classrooms and 36 states. Of the 7,243 students, a majority, 4,842, were students that completed a basic economics course, another 1,001 students had completed an AP and honors economic course, 855 were students who took a basic level “infused” history course and

lastly 545 students took an “infused” AP or honors history course. The results showed that students who took a course in economics alone had results that were averaging around 20 points higher than students who were in “infused” classes. The results also showed that test scores among regular and AP/Honor students were relatively low on average. Students in regular economic courses were only able to score on average a 61.3%, compared to the AP/Honor average of a 74.3%. The averages for students in “infused” courses were also very weak with basic students averaging a 41.4% and 57.1% for AP/Honor students. The data results were split up to show which areas students struggled in and where they showed strength in. Students in both settings scored highest when it came to fundamental economic questions. The authors believe this is so because teachers primarily will teach the fundamentals of economics and stress the most emphasis on it. Students were able to understand and score highly on the fundamentals of productivity and scarcity but struggled on understanding opportunity costs and tradeoffs. The subfield of economics in which students struggled in was international economics. The authors felt that since this area usually was taught last, students weren’t exposed to international economics as much as they were to the fundamentals, micro and macro. Only 51% of students were able to understand the law of comparative advantage and how to apply it among competing countries. A shocking 39% of students were able to calculate exchange rates. Overall, the data shows that a student, who takes a class in economics, will understand and obtain more information compared to one who takes “infused” course. The authors feel that students who don’t have any exposure to economics will be ignorant to basic concepts that they will need to know to understand the world they live in. This is especially true to students who don’t

plan on going to college and will go directly into the workforce. The last paragraph discusses that if students were required to take an intro to economics course, it would help many university professors in teaching principle courses. Most college students have minimal to no prior knowledge of economics when entering college compared to their knowledge in other general education areas such as art or music. Upon entering college, this will certainly make it difficult for students to learn economics. Working up at the economics department, I’ve witnessed first-hand all year long of students with no prior knowledge in economics which resulted in some students struggling to pass and eventually dropping or failing the course. A good portion of students in principle courses tend to barely pass because the concepts are too difficult to remember rather than just making sense of the concepts and understanding the logistics of it. I full-heartedly agree with the authors when they suggest that economics should be taught in high school. My reasoning for agreeing with the authors is that if students have prior exposure to economics, an increase in students interested in economics would certainly occur, which could lead to more students appreciating and comprehending the real world applications economics provides. I also agree with the authors because I personally feel that in the society we live in, economics directly impacts practically everything and anything we do within our day to day lives. Students need to understand concepts whether it be a country’s fiscal or monetary policy, to even something as simple as knowing that a decrease in supply will raise prices on a product. If students had an introduction to basic economics course in high school, rather than an infused course, it would give professors and high school teachers an easier time teaching students, which I feel will result in students learning to appreciate economics more than they do today.

## Local Giant

By Jonathan Gavilanes

Between May 2013 and September 2013, I had the opportunity and privilege to intern at Harsco Industrial Patterson-Kelley, a division of Harsco Corporation; a Fortune 1000 global industrial services and engineered products company with over 400 operating locations in 50 countries worldwide. Located in East Stroudsburg, Patterson-Kelley was founded in 1880 and manufactures and sells heat transfer equipment.

Harsco Industrial Patterson-Kelley serves the commercial heating industry with some of the best-known and most respected products in the field. The company offers condensing, non-condensing, and hybrid hot water boiler systems; and semi-instantaneous



and instantaneous water heaters. It also provides dual fuel boilers and hybrid boiler systems; gas and commercial boilers; direct and indirect water heaters, pool heaters, and replacement bundles; and fabricated systems. Additionally, the company offers commercial boiler products, including outdoor boilers and gas fired boilers.

Its products are used in institutional, commercial, and industrial building applications, such as schools, offices and apartment buildings, dormitories, hospitals, and hotels. Many of New York City's most prominent buildings are equipped with Patterson-Kelley products due to their quality and durability including: the Empire State Building, the United Nations Building, the Chrysler Building, Rockefeller Center, the New York Public Library, and the new World Trade Center. Patterson-Kelley products have also been equipped into military structures such as submarines and National Football League stadiums.

