
WHAT TO DO??

**THE EFFECT OF TAXES, OIL PRICES AND HOUSING
ON GDP GROWTH AND EMPLOYMENT**

Assignment from President Barack Obama

“I cannot believe that in the midst of all the joy I feel about becoming President I have to deal with one of the worst economic crises in a very long time,” President Obama said to his cabinet on January 21. “We have to get the economy going again, and we have to make sure there is not going to be another recession in my first term. George W. is going to get the credit for the problem, and if things go well, I will get the credit for the solution, but if the economy goes down again, I will own the problems 100%.” Then the President looks over at you, his most trusted Economic Advisor. “As far as my election was concerned, I was obviously helped out when the economy fell off the cliff in September and October. I never could really figure out why things got so bad so fast. Why was that? What should we do now? Should we do another round of tax cuts, like the Republicans want? I am worried that the budget deficits in the future will be so large that I won’t be able to pursue my ambitious agenda for America. We only want tax cuts if they really help in the short run. What about some extra spending on infrastructure or other stuff? What if we ramp up spending on the War in Afghanistan.”

“Oh, I almost forgot about housing, where this all started. What do you think of some taxpayer bailouts for those having trouble with their mortgages? Or should we buy some toxic assets, like mortgage-backed-securities or maybe homes. What if we buy up 4 million vacant homes and rent them out to deserving American families?”

“The only bright spot in this whole mess is the price of oil. Those low gas prices should be pretty stimulating. Maybe that is enough. What do you think?”

“What should we do??? I am worried about both the growth of employment and the growth of real GDP. Get me a memo on this by tomorrow morning. No time to waste.”

What should you do?

What advice do you have to offer Barack? You need a confidently held point-of-view and you need it in a hurry. Your undergraduate textbooks in macroeconomics might help out. But they offer a lot of theory. Maybe you should check out the facts. The Eviews dataset named **DATA_EVEWS_WHAT_PREVENTS_RECESSIONS.wf1** has data and graphs and regressions that may help you out on this one. Click on things within those files to find all the good stuff.

Don’t let the abundance of data and regressions overwhelm you. Just focus your attention first on whatever you think is relevant to give a clear and simple answer to Barack’s concerns. What are the “stories” behind his questions? Then think of the variables and relationships you will probably want to use and check if the regressions/graphs that have already been run help you at all. If not, proceed with your own analysis. If nothing else, the regressions provided should help you to see the type of regressions that may give you good information.

MEMO TO PRESIDENT OBAMA: TELL A STORY

Write a one-page memo to Barack Obama indicating what you have found about the growth prospects for the U.S. economy and what you think his strategy should be regarding another a stimulus package. The President is a very busy man, and you need to make this memo brief and clear. Plan on telling a good story.

Attach to the memo any technical material that you think is particularly relevant. Be sure to include explanations of anything that you include. Keep it brief, however. Not more than 5 pages of technical material.

Quarterly Data

GDP	Gross Domestic Product: Billions of dollars; SAAR (quarterly)
P_GDP	Price Indexes for Gross Domestic Product: 2000=100; SA (quarterly)
RGDP	Real Gross Domestic Product, Chained Dollars: Billions of chained 2000 dollars; SAAR (quarterly)
Q_DEFENSE	National defense, Quantity Indexes: 2000=100; SA (quarterly)
Q_RES	Residential: Fixed investment: Quantity Indexes: 2000=100; SA (quarterly)
FED_RECEIPTS	Federal Government Current Receipts and Expenditures: Billions of dollars; SAAR (quarterly)
FED_EXPEND	Federal Government Current Receipts and Expenditures: Billions of dollars; SAAR (quarterly)

Monthly Data Transformed to Quarterly

P_CRUDE	Price of West Texas Intermediate Crude; Average Monthly NSA, Dollars Per Barrel //period=monthly
U	Civilian Unemployment Monthly Average Rate: Percent: SA
PAYROLLS	Total Employment (thousands), monthly averages SA
S_AND_P	S&P 500 Quarterly Close

Transformations, Growth of:

Employment	$g_payrolls = -1 + (payrolls/payrolls(-1))^4$
Real GDP	$g = -1 + (rgdp/rgdp(-1))^4$
Real Real Residential Spending	$g_res = -1 + (q_res/q_res(-1))^4$
Real Crude Oil Prices	$g_crude = -1 + (p_crude/p_crude(-1))^4$
Real Defense Spending	$g_def = -1 + (q_defense/q_defense(-1))^4$
Federal Receipts	$g_fed_rec = -1 + (fed_receipts/fed_receipts(-1))^4$
Federal Expenditure	$g_fed_exp = -1 + (fed_expend/fed_expend(-1))^4$
Real S and P	$g_s_and_p = -1 + (s_and_p/s_and_p(-1))^4$