

THE

OPTIMAL

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2011 Mac Miller Song Comes True

Despite a predicted 71.4% chance of winning the presidency by celebrated statistician Nate Silver, former Secretary of State Hillary Rodham Clinton lost the presidency in a stunning upset to businessman Donald Trump last week. Trump's victory came from working-class voters in traditionally Democratic-leaning states in the Rust Belt, namely Wisconsin, Michigan, Iowa, Ohio, and Pennsylvania. Clinton's campaign wrongly assumed victory in those states and instead focused advertising—which only critiqued Trump's temperament and barely mentioned her economic plans—in more conservative states that she also lost. In the initial aftermath, markets across the globe lost confidence and remain in a precarious state. Without a doubt, the next four years will be a boon for historians, but a nightmare for economists. — BF

Sources: nyti.ms/2fAyEAv, 53eig.ht/2910Inb

The Blitzen Boom

As the holiday season kicks off, businesses are preparing for the busiest time of the year. Consumer spending has been rising steadily from month to month over the past year, with a .8% rise in October alone, and with this many economists have said that the consumer is in a great position. Not only has consumption rose monthly over the last year, but there was also a 4.3% increase in retail sales, which was the largest rise since before the Great Recession. When consumer confidence and disposable income both increase, so does Americans' willingness to spend, and the economy benefits. However, this steady increase in spending has not influenced economic growth in any substantial way yet as the growth for this year as a whole has been slow even with a 2.9% increase in the third quarter. All factors considered, it seems likely that the Federal Reserve will raise interest rates at their meeting in December. Until then, perhaps, the U.S. economy will continue on the path to prosperity. — MW

When It Rains, It Pours

Tensions are flaring in Hong Kong as China is attempting to impart influence and stamp out democracy on the free-market paradise. During a recent swearing-in ceremony for new members of Hong Kong's Legislative Council, several members altered their oaths to include derogatory terms toward the mainland Chinese government and pledged allegiance to a "Hong Kong Nation". One member mocked the oath by reading it slowly taking over 10 minutes, another outright refused to have allegiance to China because it "murders its own people", and another gave his oath under a yellow umbrella, a symbol for Chinese democracy. In response, a Chinese court ruled the members cannot retake their oaths and would be barred from office. Hong Kong citizens viewed the ruling as an excuse to keep pro-democracy representatives out of the council and 13,000 protesters took to the streets clashing with police. Days later, Maggie Cheung led a larger counter-protest accusing the separatists of being a "destructive force that is against rule of law." In turn, the separatists charged that the counter-protest was a state-organized propaganda technique from Beijing. If China plans to further control Hong Kong, the semi-autonomous city will not comply easily. — PS



Sources: nyti.ms/2eUI7PL, bbc.in/2g3UVYM

Announcements

- Happy Thanksgiving! Thank you for reading the Optimal Bundle each week.
- Remember to read our blog each week at optimalbundle.org!
- Join our LinkedIn group: bit.ly/2e5ERER

I've Got Two Tickets to Revenue Paradise

Investigation

Following the mergers of the three flagship American carriers, much has been discussed about their effect on consumer price, competition and once thriving transportation hubs. Delta merged with Northwest in 2008, United merged with Continental and American merged with U.S. Airways in 2013. Collectively known as the “big three”, these became the world’s three largest airline companies by revenue. Meanwhile in the Middle East, another group of airlines has been carefully planning market dominance via slightly more controversial methods. Qatar Airways is based in Qatar, a tiny, resource-rich peninsula jutting into the Persian Gulf. Emirates and Etihad Airways are based in the United Arab Emirates, another wealthy country run by powerful royal families hedged in sovereign wealth funds. These three gulf carriers have entered into a feud with the “Big Three”, as U.S. airline executives argue that heavy subsidies by the royal governments prevent fair competition. Since 2004, proven subsidies to the Gulf trio have totaled almost \$50 billion, and have enabled them to expand without the normal commercial realities faced by the U.S. carriers.

In 2015, the American carriers filed a complaint with the Obama administration to investigate possible “seat dumping”. It is undeniable that Gulf carriers have mastered the potential of their countries’ strategic geography. These wealthy city-states are more or less equidistant to every continent and make the use of their cities as international transit hubs, not only reducing the cost of fuel, but multiplying revenue through the use of the fifth and sixth freedoms of the air, which govern international travel to prevent it from becoming entangled in political problems. This inorganic network is perceived to be unfair competition and contribute to struggling routes operated by U.S. carriers.

Rob Britton, a professor at Georgetown University’s McDonough School of Business, argues that in two years, “Etihad and Qatar Airways will have increased seat capacity to and from the U.S. by 42 percent, a staggering number that is not the result of market growth, but the fairy-tale economics of state subsidy”. Artificially manipulating the supply curves has allowed the airlines to operate into otherwise unprofitable destinations. The volume of U.S. cities to which these airlines operate is inconsistent with the tiny populations of the Gulf countries, clearly suggesting that local traffic does not drive the expansion.

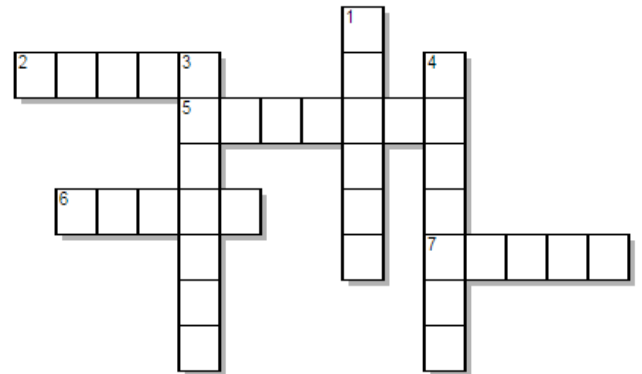
The Commerce Department under President Obama has subtly ignored the pleas from U.S. carriers because much is at stake. First, the Gulf countries are strategic allies, suggesting that conflict could interfere with delicate security operations.

Second, the Gulf carriers are the largest operators of Boeing aircraft, indirectly creating thousands of American jobs. There is little incentive for this trend to slow down, as Boeing fiercely strives to compete with Europe’s Airbus. Despite the aforementioned evidence of Gulf carriers receiving government assistance, it is clear the U.S. firms have also received generous incentives in the past. Following 9/11, the federal government provided assistance to airlines facing weak demand. Law requires U.S. government employees to only travel using only American-based carriers, and Chapter 11 Bankruptcy has allowed firms to regain market dominance after the 2008 recession. The Gulf carriers also argue that their profitability reflects the superior services they offer to consumers, services that have indeed earned them five-star rankings achieved only by a handful of airlines worldwide. Meanwhile, U.S. carriers appear much lower on the list, but perhaps American companies should not complain about anti-competitive behaviors given that they enjoy the same perks. — NG



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Trump’s the Umpire of his Empire



ACROSS

- 2 Hillary Clinton is down in the _____.
- 5 The NY Times called Trump’s victory a _____.
- 6 Who won the presidency?
- 7 Critics have called Trump’s body type this.

DOWN

- 1 Trump’s supporters were _____.
- 3 The Democratic Party got _____.
- 4 Trump’s victory means new financial regulations will be _____.