The company offers its products through a network of authorized representatives and dealers in the United States and around the world. Locally, Patterson-Kelley is split into two buildings: an office building and a factory. With a total workforce of around 105 people, Patterson-Kelley employs around 50 union members who are part of the International Brotherhood of Boilermakers Union. The rest of the workforce consists of engineering, sales and marketing, technical positions, and managerial posts.



## **Foxconn looking to move jobs to PA**

By Victor Pazmino

Apples iPhone manufacturer Foxconn Technology Group has decided to join other manufacturers who are looking to produce more American made products and will be investing millions of dollars into creating new Pennsylvania job opportunities.

Hon Hai Precision Industry Co. (Foxconn's Flagship Company) will invest 30 million dollars over the next two years to build a high tech manufacturing facility for goods such as telecommunications equipment as well internet servers. They will be investing 40 million dollars in order to develop robotics. It will also be funding Pittsburgh Carnegie Mellon University 10 million dollars for research and development.

Foxconn already has a manufacturing facility in the state capital of Harrisburg that has around 30 employees. Due to its history with Harrisburg, Foxconn will be investing in the building of another manufacturing unit there that will create about 500 new jobs. Gou said that its investment is part of a "renaissance" of US manufacturing to boost employment in the US.

The Taipei-based company is trying to expand North American operations due to more demand for domestically made products. Hon Hai wants to go from R&D to a complete high end production chain. They did state that this will not be manufacturing for a specific brand. They will not however be migrating Chinese production lines, instead just adding high tech, value, and precision manufacturing in the US.

There has been a lot of new insourcing due to some companies realizing that the cost of transport and energy is higher than they expected in China when compared to the US and labor costs alone isn't enough to keep them overseas.

Hon Hai's net income for the third quarter beat analysts' estimates by rising 1.6 percent to NT \$30.8 Billion. Their shares fell 0.5 percent closing in Taipei at NT \$74.60. The Taiex index rose 0.2 percent.

Gou made his decision to invest in PA after speaking to republican Governor Tom Corbett. "We are very, very pleased that companies from overseas are looking to locate and grow in Pennsylvania," said [C. Alan Walker](#), the state's secretary for the [Department of Community and Economic Development](#).



Wingfield, Brian, and Romy Varghese. "Apple Supplier Foxconn to Invest Millions in Pennsylvania." *Bloomberg*. N.p., n.d. Web. 22 Nov. 2013.

## **The U.S. is now deciding to sell GM stake by the end of the year**

By Angelica Alvarez

On Thursday the U.S. Treasury Department said that it will sell its shares of GM by the end of the year. They said they never wanted to make a profit they only wanted to save the U.S. auto industry. In morning trading the GM stock was up about 3.2 percent at \$38.90. Additionally they said sales of the remaining 2.2% stake- 31.1 million shares will begin immediately. As they prepare to sell they anticipate that it will help in the end. The analysts say it would allow them to start paying dividends for the first time since the reorganized company returned to the market. In late October, the U.S. government said it already had booked a loss of \$9.7 billion on the shares. These were obtained as part of GM's Chapter 11 bankruptcy filing and consequent bailout. Currently the Treasury has completed the sale of 70.2 million shares of GM stock and regained \$38.4 billion of the \$49.5 billion it originally invested in GM. A sale at GM's present price would still leave taxpayers on the hook for about \$10 billion. GM shares were 2.5% higher at \$38.64 in midday trading in New York. GM will also be free to raise executive pay. The government's exit could in addition pave the way for the departure of Chief Executive Dan Akerson. Dan Akerson

was the man who took over the company in 2010 and led its emergence from the government-led bankruptcy. Mr. Akerson has signaled his intention to leave the company by the end of 2014. The Treasury Deputy said that if they had not acted to maintain the automotive industry, the cost to the country would have been significant. This would include lost jobs, lost tax revenue, reduced economic production, and other consequences. GM's addition to the S&P 500 in June and the stock's general performance has allowed

the government to unload shares moderately quickly. The restrictions on GM executives' pay will be lifted once the government sells its last share. The stipulation of the bailout is that the Treasury currently approves compensation for the five most senior executives and the 20 next most highly paid employees at the company.



