



Issue 4

# THE ECONOMICS NEWSLETTER

## CONTRIBUTE

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Write us an Economics-related article, send us interesting facts and figures, relate a funny incident in Eco class or just tell us why you love Economics.

Know an Eco joke? Yes, we'd love to hear that too.

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# WORLD

## Lucky business? No.

According to a scholar survey by a Swedish institution, luck has been ranked the smallest factor that contributes to the success of a business by over 70% of entrepreneurs who took part in the survey.

## S'pore agencies are more pro-business

The Pro-Enterprise Index measures how business friendly agencies are, and this year, the index rose by 3 percent to 74.2 which is a positive sign that Singapore agencies are now much more responsive to entrepreneurs and their needs.

## Are marijuana taxes too high?

After last Tuesday's election, a federal tax has been imposed on the selling of the recreational drug. This is a new motive by the government to curb the production and consumption of marijuana, which is surprisingly legal in Colorado.

## Japan falls into recession

Official government accountants have announced that the Japanese economy has fallen into a recession despite the popular belief that the economy is currently rebounding. The world's 3<sup>rd</sup> largest economy shrank by 1.6% for three months, ending in September. Japan has the problem of choosing which problem to tackle first: deflation and stagnancy or the every-growing fiscal debt.

## IND vs CHI: Modi's Manufacturing Madness

The rivalry continues as India and China try to beat each other to become the global manufacturing powerhouse. In India, newly elected Prime Minister Modi has introduced the Make in India campaign that has digitally revolutionized production logistics.

Despite popular belief, China is currently troubled by rising costs and so, India is now a more viable option for multinationals that are looking to expand their global presence.

## Natural gas exports up in 2015

Economists predict that American natural gas exports will increase in 2015, meaning that more people will be encouraged to switch to cheaper and more eco-friendly fuel options next year.

# QE POLICIES

Quantitative easing (QE) is an unconventional monetary policy used by central banks to stimulate the economy when the standard monetary policy has become ineffective. A central bank implements quantitative easing by buying specified amounts of financial assets from commercial banks and other private institutions in the country.

Using this policy the Federal Reserve of the USA (the Fed) pumped in trillions of dollars into the US financial system. This started in November 2008 when the Fed was struck by the problem of the investment bank, Lehman Brothers. That time it tried to control it by cutting down interest rates which would make the people invest more so that the Fed could get some money with them. It also went and bought assets which allowed them to recover more money. The Fed only bought two types of assets, namely, Government debt or Treasury bonds and assets backed by home loans.

This is how this works – When the Fed started buying the two assets (mentioned above), the prices for such assets rose. The supply also reduced resulting in rise in the price of such assets.

Due to this rise in prices, more and more owners of these assets came forward to sell them. The sellers used the money they got to buy something else which led to rise in the prices of those other assets. This also led to fall in interest rates. Due to lower interest rates, government bonds were sold for a higher price.

In the USA, due to QE, interest rates have remained low prompting more capital investments and job creation. The economic activity in the USA increased by 3% and provided 2 million jobs to people in the private sector. Most importantly, QE saved the USA from another Great Depression and the world from a potential catastrophic financial event of the 21<sup>st</sup> century.

But QE also brings in high rate of inflation because of increased money supply in the system. The money pumped by the Fed into the economy resulted in more money in the hands of people and thus their disposable income rose. This gave rise to inflation. Another problem created by the QE is that due to low interest rates, savers and pensioners earn lower incomes on their investments like deposits and other interest-bearing instruments.

The Federal Open Market Committee action known as Operation Twist (named for the Twist dance) began in 1961. This was the start of quantitative easing.

QE1 happened in 2008 when the Federal Reserve announced that it will buy up to USD600 billion worth of assets such as mortgage-backed securities and agency debt.

Last week, the US Federal Reserve announced the end of its quantitative easing policy. Through this policy, the Fed upped its balance sheet by USD 3.6 trillion.

# TRICKY BUSINESS

The candy industry in the US is worth 20 billion. Over 2 billion is generated during the Halloween season.

The average US household spends \$44 on candy every Halloween for parties and trick-or-treating.

The most popular sweet treat during Halloween is candy corn. Americans eat over 20 million pounds of it every year.



Costume sales are growing at a scary rate of 40% every year. Revenue is expected to be \$370 million this year.



# HO HO HO

The dead weight loss of Christmas, according to Professor Joel Waldfogel, is the "waste that arises from people making choices for other people... It's a loss to one party that isn't offset as a gain to someone else."

Buying Christmas gifts is an economic waste if you are unsure of what the recipient actually wants! Over two decades ago, Professor Joel Waldfogel coined the term "dead weight loss of Christmas" in a research paper in the American Economic Review.



Americans spend over 60 billion dollars on Christmas gifts each year. This isn't just about gift buyers; even recipients can predict their desires wrongly and this can result in economic inefficiency.

# SG STATS

No.1 city with the best investment potential.

Top 3 in the world for foreign trade and investment.

The world's easiest place to do business

2<sup>nd</sup> most competitive city in the world

Best business environment in Asia Pacific and the world

Asia's most network - ready country

Asia's best logistics supply chain performance

Asia's best intellectual property protection

Asia's least bureaucratic place to do business.

Top 3 in the world for least corruption in the economy

Most transparent country in Asia

## DID YOU KNOW?

Did you know that the largest coin on Earth a Canadian coin is, with a value of 1 million Canadian dollars?

The coin has a diameter of 51 cm and weighs 100 kg. The gold used for the coin represents a value of 2 million Canadian dollars.

Did you know that all Swiss banks manage about 35% of the entire world's capital together?

## HUMOUR =)

**Politics Defined:-**

**SOCIALISM:** You have two cows. The state takes one and gives it to someone else.

**COMMUNISM:** You have two cows. The State takes both of them and gives you the milk.

**FASCISM:** You have two cows. The State takes both of them and sells you the milk.

**MILITARY DICTATORSHIP:** You have two cows. The State takes both of them and shoots you.

**CAPITALISM:** You have two cows. You sell one and buy a bull.



# EXCHANGE RATES

Singapore Dollar	1.00 SGD
Euro	0.621145
US Dollar	0.769663
British Pound	0.491600
Indian Rupee	47.472812
Australian Dollar	0.887782
Canadian Dollar	0.864485
Emirati Dirham	2.826972
Swiss Franc	0.746269
Chinese Yuan Renminbi	4.713839
Malaysian Ringgit	2.578371

# THANK YOU

Dear Readers,

Thank you for a wonderful year of constructive criticism and expanding readership. We look forward to bringing you more issues of the Economics newsletter in 2015. See you soon!

Credits : Vithiya Ragu - 11AL- (Headlines, Tricky Business, Editing, Designing)

Rishabh Vaish - 11AL- (Quantitative Easing Article)

Reet Totla - 10ICSE- (Singapore Stats and Facts)

Rhea Singh -9IGCSE- (Humour Column: Politics Defines)