THE ECONOMICS NEWSLETTER

FEB 2015

FALLING OIL PRICES, PROPERTY MARKET IN SINGAPORE, THE EBOLA OUTBREAK AND MUCH MORE IN THIS ISSUE!

THE #2014THROWBACK ISSUE

THE ECONOMICS BEHIND SELFIES, FIFA WORLD CUP 2014, ALS ICE BUCKET CHALLENGE, MISSING PLANES AND OTHER MAJOR EVENTS LAST YEAR

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FROM THE EDITOR

Dear Readers,

It gives me great pleasure to announce the return of the Economics newsletter following the term break. We are back with our first issue this year: a brief review of the most talked-about events in 2014 and the economics behind them.

We thank you for your readership and valuable feedback; our new newsletter format has been received well and we continue to strive to provide the most enriching reading experience while keeping it fun for everyone!

Vithiya Ragu
Editor & Designer

#2014THROWBACK
#PITSP0 #PRAYFORMH370 #YOUTUBE #OMG #PRAYFORMH17 #IWOKEUPLIKEDIS #KIMYE #SELFIE #FIFAWORLDCUP2014 #TRENDING #INDIE #CRIMEA #NAMO #EBOLA #JLAW #HASHTAGSPAM

ECONOMICS IS EVERYTHING.FIND OUT WHY IN THIS ISSUE OF THE ECONOMICS NEWSLETTER.
Airline industry troubles

Shrishti Mishra (XIA L)

A series of plane accidents are seen to be hitting tourism - the mysterious disappearance of flight MH370 and the tragic crash of the flight MH17. Both the crashes involving a state-owned Malaysian carrier have dented the confidence in the country’s aviation industry.

Currently, the company will need more than goodwill to survive. It will have to rebuild a reputation for safety that has been virtually destroyed with the disappearance of MH370 and the downing of MH17. In order for the company to sustain in the market, the government will have to pump in a lot of funds, so that the company will be able to make up for the loss in revenue and will also be able to improve its services.

The double tragedies have made Malaysia Airlines’ already precarious financial position even worse. The Chief Executive announced that the company incurred a loss of $96.5m in the three months ending June, as revenue fell.

The major shareholder of the company is planning to create a completely new company and in this new operation, the main focus of MAS would be on the Asian region; however, in this case, approximately 6000 people are expected to lose their jobs.

If the new operation plan were taken into consideration, the unemployment rate in the country would definitely increase, which may reduce the aggregate demand of the economy.

Since, the revenue of MAS is declining and is currently running a loss, it would be extremely difficult for the company to pay out to its shareholders and also to pay tax to the government.

A huge sum of money would be required from the state government, however lending such a huge amount of money could be a burden for the Malaysian government and it would also result in an opportunity cost, since the government would not be able to spend on other things, such as: public welfare, infrastructure etc.

In order to slash down their costs, MAS may even fire workers; the government would then have to provide unemployment benefits to the unemployed people resulting in excessive government expenditure as well.

After the two catastrophic and heartbreaking crashes, the number of passengers using the Malaysian carrier has dropped completely by 60%. The financial situation of MAS is extremely fragile, with falling revenue and stock values.
FIFA World Cup 2014
Mihir Vyavahare (XIG)

It was an amazing tournament as Germany was crowned World Cup winner in Brazil last year. It was never easy for Brazil to handle costs of the World Cup. While the month-long tournament drew a million foreign tourists to Brazil, exceeding expectations, economists say its impact on other sectors of the economy was quite negative.

Some World Cup host cities declared municipal holidays on days when matches were played in local stadiums, while legions of workers played hooky to watch the Brazilian national team’s seven games.

Sales from local steelmakers to the domestic market tumbled 22% to 16 million tons, and exports also declined, increasing trade deficit.

But some of the worst signs came from Brazil’s auto sector, which has suffered from tightening consumer credit in Brazil and Argentina, the industry’s main export market. Vehicle production plunged 33% in June to 259,344 units.

But the Labor Ministry’s official payroll database showed job creation in June falling to the slowest pace since 1998, with just 25,363 net hires. Labor Minister Manoel Dias said the World Cup was partially to blame for a “drastic drop in consumption,” which led to less hiring.