## ECONOMISTS HONORED WITH NOBEL PRIZE FOR CONTRIBUTIONS TO FINANCE

By Prof. Pats Neelakantan

The most awaited 2013 Nobel Price in Economics was jointly awarded to Eugene F. Fama, Lars Peter Hansen (both University of Chicago) and Robert J. Shiller (Yale University) *for their empirical analysis of asset prices"*

During the 1960s, **Eugene Fama** led the effort analyzing asset prices, and demonstrated that stock prices are almost impossible to predict in the short run, and that any new information is very quickly assimilated into market prices. His work was instrumental in the emergence of the so-called index funds in stock markets all over the world.

If prices are hard to predict over days or weeks, then shouldn't they be even harder to predict over several years? The answer is no, according to **Robert Shiller**, who discovered in the early 1980s that that stock prices fluctuate much more than economic fundamentals behind those assets such as corporate dividends, and that the ratio of prices to dividends tends to fall when it is high, and to increase when it is low. This pattern holds not only for stocks, but also for bonds and other assets.

How do we reconcile the above two seemingly contradictory findings? Assuming rational investor behavior, high returns are explained as compensation for holding risky assets during unusually risky times.

**Lars Peter Hansen** developed a statistical method that is particularly well suited to testing rational theories of asset pricing. Using this method, Hansen and other researchers showed that modifications of the above two theories go a long way toward explaining asset prices.

interesting Fact: The average age of the recipient is 67 for all the Economic Nobel Laureates between 1969 and 2013. To date, the youngest Laureate in Economic Sciences is Kenneth J. Arrow, who was 51 years old when he was awarded in 1972; the oldest recipient is Leonid Hurwicz, who was 90 years old at the time of his award in 2007.

Source: [http://www.nobelprize.org/nobel\\_prizes/facts/](http://www.nobelprize.org/nobel_prizes/facts/)



Eugene F. Fama



Lars Peter Hansen



Robert J. Shiller

## **Inflation and the Fed**

**By Jonathan Gavilanes**

Since the inception of the Federal Reserve Bank of the United States, its two main priorities have been managing unemployment and inflation. The Fed balances these priorities because they are inversely related to each other. High inflation usually means low unemployment and vice versa. However, since the 2008 economic crisis, inflation has dropped dramatically; barely reaching a 2 percent annualized target for the past few years. Due to these low levels of inflation, there are growing cries, inside and outside the Fed, to increase inflation or else the economy will plunge into a deflationary state. Members of the world community have also taken notice, and steps, to avoid deflationary scenarios in their economies.

Recently inflation fell to 1% annualized in October, its lowest level in 50 years, excluding the financial crisis. Inside the Fed there are members such as Fed Chair-Nominee Janet Yellen, who argue a little more inflation is valuable in a weak economy. These Fed members base their assumptions from the sluggish economic recovery the U.S. is currently undergoing. They believe rising inflation (rising prices) could help companies increase profits, increase wages, and encourage businesses to borrow money and spend it quicker. The increase in profits would also allow for the hiring of new workers, thus reducing the unemployment rate.

Outside the Fed, European Central Bank President Mario Draghi has taken steps to head off deflation risks and stabilize debt burdens in the crisis states, such as Greece, Spain and Portugal. According to Draghi, the inflation rate has been in slow motion decline for the past several months, having been pushed to 0.7 percent. This decline has spread to all major components of the price index since the summer; with prices actually falling over the past three months in Europe. Thus, ECB President Draghi cut rates to 0.25 percent in order to secure a safety margin against deflationary risks.



## Department News

### Prof. Pats Neelakantan

After many decades of dedicated service, Prof. Constantinos Christofides retired from ESU at the end of spring 2013. Professor Emeritus Christofides, who was a recipient of the Distinguished Professor Award and the Great Teacher Award, served as the Grand Marshall for the spring Undergraduate Commencement during May 2013.

