

# E NEWS

THE ECONOMIC NEWSLETTER OF EAST STROUDSBURG UNIVERSITY

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## How Globalization and an Imaginary Currency Saved Brazil

Abdul Kane

It is no surprise that President Obama chose Brazil as one of the first countries to visit in South America this spring. Widely known for its energy independence, Brazil is a rising power within the southern hemisphere. Drawing political power from its rapidly expanding economy (the 8<sup>th</sup> largest), Brazil is seeking opportunities to expand its influence both politically and economically.

Brazil's economic and political fortunes have not always been as rosy as current assessments of its superpower potential would suggest. During the late 1970's Brazil, like many of its Latin American neighbors, borrowed heavily from commercial banks in the United States and Europe. These financial institutions invested in Latin America using recycled petrodollars from OPEC nations, choosing to diversify investment away from their traditional choice of domestic corporations. During the early recession of the 1980's, many of the Latin American countries saw the cost of imported oil double. This increased cost, coupled with increasingly expensive Petro dollar debt payments, caused Brazil's balance of payments to steadily dip into the negative.

With Latin American countries continuing to pile up massive debt, the breaking point came when Mexico became the first Latin American country to default on its loans. The effects were felt throughout the Latin American community, as the banks, initially eager to lend, immediately cut off their lending services, refused to refinance loans and demanded immediate payment. Left with few options, the military government of Brazil was promptly forced to take on austerity measures by the International Monetary Fund, IMF. (continued, p. 2)



## IN THIS ISSUE

### International:

*How Globalization and an Imaginary  
Currency Saved Brazil* .....Page 1

*European Central Bank to divide Europe  
once again*.....Page 3

*Higher Gasoline Prices Could Lead to  
Higher Positive Payoffs (or Not)*.....Page 5

*Financial Development Has Indeed  
Made the World Riskier*.....Page 6

### National:

*Top Holders of US Treasury Bills,  
and the Debt Ceiling*.....Page 7

*National Economy: GDP Fourth  
Quarter 2010*.....Page 8

*Understanding Potential  
Real GDP*.....Page 10

*The Employment Situation*.....Page 11

### Local:

*The Local Economy*.....Page 12

*Employment in Pennsylvania*.....Page 13

### Other Topics:

*The Rise in Income Inequality*.....Page 14

*Unemployment Rate and Crime:  
Related or Inconsequential?*.....Page 15

*Department News*.....Pages 17-18

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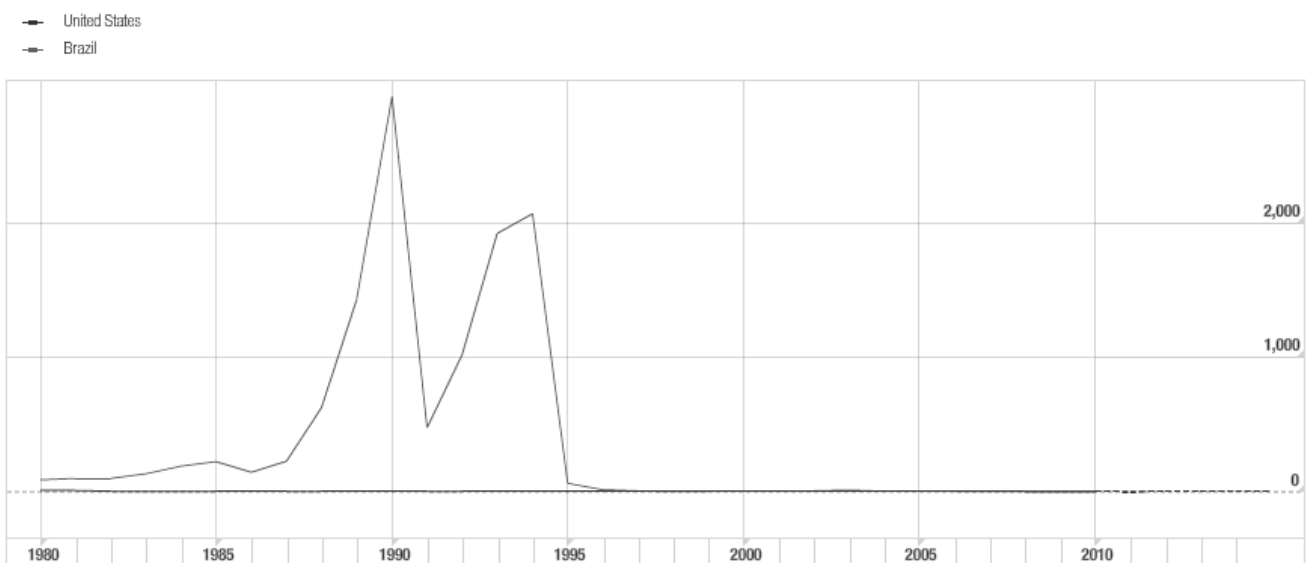
The austerity measures imposed by the IMF relieved much of the debt pressure off of Brazil, but growing public debt and the exchange rate devaluations of the austerity program led to accelerated inflation. State enterprises that would fail under free market circumstances were propped up by an already broke government. The newly-formed transitional government of Brazil took immediate action in the form of price and wage freezes. The freezes, known as the Cruzado plan, saw some short term success, but the freezes proved to be too much too fast and once again caused accelerated inflation rates. The shortcomings of the Cruzado plan and the several reform plans that followed was the failure to adequately address the public sector debt problem. Hyperinflation and growing public debt became the norm for the remainder of the decade and the first half of the 1990's for Brazil.

In early 1994, the government of Itamar Franco initiated the *Plano Real* as a last ditch effort to curb hyperinflation. In contrast to its predecessors, the *Plano Real* did not rely on wage and price freezes to curb inflation. The main weapon of the *Plano Real* was the Unidade Real de Valor (URV), a parallel currency to the Cruzeiro Real that was theoretically immune from the inflation that plagued the Cruzeiro. The URV's exchange rate with the Cruzeiro was adjusted daily, while the USD dollar was held at a 1:1 parity with the URV. In addition to the implementation of the URV, Brazil began to open its economy by exposing many of its industries to foreign competition. Prior to the Real Plan, Brazilian exports relied on a combination of tariffs and an undervalued currency to remain competitive.

The Real Plan succeeded in battling the inflation of the last two decades. It also brought renewed investor interest in Brazil due to widespread international enthusiasm for the Real Plan. The Brazilian government was able to maintain exchange rate stability due to the resumption of large scale flows. The strong real, which helped to bring down inflation, also benefited the lower income groups of Brazil. Cheap imported goods required Brazilian producers to keep their prices low in order to remain competitive. Sales of consumer goods skyrocketed as consumers were exposed to high quality imports.

### IMF Data Mapper ®

Inflation rate, average consumer prices (Annual percent change)



©IMF, 2010, Source: World Economic Outlook (October 2010)

## European Central Bank to divide Europe Once Again

Phillip Domschke

The European Central Bank (ECB) is facing a dilemma. Inflation rates are significantly above the set target of “Just below two percent”. Eurostat, the European Union’s statistics agency, released its preliminary estimates that suggest an overall inflation rate of 2.6% across the euro zone, which is up from 2.4% in February. Unlike the Federal Reserve, the European Central Bank only has a single mandate: To fight inflation. Ben Bernanke also has to keep unemployment as low as possible in addition to keep inflation at a 2% level.

The real dilemma for the ECB is the two faces Europe is showing right now. The core countries and recent eastern additions to the euro zone are recovering from the global downturn (see Chart 1 on page 4). These countries are the driver for the euro zone-wide inflation. However, this great recovery is not taking place in the southern members of the currency union. The sovereign debt crisis is taking its toll. The Irish Central Bank just released its recommendations after Irish banks performed poorly. Ireland needs another 24bn Euros (\$36bn) to cover the losses of banks that the government bailed out at the beginning of the banking crisis three years ago. Portugal recently raised 1.5bn Euros in a new round of debt financing below market conditions, but still pays a high premium over the average Eurobond after being downgraded by S&P to BBB-, which represents the lowest investment grade. Greece was also downgraded to BB-, as S&P voices concerns of Greece’s debt restricting plans, which Greece is ambitiously working on. The Mediterranean country is trying to raise money through privatizations of government-operated ventures like the Athens airport. The ambitious plan to raise more than 50bn Euros (\$71bn) through this is overshadowed by a contracting economy and low growth expectations for the future. Italy and Spain can be added to this list of countries struggling with future debt obligations, high refinancing rates and poorly performing economies.

