2001 - 2017

Juan Carlos Perez
ECO 202
Dr. Tasto

Southern New Hampshire University

Introduction to Ten-Year Period (2007-2017)

- Deep economic recession in 2007 to 2008
- Barack Obama is elected president 2009 to 2017
- Focused on reviving economy using fiscal expansion
- Implemented the American Recovery and Reinvestment Act of 2009
- Economic stimulus program
- Pumped $831 million through tax cuts, infrastructure spending, and unemployment benefits
- There was little rise in the median wages

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The period of 2007 to 2017 was marked by various economic activities. In the period of 2007 to 2009, there was the great recession that resulted from the burst of the housing industry. In 2009, Barack Obama was elected as president and served until 2017. He is the first black American president to have held the position. The main focus of President Obama was the economic recovery of the country. He did this by implementing the American Recovery and Reinvestment Act of 2009 which was an economic stimulus program that pumped $831 million dollars into the economy. The stimulus program focused on tax cuts, infrastructure sending, and unemployment benefits. There was little rise in the median wages during the period.

GDP 2007 to 2017 (U.S. Bureau of Economic Analysis, Gross Domestic Product, n.d.)

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The US GDP during the period of 2007 to 2017 had a steady growth rate. The period began with a 14,208 billion dollar GDP and grew to slightly over 20,000 billion dollars at the end of the fourth quarter in 2017. There is a visible dip in the period of 2008 to 2009. This was during the recession caused by the burst in the housing industry. The bubble was caused by increased demand and serving of mortgages without clear analysis of the customer’s credit worthiness leading to mass default. There was consequent inflation. 2009 was marked by a rebound that lasted for long period lasting the remaining ten-year period. Tax cuts were influential in putting more money into people and businesses.

GDP

- Inflation causes increase in prices leading to everything being expensive and unsustainable
- Reduced purchasing power, increased spending due to assumption inflation will get worse leading to worse inflation
- Tax cuts for the lower and middle-class increases the spending power of consumers
- Leads to increased aggregate demand
- Leads to higher economic growth; also there is increased incentive to work leading to higher productivity

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Inflation is marked by an increase in prices of commodities that lead to everything being expensive and unsustainable. This leads to a reduction the purchasing power leading to increased spending based on the assumption that there is a need to spend now since in the future prices will increase. This leads to further increase in prices and worse inflation. The tax-cuts implemented to the lower and middle-class increased the spending power of the consumers. This lead to increased aggregate demand which reflected in increased economic growth. Also, the tax cuts acted as an incentive to work more leading to increased productivity and increased economic growth in GDP output.

Unemployment and Inflation (U.S. Bureau of Labor Statistics, Unemployment Rate, n.d., World Bank, Inflation, consumer prices for the United States, n.d.)

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The rate of inflation and unemployment generally declined over the ten-year period of 2007 to 2017. The steepest decline in inflation came at the period of end of first quarter of 2009 to about mid of the third quarter in 2009. This corresponds to the rebound of the GDP in the period where the tax cuts were introduced leading to a rebound in productivity. There is a increase in unemployment from the beginning of the period to beginning of 2009. This corresponds to the decline in GDP over the same period that was associated with high inflation rates and housing bubble preceding the period.

The unemployment rate was calculated by considering the part of the population that was 16 years and above that reside in either of the states and are not in an institution such as aged and mental health facilities. The inflation was calculated as average monthly change in consumer goods and service prices and includes food, clothing, shelter, fuel and transport changes as well as service fees such as water and sewer services. The index is calculated as price changes against their weighted importance to the spending of a specific group.