Some economists say the Brazilian economy could fall into a recession this quarter.

Jankiel Santos, chief economist at Espirito Santo Investment Bank in Sao Paulo, estimates Brazil’s GDP was flat in the second quarter, which included half the World Cup. He said the tournament likely gave a short-term boost to the service sector that may have offset the hit to industrial output. But on the whole, it was a wasted opportunity.

Social costs also hit Brazil with people protesting for better social services like health and security instead of spending funds on World Cup.

Did you know? According to a study by Harvard professor David Wise and two colleagues, 46.1% of Americans die with less than $1,000 in assets.

Brazil’s National Confederation of Industry, or CNI, said in a report that its leading indicator of industrial production fell to the lowest level since 2012. Capacity utilization fell to 68%, the lowest level on record for any month.

The Brazilian Steel Institute said that crude steel production fell 4.9% in June from a year earlier, to 2.7 million metric tons.

According to a study by Harvard professor David Wise and two colleagues, 46.1% of Americans die with less than $1,000 in assets.
According to BILLBOARD, 1989 by Taylor Swift is 2014’s highest grossing album.

Digital music sales fell by 9% last year.

Global music industry revenue last year was 47.4bn USD.

Overall album sales fell by 11% in 2014, following the rise of online music streaming.

According to Forbes, upon the death of a Google employee "their surviving spouse or domestic partner will receive a check for 50% of their salary every year for the next decade."

There was a sharp increase in the sales of organic foods in 2014; the organic industry continues to grow, despite a previous slump.

81% of American families say that they choose organic produce over other foods at least sometimes.

Start with a dollar. Double it every day. In 48 days you'll own every financial asset that exists on the planet — about $200 trillion. Sounds wonderful doesn't it?

Beyoncé launched her new vegan meal delivery service last week.

Fast food sales growth is slowing down as people become more health conscious.

The Hunger Games: Mockingjay Part 1 is 2014’s highest grossing film, raking in $335,293,974.
The Japanese Recession

Amishi Bagati & Sanjana Pingali (XIGCSE)

For more than two decades now, Japan has had weak growth and deflation (when prices fall instead of rise). The term used for this slowdown in Japanese economy has been termed as the “Lost Two Decades”. Although fall in prices may sound like a good thing but it can have disastrous effects on an economy. It makes it much harder for debtors to pay back their debts. When consumers expect prices to fall, they also become hesitant to spend money. This creates an expectation of falling prices which causes consumption to fall, which leads to lower prices. Japan has been stuck in this cycle since the mid-1990s.

Japan's strong economic growth in the second half of the 20th century ended abruptly at the start of the 1990s. In the late 1980s, abnormalities within the Japanese economic system fuelled a speculative asset price bubble of a massive scale. Japanese banks lent to corporations without due diligence. The availability of easy money caused the asset prices in stock market and real estate to inflate creating an economic bubble. The government responded by increasing the inter-bank lending rate which in turn increased the rate of interest that the banks in Japan were lending to corporations and general public.

This sharp policy caused the bursting of the bubble and the Japanese stock market crashed. Equity and asset prices of real estate fell. Loss making banks kept injecting new funds into unprofitable corporations to keep them afloat, arguing that they were too big to fail. However, most of these companies were too debt-ridden to do much more.

Many of these failing firms became unsustainable and it became very difficult to obtain credit. This meant no new investment. Consumers postponed their consumption because of difficulty in obtaining credit because of the expectation of falling prices. Japanese exports and imports also fell impacting Europe and United States, Japan's largest trading partners. Also Japan's stock markets and real estate has plummeted and has not recovered ever since.

Japan has put in place a policy for economic recovery named “Abenomics” after Prime Minister Shinzo Abe came into power and this policy is having positive impact on the economy.

Did you know? Only 14% of people in Japan say that their children will be better off financially than their parents. 8 in 10 people in Japan think that the increasing number of old people in Japan is a serious problem.
Falling Oil Prices
Rishabhkumar Vaish (XII A L)

Crude oil prices have fallen sharply over the past seven months. From 2010 until mid-2014, the price had been around US$110/barrel. Since June 2014, it has fallen to below US$50/barrel.