The Economics Department wholeheartedly welcomes its newest member, Dr. Wei Gao, who joined as a tenure track faculty from fall 2013. Dr. Gao completed his Ph.D. in Economics from Southern Illinois University at Carbondale. Before joining ESU, Dr. Gao spent two years at Bloomsburg University as a Visiting Faculty in Economics.

In December 2013, Professors Behr, Christofides and Neelakantan of BERG were awarded \$15,000 research grant from the Center for Rural Pennsylvania, a legislative agency of the Pennsylvania General Assembly, to conduct a study on “Analysis of Unearned Income in Pennsylvania.” Prof. Behr and Prof. Christofides are also finishing up another project on “Economic Impact Study of the Pocono Raceway,” which will be submitted very shortly.

The following were some of the significant activities of the department during fall 2013. On Friday, October 4, 2013 a group economics students, along with Prof. Pats Neelakantan, visited New York City as part of an educational tour. They visited the Museum of Finance, and the New York Stock Exchange (NYSE). A group of our students, and Prof. Pats Neelakantan, were invited by Vanguard to attend Career Explore Day at their headquarters in Valley Forge, PA on Tuesday, October 8, 2013. Econ Club brought in a Guest Speaker, Mr. Richard Adams, Vice President Investments, Wells Fargo Advisors, LLC on October 11, 2013, who talked about career opportunities for our students. On Saturday, October 12, 2013 Economics Department organized an Alumni Event in Lower Dansbury. Provost Dr. Reidhead addressed a group of over two dozen successful economics alumni about the changes taking place at ESU. The event was made possible with the financial support from the ESU Foundation and Mary Frances Postupack of the Research & Economic Development. On Tuesday, October 15, 2013 Economics Department, and the Econ Club, organized the first ever Bloomberg Aptitude Test (BAT) in our campus. Seven students participated in the test, which assessed student understanding in areas such as Economics, Finance and Global Issues. The test is widely used by many employers in the finance and banking industry when hiring for jobs and internships.

In terms of student achievement, Anthony Honorowski, a freshman economics major along with three other ESU students and Prof. Samuel E. Quainoo, attended the 13<sup>th</sup> World Summit of Nobel Peace Laureates on “Stand in Solidarity for Peace – Time to Act”. The four-day summit **that took place in Warsaw from October 21-23, 2013** was hosted by former President of Poland Lech Walesa and attended by other Nobel Laureates, including former President of South Africa Frederik Willem de Klerk and His Holiness the XIV Dalai Lama. Alek Liskov, an economics major and President of the Econ Club, was nominated by ESU President Dr. Welsh for the most prestigious Sayed R. Ali-Zaidi Award for Academic Excellence from PASSHE. Stephen Kozak, a senior student in Economics, is

participating in The Harrisburg Internship Program during spring 2014. He is working for the state Department of Environmental Protection as part of a 15-week internship sponsored by the Pennsylvania State System of Higher Education (PASSHE). Jose A. Martinez Morazan, an Econ Major, was recently accepted with financial aid in to the graduate program at Brandeis University, one of the top programs in the country. In addition to his excellent academic performance (GPA 3.93), he also served as the President of ISO, active member of Econ Club, and plays a leadership role in the Student Senate. Way to go, Jose!

We are also proud to congratulate the following nine economics students, who made it to the Dean's List during fall 2013; Heidi Brombacher, Joseph Hoy, Michal Jezowski, Alexander Jozwiak, Jose A. Martinez Morazan, Victor Pazmino, Madeline Rodriguez, Wen Wang and Cadia Woods.

Finally, working with the ESU Foundation, faculty members in the department recently established "Constantinos Christofides Scholarship in Economics," in honor of Prof. Christofides, who retired recently. The \$500 scholarship will be given to an outstanding economics student every year.



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**Jonathan Gavilanes**

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E-News is written and developed by students of the Economics Department and students interested in the field of Economics





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