

## Unit 3

### Making Economic Sense

#### 解读经济

#### Comprehension questions:

1. What is the audience response to Alan Greenspan in a baseball match?
2. How is Greenspan's first reaction to the "Black Monday" in 1987 viewed by the public?
3. What is the challenge to Greenspan's successor?
4. What are the unique features that made Alan Greenspan a great economist?

#### Part A Exercises

- 1) **Directions:** Listen to the news carefully and match the items in column A with the items in column B according to what you've heard.

##### Column A

1. UK consumer price
2. China personal income tax threshold
3. G8 debt relief deal
4. Crude oil price
5. FTSE 100 index

##### Column B

- a. suggest to be raised
- b. hit a record
- c. be in the red
- d. increase inflation
- e. could be watered down

- 2) **Directions:** Listen to the news again and complete the following passage by filling in the words you hear from the recording.

- (1) Confronted by sticky consumer price inflation, the ECB has \_\_\_\_\_ to cut interest rate for more than two years.
- (2) While welcoming the amendment in principle, many members of the Standing Committee of the 10th National People's Congress China's top legislature called for the threshold to \_\_\_\_\_ to benefit more low earners.
- (3) A group of small EU countries are seeking to \_\_\_\_\_ some of the key proposals in G8 debt relief deal agreed last week by G8 leaders at Gleneagles.
- (4) Front-month October contracts on the New York Mercantile Exchange touched \_\_\_\_\_ dollars a barrel mid-morning in Singapore before easing slightly to \_\_\_\_\_, a gain of \_\_\_\_\_ cents from Wednesday's closing in New York.
- (5) Oil-dependent stock British Airways was among the hardest \_\_\_\_\_ as the Footsie \_\_\_\_\_ 20.4 points to 5254.8 in the first hour of trading.

#### Part B Exercises

- 1) **Directions:** Listen to the interview and fill in the following table to make a

*summary of the talk.*

Greenspan thinks that the Fed should not try to burst a bubble by raising interest rate.	It's because that
	The market force should be
	The Fed's job is to
Greenspan argues that there is no guarantee that raising interest rates would have allowed a more gradual deflation of the stock market bubble.	If the Fed had raised interest rates high enough, it would  but that might also .
	"It is far from obvious that
Greenspan suggests that the Fed's success in securing low inflation and less volatile economic growth may itself lead to more speculation in asset markets.	The reason is that
	The example is
	The FMOC's conclusion is

**2) Directions:** *Listen to the interview again and answer the following questions.*

(1) How does the speaker think of Alan Greenspan's famous comment "irrational exuberance"?

(2) What's the so-called "mopping up" strategy?

(3) When stock prices rose after the end of Fed tightening cycles in the late 1980s and early 1990s, what does it mean?

(4) How does Henry Kaufman think of the FMOM's conclusion?

### **Part C Exercises**

**1) Directions:** *Based on what you have heard, write "T"(true) or "F"(false) for each of the following statements.*

- (1) (      ) There isn't much difference between the growth rates of America and other rich economies.
- (2) (      ) A rapidly rising current-account deficit should cause investors to demand higher interest rates.
- (3) (      ) A rapid rise in consumer borrowing and spending has caused a central bank to push up interest rates to curb inflation.
- (4) (      ) It's not natural that there's a growth gap between America and Japan.
- (5) (      ) The price signals that are supposed to bring the world economy back into balance have become very effective.

**2) Directions:** *Listen to the news story and answer the following questions according to what you hear from the recording.*

- (1) Why does the world currently display an alarming number of large economic and financial imbalances?
- (2) How have real American bond yields fallen when America is facing a rising current-account deficit in the past few years?
- (3) According to the speaker, why is that consumers' borrowing and spending have not pushed up inflation?
- (4) Is it natural that America enjoys a faster growth than Japan while America's real bond yields are lower?
- (5) Why does the author say the price signals that are supposed to bring the world

economy back into balance have become distorted?