The ECB’s single mandate to fight inflation will likely result in benchmark rate raises soon. These raises will benefit the well-performing industries in the central, northern and eastern areas of Europe by protecting their flourishing economies from overheating, but will severely hurt any ambitions of the south-western states. Thus, the difference will get even bigger than it is now. With the new European Stability Mechanism (ESM) of more than 500bn Euros (\$711bn), the entire union will have to carry underperforming countries out of their crises. It might be beneficial to a handful of countries in the short-run, but this will hurt the overall performance of the currency union in the long-run when billions of Euros in the form of transfer payments flow out of the supposed winners’ funds to the now completely hopeless victims of the increased rates.

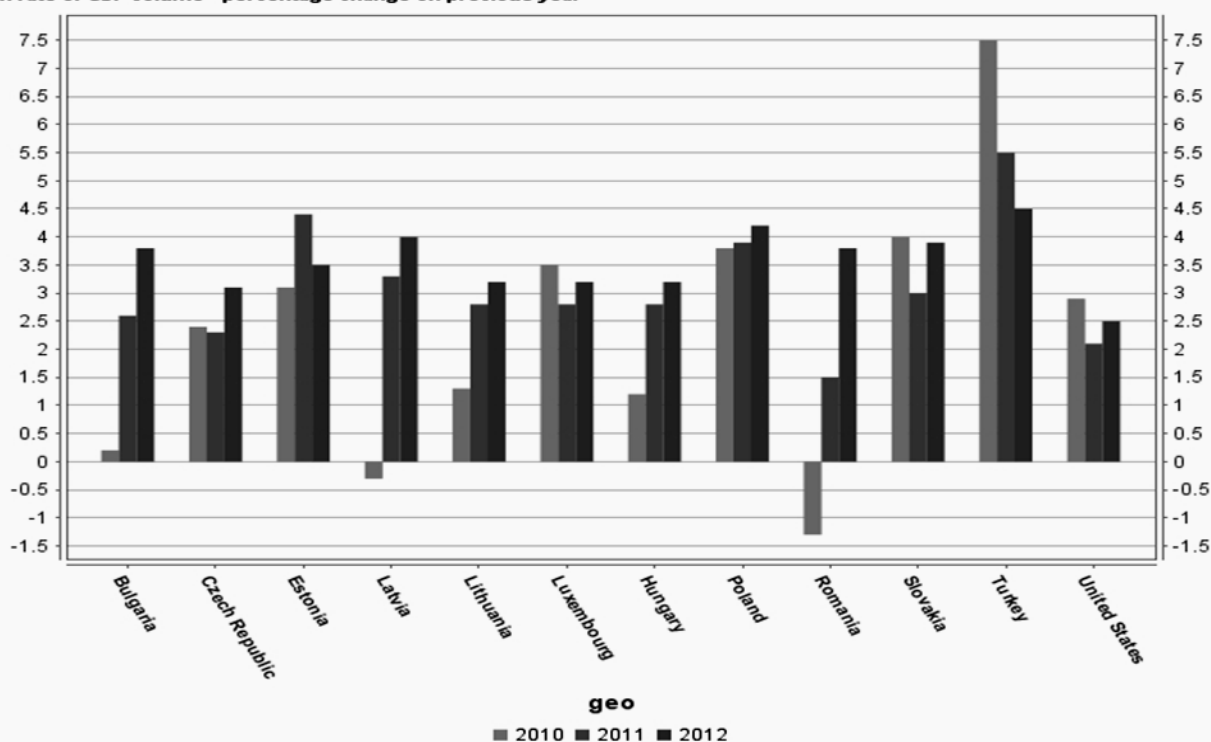
The ECB would be able to try and ease the effects on those countries by aggressively buying up their bonds to keep the rate at a reasonably low level, but this is unfortunately not backed by the inflation fighting mandate.

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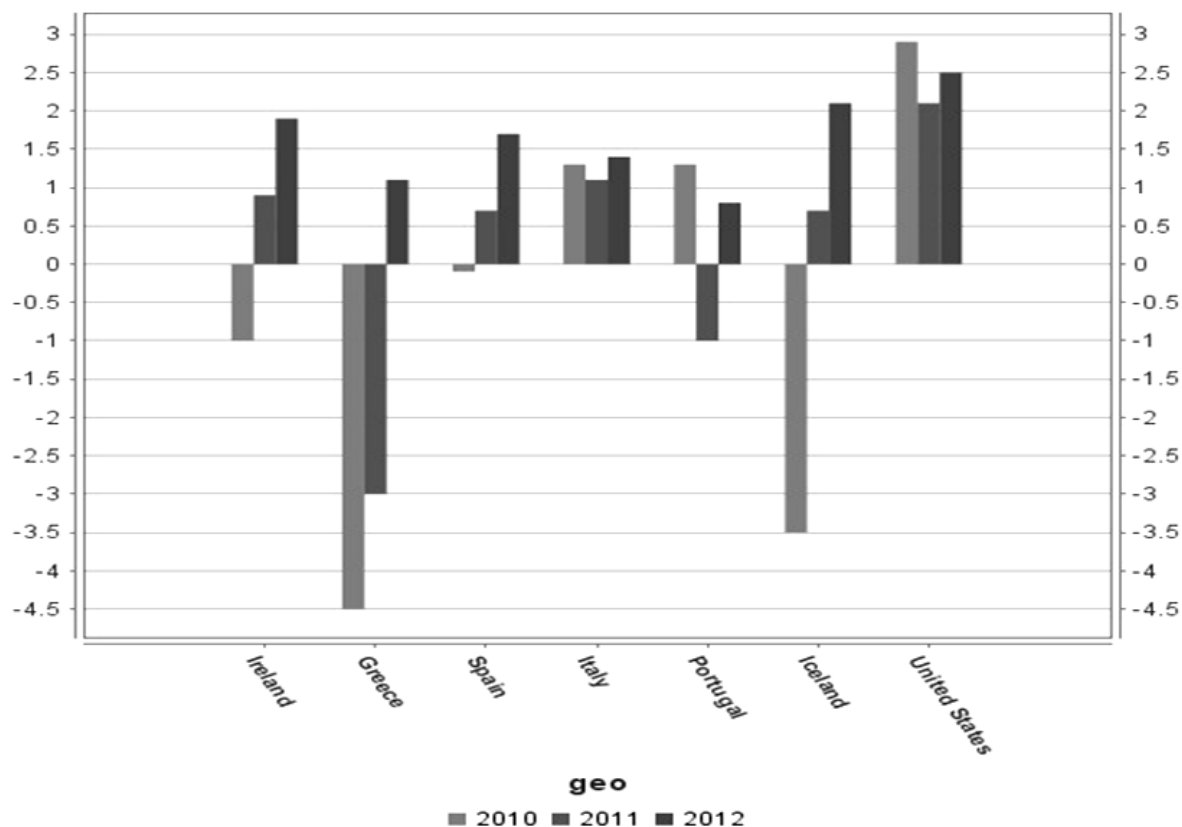
# Real GDP growth rate

Growth rate of GDP volume - percentage change on previous year



# Real GDP growth rate

Growth rate of GDP volume - percentage change on previous year



### **Higher Gasoline Prices Could Lead to Higher Positive Payoffs (or Not)**

Chris Jamieson

In today's world, automobiles have more regulations and externalities than any other consumer good. Everyday current events affect the automobile industry from safety issues that cause manufacturer recalls to natural disasters, such as the latest tsunami in Japan that negatively affect the supply and demand operations globally. However, no factor affects the automobile industry quite like the fuel source: Oil.

Lately the automobile industry has been forced to deal with powerful incentives to produce automobiles that reduce pollution output and operate on higher efficiency benchmarks. This recent push for the production of fuel efficient vehicles is largely due to the increased cost of gasoline.

For U.S. businesses, locking in future oil supply at a specific price is a very risky job. Oil is extremely price sensitive to many variables, including vehicle growth in developing countries, OPEC behavior, global and taxing policy, and many other fiscal factors. As prices for gasoline shift regularly, it can become a "life or death" situation for many American transportation companies to buy gasoline at the right price. Demand for alternative energy sources among American companies would help combat the vulnerability of fuel prices, however, this would not solve the problem completely.

