Production and Distribution

Discussion Questions

1. This question refers to the articles entitled “U.S. Rate of Output Called Best” and “Workers of the World Unite.” In attempting to understand these articles, it is useful to think in terms of the economy’s production function. The simplest reasonable production function is the Cobb-Douglas production function

\[ Y = AKL^\gamma \]

presented in most standard microeconomics texts and also discussed by Mankiw in the appendix to Chapter 3 of his *Macroeconomics*.

a. The articles refer to labor productivity. What do you think labor productivity means? Using the Cobb-Douglas production function, give an expression for labor productivity.

b. How does output per worker in the United States compare with that in other countries? What could lead to international differences in output per worker?

c. \( K/L \) is known as the capital-labor ratio. How do international differences in the capital-labor ratio affect output per worker? The coefficient \( A \) is sometimes known as total factor productivity. How do international differences in total factor productivity affect output per worker? What might cause international differences in total factor productivity?

d. According to the articles, what factors are most important in explaining why America’s productivity compares so favorably with productivity in other countries?

2. “The Shock of the Not Quite New” discusses the history of several technological innovations. Based on that discussion, what do think about the ability of economists (or anyone else) to predict the course of technological change? What is the role of new inventions in technological improvement? What other factors are important?

3. “It’s Wise to Deindustrialise” discusses the shift of employment from manufacturing to services. How does employment in manufacturing compare with that in services in the large, developed economies? Which of the highly developed economies have the largest shares of employment in the manufacturing sector?

What might have caused a shift of employment first from agriculture to manufacturing and then from manufacturing to services? (Hint: We can explain most such phenomena by changes in either tastes or technology. For instance, consumer tastes might have shifted away from manufactured goods and toward services. Most explanations in terms of taste changes are either implausible, unverifiable, or both, so concentrate on changes in technology.) Is this shift in employment a good or a bad thing? Under your explanation, would the shift in employment necessarily cause the output of services (valued at market prices) to increase as a fraction of GDP?
Economic Growth

Discussion Questions

1. In “Eastern Germany’s Long Haul”, Barro states that the gap in per capita income between rich and poor regions closes, but only at the rate of about 2% per year. In the standard neoclassical (Solow) growth model, what is the mechanism by which this convergence in per capita incomes occurs? Why might it take so long to eliminate the income gap?

2. The article “An Economic ‘800-Pound Gorilla’” discusses both the short-term and long-term prospects for the Chinese economy. This question deals only with the long-run issues. In recent years, China’s real GDP has usually grown by more than 10 percent. For example, it grew by about 13 percent per year in both 1992 and 1993.
   a. Judging by the neoclassical growth model, what do you predict will happen to China’s real growth rate in the next few years?
   b. Estimates of China’s per capita GDP for 1992 range from $1000 to $2600. (See the additional reading “Chinese Puzzles” for a discussion of how such figures are arrived at.) For the following calculations, use the World Bank’s figure or $2000. In 1992, U.S. per capita GDP was about $23,000. Suppose that Barro is correct and China closes the income gap between itself and the United States at a rate of 2% per year. Also suppose that U.S. real per capita GDP grows by 1.8% per year. What will U.S. real per capita GDP be in the year 2000? What will Chinese real per capita GDP be in the year 2000? If China’s population grows by 1% per year, what does this imply about the average growth rate of total Chinese real GDP between 1992 and 2000? Is this result consistent with your answer to part (a)?

3. The article “When Nations Play Leapfrog” notes that economic growth rates have accelerated and that some Asian economies have grown faster over the last few decades than the United States and Great Britain did while they were industrializing. What seems to account for the rapid growth of the Asian economies?

   In 1946, Japan had a per capita real GDP of $470, while the figure for the United States was $3099 (all figures are in 1970 U.S. dollars). By 1979, Japan’s per capita real GDP had grown to $4074, while that of the United States was $5799. Is this experience consistent with Barro’s statements about the speed with which differences in real incomes are eliminated?

4. The article “Where Hong Kong Has the Edge” discusses the different growth experiences of Hong Kong and Singapore. Think in terms of the aggregate production function

   \[ Y = AK^aL^{1-a} \]

   Per capita output is \( Y/L \). List two ways in which to bring about an increase in per capita output. Which of these ways has Singapore emphasized? What about Hong Kong? Looking to the future, which method seems more promising? Why? What effects can a high saving rate have in a steady state? During the transition to a steady state?

