Volume 5, Issue 1

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UCLA ECONOMICS

Undergraduate Newsletter

Editor: Joshua Strickfaden

Welcome Back Econ Bruins!

"Economics is everywhere, and understanding economics can help you make better decisions and lead a happier life."
—Tyler Cowen

Welcome New Professors!

The UCLA Department of Economics would like to extend a warm welcome to three new faculty members joining us for the 2016-2017 academic year. They are:

Professor Youssef Benzarti: Ph.D. (Econ) UC Berkeley

Professor Michela Giorcelli: Ph.D. (Econ) Stanford

Professor Martin Hackmann: Ph.D. (Econ) Yale

Understanding the Current Economy: UCLA Economists Speak Out

In recent months, UCLA economists have actively written and spoken about the current economic crisis. A list of links to the various opinions and ideas set forth by our economics faculty can be found on our website at: www.econ.ucla.edu/econcrisis. Faculty speak on issues such as how the current disaster was allowed to develop, how the proposed economic policies are likely to work and what the future holds for our economy.

Important Dates and Notices

Last day to add courses with a fee through MyUCLA: **10/14/16**
Last day to DROP non-impacted courses without a transcript notation and with a fee: **10/21/16**
Last day to change grading basis (optional P/NP) with fee through MyUCLA: **11/4/16**
Last day to DROP non-impacted courses with transcript notation and fee through MyUCLA: **11/11/16**
Last day to WITHDRAW from current term: **12/2/16**
Final Examinations: **12/5/16-12/9/16**

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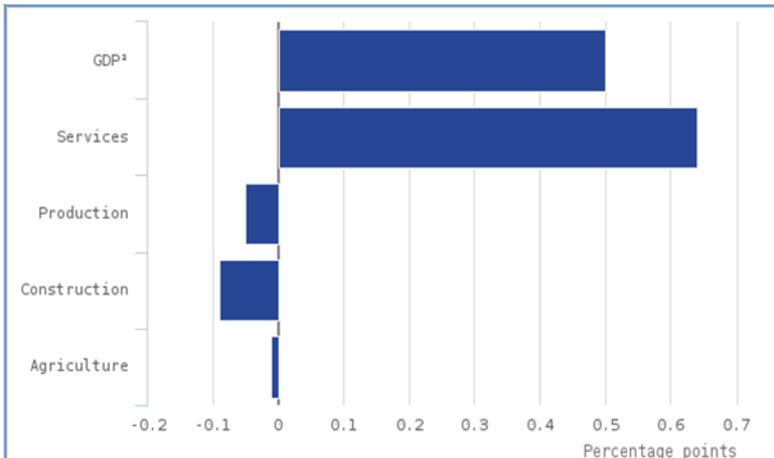
Opinion: A Glimpse at the Post-Brexit Economy

June 23, a day that will live in infamy as the day the United Kingdom made the unexpected decision to leave the European Union. With a shocking voter turnout of 72.2% (compared to the 66% turnout of the 2015 UK General Elections), the Brexit vote had renewed conflict between the "Remain" campaigners who wished to stay and the "Leave" proponents who hoped to free themselves from the EU. With the US Fed, WTO and IMF citing the potential costs of leaving the EU prior to the vote, the fear of a potential recession (coined Brecession) ballooned as markets panicked at the potential turmoil that could arise from the decision. How has the Post-Brexit economy fared five months into the decision and were the initial fears of a Brecession justified?

The first post-Brexit GDP figures released by the Office for National Statistics show a surprising increase in GDP of 0.5% during the third quarter, 0.2% higher than what was forecasted. This increase was mainly driven by the growth of the services sector, which makes up approximately 78.8% of the UK's GDP. However, industrial production, construction and manufacturing all shrank between 0.4 and 1.4%, showing the imbalance of growth within the economy. Nonetheless, the figures alleviated the short-term worries of a Brecession. The UK GDP, with the inclusion of the post-Brexit quarter, has now grown for fifteen consecutive quarters.



GDP contribution to the quarter-on-quarter percentage change, Quarter 3 (July to Sept) 2016

The British Pound had started declining months prior to the vote, recovered slightly before the vote on the belief that "Remain" campaigners would win and plunged after the decision, eventually reaching a 31 year low. A weak pound signals expectations of weaker economic growth and weaker inward investment as well as foreign investment into a local economy due to potentially lower interest rates discouraging saving and UK's loss of access to the Single Market. The Single Market, an EU provision, allows foreign companies to export from the UK to Europe without tariffs and non-tariff barriers. The fluctuations in the value of the pound since the decision have mainly rested on whether the UK would have a "Hard Brexit" or a "Soft Brexit." A "Hard Brexit" would prioritize giving Britain full control over its borders, causing it to leave the Single Market and renegotiate its trade deals (this would likely result in additional tariffs). As such, "Hard Brexit" fears would cause a drop in the British pound. On the other hand, a "Soft Brexit" would allow the UK to maintain its access to the Single Market and its existing trade deals on the condition that the UK contribute payments to the EU's budget and provide continued free access for European nationals to work and live in the UK.