The cause was low demand from large importers such as China and India primarily due to fall in industrial activities. Along with this, the oil cartel OPEC (Organisation of Petroleum Exporting Countries), decided not to cut down production which could have balanced the fall. Their defence: if we cut production, importer countries will increase theirs, resulting in loss of market share!

So, who would be the probable winners and the losers of this crisis?

Russia: The second largest exporter (9,000 barrels/day) depend upto 70% of export income from oil & gas. It is estimated that Russia loses US$2 billion in revenue for every dollar fall in oil price! Russia has already been the most impacted - currency has devalued, interest rates are at all-time high leading the government to forecast a recession for 2015. Russia’s high interest rates can choke economic growth by making it harder for businesses to borrow and spend.

Saudi Arabia: The world’s largest exporter of crude oil and the most influential member of OPEC may have the option to cut production to increase prices but it may not do so to pressurise US’s growing shale oil & gas industry, which is a potential threat to Saudi’s dominance in the industry.

While Saudi needs the price to rise to US$85 in the longer term to manage its budget, considering its US$700 billion reserve fund, it can withstand the low price for some time.

OPEC: Countries like UAE and Kuwait have accumulated considerable foreign currency reserves (estimated at US$200 billion) and can also run with budgetary deficits. The question is - how long? Competition from the USA is increasing!

USA: US oil production levels were at their highest in almost 30 years. The growth was possible because of extraction of oil from shale formations which has also kept the prices lower. So, USA is clearly emerging as the winner.

Europe & Asia: With Europe's flagging economies characterised by deflation and weak growth, benefits of lower prices would be welcome. Same holds true for Japan, China, India and other emerging economies which are net importers of oil. For India, which imports 75% of its oil requirement, longer period of low price provides opportunity to manage current account deficit by cutting down on subsidies.
Russia-Ukraine Conflict

Jahnvi Roy (XIGCSE)

In a matter so undoubtedly complicated, discrete and delicate, where do I begin?

The Crimean peninsula became a part of Ukraine in 1954, seen a symbolic administrative move within the Soviet Union. Although Crimea was considered a part of Ukraine, it had its own parliament and laws and a majority of the Crimean citizens retained their loyalty and had strong ties with Russia.

The decision of President Victor Yankovych (of Ukraine) to refuse an alliance with the EU and to take a $15bn loan from Russia to prepare his country for the Eurasian Union planned in 2015, sparked protests on Kiev’s Independence Square, aka the Maidan.

Eventually the president fled to Russia (the Crimean Crisis).

Towards the end of the protests Putin (Russian President), sent military troops, who along with pro-Russian activists seized Government buildings and airports in the regions of Donetsk and Luhansk.

It is to be noted that the Crimean Referendum in March where 97% Crimeans residents voted to join Russia happened before the War of Donbas in April (above) and Crimea was a confirmed annexed part of Russia.

Despite the undeclared political war, both nations are economic partners and Ukraine is responsible for providing transit to 80% of the Natural gas Russia exports to the European Markets.

In fact Russia is STILL Ukraine’s largest trading partner.

Ukraine is STILL an alleged partner of the European Union and the war is STILL raging on.

I told you it was complicated.

Thousands joined, clashes grew dangerous and violent and sadly in the end, the death toll was perceived to be more than a 100 people.

Did you know? 814 000 Ukrainians have fled to Russia and 260 000 people are displaced within the country.
Another year has flown by, and the property market has faced an interesting 2014. After seven cooling measures and property tax hikes in 2013, the market did not perform too well in easing the housing industry the previous year. In 2014, things finally worked out, and the URA Property price index (PPI) fell by 3.9%, which is 19% higher than 2013.

The market is expected to fall, when it comes to sales of HDB's.

It is expected that 20,000 private residential units by the URA will be completed in this year, along with completions of HDBs, sighting at an oversupply.

The situation is expected to be of relative excess supply and relative shortage of demand as compared to previous years. The demand has fallen from D1 to D2 and supply from S1 to S2, causing a fall in price and quantity.