### 👤 👤 Acting out

1. Pair work: Students should make a list of economic indicators. Discuss their respective economic meanings and talk about their relationships.
2. Group work: Students in each group should decide on one well-known economist and make a research on both his/her contribution to the economic theory and the life story or personality traits of him/her.

### Key to Exercises

#### Part A

1)

1-d          2-a          3-e          4-b          5-c

2)

1. felt unable
2. be raised even higher
3. water down
4. 68, 67.76, 44
5. hit, retreated

#### Part B

1)

Greespan thinks that the Fed should not try to burst a bubble by raising interest rate.	It's because that central bankers have difficulties in spotting the difference between an unsustainable surge in prices based on speculation and a sustainable one based on fundamentals.
	The market force should be allowed to play out.
	The Fed's job is to pursue policies aimed at low inflation and full employment, not to target asset prices.
Greespan argues that there is no guarantee that raising interest rates would have allowed a more gradual deflation of the stock market bubble.	If the Fed had raised interest rates high enough, it would eventually have affected the stock market, but that might also have thrown the economy into recession.
	"It is far from obvious that bubbles, even if identified early, can be pre-empted at lower cost than a substantial economic contraction and possible financial destabilization---the very outcomes we are seeking to avoid."

Greenspan suggests that the Fed's success in securing low inflation and less volatile economic growth may itself lead to more speculation in asset markets.	The reason is that investors conclude that these good times are likely to continue.
	The example is a housing market that is showing signs of "froth" in a number of cities, amid buy-to-let speculation that has resulted in "speculative fervor" in some areas.
	The FOMC's conclusion is that the Fed should deal with the consequences in the event of a market disturbance.

2)

(1) How does the speaker think of Alan Greenspan's famous comment "irrational exuberance"?

The speaker thinks that there are times when the market is exuberant but rational.

(2) What's the so-called "mopping up" strategy?

It is a strategy of the Fed, as a central bank, does not try to replace the market but if a market shift threatens the core mandate, its job is to deal with the consequences.

(3) When stock prices rose after the end of Fed tightening cycles in the late 1980s and early 1990s, what does it mean?

It means that there is no guarantee that raising interest rates would have allowed a more gradual deflation of the stock market bubble.

(4) How does Henry Kaufman think of the FOMC's conclusion?

He believes that the FOMC is too sanguine; that the housing market poses grave risks for the economy and that the Fed's assurances that it will raise rates at a "measured" pace have contributed to a household debt-financed consumption binge and to speculative activity by investors.

## Part C

1)

1. F      2. T      3. F      4. T      5. F

2)

(1) Why does the world currently display an alarming number of large economic and financial imbalances?

Many economists try to explain these trends in terms of underlying structural factors, such as differences in demographic trends or productivity growth. An

alternative, more worrying, explanation is that the price signals that are supposed to bring the world economy back into balance have become distorted.

- (2) How have real American bond yields falling when America is facing a rising current-account deficit in the past few years?

This time, however, the adjustment mechanism has jammed: real American bond yields have fallen not risen over the past few years, partly because Asian central banks have been eager to buy US Treasury bonds to prevent their currencies rising. So long as low yields continue to support America's housing bubble and hence strong consumer spending, they will block any significant reduction in the country's current-account deficit.

- (3) According to the speaker, why is that consumers' borrowing and spending have not pushed up inflation?

In the past, a rapid rise in consumer borrowing and spending would cause a central bank to push up interest rates to curb inflation. Today, however, inflation is being held down by cheap goods from China and other low-wage economies, and inflationary expectations are well anchored thanks to the credibility of central banks.

- (4) Is it natural that America enjoys a faster growth than Japan while America's real bond yields are lower?

No.

- (5) Why does the author say the price signals that are supposed to bring the world economy back into balance have become distorted?

Because in theory it should be the high interest rate with large current account deficit; high interest rate with heavy consumer borrowing and spending; high interest rate with high growth. The reality is just the opposite of this.