The Park Place Economist

Volume 15 | Issue 1 Article 7

4-1-2007

Global Economics 101

Minh Nguyen
Illinois Wesleyan University

Kunaey Garg
Illinois Wesleyan University

Lane Coonrod
Illinois Wesleyan University

Babawande Afolabi
Illinois Wesleyan University

Bukola Olaosebikan
Illinois Wesleyan University

Global Economics 101

Global Economics 101

Minh Nguyen, Kunaey Garg, Lane Coonrod,
Babawande Afolabi, and Bukola Olaosebikan

Five Illinois Wesleyan University students reveal their personal perspective on the global economy in this "primer" on the economies of four countries across the world. Minh Nguyen, Kunaey Garg, Babawande Afolabi, and Bukola Olaosebikan, international students currently enrolled at IWU, as well as Lane Coonrod, a U.S. student who studied abroad, provide a unique glimpse of the economic environments of Vietnam, India, Nigeria, and Chile. While their accounts are not intended to describe the full range of conditions in these foreign economies, the articles do reveal just how much economics impacts the lives of individuals across the globe - no matter the country or continent.

A New Player on the World Stage
Minh Nguyen

Growing up during the post-reconstruction period, I never experienced the hardships that people went through when the Vietnamese economy collapsed after the Vietnam War. When I was born, the country was already in its expansion era, and since then the economy has improved a lot over the past twenty years.

After losing financial support from the old Soviet blocs, the economy initially grew at a very slow rate before the pace of economic growth picked back up. As a very small economy, the Asian financial crisis in 1997 did not cause much damage to the Vietnamese economy. Compared to other countries in Southeast Asia, Vietnam's economic growth has improved significantly, and its GDP growth rate is currently about 6.8 percent.

With this increased economic growth, Hanoi, the capital of Vietnam and the city where I was born and raised, has experienced dramatic changes. The streets are now crowded with motorcycles, rather than the bikes that people used to ride in the old days. For many people, the standard of living continues to improve; however, a large proportion of the population still lives in absolute poverty.

In my lifetime, Vietnam has also joined the ASEAN Free Trade Area (AFTA) and signed the US-Vietnam Bilateral Trade Agreement. These changes have moved Vietnam from being a closed economy to an open economy. Trade with other countries has strengthened Vietnam's economy, and the country's positive trade balance has helped increase national income. A more open economy also means that more goods and services are available to Vietnamese consumers. This openness has dramatically increased the personal consumption of Vietnamese citizens, further improving their living standards. Cars are now much more commonly used for transportation in Vietnam, yet they are still considered a luxury good because of the taxes and tariffs associated with the purchase of cars.

Earlier this school-year, Vietnam joined the World Trade Organization. This has opened up more opportunities to foreigners to invest in Vietnam, and reduction of tariffs and quotas has further improved the country's trade balances. Joining the WTO will surely bring about more significant changes in the economy. Vietnam has long awaited membership in the WTO, and even though the country has just joined, I expect Vietnam's GDP growth rate to continue to increase, sparking improvements in the economy as a whole.

Minh Nguyen is a sophomore economics and business administration double major from Hanoi, Vietnam. He has also lived in Washington, *DC and Fort Worth, Texas.*

The Indian Economy: Of Tigers on Fire
Kunaey Garg

As I set foot out of the airport, one thing hits me about my country - the number of cars on the road. Just four months ago, the roads in my city, Kolkata, were relatively manageable; now, they are bustling with activity from all corners. Traffic is horrible and the air around me is anything but clean; prices are high and the food is still as spicy as ever. As I considered all the changes occurring in my town, I thought of the recent economic changes occurring in my country.

The Indian economy is currently booming. Its growth rate touched 9.2 percent last quarter, a close second behind China's 10.4 percent growth rate. If one considers purchasing power parity, India's economy is the third largest in the world, after China and America. However, it seems unlikely that India will be able to sustain this economic growth in the long-run.

The problem in India is that the government cannot keep up with the rate of economic growth. Fast growth pulls millions of people out of poverty, but these high growth rates, combined with an underdeveloped infrastructure, a high rate of inflation (6-7 percent), a widening current account deficit, and various other signs of overheating could very well tame the Indian tiger. In fact, 99 percent of Indian companies now report that they are running at or above their optimal capacity. The Reserve Bank of India has been too timid with its monetary policy, with increases in interest rates not even keeping up with consumer price inflation.

With all these classic signs of overheating, India seems to be headed for a rough landing if the government does not act quickly and enact policies to increase supply and sustain the country's high rate of growth. In the next few years, it is predicted that India's growth rate may even surpass China's growth rate, even if for just one quarter. The Indian tiger is eating its share, but it may be eating too fast. The Indian government needs to realize that the economy is overheating and implement policies that will allow the tiger to be happy and full at the same time.

Kunaey Garg is a sophomore economics and business administration (finance concentration) double major with a minor in philosophy. He is from Kolkata, India.

A Market for Everything: Lessons from Don Bernardo
Lane Coonrod

Three men sit by a street under a tree. They are perched on buckets, talking about politics, soccer, and the days of old. They get up with each passing car, their pants jingling as they move towards the street. It's a crowded street, not busy yet active with pedestrians since there are houses, apartment buildings, and businesses all close by. With all this activity, there is great demand for parking, a demand that when coupled with limited supply creates a market for parking solutions—and this is exactly why these three men wait.

Their goal is to fit as many cars as possible in the limited space that exists on the three long blocks they patrol. Their source of revenue is each car that gets in and out of a parking spot, (cars typically give loose change of up to $0.25 to the parkers). With each added car, added revenue. If that wasn't enough, somewhere along the line they figured out that cars would pay for windshield and/or full car washings, hence the buckets they sit on. The parkers have even begun to offer a variety of other services that include valet parking, gas fill-up while you're at the office, and empanada and coke runs for those busy days when you don't want to stop anywhere during rush hour. If people are willing to pay for it, they are wiling to supply it.

