

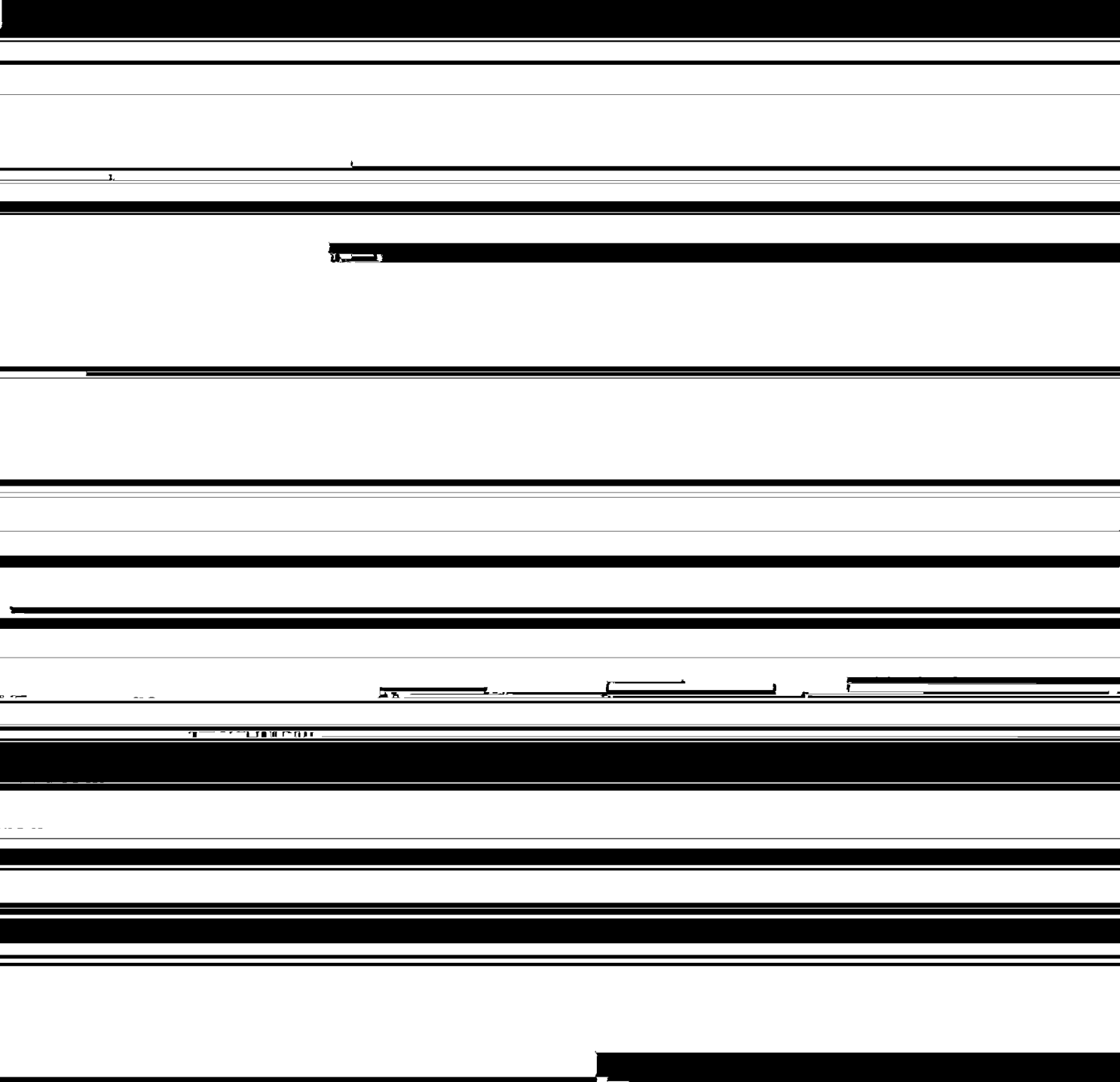
Economics

Department Alumni Newsletter

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Bob Stonebraker, editor

Photo Quiz

Yes. You see it. A photograph. The first one to ever appear in a Department of Economics Alumni Newsletter. The wonders of digital technology crushed my long-standing editorial resistance.