5. The additional reading “East, Southeast Asia Make Huge Strides in Reducing Poverty, World Bank
Says” notes that Korea and Taiwan, as well as Hong Kong and Singapore, have essentially eliminated poverty, and that other countries in the region have greatly reduced poverty in recent years. Many observers have referred to this impressive economic performance as a “miracle”. In a well-known article entitled “The Myth of Asia’s Miracle”, Paul Krugman challenges this view. The article “Is the Vaunted ‘Asian Miracle’ Really Just an Illusion?” summarizes both Krugman’s views and those of his critics, and the additional reading “Singapore Swing: Krugman Was Right” provides some further information.

According to Krugman, what is the source of the remarkable increase in GDP in these East and Southeast Asian countries? Why does he think this increase in GDP is not miraculous? What does Krugman predict about the future economic growth of these countries? Are Krugman’s views consistent or inconsistent with the Solow growth model?

6. “Whatever Happened to That Rainy Day?” discusses the taxation of income from capital? What are the economic effects of taxes on income from capital? In what ways does the current U.S. tax system affect saving and investment? What alternative tax systems might reduce these adverse effects?

7. Refer to Martin Feldstein's article “Why Capital Gains Taxes Are Unfair”. One type of tax on income from capital is the capital gains tax, which is a tax on the increase in the value of an asset. Under current U.S. law, these gains are taxed only when an asset is sold, and assets held until death escape taxes altogether on the increase in value between the time of purchase and the owner's death. Given these tax rules, how are investors likely to react to higher capital gains tax rates? What is the likely effect on government revenues of a reduction in capital gains tax rates? Why? What types of investments are likely to be hurt most by increases in capital gains taxes? (i.e., for what types of investments are capital gains likely to constitute a large portion of the total return?)

8. One of the main predictions of the neoclassical (Solow) growth model is convergence. If we confine our attention to the growth of developed countries and most East Asian countries, this prediction seems to be borne out. However, many of the poorest countries do not seem to be catching up to the developed world, and the lack of convergence is particularly striking for many African countries. The article “How Africa Ruined Itself” discusses this phenomenon. How might the performance of many African countries be explained? Are the explanations given by Ayittey consistent with the Solow model?

9. Because of the failure of the convergence prediction, other models have been developed to challenge the Solow model. The article “Economic Growth: The Poor and the Rich” discusses recent developments in the study of economic growth. What are two modifications to the Solow model that might account for the lack of convergence? What is the difference between conditional convergence and absolute convergence? Does the empirical finding that conditional convergence holds, whereas absolute convergence does not, contradict the Solow model?
The Labor Market

Discussion Questions

1. This and the following three questions draw heavily on the reasoning in Stein’s article entitled “The Bogus ‘Jobs’ Problem”. Much of the dispute about the North American Free Trade Agreement (NAFTA) concerned the effect of the treaty on jobs. Frequently cited projections claimed that NAFTA will in the long run lead to loss of 150,000 jobs, while other widely cited projections predicted a gain of 180,000 jobs. Still other projections gave more extreme values for job gains or losses. Evaluate these projections in light of the material covered in this module. According to that material, what determines the number of jobs in the economy in the long run? What are the long-run effects on employment and real wages of recessions? Of automation?

2. In recent years, many companies have reduced their work forces. For example, a couple of years ago several telephone companies, including GTE, Nynex, and PacTel, announced layoffs of 15 to 20 percent of their work forces within a few months of each other. What might have been the cause of these layoffs? (Take a guess if you haven't seen the news stories.) Do you think that these and similar restructurings will result in an ever increasing number of unemployed workers in the United States in the coming decade? Why or why not? (What has happened to the U.S. unemployment rate during the last few years?)

3. Between 1975 and 1990, 32 million new jobs were created in the U.S. economy. By contrast, in the early 1990s, the Bureau of Labor statistics projected that job growth would be much slower between 1990 and 2005. What can account for the slowdown in the rate of job creation? Assuming your explanation is correct, how would the rate of growth of real wages during 1975-1990 compare with that during 1990-2005?

