

## Current Events Econ 380

Each week you will write up a current event related to that week's material. Below is an example of a current event to guide you as to format, etc. The most important part isn't the article summary. In fact, you can just copy the article verbatim. The most important part is YOUR thoughts about what is REALLY going on and what it means. The goal here is to get you to read and think critically at the same time.

What you are trying to do is analyze the situation and use your own objective independent thoughts to provide an enlightened opinion about the topic. Thinking critically while you're reading is a very important skill as you shouldn't just accept what is printed. Look for bias in the author, a slant on the story, statistical or factual expressions that imply more than they actually mean (for example a story that says murder has doubled in Castro Valley over the last ten years isn't telling the whole story if they number of murders has gone from one to two)

Think...above all else...think.

EXAMPLE: (note this is an old example and not current today at all)

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Summary: Reuters reported that the dollar took a hit today that rang through the stock markets sending all of the major averages down today worldwide. U.S. stocks sank after a call from the world's richest nations, the G7, for more flexible exchange rates sparked a sharp drop in the dollar that ignited fears overseas investors would flee U.S. assets. They said a flexible currency rate "is desirable for major countries or economic areas" in order to iron out global economic imbalances." This signaled that Japan would interfere less with the value of the yen against the dollar. For some time, they have been intervening to hold the yen down so the US would continue to buy their imports. The weak dollar will benefit US manufacturing as our goods will be less expensive to foreign customers. This also extends to China who fixes their currency, the Yuan, to the dollar. Flexibility will allow the dollar to fall against the Yuan to a more reasonable level.

My Take: The impact of the strength of the dollar is both psychological and real. There are so many that feel that the traditional strong dollar policy has something to do with a strong nation and without any economic knowledge would think less of an administration that would support a "strong" dollar policy. Hence from this perspective strong vs weak is not the typical definition as construed by the voters and we often bow to political pressure when it is clearly wrong. But there is a real concern about the weakness of the dollar and its affect on interest rates, which is our topic this week. If foreign investors feel that the dollar will continue to fall, they may elect to remove their investments from the US and therefore sell US treasuries. Selling a bond lowers the price and raises the interest rates. If China or Japan, who both have billions in US treasury bonds, start to sell, rates could rise, possibly substantially. If professional investors feel that those nations may be making a move, they may try to profit from this by selling dollars and buying Yen, sending it down further or just moving their current dollar denominated investments to Eurodollars or other currencies that will appreciate when the dollar falls. Viewing the situation as only a gain for US manufacturing and not a threat to our economic recovery is short sighted and biased.

The best answer is to allow the markets to set the price, but slowly. Gradual declines are fine and will be anticipated by the markets with sound hedging. We must avoid quick movements upward in interest rates that could occur due to foreign selling of our debt. The G7 announcement was both premature and harmful to the stability of the markets.

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That's an example. Now it's up to you. Go for it! Remember next week's topic is Interest rates, so stick to that.