ROAST PIG!?

by George Radakovic

~~You roast pig. Slaughter roasts pig served spectacularly by the same who brings you this newsletter~~

The data, reproduced in the graph below, show a strong inverse correlation between crashes per thousand drivers and age. Looking at the graph, policy-makers have concluded that getting the younger drivers off the road will lead to radically lower accident rates. Their chain of logic is:

- a) accident rates are very high among sixteen and seventeen-year-olds;
- b) prevent them from driving when they're sixteen and seventeen and the roads will be safer;
- c) if they start driving at eighteen, they will begin with the lower rate observed on the graph for

Economics, 1958). The argument is that some business firms (drivers) will be better adapted to safe driving than others. Although bad accidents can and do happen to good drivers, the odds are not good

[*The Long-Run Growth in Obesity as a function of Technological Change*, Working Paper W7423, National Bureau of Economic Research].

Prices and Quantities

Quick. What has happened to food prices over time? That's right. They have fallen. Technology drives food prices down. With better equipment, better seed, better fertilizer, and better techniques, farmers continue to produce more with less. Since World War II farm productivity has soared at almost twice the rate of the rest of the U.S. economy. Even though we eat out more often, the relative cost of food continues to fall. Americans now spend only 10 percent of disposable income on food, down from almost 25 percent in 1929. In short, food is cheap and getting cheaper. And, when prices fall, the quantity consumed rises.

Of course, increased eating could be offset by increased exercise. Even a bag of crunchy cheese puffs could be counterbalanced by appropriate penance on a treadmill. But, don't bet the ranch on it happening. Food may be cheaper, but exercise is more expensive. Our great-grandparents had no need of

three days actually pursued additional eats more aggressively than those on restricted diet.

Rossetti's explanation comes from evolutionary biology -- and economics. When food is abundant, animals are programmed to eat as much as possible and to store excess fat for potential famines to come.

The bodies of those rat coming off a three-day caloric coma were apparently screaming, "food is abundant, forage and eat while you can." However, poorly-fed rats hear very different biological signals. Expecting little food, they turn off their appetites. Why expend scarce energy to forage if no food is to be found? In other words, when "nutrients are available, a sensible animal will hoard them. If they are

the Reagan tax cuts.

What is fueling the current expansion? One factor is the fruits of the technical revolution in which corporations have invested large amounts in new production processes, equipment and computers. These investments, made in the face of increased global competition, have increased productivity as well. A second factor has been the skillful guiding of monetary policy by the Federal Reserve Board led by Chairman Alan Greenspan.

As the nation enters a new century and an election year, will the expansion continue or will it run aground?

Economic Expansions since World War II

<i>Beginning</i>	<i>End</i>	<i>Duration (months)</i>
October 1945	November 1948	37
October 1949	July 1953	45
May 1954	August 1957	39
April 1958	April 1960	24
February 1961	December 1969	106
November 1970	November 1973	36

November 1982	July 1990	92
March 1991	???	108*

* Through February 2000

Source: National Bureau of Economic Research

Unemployment: How Low Can it Go?