4. Apply the reasoning used in the previous question. During the 1988 presidential election, the Bush campaign predicted that 10 million new jobs would be created over eight years if he were elected. This was widely interpreted as a promise of 5 million new jobs during Bush’s first term. Actual job growth was less than 2.5 million, in part because of the recession. Ignoring the recession, do you think the Bush campaign’s projections were reasonable? Why or why not? (Some useful information: In 1988, the working-age population, aged 16 and over, was 186.4 million, of whom 123.4 million were in the labor force and 116.7 million were employed. By 1992, the working-age population had grown to 193.1 million.)

5. It is widely argued that the real wages of U.S. workers have grown more slowly after 1993 than before and may in fact have declined since 1973. “Are Real Wages Really Falling?” discusses two alternative measures of labor compensation. Which measure is “better”? How have the two measures behaved, and what might account for the differences? Suppose that a slowdown in compensation growth did occur about 1973. What might account for this slowdown? (Hint: Refer to the material on productivity in the previous module and to the facts reported in question 3 above.)

6. The previous question discussed the real wages of the average worker. In fact, worker differ in terms of age, experience, education, and other potentially important characteristics. “Rich Man, Poor Man” and the additional reading “Long-Term Riches, Short-Term Pain” by Paul Krugman discuss the behavior of real wages of different types of workers. What has happened to the gap between the wages of the highest-paid and lowest-paid workers? What might account for this phenomenon? (Hint: As with the
previous question, think of factors that might affect both supply and demand. In particular, think about how technical progress affects the productivity of workers and their compensation.)

7. Refer to Martin Feldstein’s article “What the ’93 Tax Increases Really Did”. What happens to the government's tax revenue when it increases marginal tax rates? The Clinton Administration's 1993 deficit-reduction package included an increase in marginal tax rates. In order to prevent middle-income taxpayers from facing higher tax burdens, the rate increases applied only to high-income taxpayers. How do upper-income taxpayers seem to have reacted to these tax rate increases? How did this reaction affect the revenue raised by the higher tax rates?

8. “Labour Pains” contains some international employment comparisons. Can labor force growth explain Europe's high unemployment rates? How do different countries measure unemployment? What is the employment rate? Why might it be more informative than the unemployment rate? How does the employment rate compare across countries? The article also discusses four types of unemployment. Which of these types are likely to go into the natural rate of unemployment?

What government policies might affect the natural rate of unemployment? Compare the natural rates of unemployment in the United States, Europe, and Japan. What factors might account for the observed differences?

9. The article “Report on Jobs Shows Contrast in Hiring Trends” presents a recent U.S. employment report. (The article also discusses the relation between inflation and unemployment, which we will take up later in the course.) For the moment, focus on the difference in unemployment rates across demographic groups. What might account for these differences? Are these factors likely to cause differences in the natural rate of unemployment across demographic groups? If such differences exist, how would changes in the demographic makeup of the population affect a country's natural rate of unemployment? Can the unemployment rate and total employment both rise at the same time? Why or why not?
Money, Inflation, and Interest Rates

Discussion Questions

1. The article “Inflation Fell to 6-Year Low During 1992” and Milton Friedman's letter to the editor of The Wall Street Journal discuss the inflation rate in the United States. At times during the 1970s, U.S. inflation rates were greater than 10%. U.S. inflation fell dramatically during the 1980s and has remained low ever since. What can account for the drop in inflation rates?

2. Refer to the article “Report on Jobs Shows Contrast in Hiring Trends” contained in the module on “The Labor Market”. The article states that “Because labor costs make up about two-thirds of what consumers pay for goods and services, higher wages are expected to trigger inflationary pressures.” The article also notes that wages have been rising more rapidly in the service sector than in manufacturing, so that “the inflationary trigger this time may be in the service sector's rising wages and prices.” Are rising wages a cause of ongoing inflation? What causes wages to rise?

3. The article entitled “Special, Today Only: Six Million Dinars For a Snickers Bar” discusses the high inflation rate in Yugoslavia. What is the immediate cause of this high rate of inflation? What is the more fundamental cause?

4. “Chinese Inflation Rate Still Tops 20% . . .” discusses monetary conditions in China. In the late 1980s and early 1990s, China experienced recurrent bouts of high inflation, although much lower than those in Yugoslavia. What was the cause of the high Chinese inflation rates? What could the Chinese have done to prevent these high rated of inflation? What factors stood in the way of this course of action?