The reason gasoline has become so unstable recently is because of the large amounts the U.S. imports from hostile countries. As tensions become more evident in the Middle East we are experiencing skyrocketed prices for gasoline. Additionally, large developing countries] such as China and India are also demanding large amounts of crude oil. This inevitably creates higher demand and higher prices due to competition among countries. These unstable, expensive fuel prices are driving the American consumer to shift away from our infamous gas guzzlers and begin moving towards efficient small vehicles and hybrids.

Although outrageous gas prices are hitting the American wallets hard, we can also expect some good to come of it. America consumes roughly 21 million barrels of oil each day, and researchers expect that number to grow to nearly 26 million barrels a day by 2025. While this is an *increase* in overall consumption, economist expect oil use relative to GDP to *drop* by 30%. This percentage drop in oil is primarily due to the growing improvements in energy technology and the slowed growth in transportation fueled by oil.

The push for more efficient automobiles and alternative energy sources is good for the environment. Researchers have proved that gasoline vehicles emit carbon monoxide, nitrogen oxides, and hydrocarbons. These emissions also are shown to be harmful to the atmosphere. With the large number of gasoline vehicles on the road today, it is evident that this issue must be examined more thoroughly, and with gas prices rising, there is more demand for efficient vehicles and alternative energy sources. Scientists have examined the effects of reducing gasoline pollution output and the rewards are tremendously good for the environment. With the rising gasoline prices pushing consumer demand for efficient vehicles and alternative energy sources, the general public will get a positive externality out of the situation providing a healthier environment and atmosphere.

As the Middle East continues to become more hostile during the upcoming spring/summer seasons, we will see gas prices spike to new highs that will affect the way consumers plan their summer vacations and their everyday commutes. As gasoline prices continue to seriously affect the way we live our lives, we will seek alternative resources to replace our dependency of oil.

## Financial Development Has Indeed Made the World Riskier

Tom Fail

In August 2005, Raghuram G. Rajan presented a paper filled with caution about financial development at the Kansas City Fed's annual symposium in Jackson Hole, Wyoming. Addressing the risk factor of financial development, Rajan concluded that financial development has indeed made the world a riskier place. Rajan was the chief economist at the International Monetary Fund and is currently the Eric J. Gleacher Distinguished Service Professor of Finance at the Booth School of Business at the University of Chicago. He also teaches at MIT, Northwestern, and has worked as a consultant for the Indian Finance Ministry, World Bank, Federal Reserve Board and the Swedish Parliamentary Commission.

In the article, Rajan observed that although financial innovation has brought unquestionable benefits, it also produced massive risks. He claims that a bank's greater reliance on market liquidity causes its balance sheets to be more susceptible in times of crisis, thus making the bank less able to provide the liquidity assurance that they provided in the past. Banks create returns both by originating and bearing risks. Banks are not interested in plain-vanilla risks, because they do not provide a great amount of return. Thus, they will be moved off the balance sheet, and "will tend to feed rather than restrain the


appetite for risk." However, banks are often forced to bear the most complicated and volatile risks they originate. Though the risk they bear is small, it is perhaps the most volatile tip of the iceberg of the risk they created. Hence, in times of crisis, banks become illiquid causing their balance sheets become more suspect.

Rajan cites the main forces that have altered the financial landscape to be technological and institutional change. Technological change has reduced the cost of communication and computation, as well as the cost of acquiring, processing, and storing information. Institutional change has created new entities within the financial sector such as private equity firms and hedge funds, in addition to new political, legal, and regulatory arrangements. Rajan claims that these changes have altered the nature of the typical transaction between the financial sectors, making the transactions within arm's reach and allowing broader participation.

Risk transfer through loan and default risk sales does not completely eliminate risks from balance sheets. Arm's length transactions are now more feasible. As a result, more transactions are done on markets. This system exploits the risk-bearing capacity of the economy better by allocating risks more widely, but at the same time it also takes on more risk than previously. This helps the system absorb small shocks, but it also exposes the entire system to systematic shocks.

Rajan's main concern has to do with incentives. He questions how aligned the incentives of the managers are with those of the investors, and what distortions are created by misalignment. He argues that in the newly deregulated and competitive environment investment managers typically experience less downside and more upside from generating investment returns, because they are related to their own personal compensation. As a result, these managers may take risk that are concealed from investors and take tail risks. Changes in the financial sector have altered the nature of risks undertaken by the system, with potential for distortions.

He concludes that in our increasingly interlinked global world, "no country will be immune from the consequences of these changes." He emphasized that we should be prepared for the low probability, but high



*"The trends suggest that even though there are far more participants able to absorb risk, the financial risks that are being created by the system are indeed greater, and they also may create a greater probability of a catastrophic meltdown."*

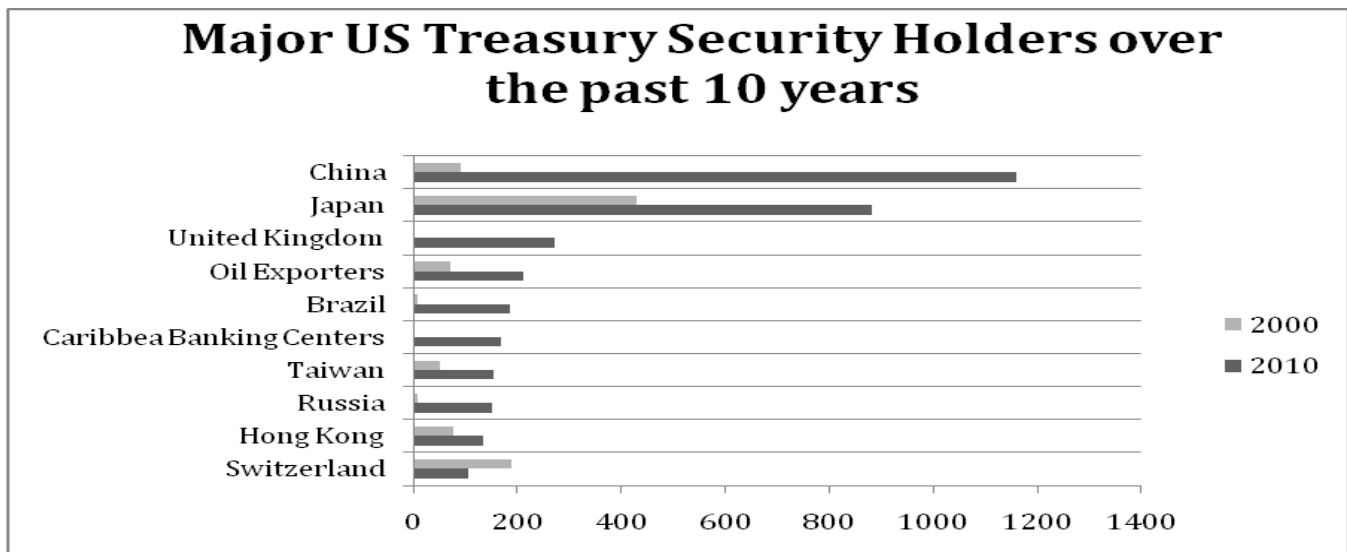
cost, and a downturn in the financial sector. In 2008, Rajan's prophecy came true. When the global financial sector was exposed to a massive global recession that evaporated trillions of dollars in assets, it left millions of people worldwide unemployed and created the worst economic times since the Great Depression. In the coming years the financial sector and worldwide leaders in finance and government must figure out what changes are needed, or if we will again roll the dice on yet another global crisis. Rajan concludes that in our increasingly interlinked global world, "no country will be immune from the consequences of these changes." He emphasizes that we should be prepared for the low probability, but high cost, downturn in the financial sector, which came to fruition in 2008.

### **Top Holders of US Treasury Bills and the Debt Ceiling**

Tom Fail

In upcoming agenda, the United States legislature will vote to raise or maintain the current federal debt ceiling of \$14.294 trillion. Many economists, including Federal Reserve chairman, Ben Bernanke, have said that maintaining the ceiling as it currently is could be catastrophic to the economy's recovery. The Department of Treasury expects that the debt limit will be reached between the dates of April 15-May 31, 2011. The politicians in Washington will need to take action and determine whether to continue to prop up the economy or cut the dangerously high debt.

While most of the country's \$14 trillion debt is held by private banks in the U.S., the Treasury Department and the Federal Reserve Board estimate that as of December 2011 approximately \$4.4 trillion will be held by foreign governments. Governments invest in treasuries similarly to how an individual shareholder would. The chart below portrays the growth of debt of the top ten holders of United States treasury bills, in billions of US dollars.