Unemployment and Inflation

- Two events – 2008 recession and 2009 rebound
- In 2007 to 2008 recession there is increasing unemployment
- Due to lack of investments and reducing purchasing power
- Based on Philips curve, inflation decreases
- As such, 2008 inflation decreases due to reduced money supply
- 2009, economic rebound leads to increase in employment opportunities – unemployment reduces
- Inflation increases steadily although is limited by increased government intervention

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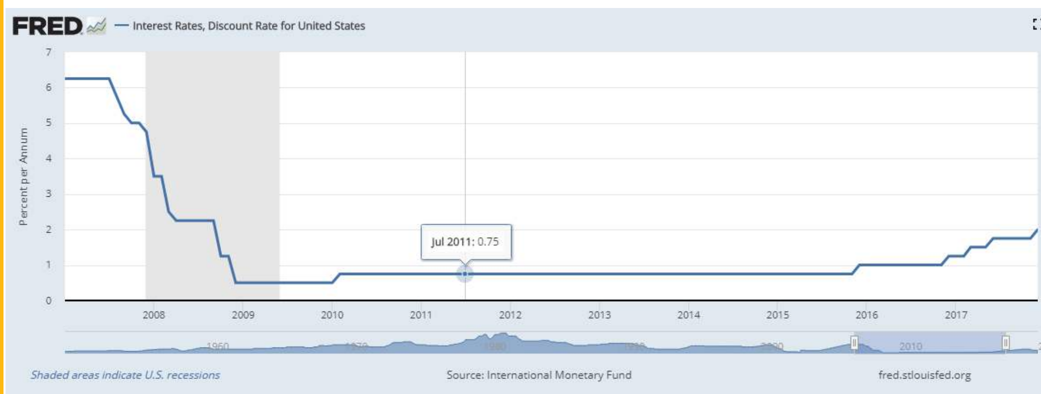
The focus is on two main events – the 2008 recession and the 2009 rebound. In the period 2008 to 2009, the recession lead to an increase in unemployment. Due to lack of adequate investments and reducing purchasing power, the economy plummeted leading to increasing unemployment. However, according to Phillips curve, an increase in unemployment leads to a decrease in inflation. As such, inflation reduced during the 2008 period due to reduced money supply. In 2009, there was a rebound in the economy leading to increasing employment opportunities. The unemployment rates reduced and inflation increased but was limited by government intervention.

Imports and Exports

- Major products that the US exported include transportation equipment, electronic products, non-manufactured goods, chemicals, and agricultural products.
- Transportation equipment included aviation equipment especially Boeing airplanes and associated aviation parts.
- The electronic products were mainly made up of computers. The non-manufactured products include waste and scrap and soybeans. The main agricultural products that were exported include cotton, grains, corn, and wheat (Carfagno & Ker, 2018).
- The main imports of the country during the period were consumer goods, automotive, feed and beverage, industrial and capital goods. Throughout the period the US maintained a budget deficit of the import and exports.

The period of study is 2007 to 2017. The major products that the US exported include transportation equipment, electronic products, non-manufactured goods, chemicals, and agricultural products. The transportation equipment included aviation equipment especially Boeing airplanes and associated aviation parts. The electronic products were mainly made up of computers. The non-manufactured products include waste and scrap and soybeans. The main agricultural products that were exported include cotton, grains, corn, and wheat (Carfagno & Ker, 2018). The main imports of the country during the period were consumer goods, automotive, feed and beverage, industrial and capital goods. Throughout the period the US maintained a budget deficit of the import and exports.

Interest Rates (International Monetary Fund, Interest Rates, Discount Rate for United States, n.d.)



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The interest rates generally declined over the period. In the same period there was a decline in the inflation rates. However, close observation shows inverse proportion between inflation and interest rates. With a decrease in interest rates in the period coming from the 2008 depression leading to increased borrowing leading to increased circulation of money which had an effect of slight increase in inflation rates. Investments would increase as a result of reduced interest rates as well as foreign trade. The GDP would be increased as a result due to the increase in investments. An increase in interest rates leads to increase in opportunity cost of capital leading to reduction in the aggregate demand curve which leads to reduction in GDP.