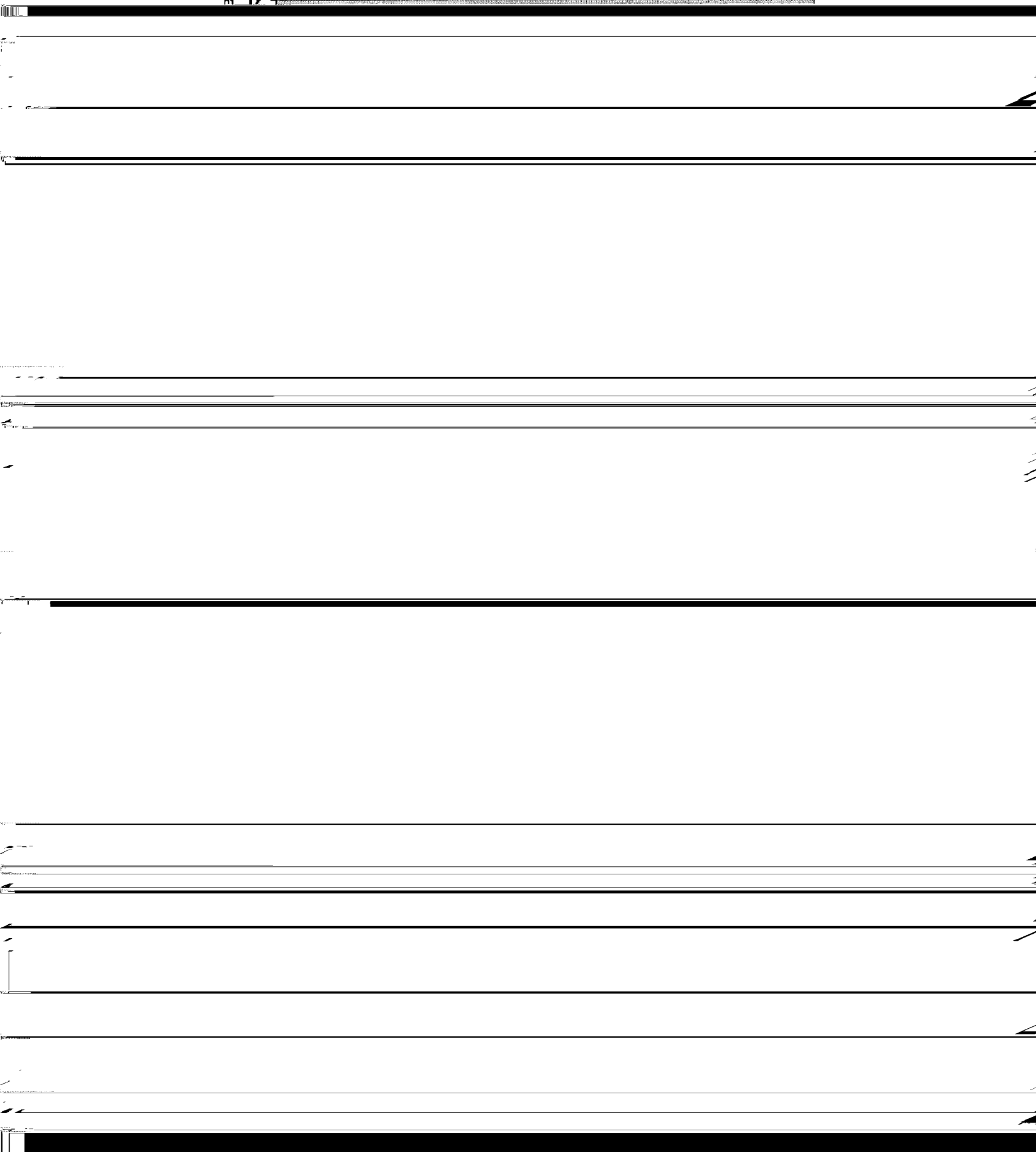
by Robert J. Stonebraker

Down, down, down. How low can it go? Unemployment has not been this low since the 1969. Neil

U. S. Unemployment Rates

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joblessness. By providing a ready pool of pre-screened workers, temporary agencies enable employers to lower hiring costs and more easily resist wage demands of incumbent employees. In addition, the "job
[redacted] experience gained by temporary workers ease their transition into longer-term positions

[redacted]

[redacted] provided with well publicized layoffs and corporate

[redacted]