The HDB Resale Price index, has continued to fall in 2013 and 2014, and is expected to fall in the forthcoming year as well.

With HDB process falling, fewer owners of HDBs are willing to sell off their flats, and are unable to sell them for a good price and upgrade to a private condominium.

The average household size in SG today is around 3.53, a much smaller figure than 1990, when it was 4.25.

Did you know? In Singapore, there are approximately 6815 people per square kilometre.

SG population is expected to reach 6.9 million by 2030.
Poor growth in the two years before the Modi government had pushed the economy far below its potential, which implies that the economy had to strive harder to compensate for the loss in growth. However, India’s economy is now probably showing signs of recovery.

The economy expanded at its fastest pace in two-and-a-half years at 5.7 percent year over year in the first quarter of FY 2014-15. External sector performance improved, the equity market reached an all-time high, and domestic investments improved significantly. Increased economic activity also improved consumer and business sentiment.

After a disappointing GDP growth of 4.6 percent in the last two quarters of FY 2013-14, the new fiscal year began with stronger growth, primarily due to a boost from government spending and higher business investment. Government consumption expenditures grew by 8.8 percent.

The balance of payment situation has improved significantly in the past year due to substantial improvements in both the current and capital account balance. The trade balance improved due to strong exports as global demand increases and imports fell, owing to controls on imports of non-essential goods. Consequently, the current deficit improved from 5.1 percent in Q1 FY 2013-14 to 1.7 percent a year later.

Capital inflows have also soared in the past quarters of FY 2014-2015. The net FDI of Q1 of FY 2014-2015 reached levels that have not been achieved in the past three years. This major rise in FDI of Q1 is due to the growing optimism amongst the investors on the Modi Government. With the ‘Make in India’ campaign, an international marketing strategy that Modi began in September 2014 to strengthen India’s manufacturing sector, capital inflows have been growing strongly.

However, inflation still remains as a worry. Supply constraints (particularly in food and infrastructure) and high dependence on fuel imports will likely keep inflationary pressures high. But the continuing fall in oil and commodity prices will ease inflation.

With just a year since the Modi government, there have been significant changes in the Indian Economy. The optimism amongst citizens and the investors is robust. A sanguine Arun Jaitley, the Finance Minister of India, has said at the recent World Economic Forum, that the current 5.5% growth rate of India, is below its potential and targets a growth rate of 8-9%.

Did you know? India is the 3rd largest economy in the world by PPP.
Many West African countries have been economically affected due to the Ebola outbreak, but mainly in Sierra Leone and Liberia. The outbreak could stop the growth of the African Continent. Economists fear that already poor countries will become even poorer due to the virus.

The economic growth has slowed, stopped or even become negative. Sierra Leone is facing many problems such as reducing agricultural sector, inflation, shortage of foreign exchange and imports and exports.

The mining companies have stopped expansion plans in the affected countries. Commercial banks have now cut down the working hours by 2 hours to avoid contact with victims. The growth of travel and service industries has also slowed down.

Foreign firms have stopped production in the countries especially in Sierra Leone and Liberia. However some firms have donated funds to World Health Organisation.

The United Nations Development Programme has provided over USD 18 million to boost Sierra Leone’s health system; the World Food Programme is spending over USD 70 million in Sierra Leone, Guinea and Liberia.

Dianna Games, chief executive of Johannesburg based consultants Africa@work, says “in the long run, Ebola will be viewed as a temporary blip rather than a permanent U-turn in the Continent’s fortunes.”

Did you know? The Ebola outbreak last year was the largest ever outbreak of the deadly virus. In a poll taken in October 2014, one fifth of the 100 Americans interviewed said that they were afraid of contracting the virus.
Remember the Ice Bucket Challenge? It seems like such a long time ago that friends were posting videos guiltling each other into pouring water on their head and donating money to fight the neurodegenerative disease ALS, but it was really just last summer.

The ALS Ice Bucket Challenge is a charity stunt to raise money for amyotrophic lateral sclerosis or ALS, a progressive disease of the nervous system that affects roughly 30,000 Americans annually.