5. This question deals with inflationary expectations, especially with how inflationary expectations affect the instruments we observe being offered in financial markets and with how inflationary expectations might be altered by government actions. Refer to the articles “Disney Amazes Investors With Sale of 100-Year Bonds”, “When Are Low-Inflation Policies Credible?”, and “Of Beef, Bushels and Bonds”.

   “Moscow Puts Moderate in Charge of Finances: Ruble Off Sharply As Banks Cut Losses” discusses the current economic situation in Russia. In what ways were the Chinese and Russian situations similar? What do these episodes suggest about the circumstances that lead to high inflation in certain countries?

   What do you think would happen to the maturity structure of debt in a high-inflation environment? Why? What does the Disney bond issue suggest about inflationary expectations in the United States?

   How can the government of a high-inflation country reduce inflationary expectations? What if they promise low inflation? What if the government actually delivers low inflation for a year or two?

   What are indexed bonds? Suppose that a government promises low inflation. Would its promises be more or less credible if a substantial portion of the government's debt liabilities were indexed for inflation? Why?
The Government Budget

Discussion Questions

1. “Russia Faces Pressure to Push New Fiscal Plan” discusses current economic policy in Russia. What is the state of the government budget? What is the source of Russia’s budget problems? What effects are these problems having on the rest of the economy?

2. This question concerns the following articles:
   “The Hole in Your Future”
   “As Populations Age, Fiscal Woes Deepen”
   “Social Security Has Been a So-So Deal”
   “Pensions in Chile Pay Off Handsomely”
   “Social Security: Foreign Lessons”
   “Fix Social Security for Good”

The United States currently has an unfunded Social Security system. Under such a system, contributions by current workers are immediately paid out to current retirees. The system accumulates only a small buffer stock of assets to meet discrepancies in the timing of receipts and payments. (Actually, the U.S. system is becoming partially funded in the sense that it is now accumulating some assets that will be liquidated during the first half of the next century as the baby boom retires and begins collecting benefits. This effect is transitory, and there are no current plans to convert to a fully funded system.) In what way is an unfunded Social Security system like government debt? Why might such a system be bad for the economy?

3. Some people argue that the United States should move to a fully funded Social Security system, or even a privatized one. Chile has recently privatized its Social Security system. Judging by that experience, do you think that privatization would be feasible in the United States? What would be the likely consequences for the U.S. economy? How might the transition from the current pay-as-you-go system to a privatized system be accomplished?

4. A third type of pension scheme is a central provident fund such as exists in Singapore and some other countries. How does a central provident fund differ from the pay-as-you-go and privatized schemes discussed above? What are the advantages and disadvantages of a central provident fund compared to these other systems? How has the rate of return on Singapore's central provident fund compared with the rate of return on Chile's privatized system?
The Open Economy

Discussion Questions

1. Refer to the article entitled “Foreign Investment in U.S. Surged in 1994.” What is the source of the data? What types of investments does the article refer to? Assuming that the behavior of this type of investment is typical of investment in general, what can you conclude about the volume of foreign investment in the U.S. in 1994? Do you think this pattern is good or bad for the U.S. economy? Why?

2. Refer to the article entitled “U.S. Trade Gap Widened Again in ‘94 . . .”, which was published on the same day as the preceding article. What is the source of the data? What seems to have been happening to the U.S. trade balance during the 1994? Is this consistent with the pattern of foreign investment noted in question 1? Do you think this behavior of the trade deficit is good or bad for the U.S. economy? Why?

3. The article entitled “Update on the U.S. International Investment Position Conundrum.” What is the puzzle to which the article refers? What are some (partial) explanations for the puzzle?

4. Refer to the article entitled “In Defence of Deficits”. (Note the date of the article and the fact that the situation in Thailand has since changed dramatically.) What are some of the causes of trade deficits? Are trade deficits necessarily bad for the economy? Why or why not? (The additional reading “Figures to Fret About” contains further discussion.)

5. The article “China’s Currency: About to Crack?” discusses the effects of international capital flows on exchange rates. What are some possible reasons for an outflow of capital? What are some of the consequences?

6. “Big MacCurrencies” discusses the theory of purchasing power parity (PPP). What does this theory say? According to the numbers reported in the article, did exchange rates in April 1998 line up according to the predictions of PPP? If not, which currencies seemed to be most overvalued relative to the dollar? Most undervalued? (As a matter of interest, you might want to compare the situation in 1998 with that a year earlier, before the depreciation of several East Asian currencies. See the additional reading, also called “Big MacCurrencies”, dated April 1997.) What does such overvaluation or undervaluation mean? Why might such apparent overvaluation or undervaluation persist when measured in terms of a single item like a Big Mac? Why might there be persistent overvaluation or undervaluation even in terms of a broader basket of goods and services?