U.S. Economic History Monetary Policy(2007-2017)

- At beginning of 2007, federal fund rates rate was 5.25% but was gradually reduced to reach zero lower bound – 0 to0.25% at end of 2008

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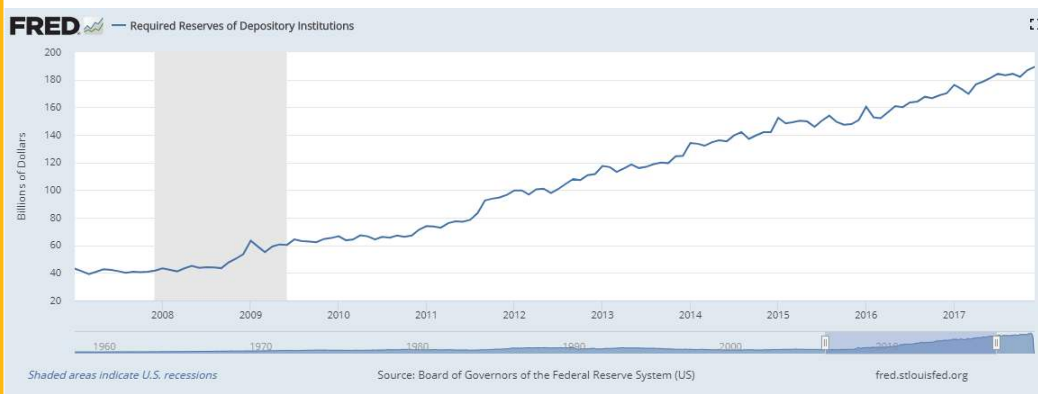
The federal funds rate is the interest rate that deposit-taking institutions trade federal funds which are held by the Federal Reserve Banks with each as really short-term loans. The banks with excess in their reserves can lend to banks that require additional balances to quickly raise liquidity (Board of Governors of the Federal Reserve System, 2020). From the graph above, we can see that the federal reserve rate was about 5.25% at the beginning of the 2007 period but was reduced gradually to nearly zero and sustained at that position until late 2015 when it was gradually raised. This was to ease the impact of the economic recession at the time.
This has an expansionary effect on the macroeconomic issues. This has the effect of increasing the amount of loans to the country and as such, enabled businesses and institutions to survive the period.

U.S. Economic History Monetary Policy(2007-2017)



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The minimum cash requirement for a commercial bank is set by the central bank and is a monetary policy that looks at protecting the depositors. The reserve requirements for depository institutions at the beginning of the period was $43.601 billion but was increased steadily during the period steadily to a reach a high of $189.269 billion (Board of Governors of the Federal Reserve System, 2020).
The increase in reserve requirements has an effect on the macroeconomic policies by tightening the credit reserves as a way of creating increased capital inflows and enabling the appreciation of the currency.

Fiscal Policy – 2007 to 2009

- Increased government spending – US ratio of GDP to Government spending increased to about 4.4% in the same period (Oh & Reis, 2011)
- American Investment Recovery and Reinvestment Act of 2009 - economic stimulus package pushed about $831 billion into the economy
- Income tax cut - aimed at majority of working families
- Worked to increase employment in the country
- Protect at risk jobs
- Boost the banking sector
- Offer relief to affected
- Invest in healthcare, infrastructure, and renewable energy

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The period of 2007 to 2009 was during the great recession. This point saw an increase in government spending which led to the development of a ratio of GDP to Government spending of about 4.4%. The American Investment Recovery and Reinvestment Act of 2009 was developed which was an economic stimulus package that enabled about $831 billion to enter the economy. There was income tax cuts which were targeted at the majority of the working families. This worked to increase the employment levels in the country. This was also used to protect at-risk jobs and boost the banking sector. The people who were highly affected were also targeted with relief. There was also a target on the investment in healthcare, infrastructure and renewable energy to boost government expenditure.