As you can see, the holdings of U.S. securities throughout the world have exploded over the past ten years. The cause of this dramatic increase in debt is due to factors, including the wars in Afghanistan and Iraq, tax cuts, the federal stimulus package for the 2008 financial crisis, and various federal spending programs. Regardless of the causes of this increased debt, congress will need to decide to whether to continue to fuel the economy through government spending or to ease their spending and make budget cuts.

**National Economy: GDP Fourth Quarter 2010**

Katherine Wolosz

For the fourth quarter 2010, real GDP increased at an annual rate of 3.1 percent (“third” estimate), compared to a third quarter increase of 2.6 percent. The United States Department of Commerce Bureau of Economic Analysis calculates real GDP as the market value of all goods and services provided by the national economy (adjusted for inflation). The higher fourth quarter growth rate was due to an increase in personal consumption expenditures and exports, and was partly offset by a decrease in private inventories and state and local government spending.

Personal consumption rose 4.0% in the fourth quarter 2010, compared to 2.4% in the third quarter. The deceleration in service consumption of 1.5%, compared to 1.6% in the third quarter, was offset by the increase in goods consumption of 9.3%, compared with 4.1% in the third quarter. Household expenditures on durable goods rose 21.1% in the fourth quarter of 2010, compared with 7.6% in the third quarter. American consumers spent more on motor vehicles, furnishings and household equipment, recreational goods and services, off premise food and beverage consumption, clothing and footwear, household consumption expenditures for services, and health care. Consumption of gasoline and other energy goods contributed to a negative 0.15% in GDP, while consumption of housing utilities contributed a negative 0.04% in GDP in the fourth quarter, compared to 0.44% in the third quarter.

Gross private domestic investment decreased 18.7% in the fourth quarter and contributed to a 2.61% decrease in GDP. Nonresidential fixed investments had the smallest quarterly percentage change in all of 2010, with a 7.7% increase in the fourth quarter, compared to a 10% increase in the third quarter. Equipment and software rose by 7.7% from the third quarter, but has been decelerating in contributions, with previous contributions being 24.8% in the second quarter, 15.4% in the third quarter, and 5.5% in the fourth. Transportation equipment made a negative 0.20% contribution to GDP in the fourth quarter 2010.

Goods and services exported contributed to a positive 1.06% change in real GDP in the fourth quarter, compared to positive 0.82% in the first quarter.

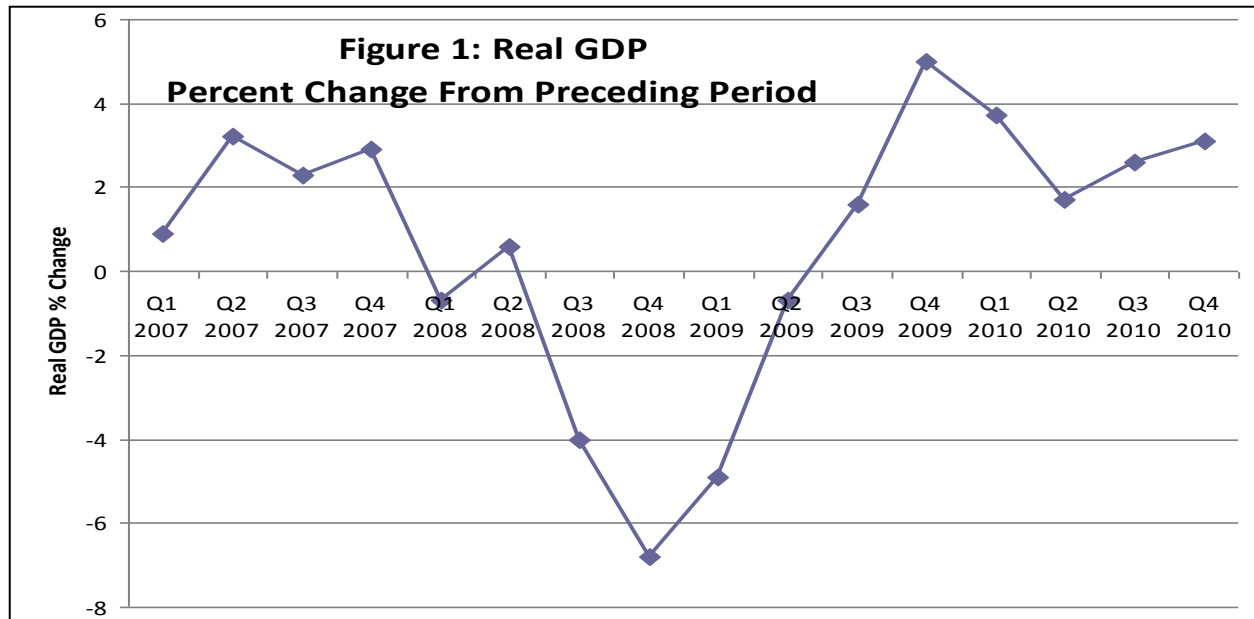
Imports decreased by 12.6% in the fourth quarter compared to an increase of 16.8% in the third. Goods and services imported decreased by 14.2% and 4.1%, respectively, from the third quarter.

Government spending decreased by 1.7% in the fourth quarter, with negative contributions made from both Federal and state and local spending. Federal spending made a negative contribution of 0.02%, while state and local government spending contributed a negative 0.31% to the GDP growth rate.

Real disposable personal income increased by 1.9% in the fourth quarter of 2010 after increasing by 1.0% in the third quarter.

The personal savings rate of U.S. households was 5.6% of disposable income in the fourth quarter, down from 6.0% in the third quarter and 6.2% in the second quarter. Households are starting to spend more as the U.S. continues to expand ever since the National Bureau of Economic Research announced the end of the recession in June 2009.





As seen in Figure 1, Real GDP continues to grow since the reported ending of the recession in June 2009. During the past two quarters the United States has seen growth, perhaps due to the Federal Reserve's implementation of the quantitative easing program, QE2, back in November 2010. The Fed's plan was to print \$600 billion and then purchase U.S. treasuries until June 2011. Their goal was to increase the money supply and increase the banking system's reserves.

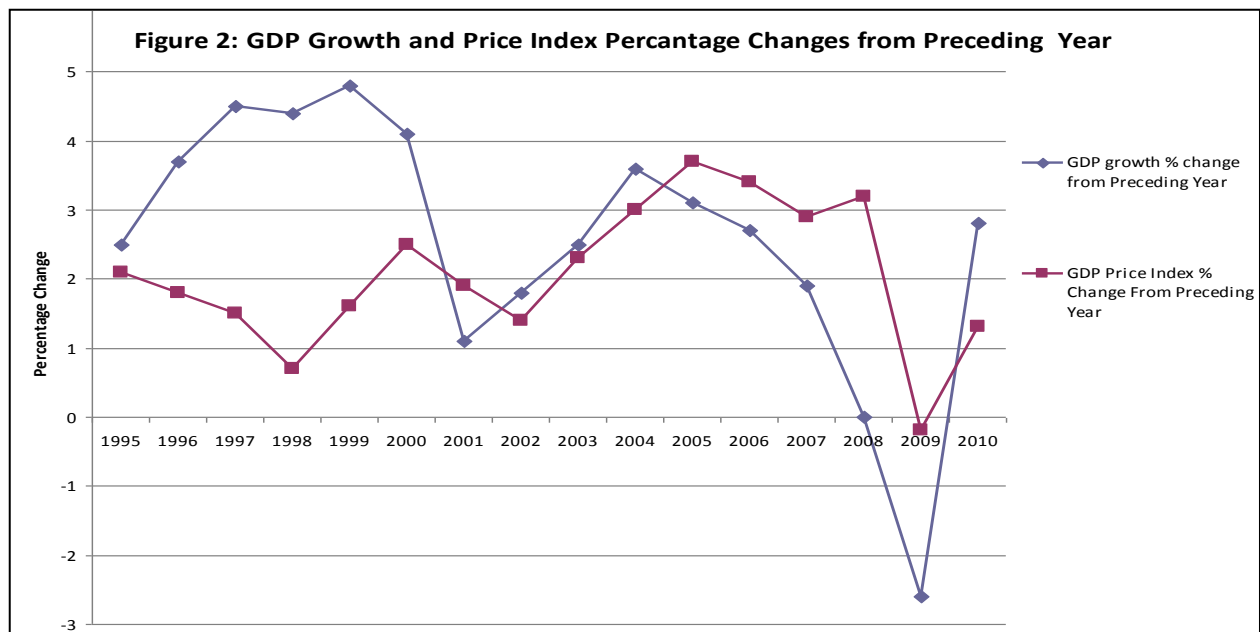


Figure 2 shows both Real GDP growth and Real GDP Price Index percentage changes from the preceding year. The GDP Price Index measures the prices of goods and services that are included in the U.S. GDP. The GDP Price Index rose 1.3% in 2010, compared to a decrease of 0.2% in 2009. By comparing the current GDP to GDP in previous years, the index is a good indicator for inflation — if the index begins to rise, this may signal a future raise in interest rates by the Federal Reserve.