On the surface it seems like just the human equivalent of parking meters with a little added fluff, but the task of the parker, as it turns out, is about selling information more than anything else. The parkers are there everyday, they know all the regulars, their schedules, and how to maximize profits with this knowledge. I was shocked one day while conversing with Don Bernardo, the leader of the three and caretaker of both blocks of Alberto Magno street, when he was able to tell me at exactly what time each car would be leaving its spot, at what time each car arrives at its spot, and where each car owner went after parking the car. What good is it to know at what time a car owner might return to his car? The extra three or four feet that can be salvaged by backing a car in even closer to the one behind it that won't be leaving any time soon. The exchange of information and space maximization strategies complement well the precision parallel parking abilities of these three parkers.

In a labor force of over 6 million, these three Chileans and the many like them throughout the booming metropolis of Santiago, Chile may seem insignificant in the grand scheme of things. However, they do demonstrate an entrepreneurial spirit and creative use of information that allows them to continue supporting themselves and their families. Although it may seem like something out of an episode of Seinfeld, it's real and it shows there truly is a market for everything that has potential to turn a profit.

Lane Coonrod is a junior economics major and mathematics and hispanic studies double minor from Quincy, Illinois. He studied in Santiago, Chile through IES during the spring semester of 2006.

Giant Strides in the Nigerian Banking Sector

Babawande Afolabi and Bukola Olaosebikan

Until about two years ago, the banking system in Nigeria was a joke. In fact, I remember the first class I had on the banking system; the whole class could not help but laugh when a classmate defined a bank as a casino where the most ardent gambler will decline to play because winning was not an option. Obviously, my classmate exaggerated the reality of the banking situation; however, the core of the hyperbole was certainly valid. Each passing day saw numerous "valued customers" and investors losing their resources without much ado.

Due to the lax regulations governing banks' minimum capital base, it wasn't unusual for a bank to go bankrupt overnight leaving customers and investors gasping for breath. Since the banks could not initiate or support even the most meager capital investment, they sought solace in cracks in the accounting standards—sometimes exaggerating profits to lure the unwary public. The result was having many banks in the system that could not perform the colossal roles of financial intermediation process, mobilization of funds for investments, and wealth creation.

However, a new leaf turned over two years ago with the advent of a new Central Bank governor, who raised the capital base requirements for banks. This was a major step that set the motion for a vibrant banking system that will inspire and support an evolving economy. Banks merged, creating a strong pool of wealth for capital investments. Now there are twenty-five major banks, some with as many as four hundred branches. Amongst many other things, the banking sector restructuring has motivated more people to invest and save their money within the country. Banks are now more aware of competition, so customer services are greatly improved. The formerly tepid Central Bank has become much more effective in its supervisory role, and many mission statements have been developed by respective emerging banks that forecast a good future for the Nigerian economy.

Babawande Ipoola Afolabi is a first-year student *who is double majoring in economics and business administration (finance concentration). He is from Ile-Ife, Nigeria and has also lived in Ibadan, Nigeria and Lagos, Nigeria. Bukola Olaosebikan is a sophomore business administration (finance concentration) and computer science double major from Lagos, Nigeria. She has also lived in Kwara, Nigeria.*

Remembering Two Economic Giants

Quentin Brummet

The past year saw the passing of two of the most distinguished individuals within the field of economics. In April, John Kenneth Galbraith passed away at the age of 97, while in November, Milton Friedman passed away at the age of 94. Although the two economists held greatly divergent economic ideas, their contributions to economics immensely impacted our current understanding of the field.

Galbraith was born on October 15, 1908 in Ontario and raised in Canada. He attended Ontario Agricultural College (now the University of Guelph) for his undergraduate degree and received a masters and doctorate from the University of California at Berkeley. Economically speaking, Galbraith was a devoted Keynesian and liberal, and he became known as the "Last American Institutionalist." For example, his book *The Affluent Society* suggested that the United States should make large investments in highways and education after World War II.

Galbraith was not just an "ivory tower" intellectual, however. In addition to working as an advisor under the Roosevelt Administration, he also served as "price czar" during World War II, and he later became ambassador to India under the Kennedy Administration. In 1972, he served as president of the American Economic Association, and in 2000, he was awarded his second U.S. Presidential Medal of Freedom.

Despite his numerous publications and accolades, Galbraith is considered by many to be slightly outside of mainstream economic thought, as Keynesian ideas have not been in accordance with mainstream economics since the late sixties. However, his ability to combine public servitude with scholarly aptitude made him a giant within the economic field.

Milton Friedman was born on July 31, 1912 in Brooklyn, New York. His family then moved to New Jersey, where he grew up before attending Rutgers for his undergraduate work, double-majoring in mathematics and economics. He then went on to the University of Chicago for his masters before receiving a doctorate from Columbia University.

Friedman's economic ideas were much different than Galbraith's. His rise in the field of economics came at a time when Keynesian ideas were very much the mainstream. His classical ideas were in opposition to the contemporary economic models and notions, and in many ways, his concepts and theories changed the tide of economic thinking. Friedman's idea of monetarism was revolutionary, leading to a much different perspective on the role of government in stabilizing the economy. He also strongly advocated a floating exchange rate, an idea which was criticized at the time but was eventually implemented. Furthermore, Friedman's views on school choice and voucher systems were extremely rare when he first wrote about them, but nowadays—in large part due to his involvement—many voucher experiments have been performed all around the United States.