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Cheap Gas: Winners and Losers

Gas prices have been sinking since the beginning of the year and are at their lowest levels in over a decade. In fact, there are just four states in which gas is above $3 a gallon. The causes of the recent dip in price are an increased supply and a decreased demand. An increase in U.S. shale gas production has driven prices lower, and, strangely, OPEC has responded by increasing its own oil production, supposedly to pressure American refineries by maintaining its share of the market. Meanwhile, slow economic growth in China, Latin America, and Europe has reduced oil consumption worldwide. Gas prices are expected to fall even further to $2.11 per gallon. While this may sound great for consumers, Canada, Russia, and OPEC member nations are taking huge hits and facing budget deficits. Back home, U.S. oil companies have had to cut over 80,000 jobs. With the world economy being so turbulent in recent months, low oil prices are only adding to the fire. –SG

Low oil prices: a gain for consumers and blow to producers.

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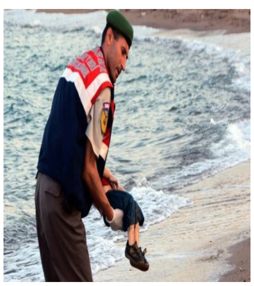
EU's GDP per Capita: A Measure of Sympathy for Syrian Refugees



This picture sparked outrage over the refugee crisis in Syria.

A picture of a lifeless 3 year-old boy who drowned while trying to escape Syria opened the world's awareness about refugees. Before the picture turned viral, in May, the EU issued a quota for member countries to assist Syrian refugees based on a variety of demographic metrics. The EU Council proposed a quota of 20,000 refugees for the next two years. Not all European countries accepted the quota, and it was rejected in June. However, as of September, the GDP per capita measurement shows that richer countries can handle massive amounts of Syrian refugees without sacrificing economic stability. This can be seen from countries such as Germany, the Netherlands, and Italy. Poorer GPD per capita countries like Portugal, Greece, the Czech Republic, and Poland chose not to contribute as much as their richer counterparts, with at most 5% of applications accepted. —RA

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Fight for the Frontier: U.S. Lags in the Arctic

Curiosity and ambition once fueled exploration of frontiers like the American West and Outer Space. Those qualities are absent in the U.S. government today, just as Russia has built ten new outposts along the modern frontier that is the Arctic Ocean. China, Singapore, and South Korea have also entered the quest for the Arctic to determine whether commercial cargo could be shipped to European markets. "The United States really isn't even in this game" U.S. Coast Guard Admiral Paul F. Zukunft lamented. The U.S.'s lack of diplomatic engagement could be particularly detrimental because 13% of undiscovered oil and 30% of the world's undiscovered natural gas are in the melting ice of the Arctic. Russia is competing with Canada and Denmark for a claim to a 463,000 mile area of the Arctic, while the U.S. is on the sidelines because it hasn't ratified the Law of the Sea Treaty, which allows nations to make these claims. It seems Manifest Destiny has yielded to complacency. —JK

In 2007, Russia planted a flag in a disputed territory in the Arctic Ocean. A UN commission formed under the Law of the Sea Treaty could resolve this dispute.

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Op-Ed

The Federal Reserve Versus the World

The Federal Reserve maintains two objectives. First, it aims to maintain a potential growth rate of the economy that is not too high or not too low. In other words, it attempts to maintain a GDP growth rate of 3%. The Fed's second objective is to maintain a Non Accelerating Inflationary Rate of Unemployment (NAIRU) between 5 and 5.5%. If the unemployment rate falls below 5%, models like the Phillips Curve show that the potential for inflation increases dramatically. The August jobs report shows that the unemployment rate fell to 5.1%, the latest statistic in what has been a continuous decline in the unemployment rate since the Fed pushed the Federal Funds Rate to the zero-bound.

This is concerning because, although the Fed is looking to raise interest rates by the end of this year, it creates a sense of urgency about the situation. If the unemployment falls below 5%, models predict inflation could rise, perhaps dramatically. Furthermore, the Fed's decision to raise rates will be complicated by a slowing Chinese economy and a Brazilian recession, both of which have helped create choppy markets in recent months. The Fed's concern is that, with improper timing, a rate hike could spook investors and lead to a long term market sell-off, potentially pushing the United States back into a recession. However, without a hike in the Federal Funds rate, it is likely that the unemployment rate falls below the 5% lower threshold of NAIRU, pushing prices higher. For example, in 1973, President Nixon attempted to push the unemployment rate below 5%, and the result was an inflation rate of above 10%.

When it considers whether to raise interest rates, the Fed hopes to avoid reaching the same result that Nixon did, but the magic will be by how much and how quickly. It's likely that the move is made by the Federal Open Market Committee in September or December, as these are the meetings in which the Fed has a press conference following their meetings. Without a live, careful explanation of its decision, the Fed risks an adverse market reaction, which would undermine its intention. The next few months should be an entertaining dance between the Fed and the rest of the world's economy, so keep an eye on the markets. – SL

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