## Understanding Potential Real GDP

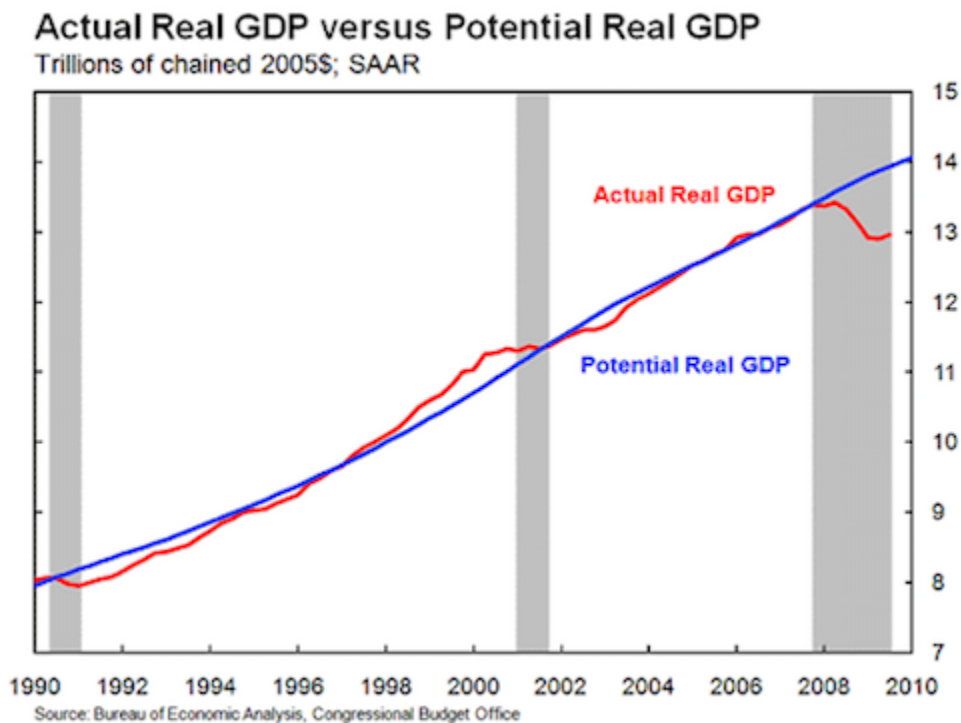
Justin Kimbrough

We hear the term “Potential Real GDP” quite often. But what exactly is it? And how does it differ from actual RGDP? We already know that RGDP is the monetary value of all the completed goods and services that are produced inside a country within a given time period, often one year. Potential RGDP is exactly what it sounds like - the real value of said goods and services that can be produced when a country's factors of production are fully employed. In speculation, this means that the economy is working on the production possibility frontier. Generally full employment is specified by attaining the “natural unemployment rate.” This rate is somewhere between 5 and 6%. Some economists believe it is lower, while a growing number of economists believe it is higher. If it were possible for the economy to be at full employment, then actual RDGP would be equal to potential RGDP. At the same time, the actual unemployment rate would equal the natural unemployment rate.

Potential RGDP can be calculated simply by dividing the natural employment rate (100% - natural unemployment rate) by the actual employment rate. The quotient is then multiplied by the economy's actual Real GDP. The final product will give you the economy's potential real GDP.

For Example: The natural unemployment rate is estimated to be 6%, and the 2010 unemployment rate is 9.6%. With a 2010 RGDP of \$14.6 trillion, we can calculate the potential RGDP:

$$\text{Potential RGDP for 2010} = (94 \% / 90.4 \%) \times \$14.6 \text{ trillion} = \mathbf{\$15.2 \text{ trillion}}$$



## The Employment Situation

Peter Falcone

In the United States, the unemployment situation has regularly changed over the past few months, or since November 2010. In the month of February 2011, the unemployment rate dropped to 8.9% with an increase in the nonfarm payroll of 192,000 jobs. Job gains came in manufacturing, construction, professional and business services, health care and the transportation and warehousing industries.

The adult male unemployment rate was 8.7 %, and the adult female unemployment rate was 8.0 %. Teenage unemployment was at 23.9 %. Unemployment for whites was 8.0%, 15.% for blacks, and 11.6% for Hispanics.

In addition to the official unemployment rate, the Bureau of Labor Statistics (BLS) calculates additional unemployment rates that include workers who are marginally attached (for economic reasons) at 2.7 million persons. This represents people who have looked for jobs in the past 12 months (but not in the past 4 weeks), and are therefore not included in the official report. The number of discouraged workers was 1.0 million. Discouraged workers are those who believe there are no available jobs, and hence are not currently looking for any jobs.

Employment in the manufacturing industry increased by 33,000 jobs for the month of February 2011. Since December of 2009 the manufacturing industry has added 195,000 jobs. Employment in construction grew by about 33,000 jobs. Service industries had a consistent growth over the past year, adding 47,000 jobs. In February 2011, the health care industry also added 34,000 jobs and has averaged roughly 22,000 new jobs each month over the past year. The transportation and warehousing industries both increased by a total of 22,000 jobs in the month of February, with most of the gains coming from the trucking industry. Major job reduction occurred in state and local governments with 377,000 jobs lost.

Overall, there has been a significant improvement in the U.S. labor market. As the historical chart below indicates, the unemployment rates during the recent recession have been exceeded only once during the past three decades. Note also that the rates have remained relatively high even though the recession has officially ended (according to the National Bureau of Economic Analysis) in June of 2009.



### The Local Economy

Professor Constantinos Christofides

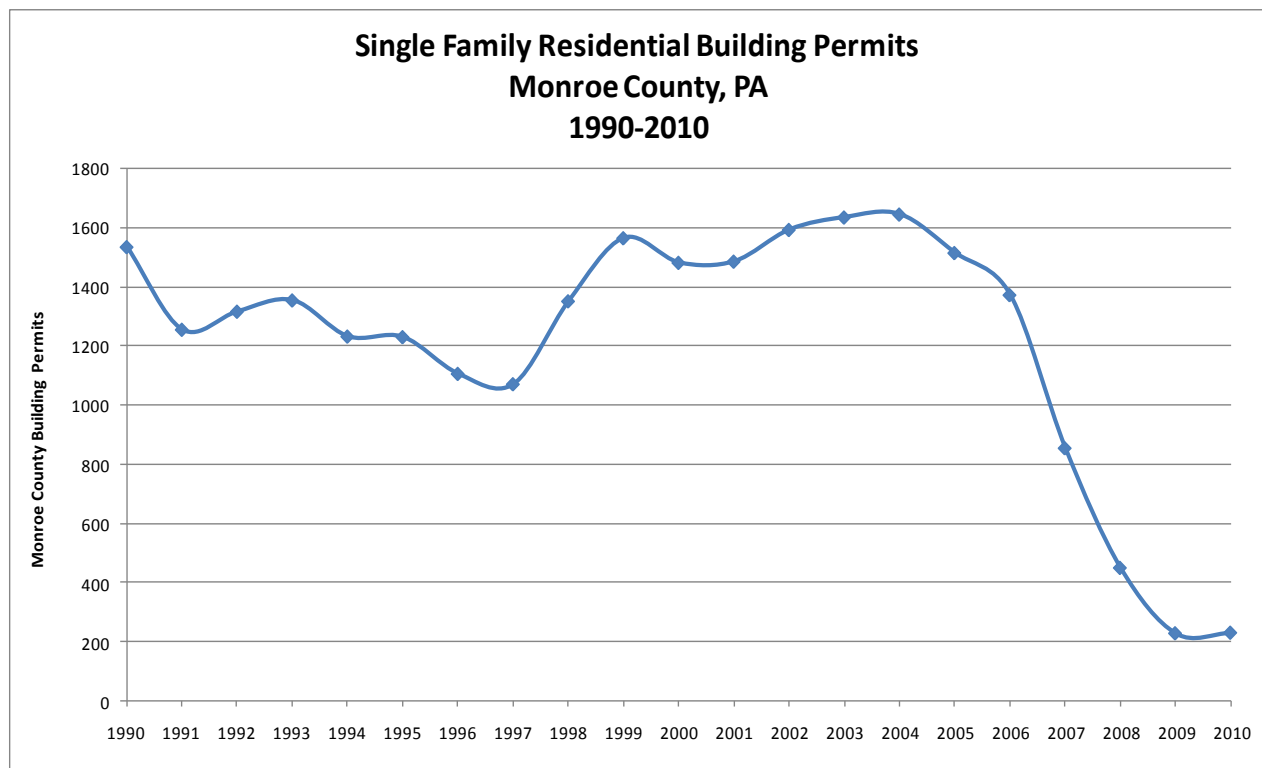
According to the 2010 census figures released this month the population of Monroe County has increased to 169,842 from 138,687 recorded in the year 2000 census.

