

THE

OPTIMAL

BUNDLE

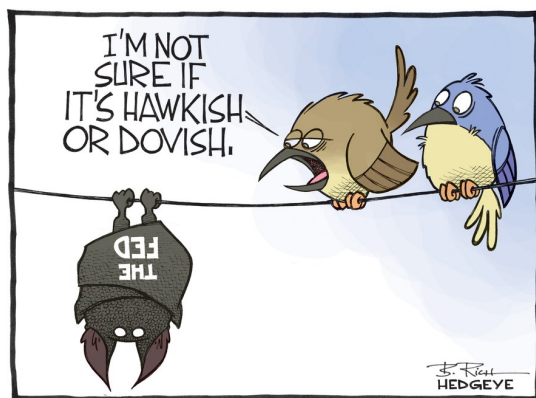
THE PENN STATE ECONOMICS ASSOCIATION
THE OPTIMAL BUNDLE

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Turn Up for What?



Over the past year, the Federal Reserve Board of Governors has been seemingly hesitant on raising rates. William Dudley, the president of the Federal Reserve Bank of New York, stated in a recent interview that if the job market continues at its current pace, economists can then expect a

0.25% to 0.50% increase in the Federal Funds Rate. Raising the rate is intended to make monetary policy “less accommodative as we get closer to full employment,” according to Dudley. These proposed changes could occur at either the November or December Board of Governors meeting. However, many analysts are expecting the rate hike to come in December because of the potentially volatile election next month. Another proposed method to ensure continuous economic growth is to strengthen fiscal stabilizers: Dudley proposed the creation of automatic payroll tax cuts to keep consumer confidence high if consumers interpreted the Fed’s policy changes as indicative of an impending recession. The Federal Open Market Committee will next meet in two weeks, at which time economists will learn if the Fed intends to do its work now or procrastinate like us college students. — MW
Sources: <http://on.wsj.com/2dW1F7a>

Retailers Won't Clown Around

Fearing that a creepy clown was stalking residents in East Halls earlier this month, thousands of Penn State freshmen irrationally yet cheerfully flooded the streets to search for the detested circus performer. After a slew of similar incidents, retailers are now pulling clown costumes off the shelves, with Target, for instance, justifying its decision by citing “sensitivity to the issue at hand.” Halloween Express stated that it saw an increase in the number of clown masks demanded this year, but the store’s spokesman remarked, “As a retailer, we try not to over-analyze why an item is selling better from one year to the next.” With stores losing revenue by limiting the supply of an incredibly popular costume, one wonders who is truly irrational: freshmen, retailers, or clowns? — BF
Sources: <http://bit.ly/2ebgbJX>

A Nobel Achievement



After months of anticipation and speculation, the results are in! The new recipients of the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel are Oliver Hart and Bengt Holmstrom. The two scholars, at Harvard and MIT, were awarded the prize on October 10, 2016 for “their contributions to contract theory.” Holmstrom, a native of Finland, has done work on effective solutions to the principal-agent problem. His work revolves around the design of an ‘optimal’ contract that rewards executive performance, while balancing incentives and risks. British-born Hart has also researched agent pay, but was recognized by the Royal Swedish Academy—the institution which awards the prize—for his work in dealing with future uncertainty in contracts. This is the forty-eighth time the prize has been awarded since 1969, and these New England professors are the seventy-seventh and seventy-eighth laureates. — PS

Sources: <http://bit.ly/2dSBA8G>, <http://nyti.ms/2ekfpe7>

Death to the Death Penalty

OP-ED As you drive for ten minutes down East College Avenue toward Bellefonte, you will realize that the landscape becomes more remote and the elm-lined road narrows. Just before approaching State College city limits you will notice a secluded and barely visible single-lane exit on the left. Towering behind a landscaped lawn is an ominous brick building. Your only clue of location is a concrete sign at the next clearing that reads: Pennsylvania State Correctional Institution - Rockview.

This building houses an ever-controversial reality of the commonwealth's criminal justice system that is the execution chamber. Recurrent questions about the innocence of the condemned and whether or not death truly acts as an effective criminal deterrent make capital punishment a contentious moral issue.

However, the economic repercussions that relate to the cost of this system are becoming more prevalent. Since capital punishment was reinstated at the federal level in 1972, Pennsylvania has sentenced 408 people to death, and a total of 180 remain on death row as of 2016. In that period only three people have been executed at Rockview, while six have been fully exonerated due to revealed innocence.



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Past state budget negotiations have stalled over allocating funding for pensions versus school subsidies, for example. However, as the *Reading Eagle* points out, there's an elephant in the room. The Commonwealth has spent an estimated \$351.5 million of tax revenue for the inmates currently on death row. This amount includes the extensive prosecution and defense process, a cycle of costly appeals from the Pennsylvania Supreme Court to the Third Circuit, and the cost of maintaining the nation's fifth largest death row population in maximum security facilities.

The aggregate costs for the three executions that have taken place since 1972 are on average \$11.6 million each, with the last one taking place over fifteen years ago. Regardless of personal political opinions on such a sensitive issue, it is imperative for an informed electorate to ask: do the marginal costs of applying capital punishment outweigh the benefits? What is the opportunity cost associated with the system, and is capital punishment worth it? The economics behind capital punishment have indeed created a bipartisan bridge from advocacy groups on the left to fiscal conservatives on the right: it's time to kill the death penalty. — NG

Sources: <http://bit.ly/28N5mrH>, <http://bit.ly/1C1vc0U>, <http://bit.ly/2ecRx9L>, <http://bit.ly/2enD4rg>

Taking Notes is Dangerous

Samsung Electronics has stopped production of the Note 7 smartphone, leaving millions electronically stranded with so-called useless "bricks." The company has issued a total recall for all 2.5 million Note 7s that have been sold since September. Samsung share prices have fallen greatly since the phone's explosive battery issues, with the company losing \$25 billion in market value over the past month. Even though the batteries were produced by another company, fears of a similar incident happening in the near future are keeping investors at arm's length. This is despite the fact that Samsung is the world's largest and one of the most profitable electronics manufacturers.



So may this have further consequences? Analysts also fear that this event may negatively affect other Samsung companies, even if their products and services were not faulty. Samsung, a family-controlled Korean conglomerate known as a chaebol, consists of an extremely diverse group of companies, ranging from construction to life insurance. Like the American automobile and financial industries in 2009, some believe that Samsung is "too big to fail" and that its collapse could hamper the entire Korean economy. Analysts will have to wait to determine if Samsung's malfunctioning phones will cause the company to falter. — HL

Sources: <http://ti.me/2dZourd>