Fiscal Policy Actions

- (U.S. Office of Management and Budget & U.S. Bureau of Economic Analysis, 2020)

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The first graph indicates the deficits in government during 2007 to 2017. The period of recession there was a decrease in deficits whicl eas the economy stabilized there was an increase in deficits. The period leading to the recession there was a huge deficit gap which was the highest during the entire 10-year period. Keynesian consumption function states that consumption is dependent on income and changes in income. As such, during a recession, the consumption reduces but is increased as a function of government pumping income to the citizens through the use of tax cuts and increasing expenditure in areas such as infrastructure, education, and healthcare. During the recession – 2007-2009 – there was a great dip in personal expenditures which reduced the consumption levels. As such, there was reduced activity in industry leading to low workforce. Increasing consumption by increasing amount of money in people's pockets helps to increase demand thus increasing the need for industry and workforce thus increasing employment.

Policy Actions (2007 to 2017)

- Increase money supply to economy
- Inflate currency
- Offering low interest rates for businesses to create expansion
- 2009 – FED begins quantitative easing by purchasing treasury and other securities – looked at increasing money supply – encourage household consumption and business expansion, government could also run larger deficits for offering increased economic stimulus to the country

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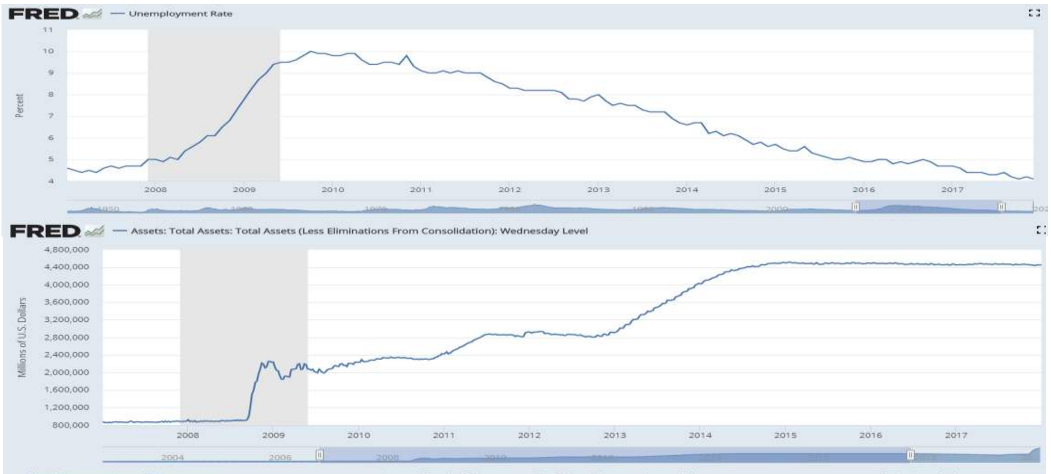
The main aim of the policy actions during the 2007 to 2017 era was to increase the money supply to the economy and to inflate the currency. Some of the actions taken include the lowering of interest rates for businesses to create expansion. In 2009, the FED began quantitative easing by purchasing treasury and other securities as a way of increasing money supply to the economy. As a macroeconomic effect, the action was aimed at encouraging increased consumption by households and in-turn increased business expansion. Additionally, the government was able to run under a larger budget deficit thus allowing for increased economic stimulus to the country.

Policy Actions – comparison of unemployment and increasing asset class for government



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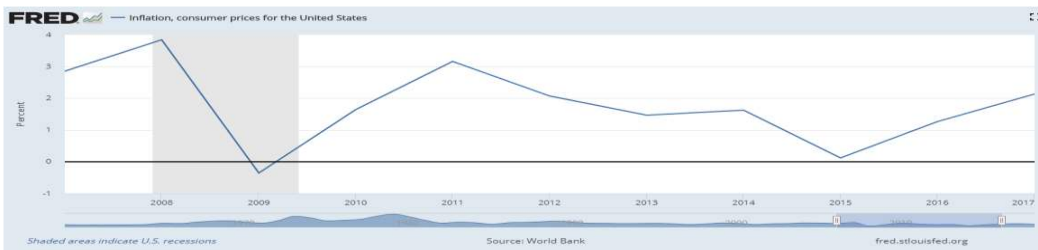
The use of quantitative easing had a positive effect on the creation of employment which was a key target for the government during the ten-year period. At the time of 2009 when there was introduction of massive asset acquisition from treasury and other securities as seen in the graph, the unemployment rate was peaking. However, the increased quantitative easing enabled an increase in money to the households leading to an increase in the demand for business products and services. This can be seen to lead to reducing unemployment and stabilizes as quantitative easing stabilizes.

