

Econ 105: Introduction to Political Economy

Assignment Three (100 points)

Handed out in class, Nov. 13, Due in class, Nov. 20

1. Based on the following two recent articles from the New York Times (also handed out in class), answer the questions below **(30 points)**

Obama Asks Bush to Provide Help for Automakers

<http://www.nytimes.com/2008/11/11/us/politics/11auto.html?hp>

General Motors, Driven to the Brink <http://www.nytimes.com/2008/10/26/business/26jane.html>

a. If the Federal Government can step in to save failing banks, can it also step in to save failing companies in the real sector, such as General Motors? Why or why not?

b. The article “Obama Asks Bush...” mentions a “quid pro quo,” i.e. exchanging Democratic support for the Colombian free trade agreement for Republican support on the support for the auto industry. What does this suggest to you about how government policy is decided?

c. In 1955, then Chairman of General Motors, Charlie Wilson famously said, “What is good for General Motors is good for America.” How would you evaluate this statement today? According to the article “GM, Driven to the brink,” what are the main causes for GM’s present troubles?

2. (20 points)

a. Go to the Bureau of Labor Statistics (BLS) official website: <http://www.bls.gov/> and summarize the main points of the latest BLS news release on the employment situation. Can you offer an explanation for the numbers you report?

b. Go to the Bureau of Economic Analysis (BEA) website <http://www.bea.gov/>. The BEA is the official government source for several important statistics on the state of the economy, including GDP growth (national as well as state-level), personal income, corporate profits, trade etc.

i. What are the provisional estimates on Gross Domestic Product for the third (i.e. current) quarter of 2008? Has the economy grown or shrunk in this quarter?

ii. What are some of the reasons for the number you reported in (i)?

3. What is the difference between capital mobility and labor mobility? Why do capitalists fight to retain capital mobility? **(10 points)**

4. Based on Rick Wolff’s talk (delivered in Feb 2008) listed on the syllabus (and also on <http://blogs.umass.edu/econ105-abasole/>) answer the following questions **(40 points)**:

a. What is the connection he draws between rising competition from Europe and Japan in the 1970s, and the rise of Neoliberal economic policy under Reagan?

b. How, according to Prof. Wolff, do consumer debt and rising inequality result from neoliberal economic policy? (Hint: connect the dots between government policy, stagnant wages, rising productivity and consumer debt?)

c. “The whole credit system in the US is now seized up.” How, according to Prof Wolff did this come about? What role do mortgage-backed securities play in the story?

d. What is the connection between Chinese economic growth and the American consumer?

BONUS QUESTION

1. The real question is not the size of government but the direction of government spending. Comment on this statement, based on the evidence we saw in class on government spending and debt. **(10 points)**