

Ten Economic Challenges – Concepts You Should Know

IMPORTANT – READ THIS FIRST: The Euro Challenge is intended to introduce high school students to economic concepts and encourage them to think about how they apply to countries that have adopted the euro. The list of concepts below are intended to help you to focus on what you need to know in order to do well in the competition, although you wouldn't necessarily be expected to include all of them in your presentation. Many, if not most, participants come to the competition with little or no knowledge of economics or Europe. When first starting out to research your topic, some of the concepts below may seem difficult to grasp. It is important not to be discouraged. Over time, as you do more research, you will find that you do begin to develop a better understanding of concepts you had not previously thought about. And the Euro Challenge forum, where you can ask questions and get more information, is always just a click away.

For each of the ten economic-related challenges, we have drawn up a list of concepts, in the form of questions, which your team should make sure it researches and learns as it develops its presentation and prepares for the judges' questions. These lists will hopefully be helpful as your team works to address the second and third parts of the Euro Challenge question:

2. Select one economic-related challenge confronting the euro area as a whole (from the list provided), and pick one of the 16 member countries of the euro area to illustrate that challenge.

3. Recommend a policy or policies for addressing the challenge you identified in the country you selected. Be sure to include in your recommendation a discussion of how having a single currency may or may not affect the policy choices for addressing the challenge. (Hint: for some challenges, membership of the euro area may be relevant, but for others it won't be).

1) Slow Growth

- Do you understand the difference between the **level** of Gross Domestic Product (GDP) and the **growth rate** (%)?
- Do you understand the concept of **GDP per capita** and why it is a useful measure for making cross-country comparisons?
- How would you explain the **higher level of GDP per capita in the US** compared to euro area countries (e.g. higher employment in the US, longer hours worked, higher productivity of US workers)?
- What are the **reasons for sluggish growth** in some euro area countries? Are these due to the **business cycle** or to **economic fundamentals** (i.e. structural features of euro area economies such as higher unemployment)?
- What can a country do to raise its growth rate in the short term (e.g. government spending, interest rate cuts)? What can it do to raise economic growth in the long term (e.g. investment in education, research and development, technology, infrastructure)?
- What is meant by a country's **potential growth rate** (Hint: speed limit)? What will happen if a country tries to grow above this rate for an extended period? What can a country do to raise its potential growth rate?

- Can completing the European Union's **single market** help to raise economic growth? In what way?
- Why is the **Lisbon Strategy** (also called the Strategy for Growth and Jobs) potentially important for raising growth rates in the EU? What has your chosen country done under the Lisbon Strategy, and what does it plan to do in future?

2) High Unemployment

- What exactly does the **unemployment rate** measure?
- What is the difference between the unemployment rate and the **employment rate**? Are they just the opposite of each other? If not, why not? What are the unemployment rate and the employment rate in your chosen country?
- Are there **different types of unemployment** (frictional, cyclical, structural)? In your chosen country, which type of unemployment is more important?
- In your chosen country, is the unemployment rate higher for certain groups (e.g. women, minorities, older workers, younger workers)? What policies can help to address low unemployment rates for particular groups?
- Do **generous unemployment benefits** and **high labor taxes** have an impact on the incentive to look for work in your chosen country? What can be done about this?
- Is **labor mobility** (occupational, geographical) high or low in your chosen country? What can be done about this?
- Do **workforce skills and educational attainment** correspond with the needs of businesses in your chosen country? If not, what policies would you recommend to raise skills and education levels?
- Why is **labor market flexibility** important? Why might restrictions on companies' ability to fire workers lead to higher unemployment?
- Why is the **Lisbon Strategy** (also called the Strategy for Growth and Jobs) potentially important for raising employment rates in the EU? What has your chosen country done under the Lisbon Strategy, and what does it plan to do in future? What is the Lisbon employment target and how far is your country from reaching it?
- Is there anything the European Central Bank can do to lower unemployment in the long term?

3) Inflation

- What is **inflation**, and why is it a bad thing? (Hint: watch the ECB price stability video)
- What is **deflation**, and why is it also a bad thing? (ditto)
- How is inflation measured?
- What is the **job of a central bank**? What is the mandate of the European Central Bank? Is it different from the mandate of the US Federal Reserve? (see video)
- How are fluctuations in **commodity prices** (energy, food, etc.) viewed by central bankers in their assessment of inflation?

- What are **inflation expectations**? How can they become self-fulfilling? What do you understand by the term **wage-price spiral**? (i.e., higher prices lead to higher wages, which lead to even higher prices)?
- What are the **causes and effects of inflation** in the country you selected?
- What is **competitiveness**, and has your country's competitiveness suffered as a result of higher inflation than its trading partners?
- What **policies** can or can't your chosen country pursue to tackle high inflation, given that it is a member of the euro area? What policies might be best to reduce inflation but not dampen economic growth?

4) Adapting to technological change (including raising productivity)

- How can new technology (e.g., information and communication technology (ICT)) help to boost growth and productivity?
- Has your chosen country been able to use new technology well and to adapt to technological change?
- What does productivity measure?
- What is meant by the **level of productivity** and the **rate of productivity growth**? How does your chosen country measure against other countries in terms of both of these?
- What role has adaptation to technological change played in the gap between productivity growth in the United States and in the euro area in recent years?
- What role do the quality of **education** and **skills training** in your chosen country play in helping it to better adapt to technological change?
- How does your chosen country measure up in terms of encouraging research and development, innovation, and entrepreneurship?
- What policies has your chosen country decided to undertake under the **Lisbon Strategy** in order to increase productivity and make better use of technology? What is the target for R&D expenditure established by the Lisbon Strategy, and how close is your country to meeting it?