Impact of Increasing Cash Reserves

- As employment increases, there is increase in money supply
- Inflation risk is also high
- The institution of increasing cash requirements checks inflation by reducing money supply available to banks to offer as loans to businesses and individuals



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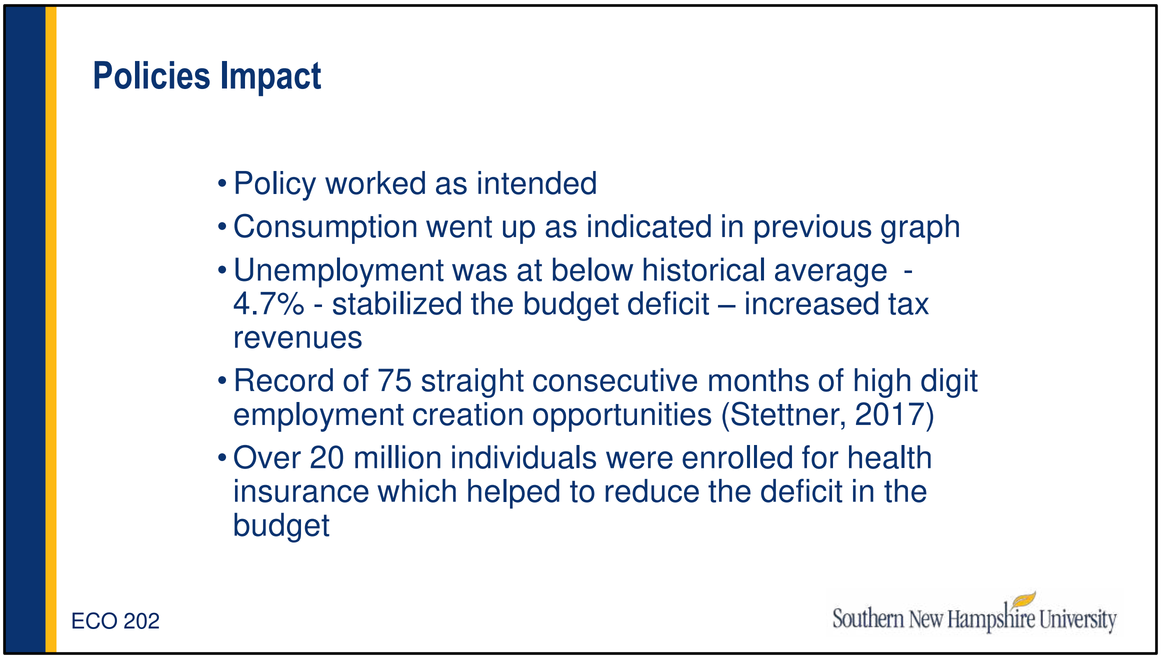
As the rate of employment increases, there is an increase in the money supply to the economy. As a result, there is a risk of inflation. The increase in cash requirements enables the regulation of inflation by decreasing the amount of money supply in the economy. This is done by increasing the reserve cash requirements for banks thus reducing amount of money that can be given as loans to businesses and individuals. As a result, there is reduced inflation. As seen in the graph, there was a gradual decline in inflation over the period.



The fiscal policy implemented at the beginning of 2009 worked as intended. On the side of consumption, there was an increase as indicated in the personal expenditure graph above. There was a decline in unemployment which went below the historical average of 4.7%. The increase in employment helped to increase the revenue to the government. As a result, there was a reduction in the budget deficit during the period after the recession which was much lower as compared to the period leading to the recession. The record of 75 consecutive months of high employment creation opportunities was set during the period. Additionally, the expenditure of government on healthcare was led to over 20 million individuals to be enrolled in the health insurance plan and was responsible for reduction in the budget deficit.

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