The county labor force decreased to 81,500 in February 2011, down from 82,200 in February 2010. Total employment also decreased slightly from 73,700 to 73,500 over the same time period. So in spite of the decrease in employment and because of the decrease in the labor force, the unemployment rate decreased to 9.2% from 9.7% a year ago.

County unemployment rates continue to be higher than the state rate of 8.0% and higher than the closest metropolitan areas of Lehigh Valley and Scranton-Wilkes-Barre.

Continued unemployment claims for Monroe County decreased in January and February of 2011. These claims have now decreased for 14 consecutive months. Pike and Wayne counties also recorded decreasing unemployment claims for the first two months of 2011 as well as for every month of 2010.

It is therefore safe to state that labor market conditions in all Pocono Mountain Counties have been steadily improving. A major area of concern is still the construction industry. Building activity in the area continues to be at historically low rates and based on the building permits issued during the latter part of 2010, it will continue to experience a decline into 2011.



### Employment in Pennsylvania

Katherine Wolosz

The Pennsylvania seasonally adjusted unemployment rate was 8.0 percent in February 2011, down from 8.8 percent in February 2010; this is the lowest unemployment rate since May 2009. Pennsylvania's seasonally adjusted labor force, defined as the number of people working or looking for work, increased 0.1% in February 2011 from February 2010.

The Pennsylvania Department of Labor & Industry measures the labor force by breaking it up into eleven *super sectors*. In February 2011, nine of the eleven super sectors showed a positive 12-month percentage change. The largest increases came from Education & Health Services with 11,500 jobs and Trade, Transportation, & Utilities with 3,100 jobs. The Professional & Business Services sector saw the largest decrease with 2,400 fewer jobs.

<b>Total Nonfarm Employment in Pennsylvania 12-Month Percentage Changes</b>						
	Sept 2010	Oct 2010	Nov 2010	Dec 2010	Jan 2011	Feb 2011
<b>Total Nonfarm Jobs</b>	<b>0.8</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>1.3</b>	<b>1.9</b>
Mining & Logging	26.1	27.1	26.9	26.1	25.6	25.5
Construction	-1.7	0	1.1	0.9	3.3	6.8
Manufacturing	0.3	0.7	1.2	1.1	2.0	2.1
Trade, Trans. & Utilities	0.8	1.0	1.1	1.3	1.1	1.6
Information	-5.2	-5.6	-5.3	-5.7	-2.1	-1.4
Financial Activities	-1.9	-1.0	-0.7	-0.5	-0.6	0
Professional & Business Services	3.6	2.2	2.4	2.3	2.6	1.9
Education & Health Services	1.7	2.1	2.1	2.1	1.7	2.8
Leisure & Hospitality	1.6	2.2	1.7	1.8	2.0	2.5
Other Services	0.8	1.4	1.3	1.0	0.6	2.1
Government	-1.1	-0.9	-1.0	-1.0	-0.6	-0.5

Pennsylvania is ranked the 31<sup>st</sup> highest unemployment rate in the U.S. New York is ranked the 29<sup>th</sup> highest unemployment rate and New Jersey is ranked the 20<sup>th</sup> highest rate. Below is a chart of the states surrounding Pennsylvania and their unemployment rates.

State	West Virginia	New Jersey	Ohio	Delaware	New York	Pennsylvania	Maryland
<b>Unemployment Rate: Feb 2011</b>	9.2%	9.2%	9.2%	8.5%	8.2%	8.0%	7.1%

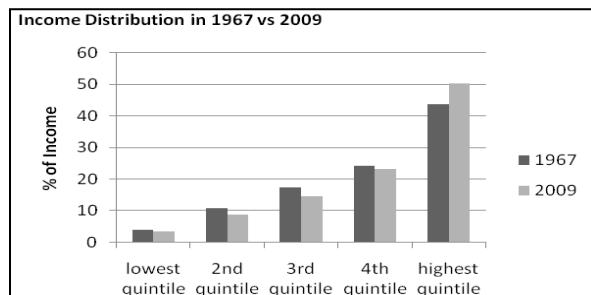
### The Rise in Income Inequality

Bernard Klemchak

Income inequality for households has gradually increased over time. Figure 1 shows that the first, second, third, and fourth quintiles had smaller shares of the aggregate household income in 2009 than in 1967, while the aggregate household income percentage of the highest quintile has increased 6.7% over the same time period. Also note that over half of the fifth quintile increase is for the top five percent of households. The top five percent received 21.7% in 2009 while the top five percent in 1967 received 17.2%.

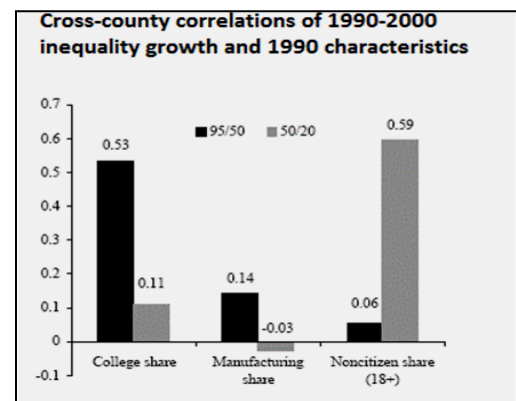
The Gini ratio is a measure of income inequality. The value ranges from 0 to 1 in which 0 represents perfect equality in income distribution and a value of 1 represents perfect inequality in income distribution. Whites and Hispanics generally have smaller Gini ratios and income equality than blacks and Asians. Table 1 shows the distribution of household incomes by race in 2009 along with the Gini ratios for each race.

Economists suggest that outsourcing, immigration, and skill-biased technological changes (SBTC) are some of the factors responsible for increased income inequality. The manufacturing industry has contributed to the increased outsourcing factor. Since the manufacturing industry employs mostly moderate-skill workers, outsourcing would cause the 95:50 ratio (top-half income inequality ratio) to rise and the 50/20 ratio (bottom-half income inequality ratio) to fall. Immigration of workers tends to increase the number of low-skill workers, thus causing the average incomes of workers at the lowest quintile to fall, increasing the 50/20 ratio. Authors Katz and Kearney's SBTC hypothesis suggests that the decreasing price of information technology goods encourages employers to substitute moderate-skill workers for more capital in IT. The increased use of IT would increase demand for high-skill workers but not low-skilled, causing the 95/50 ratio to rise and the 50/20 ratio to fall.