7. The article “Toyota and Nissan Increase ’95 Prices On More Imports” reports that these auto makers raised U.S. prices on cars built in Japan "because of the strong yen." Why would a strong yen tend to lead to this result? Do these price adjustments constitute movements toward or away from the predictions of PPP? The article also notes that Honda increased the price on cars built in the United States? Could the strong yen have been responsible for this decision? Why or why not?
Business Cycles

Discussion Questions

1. “Recycling Old Myths” and “Taking the Business Cycle’s Pulse” discuss some facts about business cycles. What are some likely causes of cycles? Do recessions and expansions have any natural length? Compare the severity of business cycles before and after World War II. Is it likely that the world is moving into a new era when there will be no recessions? Is it likely that government policy can eliminate the business cycle?

2. During the 1992 election, the Clinton campaign made several proposals to stimulate an economy making only a slow recovery from recession. About the time of the President-elect's economic summit in Little Rock, The Wall Street Journal published an article entitled “If It Ain't Broke, Don't Fix It”. The article summarized the stimulative fiscal policy measures enacted during each of the eight previous postwar recessions. The article concluded that these anti-recession measures generally had been ineffective. What types of programs were included in these anti-recession packages? Why might they have been expected to stimulate the economy? What might have prevented them from working as planned?

3. During the 1992 election, the Clinton campaign promised a “middle-class tax cut” that was not included in the economic stimulus package the Administration ultimately submitted to Congress. Although details of the tax cut were unclear, it seems likely that the Clinton campaign did not plan on a permanent tax reduction, as this would have conflicted with its goal of deficit reduction. Assuming they were contemplating a one-time tax reduction for middle-income households, why might they have abandoned these plans? Do you think the economy would have been stronger if the new Administration had enacted a one-time individual income tax cut? Why or why not? Assume that you work for a consumer products company. Would a “middle-class tax cut” be good for your sales? Would it matter whether you produce durable or nondurable consumer goods? (Hint: Suppose that some consumers face binding liquidity constraints, i.e., they would like to borrow more than they are able to in the credit market. Would credit constraints have a greater effect on purchases of durable or nondurable goods?)

4. The article “Japan’s Inconspicuous Consumption” notes that consumer spending has recently been low in Japan. Why might this be the case? Why might consumption be low not merely in absolute terms but relative to income? How effective was the February income tax cut in stimulating consumption? Provide an explanation? What other policies might the Japanese government pursue to stimulate the economy?

5. The article entitled “Broad Stock Sell-Off Signals Change in Market: Cyclical Issues Take Command” reported that the Dow Jones Industrial Average dropped 247 points on Friday, August 15, 1997. What reasons did the article give for the market’s decline? On February 7, 1996, The Wall Street Journal reported that the Dow Jones average rose 52 points to a new record high as “strategist said worries about recession, which reached fever pitch in mid-January, have rapidly ebbed ...” Why would an upward revision of expectations for the economy lead to higher stock prices?

The 1996 article reported particularly strong increases in the prices of “economically sensitive” or “cyclical” stocks. Likewise, the 1997 article reported that in the stock market’s decline, the “leadership role is being assumed by volatile cyclical groups, such as mining companies and heavy-equipment manufacturers ...” Why would heavy machinery and similar stocks react so strongly to expectations about the economy? Why would they be called cyclical stocks? What types of stocks would be
6. The two articles discussed in the previous question reported that interest rates were essentially unchanged. On other occasions, however, interest rates react to favorable news about the economy. For example, on May 31, 1995, *The Wall Street Journal* reported that “Bond prices surged in a rally ignited by overseas buying and kept alive by expectations of weak economic data this week. The 30-year Treasury bond . . . yield fell to 6.66%.” Similarly, *The Wall Street Journal* of August 2, 1995 contained an article entitled “Jittery Bond Traders Push Prices Broadly Lower On New Evidence Business Activity Is Picking Up”. Finally, *The Wall Street Journal* of January 3, 1997 reported that “the 30-year bellwether bond plunged 1 6/32 points, or $11.875 for a bond with a $1,000 face value, buffeted by a stronger-than-expected December economic activity survey by the National Association of Purchasing Managers.” If bond prices rise, what happens to their yields (i.e., interest rates)? Do you think that a strong economy would lead to higher or lower interest rates? Why?

