



The Little Book of Economics: Guided discussion questions

Chapter 1: The Secrets of Success

1. According to the author, upon which three things upon does a country's economic growth (productive capacity) rest? Explain each.
2. How does a government nurture its nation's economic growth?
3. At the end of chapter 1, the author poses a question: "Will the U.S. become the next Japan?" What is his answer?

Chapter 2: Economic Bungee Jumping

1. What important role does the National Bureau of Economic Research play in the analysis of the U.S. economy?
2. What era have economists identified as the Great Moderation, and why?
3. What is a "Minsky moment," and when has one occurred recently?
4. "Depressions are like plagues: devastating, rare, and only dimly understood until after the fact" (p. 29). Explain what the author means by this statement.

Chapter 3: In-Flight Monitor

1. Ip likens the U.S. economy to an airplane. What does he claim are the airplane's four engines? Explain each and identify their respective percentage shares of gross domestic product (GDP).
2. Besides GDP, what are three economic indicators that economists use to track the health of the economy? Explain each.
3. According to Ip, what are the leading federal agencies that serve as the "mapmakers," gathering statistics and data to track the economy?

Chapter 4: Labor Pains

1. Say's Law is an economic principle that says "supply creates its own demand." How does the author explain this law? How does he relate it to the topic of chapter 4?
2. "The job market is a wonderfully chaotic Petri dish in which new jobs are constantly being created or destroyed" (p. 50). Explain this statement. Who does the author claim creates most jobs?
3. What is the author's definition of "real pay?" What factors create real pay?



4. “The natural rate of unemployment is to economics what black holes are to physics: We know it’s there but we can’t really see it” (p. 56). Explain what Ip means by this statement.
5. Contrast the payroll and household surveys that the U.S. Bureau of Labor Statistics conducts.
6. What is the significance of the U-6 unemployment rate?
7. What is the author’s vision of the “Job Market of Tomorrow” (pp. 61–2)?

Chapter 5: Fire and Ice

1. According to Ip, what are the ways that inflation contaminates prices that he calls the “air supply of markets”?
2. “There are two competing schools of thought on the causes of inflation. Listening to them is like listening to creationists and Darwinians argue over how life began” (p. 68). Explain the two schools of thought on inflation.
3. How does the author defend the following statement: “In the long run, inflation is a political choice”?
4. Contrast the consumer price index (CPI) and the personal consumption expenditures index (PCE).
5. What is the significance of the GDP deflator?
6. “Gold and commodity prices are much better measures of the fear of inflation than as predictors of inflation.” How does the author defend this statement?

Chapter 6: Drop the Puck!

1. What is Ip’s definition of globalization? How does globalization affect the “economic growth, jobs, and interest rates” of nations (p. 87)?
2. According to the author, why are Americans afraid of increased international trade?
3. What does the author identify as the short-term factors affecting the swings between trade surpluses and deficits?
4. Why is free trade a “tough sell” politically in the United States (p. 96)?
5. Explain the following terms: *subsidies*, *dumping*, *surges*. (Explain them relative to international trade.)
6. Why does Ip liken the World Trade Organization (WTO) to a sports referee?

Chapter 7: All the World’s an ATM

1. What is a current account deficit? What are the inherent gains versus risks of running current account deficits?



2. Explain the following statement: “Of all the thousands of prices in a modern economy, the most important may be the price of its currency” (p. 107).
3. Contrast fixed and floating exchange rates. Why do some nations peg their currency to that of another nation? Cite a specific example from the chapter.
4. Why is the U.S. dollar the world’s reserve currency? What are the potential costs associated with this status?
5. How is a nation’s balance of payments calculated?

Chapter 8: All the President’s Men

1. Explain the four key agencies that advise the U.S. president on matters related to the U.S. economy.
2. Contrast the regulator responsibilities of the Federal Reserve System and Federal Deposit Insurance Corporation (FDIC).
3. Contrast the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC).

Chapter 9: The Buck Starts Here

1. What event led to the creation of the Federal Reserve System?
2. When economists and others say the role of the Federal Reserve is to promote an “elastic currency,” what do they mean (p. 138)?
3. According to the author, the Federal Reserve has made “two monumental mistakes” since its creation (p. 139). What are they?
4. Explain the structure of the Federal Reserve System.

Chapter 10: White Smoke over the Washington Mall

1. Explain how the Federal Open Market Committee (FOMC) functions.
2. Contrast the members of the FOMC who are considered hawks versus those who are doves.
3. What did former Fed chairman William McChesney Martin mean when he said that the role of the Fed is “to take away the punch bowl just when a party gets going”? (p. 148)
4. “Nowadays it is hard to shut the Fed up: It spews forth a virtually continuous gusher of information and commentary” (p. 149). How does the author defend this statement?
5. How does Ip define the following terms: *open market operations*, *Fed funds rate*, and *quantitative easing*?
6. Why is it critical for U.S. presidents to respect the independence of the Federal Reserve (p. 160)?



Chapter 11: When the World Needs a Fireman

1. “Whenever the financial system catches fire, the phones soon ring at the Fed station house.” What does the author mean by this statement?
2. Define *seignorage*, and describe what the Fed has to do with it (p. 169).
3. Explain the role of the Federal Reserve System’s discount window.
4. Why did the Federal Reserve System make loans via auctions during the recent financial crisis?
5. What “loophole” did Congress insert into the Federal Reserve Act in the 1930s, and how did policymakers make use of this during the most recent financial crisis (pp. 171–72)?

Chapter 12: The Elephant in the Economy

1. Explain the three main categories of federal government spending. Define *entitlements*.
2. What are the largest categories of entitlements and the long-term cost implications of these programs?
3. Explain earmarks and the percent of federal spending that these represent.
4. “In budget battles, hyperbole and partisan exaggeration are the weapons of choice. Thank goodness for the Congressional Budget Office” (p. 187). What does the author mean by this?
5. Explain the differences between state and federal budgets.
6. Why does the author say that the act of balancing a state budget is a “harrowing experience” (p. 190).

Chapter 13: Good Debt, Bad Debt

1. Contrast the terms *deficit* and *debt*.
2. How can federal budget deficits affect long-term economic growth?
3. When can federal budget deficits be good for an economy?
4. What is the “one special case” when fiscal stimulus is a good idea, according to the author (p. 197)?
5. Explain the significance of an increasing debt-to-GDP ratio.
6. What are the five ways for nations to escape debt?
7. What are the buttresses shoring up investors’ faith in U.S. debt?



8. What is a value-added tax (VAT)?
9. Contrast U.S. Treasury bills, notes, and bonds.
10. Explain the significance of the U.S. federal debt ceiling.
11. Use Table 13.1 to explain the composition of the U.S. federal debt.
12. According to Ip, what is the “hidden national debt” in the United States (p. 207)?

Chapter 14: Love-Hate Relationship

1. Explain the role and significance of the financial system in the economy.
2. What are shadow banks?
3. According to the author, the supply of the economy’s credit by banks decreased from 50 percent in 1980 to 23 percent by 2007. What markets and institutions are filling in this gap?
4. How does the author explain the role of capital and liquidity, as well as leverage?
5. Contrast debt and equity.
6. Explain what the author means when he calls derivatives “the teenage boys of finance.” According to the author, why are they “here to stay” (p.226)?
7. Contrast asset-backed securities (ABS) and mortgage-backed securities (MBS).
8. Explain the purpose of collateralized debt obligations (CDOs).
9. What is a problem associated with credit default swaps (CDS)?

Chapter 15: A Species of Neuralgia

1. According to the author, there are five conditions that must be present for a financial crisis to occur. Explain each of these.