Share of Aggregate Income (%) Received by Households According to Race in 2009							
	Lowest quintile	Second quintile	Third quintile	Fourth quintile	Highest quintile	Top 5%	Gini ratio
White	3.7	8.9	14.8	23.2	49.5	21.3	0.455
Black	2.9	8.2	14.3	23.5	51.1	21.5	0.481
Asian	2.7	8.2	14.4	23.0	51.6	23.5	0.489
Hispanic	3.7	9.0	14.7	23.1	49.5	20.9	0.456

Tali Regev and Daniel Wilson, economists of the Federal Reserve Bank of San Francisco, performed a multivariable regression analysis to determine the relative impact of the three factors previously described between the years 1989 and 1999. Regev's and Wilson's analysis (see Fig. 2) indicates that the correlation coefficients of the SBTC hypothesis are consistent with expectations for the college-educated workers 95/50 ratio. However, the coefficients are inconsistent for the college-educated workers in the 50/20 ratio. A possible explanation for such a trend is that college students account for a large portion of the population that uses computers for high-skilled work. With that, college students do not largely represent the population that uses computers for moderate-skill work. Although outsourcing of manufacturing workers has small correlation coefficients, the coefficients are still statistically significant, and the positive and negative correlations for the 95/50 and 50/20 ratios respectively are consistent with the increased 95/50 ratio and the decreased 50/20 ratio caused by outsourcing. The noncitizen share is the group representing immigration. The correlation coefficients for the 95/50 and 50/20 ratios are consistent with Immigration theory; the coefficient of 0.06 with respect to the 95/50 ratio is statistically insignificant (immigrants are generally not high-skill workers), and the coefficient of 0.59 with respect to the 50/20 ratio shows that immigration is correlated to inequality at the lower income levels.



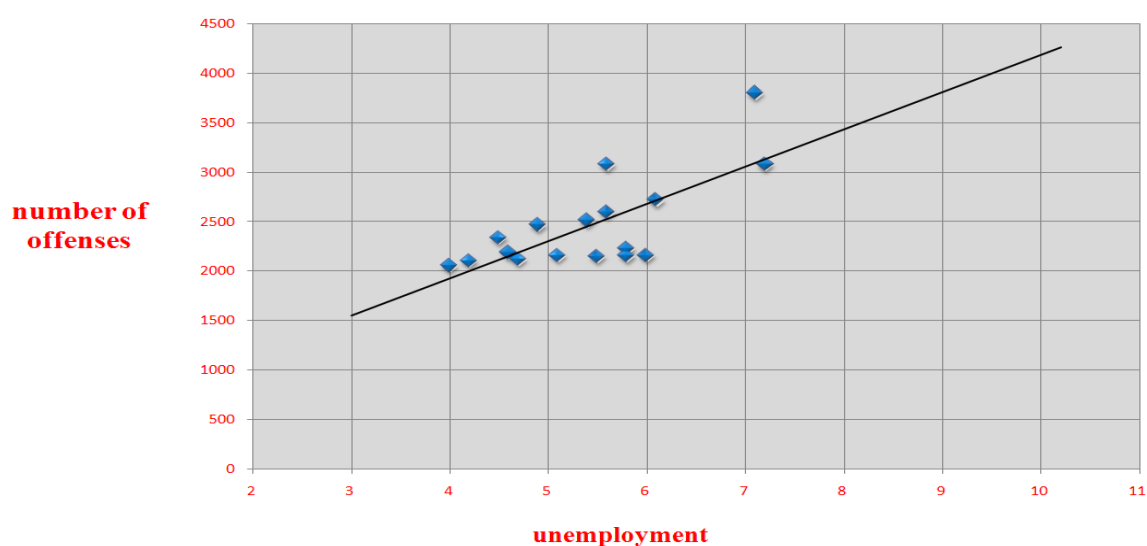
## Unemployment Rate and Crime: Related or Inconsequential?

Matthew Engerman

When people are unemployed for long periods of time and on the hunt for a new source of income, they may quite easily result to crime to recover their lost wages. But, would it be safe to say that there is some sort of interconnection between the two? Is there any correlation between the unemployment rate and crime, or are they just two totally different entities that have no significance to each other at all?

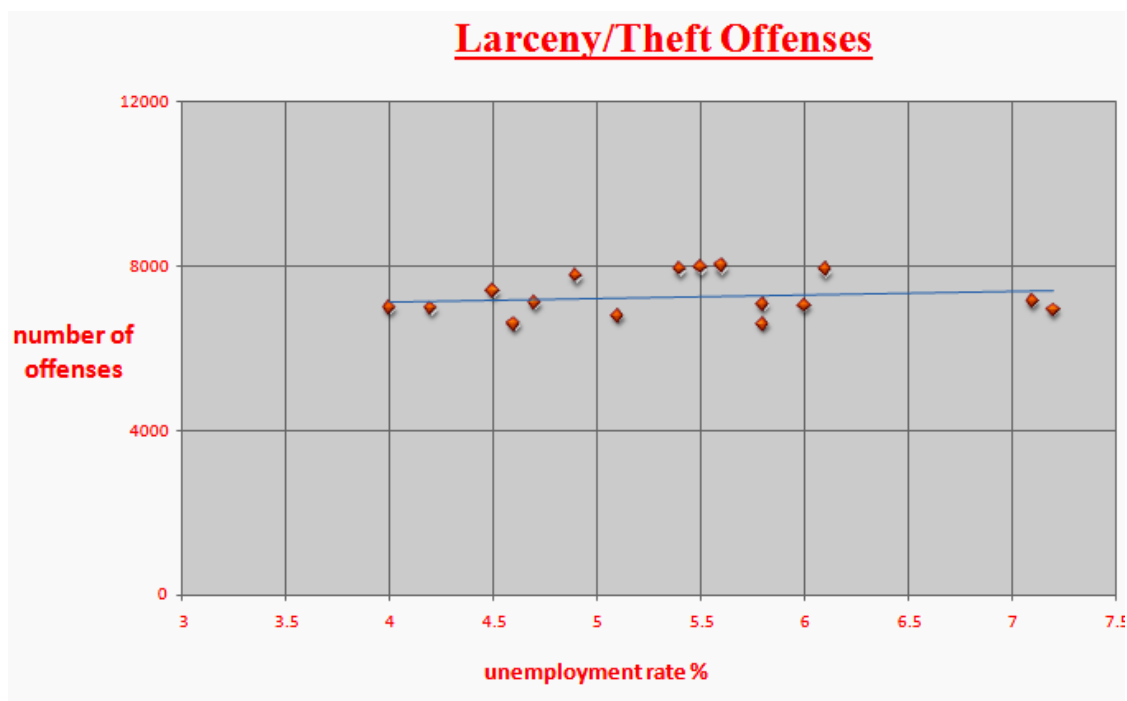
The first dependent variable studied was burglary. Our data showed that the percentage of total variation of the independent variable (unemployment rate) explained by the independent variable (burglary) showed little relationship between the two variables.

### Burglary

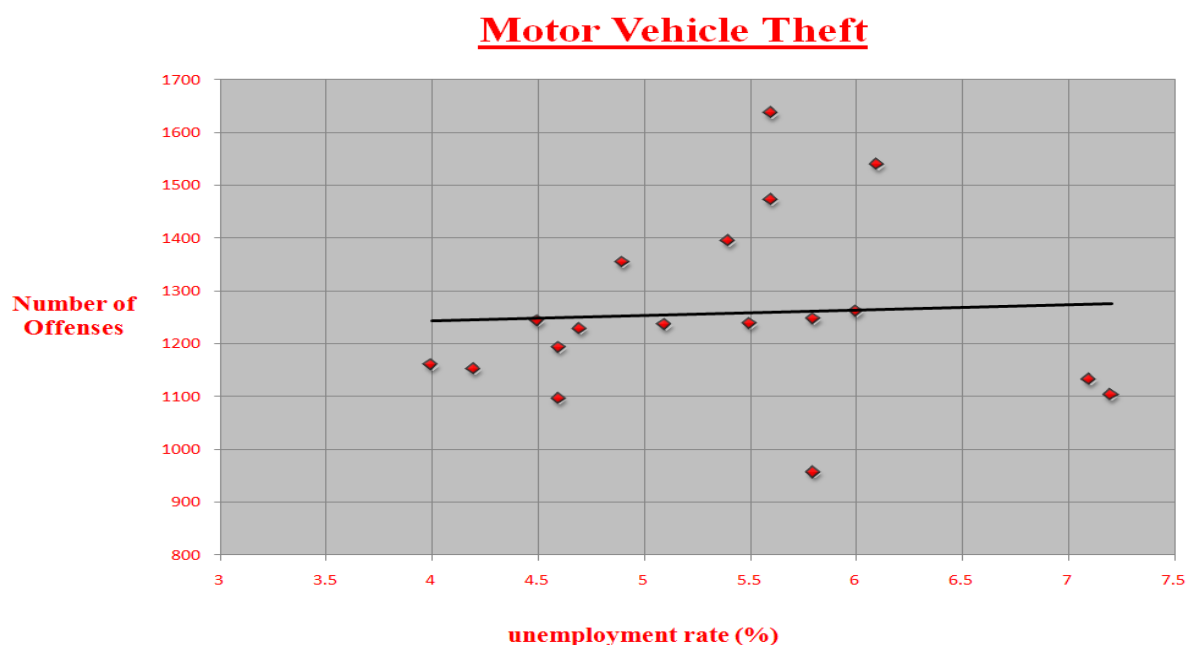


The above graph shows a large distance between the error terms and the value of the predicted value for any given  $x$  by using the regression equation. In the economic world, this is understood as heteroscedasticity, or random variables having different variances. We ultimately conclude that the likelihood of unemployment and burglary being *deeply* correlated is slim to none, but there is a small chance that there is a *slight* correlation between the two.