“How Much Should Capital Cost” discusses the determination of interest rates. What are some of the causes of high interest rates? Are high interest rates necessarily bad for the economy? Why or why not?

7. Return to Bartlett’s article “If It Ain't Broke, Don't Fix It”. The anti-recession measures discussed there fall into three categories: (i) temporary tax cuts, (ii) temporary increases in transfer payments, and (iii) temporary increases in government purchases of goods and services. Why would we doubt the efficacy of temporary increases in transfers? In theory, how would a temporary increase in government purchases affect the economy? What are Bartlett’s objections to such temporary government spending programs?

8. Refer once more to the article entitled “In Defence of Deficits” contained in the module on “The Open Economy”. Distinguish between temporary shocks that might lead to short-run surpluses or deficits and long-term influences that might lead to persistent surpluses or deficits.
Monetary Policy

Discussion Questions

1. Refer to the articles “Dow Industrials Jump 380.53 to 8020.78” and “Fed Cuts Short-Term Rates by 0.25 Point” discuss recent developments in U.S. monetary policy and the reaction of financial markets to those developments. What developments do the articles describe? How did the financial markets react? What do these reactions say about (the market’s perceptions of) the effect of monetary policy on the economy?

In answering these questions, you might first want to see if you know the answers to some more basic questions. The Federal Reserve sometimes acts so as to “tighten” or “loosen” monetary policy, and these terms are generally used to refer to actions that affect interest rates. When the Federal Reserve loosens, what interest rate is generally affected, and in which direction? What specific actions does the Federal Reserve take in order to accomplish this change in interest rates? What is the major reason for loosening monetary policy?

2. Refer once again to the article “Report on Jobs Shows Contrast in Hiring Trends” (contained in the module on “The Labor Market”). This article discusses the common view “that a joblessness rate of under 6% is the threshold at which wage increases and higher prices start to accelerate.” According to press reports, many Federal Reserve officials agree with this reasoning and believe that real GDP cannot grow faster than 2.5% per year without igniting inflation. (The Federal Reserve apparently believes that the economy’s long-run real growth rate has declined to 2.5% per year.) This view has been the basis for tightening monetary policy on several occasions in recent years.

According to the Quantity Equation, how would an increase in the economy’s long-run growth rate tend to affect inflation?

Suppose that the Federal Reserve is correct and the economy’s long-run real growth rate is now only 2.5%. Is real GDP likely to grow faster than 2.5% in the long-run? What are some reasons why real GDP might grow rapidly in the short run? If the economy grows more rapidly than 2.5% in the short run, will this cause inflation? Does your answer depend on the factors causing rapid short-run growth?

Critics of the Federal Reserve, some of whom are Senators and Congressmen, argue that the Fed keeps monetary policy too tight, artificially holding down the growth rate of real GDP. Suppose that the Federal Reserve permanently keeps the rate of money growth low. To a first approximation, how would this low rate of money growth affect unemployment? How would it affect the economy’s growth rate? What would be the long-run effects of low money growth? Why would Senators and Congressmen object to tight monetary policy? (The additional reading “Fed Putting a Crimp on Economy, Critics Say” contains more information on this debate.)

3. Refer to “Does the Fed Influence Interest Rates?” and to Robert Barro’s article “What the Fed Can’t Do”. Sometimes easy money is equated with low interest rates and tight money with high rates. How does more rapid money growth affect interest rates in the short run? In the long run? What happened to nominal interest rates in the mid-1980s? What caused this?
4. Barro’s article “Keep Political Hands Off the Fed” discusses the relation between a country’s average inflation rate and the degree of independence of its central bank. Is greater independence associated with higher or lower inflation? What might account for this finding?

5. “Admiring Those Shapely Curves” discusses the term structure of interest rates as a predictor of recessions. Describe the empirical regularity discussed in the article. What might account for this finding?

6. “Asia’s Economic Crisis: How Far Is Down?” and “Why Did Asia Crash?” discuss the effect of the banking system on the recent economic problems of several East Asian countries? How could problems in the banking system contribute to such problems? What are some possible reforms to the banking system that might reduce the likelihood that similar problems will occur in the future?