5) Globalization (including immigration)

- What is meant by "**globalization**"?
- What are some of the greatest **benefits** of globalization, and what are the some of the greatest **costs** of globalization?
- In your chosen country, what group(s) gain or lose from globalization? (e.g., companies that export, companies that import, consumers, workers of different skill levels)?
- Has there been any "**backlash**" against globalization in your chosen country? What are the arguments used by anti-globalization groups, and are these arguments valid?
- Do you think that globalization has been more of a positive or a negative development for your chosen country in terms of its overall effect on the economy as a whole?
- Is your chosen country having problems competing globally? If so, why?
- How does **immigration** relate to globalization? Has your chosen country experienced an inflow of immigrants?

- How has your chosen country fared in **integrating** these immigrants into its economy and society? What role has the skill level of immigrants played in the success or failure of this integration?

6) Aging (including health care)

- What is the "**Old Age Dependency Ratio**", or OADR, and what does it measure?
- How does the OADR in Europe compare with the OADR in the US? What impact will a rising OADR have on European countries (economy, society)?
- How much does your chosen country spend on **health care as a percentage of its economic output (GDP)**, and how does this level of spending and measures of **health outcomes** (life expectancy, infant mortality, etc.) compare with other countries (e.g., other euro area countries and the US)?
- How are **pensions and health care funded** in your chosen country? Have there been **reforms** to those systems, or are reforms being considered for the future? (see **Lisbon Strategy**)
- How does the cost of funding pensions and health care systems affect the **tax burden** in your chosen country? What is the impact on the employment and income of working people?
- What can governments do to ensure that they can still afford government-provided pensions and health care in the future, even as the demand (and cost) for these increases due to demographic shift (population aging)?
- Do you think that people should be asked to retire later since the population is living longer?
- Are some of the policy options for addressing an aging population (e.g., raising the retirement age; retraining older workers) politically acceptable ideas in your chosen country?
- What would you recommend policymakers do to explain the **consequences of aging** on the economy and society, and to gain support of policies from both younger and older voters?

7) Living with a single monetary policy

- What is meant by the saying "**one size fits all**" with respect to monetary policy in the euro area?
- What policy tools do countries **give up** when they join a monetary union?
- What **benefits** do they gain in return?
- What are the **consequences** of a euro area member country having higher inflation or slower GDP growth than the euro area average?
- How has your chosen country **performed** (in terms of growth, inflation, unemployment) compared to the euro area average since it adopted the euro?
- What **problems** have arisen for your chosen country as a result of its having to live under the single monetary policy set by the European Central Bank?
- What **policy tools** has it used so far, or could/should it use in the future, to address these problems?
- Do you think it is important for euro area member countries (and your country more specifically) to "converge" to a similar economic performance?

8) Sustaining the social system (welfare state)

- What is a **social welfare system**? What programs does it include (e.g., unemployment benefits, pensions, health care)
- Is there one "**social model**" in Europe, or many? Do you understand, in general terms, the different model types?
- What are some of the **pros and cons of generous social systems** that strive to redistribute wealth?
- What **type of social model** does your chosen country have? (i.e., how generous are benefits relative to other countries; how high or low level is protection for jobs and workers?)
- What is meant by the "**sustainability**" of the **welfare system**? (Hint: how to be able to keep paying for these social programs in the future, when their cost keeps growing)
- How can Europe (and your chosen country specifically) find a politically viable way of adapting its social model (e.g., **trimming social benefits**) that is fair to all **generations**?
- How are **pensions and health care funded** in your chosen country? Have there been **reforms** to those systems, or are reforms being considered for the future? (see **Lisbon Strategy**)
- In what ways can social programs be a **disincentive to economic activity** (hiring workers, looking for a job, tax burden on companies and households)?

9) Coping with a housing market slowdown?

- What is a "**bubble**" (in the economic sense of the term)?
- What happens to an economy when a housing bubble bursts or deflates?
- In what ways is the housing market downturn in your chosen euro area country similar to the **US housing crisis**, and in what ways is it different? (e.g., causes and effects, are there many subprime borrowers?)
- What has been the **impact on economic activity** (GDP growth) in your chosen country as a result of the housing market slowdown?
- What is the "**wealth effect**", and has there been such an effect on consumer spending in your chosen country as a result of the housing slowdown?
- What **policies** is your chosen country undertaking, or what policies might it undertake, to help its housing market to recover and to help lessen the impact of the housing downturn on the overall economy?

10) High government deficits and debt

- What is the difference between a government **deficit** and **debt**? (hint: the bathtub analogy helps here)
- How has your chosen country performed in terms of these measures of a government's fiscal situation? What are the **deficit-to-GDP and debt-to-GDP ratios** of your country?

- To what extent will population ageing affect the **"long-term sustainability" of public finances**?
- What role does the **Stability and Growth Pact** play in the euro area in terms of keeping national governments from pursuing irresponsible fiscal policies?
- How has your chosen country **performed** with respect to the Stability and Growth Pact limits since the introduction of EMU ten years ago?
- What could be the impact of increased **government borrowing** on interest rates and inflation
- When does **fiscal stimulus** (e.g., deficit spending or tax cuts to stimulate domestic growth) make sense, and when does it not make sense? (e.g., short-term benefits versus the long-term costs)
- Would you advocate fiscal stimulus for your chosen country in the current situation? Why or why not?
- Have you thought about how different **generations** might value government spending differently? (e.g., things with short-term versus long-term value, such as food stamps versus bridges)