Theresa May, the new Prime Minister, has shown support for a "Hard Brexit" with a stronger control over immigration at its core. May plans to trigger Article 50 of the Lisbon Treaty next March, which would signal the start of negotiations with the EU. The fears of an immediate recession have been calmed by higher than expected GDP growth; however, uncertainty continues to loom overhead and will certainly continue to do so well into the future. Will the recession fears be justified by then? Hopefully not.

Cr. www.unz.com/ (image)

Contributor: Charles Qian, Undergraduate Economics Student

Opinion: Indian Rupee Ban: When Cash Isn't King

It was a move that no one saw coming. Not the banks, not the media and certainly not the Indian public. Yet history was made. On November 8, India's Prime Minister Narendra Modi declared that the 500 and 1000 rupee notes (the two highest denominations of the Indian Rupee) would be scraped and rendered invalid henceforth. In a matter of seconds, India's most valuable notes turned into nothing more than a few scraps of paper. Let's take a look at why this happened and what the implications are for India.

The ban was intended as a surgical strike on black money, which refers to illegal cash holdings and income on which taxes have not been paid. Given that India's estimated black money is $400 billion (roughly 20% of India's GDP), this represents a pivotal moment in India's historical fight against corruption. Effectively, the ban forces individuals in possession of black money to either get rid of the cash or exchange these invalid notes for smaller denominations. In the latter case, to exchange substantial amounts of money, they must present financial statements that will be scrutinized by bank and tax agencies. If the numbers don't check out and undisclosed income is discovered, these individuals will incur a 30% tax rate charge as well as a whopping 200% tax penalty.

While the move appears to be ingenious, it definitely has economic consequences. India is a nation that has operated largely in cash (78% of all transactions were cash based). Furthermore, despite being the highest-denominated notes, Rs. 500 ($7.5) and 1000 ($15) notes are used by the majority of Indians day to day. In fact, the ban has resulted in 86% of India's currency to be discontinued. In due time, the government plans to release a new version of the Rs. 500 note and a new Rs. 2000 note. Meanwhile, the public is encouraged to deposit money in banks and convert existing notes into smaller denominations (a maximum of Rs. 24,000 per week can be withdrawn from the bank).

Financially, Indian banks will see a major spike in liquidity as deposits will rise within the next few weeks. Reports indicate that within the past few weeks, bank deposits have increased by approximately 3 trillion rupees. Lending activities will also be set to increase and there is expected pressure for the Reserve Bank of India to cut interest rates.

The decrease in consumer spending that we expect is going to hit some groups particularly hard in the short-term, especially small businesses and proprietorships that have operated cash-only for decades. Street vendors, roadside pharmacies as well as grocery stores that make up a large portion of the urban economy will also wake up to fewer people knocking on their doors. But it's not just them. E-commerce and digital platform services like Amazon, Flipkart and Ola that offer the popular cash-on-delivery option, will also face tough times ahead.

Opinion: Indian Rupee Ban: When Cash Isn't King, Continued

Questions?

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The future isn't looking too bright for the property market either (depending on which stakeholder you are). Real estate builders and groups will face the short end of the stick, as they can no longer continue to charge the currently exorbitant price per square feet that the market offers. Downward pressure on property prices will also ensue. In addition, homeowner loans will be more readily available, complemented by low interest rates. One group that is skeptical about the implications are Indian jewelers. On one hand, there are expectations that Indians will turn to purchasing gold, which presently seems to be the more stable, "safe" option. On the other hand, they worry about the major decline in demand for big-ticket items like jewelry. There is merit to this point considering that most purchases take place in cash, given that the costs of such purchases run into many lakhs and that most consumers' credit limits are often below the purchase price.

Looking towards the macroeconomic impacts, the Indian economy is bracing itself for short-term deflation. The impact of this itself poses grave consequences for the lower class, many of whom work in the shadow of India's "hidden" underground economy. But even worse hit is India's middle class, people who possess the kind of spending power to discharge 500 and 1000 rupee notes yet are prudent enough to save in cash. However, within a year, we should expect economic growth once again. Although opinions are divided, it is unlikely that we would see major fluctuations in the currency's value since the government is working to replace old notes with new ones, thus preventing the vacillations one would expect to arise from a drop in the money supply. The only costs at the moment are short-run adjustment costs to ensure that new notes are being printed in a timely fashion.

All this said, perhaps this move has provided a new direction for India's economy to move towards a cashless economy. With India home to 1.3 billion people and having over 1.1 billion established phone connections, it has long been in the interest of the current Indian government to facilitate the provision of banking services and e-payment services across India. The recent initiative, "Pradhan Mantri Jan Dhan Yojana" launched by the Modi government has the bold vision of integrating banking services and making it inclusive for not just urban India but also rural India (which consists of thousands of villages that do not even have banks). The combination of such initiatives and other services like that of Digital Kendra, which aims to provide India with cashless, digital outlets for day-to-day transactions, means that the country is steering down a potentially new, game-changing path and this short-term ban may set things in motion.

For India, this ban represents many things. A concrete step towards fighting corruption. The government's belief in its people. A path to a digitally secure and convenient future. How the citizens and the world respond to it will matter in the long-term, but for now, we shall continue to wait and watch.

Cr. http://indiatoday.intoday.in/ (image)
Contributor: Adithya Kumar, Undergraduate Economics Student