The second dependent variable looked at was larceny/ theft. We found that the percentage of total variation of the independent variable (unemployment rate) explained by the independent variable (larceny/ theft) had even less correlation between the two than that of burglary. The graph on the follow page gives a more visual assessment of the situation. Large values of one variable associated with small values of the another variable result in correlation coefficients being between 0 and  $-1$  (a negative serial correlation). So, the statistical significance of larceny/ theft having any deep correlation with unemployment is even less than that of burglary.



The final dependent variable we studied is motor vehicle theft. One might assume motor vehicle theft would be a more likely variable than larceny and burglary. According to the data we were incorrect, but this turned out to be the most interesting of the two variables combined. The data showed even lesser correlation than that of burglary and larceny/theft, while at the same time, motor vehicle theft showed a greater significance than the previous two.





Recently Retired Professor of Economics, Dr. Seewoonundun Bunjun, will be the keynote speaker at the ESU graduate commencement ceremony to be held on Friday, May 6, 2011.



He will also be the grand marshal for both ESU undergraduate commencement exercises scheduled for 9:00 a.m. and 2:00 p.m. on Saturday, May 7, 2011 in the Koehler Field House.

Since joining the ESU faculty in 1979, Dr. Bunjun has taught a variety of courses, including Principles of Microeconomics, Intermediate Microeconomics, Contemporary Economics Issues, Economic Growth and Development and Financial Management.

Dr. Bunjun earned his B.A. and M.A. in Economics from the Delhi School of Economics in New Delhi, India. He earned his doctorate in Economics at Penn State in 1979. He also taught as a visiting professor at the University of Mauritius on several occasions and served as advisor/consultant to the Ministry of Finance for the Government of Mauritius.

Dr. Bunjun is well known for his tireless service to ESU and its students. He worked intensively on the development of the University Senate at ESU. He also served on numerous committees, including: the University Assessment Committee, the Intercultural and Interdisciplinary Studies Advisory Board, the President's University Governance Committee, the Commission on Diversity, the Commission on Minorities, the Social Science Research Council, the University-Wide Tenure Committee, the University-Wide Promotion Committee, the Tuition Waiver Committee for International Students, the Honors Program Committee, the International Education Committee, the Human Relations Committee, and various search and screen committees.

Dr. Bunjun was one of the founding members of the Business and Economic Research Group (BERG) at ESU. This group of Economics faculty conducts business and economic research that is utilized for managerial and marketing services and to forecast economic impact studies. They have done projects for such prestigious organizations as the Brookings Institute and the Center for Rural Development in Harrisburg, to name a few.

Dr. Bunjun and several of his colleagues were instrumental in forming the DESI student organization. This international student body consists of students from many countries, including India, Pakistan, Bangladesh and Sri Lanka. He has spent much time helping the DESI group, particularly in organizing the annual Diwali Festival of Lights celebration each fall. The Diwali festival has become a highly anticipated and well-attended community event.

Dr. Bunjun cheerfully gave his time to campus and community service. On many occasions he participated in ESU's "Welcome to Campus" program and volunteered at many graduations. He was a member of numerous community organizations including Youth Employment Service of Monroe County and Opportunity Associates of Monroe County. He also served as advisor to the International Students Organization and as an advisor at the Annual Undergraduate Research Conference.

Dr. Bunjun has two daughters: Deepika (Bunjun) McGinley earned a B.S. degree in early childhood and elementary education from ESU and a M.D. in applied technology in education from Chestnut Hill College in Philadelphia. Shipra (Bunjun) Srihari completed a B.A. mathematics and chemistry from ESU, a doctorate in biochemistry from Yale and M.Ph. from Johns Hopkins University.

Dr. Bunjun resides alternately in Bushkill, Pennsylvania and in Mauritius, an island nation located off the southeast coast of the African continent in the Indian Ocean. He intends to remain actively engaged at ESU and will continue to volunteer his services for the annual Diwali Festival of Lights, among other events. He enjoys cooking, spending time with his grandsons, Karun and Siddharth, and traveling.

# ESU Economics Club *and the* Scoundrels of Wall Street



Club members with "the charging bull" on Wall Street

## Club Meetings:

**Tuesdays**

**2:00 p.m.**

**Stroud 213**

On February 26 2011 the Economics Club visited New York City to learn about the scoundrels of Wall Street! The tour started with a visit to the Museum of American Finance to see the exhibit, **"Scandal! Financial Crime, Chicanery and Corruption in America."** The visit to the museum was followed by a two-hour walking tour around New York's financial district, where they learned about investment banking, accounting scandals, insider trading, and bankruptcy court cases.

The tour guide and former Morgan Stanley employee, Annaline, spoke to the club members about scandals starting from the first stock market crash in 1792, to the most recent financial crisis. Some companies and people that have made history include: Enron, WorldCom, the Salad Oil Scandal of 1963, Bernie Madoff and Martha Stewart, to name a few. Overall, the club members had a great time walking around the city and dining in Chinatown.

The club is now making plans to sponsor its second annual Zumba event to raise money for the ESU Upward Bound program. The program is for local high school students from low income families who will be the first generation students from their families to attend college. The program helps these students with the transition from high school to college life. Money raised will be donated to the program in the form of a scholarship for a future Upward Bound student.

The Econ club meets every Tuesday at Stroud 213 at 2:00 p.m. and is open to ***all students, regardless of major!*** We hope you will consider attending a meeting or contacting someone in the Economics Department to learn more about the club.

It has been another successful year for the Economics Club. As I prepare to graduate this May, I would like to thank everyone who has helped with club in general, the chocolate fundraising and T-shirt sales. Elections will be held in coming weeks to elect new officers, and I hope that the club will remain active and engaged.

Keep a look out for future issues of the E-News issue to see what activities the Economics Club has going on, and of course, feel free to stop in to a meeting anytime. New members are always welcome.

*Katherine Wolosz, President*

*ESU Economics Club*

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**Department News:**

As another academic year comes quickly to an end, we are busy bringing the spring semester to a close and preparing to graduate another class of Economics students. Some are going on to pursue higher degrees and others are joining the workforce. We are proud of them all and wish them well in their futures.

The department has now seen the retirement of two professors, Mamadou Kane and Seewoonundun Bunjun. Although they are no longer teaching, both are still very much a part of the department and we are happy that they will continue to be involved in future departmental events.

On April 14th, 26 students were inducted into Alpha Xi Chapter of Omicron Delta Epsilon, bringing the total inducted at ESU to 357. This year, Timothy J. White, an ESU Economics alumnus who is now with Bank of America spoke to our students. Also present were Dr. Van Reidhead, our recently appointed provost and Dr. Peter J. Hawkes, the Dean of Arts and Sciences. The annual ODE Induction is a happy occasion for the faculty as well as the students and their families. It gives us an opportunity to celebrate our students' successes with them.

We also awarded two scholarships in Economics, to Brian Caiazzo and Luis Pacheco for their hard work and academic achievement.

Thank you for your interest in the E News, the Economics Newsletter of East Stroudsburg University.

*Pats Neelakantan, Professor and Department Chairperson*



*E-news is written and developed by students of the Economics Department and others interested in the field. it is a service to ESU and the community.*

Each year since 1979 our students, faculty, and editors have worked to publish this newsletter. We are proud to say that circulation has grown to over 2,000 people who receive the print version and more who read it online.

Unfortunately, due to the cost of printing and mailing, we are forced to cut down the amount of copies we send. Therefore, if you have been able to view the E-News online and do not need the paper copy, we would appreciate if you would inform us. If you want to continue to receive the paper copy, we will happily keep you on the mailing list. Just let us know your preference!

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