

# THE OPTIMAL BUNDLE

THE PENN STATE ECONOMICS ASSOCIATION PRESENTS:  
THE OPTIMAL BUNDLE

Editor: Steve Leonard  
Contributors: Joe Kearns, Joseph Martinez, Eleanor Tsai,  
Eric Richman, and Trevor Baumgartner  
February 25, 2016  
Spring Semester 2016: Volume 11

optimalbundle.org  
psuea.org



## Where Governments Fail, Toads Succeed

The Zika virus is sweeping through the Americas. It is affecting people by inducing symptoms like microcephaly, or an abnormal smallness of the head at birth. Governments are combating the proliferation of the mosquito-borne fever merely by launching pesticides and issuing public service announcements. Shockingly, some of these governments are even recommending delaying pregnancy by at least two years, which is raising concerns on issues such as abortion, contraception, and gender and indigenous equity. Suggestions on how to combat the virus made in PSAs have been seemingly ineffective so far, prompting Brazilian President Dilma Rousseff to blame the lack of public sanitation investiture as an attributing factor. In fact, shortages and price gouging on deet-based repellent have even led Argentina's health ministry to suggest keeping frogs and toads that feed on mosquitos as pets. Now, Gaucho markets sell them for seven dollars each. In an increasingly sophisticated world, sometimes something as simple as a pet toad can still be a solution. – JM

### Upcoming Events

March Madness tournament, prize money for best bracket. Entry is \$5.  
Northwestern Mutual, March 29th 7-8 pm, room TBA  
Don't forget to fill in our survey: [bit.do/psueasurvey](http://bit.do/psueasurvey)

## Take me Home, Solar Roads

At only 70 meters long, the first solar bike path provided enough energy after six months to power a small house for a year. Now, following the Netherlands' initiative, France plans to pave 1000 kilometers of roadway with solar panels. Once completed, the road will provide about five million people with power, or eight percent of the French population. Progress on the road will be slow as it currently needs to be installed by hand, but Colas, the manufacturer of the solar cells, is developing a mechanical process for quicker installation. France aims to have the road completely installed within five years. The project is still in the planning phases as France has not yet indicated which roads will be paved with the solar panels, nor have they indicated how much the project will cost. Nonetheless, this project sets a good precedent for countries looking to use renewable energy on a broader basis. - SL



## Make in India: An Ambitious But Flawed Initiative



Last week, representatives of governments and businesses from around the world converged on Mumbai in the first-ever “Make in India” exhibition. The goal of the highly-publicized government initiative was to showcase innovation across sectors of the Indian economy and the country’s potential as a “global design and manufacturing hub.” On the surface, it seemed to have succeeded--by the end of the week, corporations such as Foxconn had signed memoranda of understanding amounting to billions of dollars’ worth in new facilities in India.

But memoranda of understanding are generally not legally enforceable, and the apparent reluctance of the delegates who visited Mumbai last week to commit to binding contracts suggests what they saw at the exposition may have little impact on their investment decisions. Instead, they want to know they will earn a better return in India than they could anywhere else. India has much going for it: it has one of the fastest-growing economies, and a large and growing working-age population. Yet, in spite of these advantages, two weaknesses stand in the way of profitability: institutional efficiency and labor productivity.

**“The World Bank ranks India at only 130th of 189 in its Ease of Doing Business Index.”**

First, institutional inefficiency in India makes doing business there costly. India is known for its paralyzing bureaucracy; from independence to the early 1990s, the state’s heavy involvement in central planning and control over certain industries earned it the infamous title of “permit raj.” Even today, the World Bank ranks India at only 130th of 189 in its Ease of Doing Business Index. In fact, India places 183rd in dealing with construction permits, 138th in registering property, and 178th in contract enforcement. These activities are often crucial to setting up stable business operations. Companies will remain cautious about investing in India until they sense the regulatory environment has become less complicated and the government will help, not hinder, their ventures.

Second, a relatively poorly educated population results in lower labor productivity. Despite its impressive rate of growth, adult literacy remains at around 70% in India, while it is approaching 100% in countries like Russia, China, Turkey, Mexico, and Thailand. India’s secondary and tertiary educational attainment levels are far behind those of other emerging economies. With many options for investment, design and manufacturing firms are unlikely to want to build facilities in India if they cannot take advantage of a trained labor force

or the economies of agglomeration that arise from concentration of educated professionals.

In short, the Indian government has a long way to go if it wants to persuade multinationals to “make in India.” For a country with a history of red tape and a comparatively unskilled population, it will take much more than a well-branded campaign to convince profit-maximizing firms the investment is worth their while. EL

## Pollution is a Hazy Problem for China

If public health concerns weren’t enough to motivate policymakers to engender change, new research has shown that there is also a strong economic incentive to reduce pollution levels. A recent study conducted by the RAND Corp, a nonprofit think tank focused on policy research, sheds light on the economic side of this hazy problem, estimates that air pollution cost China 6.5 percent of GDP every year

from 2000 to 2010. These costs come from a multitude of factors, including productivity lost due to factory closures, hospital costs, and damaged crops and soil. The positive side to this daunting statistic is that China has much to gain from reducing pollution and moving towards cleaner sources of energy. Specifically, China could offset the annual GDP lost due to pollution while reducing the 1.6 million air pollution-based death toll. As China moves towards a more service-based economy, the prospects are bright that policymakers

will promote cleaner sources of energy. – TB



**WRITE FOR US!**  
[education.psuea@psu.edu](mailto:education.psuea@psu.edu)