

Economic Conditions

4

READING 1

“Global Agenda: Counting the Cost,” 11 September 2002, in *Economist.com* (www.economist.com/).

-- Discussion of Reading 1 -----

1. Describe the global economic mood on September 10, 2001. (It was gloomy. Stockmarkets around the world fell sharply that day.)
2. What was the unanimous opinion of economists in the initial aftermath of the terrorist attacks? (They believed that the events in New York and Washington delivered an enormous blow to confidence.)
3. In 2002, what did many people blame al-Qaeda for? (They blamed al-Qaeda for sluggish recovery in America, slow or non-existent growth in many parts of the world, for the prolonged global bear market, and even for America’s ballooning budget deficit.)
4. Which types of economic activity were the most badly affected by the terrorist attacks and were the slowest to recover? (Air travel and insurance companies were the most badly affected and slowest to recover.)

5. Which economic sectors recovered more quickly than expected? (Retail sales, car sales, industrial production, home sales, and consumer purchases recovered more quickly than expected.)
6. What was the pattern of growth in the United States in 2002? (In the first quarter, the annual growth rate was an impressive 5 percent. Then growth slowed, share prices fell, and consumer confidence was wavering. There was a burgeoning budget deficit.)
7. How did the impact on economic confidence caused by the corporate scandals compare to the effects of the terrorist attacks? (The stream of corporate scandals probably had a larger impact than the terrorist attacks of 9/11.)
8. What were the primary causes of the fiscal deterioration in the United States in 2002? (It was caused by the tax cut introduced by Bush in summer 2001, the recession that started in early 2001, and a sharp drop in government revenues.)
9. What is the author's conclusion about the impact of the terrorist attacks on the American economy? (The author says it is impossible to quantify the effects of the attacks, but it seems clear that other factors played a bigger role in the economic downturn.)
10. Write a one-sentence statement in your own words of the main idea of the article. (Although economists are not in agreement about how the terrorist attacks of 9/11 affected the American economy, it is likely that other factors were more influential in prolonging the downturn.)
11. How would you describe the tone of the article? Is it objective or subjective? (The tone is somewhat subjective, as the author presents his or her interpretation of events. However, the overall tone is objective and balanced because the author provides facts to support his or her belief that the terrorist attacks of 9/11 were not the main cause of the recession in the United States.)
12. What has happened to the American economy and the global economy since this article was published in September 2002?

Nor Zahidi Alias. "Global Wrap Up," *Malaysian Business*, 1 January 2003, 30.

-- Discussion of Reading 2 -----

1. What was the global business community looking forward to in 2002? (It was looking forward to the recovery of the world's largest economy, the United States economy, which had dipped into negative growth territory in 2001.)
2. Describe the pattern of the U.S. economy in 2001. (The U.S. economy, which contracted in three out of four quarters, had a positive 2.7 percent annualised growth in the final three months of 2001. Bush's expansionary fiscal policy left the economy with the first budget deficit in five years.)
3. What factors were making market observers jittery in January 2003? (Consumer spending and the housing sector were the only pillars that held up the economy. If consumers got worried about money, private consumption could crumble. If the housing bubble broke, consumer spending would decrease, driving the economy into a slump and causing deflation.)
4. Explain the concern of many economists about the economy in Japan. (They think that the country is on the brink of a recession once the export sector starts to lose strength.)
5. What has Japan always depended on to boost exports and sustain economic growth at a time when other policies have failed to do so? (a weaker yen)
6. Describe the development in the Euro-12 nations in 2001. (The unemployment rate remained above 8 percent, while growth rates were mediocre in the first and second quarters, with economic expansion dependent on the U.S.'s economic performance.)
7. What economic problems was Germany facing in 2002? (The unemployment rate was approaching 10 percent, growth in the manufacturing and services sector had nearly stopped, the country needed a potent fiscal stimulus package, and it had a high level of budget deficit.)
8. For what reason should U.S. consumers be commended? (Despite a high level of uncertainty and volatile market conditions, they were spending lots of money.)

9. Why was it significant that the services sector in the United States remained solid? (Two-thirds of the U.S. economy is based on the services sector.)
10. Why did the author predict that the global economy would drag its feet throughout 2003? (Geopolitical risks [of war between the U.S. and Iraq] would mean that consumer spending might be muted.)
11. What growth rate did economists project for the U.S. in 2003? (between 2 and 3 percent)
12. What was the projected outlook for Japan? (Growth was expected to remain stagnant until bank lending reversed its six-year decline.)
13. Why does the Euro region need a change in perception about the threat of inflation? (The Euro region should realize that decelerating growth is a bigger problem than inflationary threat.)
14. Which of the author's predictions about the economy in 2003 turned out to be correct?

Vocabulary

Fill in the blanks with the correct words. Use each word only once.

sluggish	euro	fiscal	prolonged
repercussions	mediocre	pessimistic	cumulative
equities	recession	scandals	plunged

Because of global integration, which has strengthened the connections among nations, an economic downturn in one country affects the economy of other countries. In March 2000, the American economy entered a recession, the stock market plunged, and since then, the Standard and Poor (S&P) 500 Index has fallen by more than 40 percent.¹ The euro, which became the European currency in 1995, “escaped outright recession” but experienced a slowdown.² In 2001, the American economy was further undermined by the cumulative effects of the terrorist attacks of 9/11 and corporate fraud uncovered in the Enron and WorldCom scandals. The economy showed signs of recovery in 2002, but predictions for future

1. “The Unfinished Recession,” *The Economist*, 26 September 2002, 4.

2. *Ibid.*, 4.

growth are somewhat pessimistic, and the repercussions of the recession on the world financial markets have been more serious than expected.

Although many economists used to believe that governments could intervene to control the business cycle, most now agree that governments should not exercise this power. The business cycle fluctuates between boom periods and recessions, and according to *The Economist*, “Economies, like drunks, continue to move in wavy lines.”³ During the expansion of the late 1990s, the “new economy” seemed to be “immune to the business cycle” because of globalization, freer markets, and information technology.⁴ But the subsequent recession proved that these factors did not reduce risk. On the contrary, they probably prolonged the downturn. In particular, extensive investment in IT equities led to major financial losses.

Throughout the world, fiscal instability and speculative excesses characterized the beginning of the 21st century. Japan has been in a deep recession since the burst of the bubble economy in the 1990s, and the Asian countries have only achieved a/an mediocre recovery. In 2002, Latin America saw the collapse of Argentina’s economy, with Brazil needing a \$30 billion bailout from the International Monetary Fund (IMF).⁵ On a more positive note, Europe, despite lagging behind the United States, experienced growth in labor productivity and exports, and the euro “climbed by 18% against the dollar,” reaching \$1.05 on December 31, 2002.⁶ Perhaps a long period of sluggish growth lies ahead for the world market. *The Economist* argues that “the business cycle is likely to become more volatile again over the coming years . . . and that America’s ‘recession’ . . . is far from over. Until America’s excesses have been purged, robust growth is unlikely to resume.”⁷

3. Ibid., 4.

4. Ibid., 4.

5. David E. Kaplan. “The Law of the Jungle,” *U.S. News & World Report*, 14 October 2002, 35.

6. “Time for Europhoria?” *The Economist*, 3 January 2003, 58.

7. “The Unfinished Recession,” 4.