Since the first ice bucket fell in the name of ALS, the challenge has gone viral, inspiring nearly $100 million in charitable donations, 1.9 million new donors, and more than 2 million Facebook videos.

Exponential growth has been caused due to every participant naming three more potential participants, and easy tagging via Facebook and Twitter.

The 24-hour deadline that causes the nominated participant to act quickly, easy participation, as no editing is required, social proof, authority, and fear of missing out made the ice bucket challenge go viral.

Holger Sieg at the University of Pennsylvania and his co-authors have shown in a series of papers that private benefits such as private dinner parties and special events have a significant impact on charitable contributions. The increase in social capital that results from participating in the Ice Bucket Challenge is another such private benefit. Authors have documented that social comparisons and social pressure also are important driving forces for charitable contributions.

Preliminary evidence suggests that due to moral licensing, the ice bucket challenge has crowded out contributions to other charities.

The ALS ice bucket challenge gives people a chance to broadcast and share giving them a perfect excuse, doing it for a good cause.

Did you know? Many popular celebrities have posted their Ice Bucket Challenge. These include Tom Hiddleston, Chris Evans, Benedict Cumberbatch, Jennifer Aniston, Selena Gomez, Henry Cavill, Amy Adams, Leonardo DiCaprio, Neil Patrick Harris and Bradley Cooper just to name a few.

Did you know? The ice bucket challenge is related to 2 deaths.
Aim, smile, and shoot! Here is a new way to stay ahead of your peers.
Bored of clicking photographs of other people? Why not point the camera at yourself? It's time to say cheese!
Welcome to the world of selfies.

Selfies are quite a rage among teens. Not surprisingly, many parents worry about this self-obsessive, narcissist trend that is taking over the next generation.

Oxford Dictionaries made “selfie” the word of the year in 2013. US consumers responded by making the selfie stick the gift of the year in 2014. Around America this holiday season, camera shops, department stores and pharmacies have been having a hard time keeping up with demand for the selfie stick, a retractable pole that people clamp onto their smartphones to take better pictures of themselves.

ProMaster, which supplies camera accessories to 500 US stores, said it had to keep reordering selfie sticks after running out of stock. On December 25, the hashtag #selfiestick dominated Twitter, as gift-receivers posted pictures of themselves with the gadgets, which sell for $10 to $30 (Rs 630 to Rs 1,900).

People are taking a lot of selfies these days. The selfie stick makes it easy and fun.” Hundreds of thousands of selfie sticks have likely sold in the US last year, including about 100,000 in December alone.

The items became popular over the summer and demand intensified around Thanksgiving after Time magazine named the selfie stick one of the best inventions of the year.

Even Prime Minister of India, Narendra Modi is known for selfies after he posted a selfie with his friend Tony Abbott, an Australian counterpart. It was captured at the Melbourne Cricket Ground.

UK reported heavy demand for selfie stick that allowed camera phones to be extend up to a metre away for group shots and panoramic images. Also, there has been an increase in plastic surgery as people look to improve their image in selfies. Others are hiring specialized make-up artists for selfie makeovers. All of this personal appearance approval is creating a selfie economy. Plastic surgeons in United States have seen a surge in demand for procedures ranging from eye-lid lifts to rhinoplasty, popularly known as a nose job, from patients seeking to improve their image in selfies and on social media.

A poll by the American Academy of Facial Plastic and Reconstructive Surgery (AAAPRS) of 2,700 of its members showed that one in three had seen an increase in requests for procedures due to patients being more aware of their image in social media.
Exchange Rates

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HUMOUR :D

A mathematician, an accountant and an economist apply for the same job.

The interviewer calls in the mathematician and asks 'What do two plus two equal?'

The mathematician replies "Four." The interviewer asks "Four, exactly?" The mathematician looks at the interviewer incredulously and says "Yes, four, exactly."

Then the interviewer calls in the accountant and asks the same question 'What do two plus two equal?" The accountant says 'On average, four - give or take ten percent, but on average, four.'

Then the interviewer calls in the economist and poses the same question 'What do two plus two equal?" The economist gets up, locks the door, closes the shade, sits down next to the interviewer and says, 'What do you want it to equal?'

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