

Econ 216, Fall 2021

HW #2

For this assignment, students will write a policy memo about one of two risks facing the U.S. economy. Target a memo of approximately 1000 words. The assignment is due on Thursday, September 30. Students in the Fed Challenge group presenting that day may take until the end of the following weekend.

Pick either the debt ceiling or Evergrande topic. Discuss each of the following.

1. Briefly explain why economists worry that the event could impact U.S. and global growth.
2. Discuss “contagion,” how a potential crisis could spread to other parts of the economy or across borders.
3. What is the chance that the event becomes a major economic disruption for the U.S?¹
4. How might Central Banks (the Fed or others) think about this risk when conducting policy?

Topics:

i. Chinese real estate developer Evergrande is at risk of defaulting on its debt payments raising fears of a financial crisis in China. This event contributed to declining global stock prices on Monday. [Here](#) is an article from *Bloomberg* providing some background and here is [some background](#) from *Reuters* discussing contagion concerns.

ii. The U.S. Congress periodically raises the debt ceiling which limits how much the Federal government may borrow. There is some concern that if Congress does not act soon, the U.S. government may default on its debt. Here is an [op-ed from Treasury Secretary Yellen](#) calling on Congress to act. Here is an [article on the potential impact](#) from *CNBC*.

¹Note that I have deliberately avoided defining or quantifying “major economic disruption.” Think about an appropriate definition as you answer this part.

As always provide references. Here are some [sample references](#) using the Chicago Manual of Style, although you are free to use other reputable style.