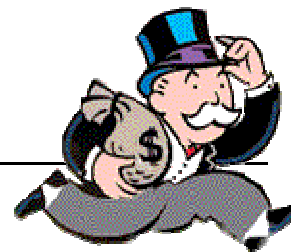


Macroeconomics AP: Spot the Fallacies



“Take a look at this data, Bob! We have real problems!”

Bob Miner quickly glanced over the computer printout. Miner, unlike his colleague, Dan Anderson, was a calm, reflective person. A tall handsome sort with an MBA from Harvard, Miner had proved himself to be a brilliant, cool, and capable manager in his six-year tenure as CEO of the Men’s Hairpiece division of the ICU corporation. The company had witnessed spectacular success since its inception in 1980, the big break coming in 1987 when it was acquired by ICU.

Dan Anderson, a ruddy-faced man of 52, had worked his way up through the ranks of Men’s Hairpiece division. Joining the firm in 1980, he worked as a model for the before and after advertisement, and then recently advanced to his present position as sales promotion manager. “Dan Anderson,” states ICU’s promotion literature, “is what ICU is all about. We are people helping people.”

“Are you sure these figures are accurate?” asked Miner.

“Yes, Bob, they’ve been double checked! Jim Farris down in Data Processing assured me that this is not a computer error!” Anderson continued, “Do you realize that this represents a 62% decline in sales compared to the same month last year? **Sixty-two percent!** I figured we’d be down a bit, but this is terrible!”

“It’s a 54% decline over last month’s sales!” interrupted Miner, as he finished dividing the figures on the printout.

“Terrible, terrible!” repeated the distraught Anderson. “What do you make of it, Bob?”

“I’m inclined to believe that the entire economy is in a severe downturn,” responded Miner. “Our hairpiece sales have been growing faster than the economy in general. I think that our sales decline indicates that the economy is in a tailspin—a certain depression, and maybe even a recession!”

“That makes sense,” mourned Anderson. “You know, the way the unions have been increasing wage rates these last two years, you could just about figure that an economy-wide depression was right around the corner. Plain ol’ economics—you’ve got to pay the price sooner or later.”

“Well, this is sobering news, but let’s not allow it to depress us,” said Miner. “We really can’t do much about it. In fact, I suggest that we get our minds off this and go to Harry’s for a beer.”

Anderson, suddenly coming to life, concurred. “Great idea! I sure could use a beer!”

As Miner and Anderson entered Harry’s Bar, they were greeted by Joe Shipley, the amiable bartender.

“Hey, no Miners allowed, Bob,” Shipley chortled. Anderson and Miner laughed heartily.

“Two beers, Joe.”

“Coming right up. I suppose you want Buddemmer Heavy,” replied Shipley.

“You bet,” stated Miner. “It has 800% more calories than the regular Buddemmer. You can’t beat that for value!”

“Speaking of which,” Anderson interjected, “I can’t get my mind off our sales declines. I simply can’t understand why . . .”

“Dan,” interrupted Miner, “we agreed we wouldn’t worry about those figures!” Miner turned to the bartender, who was busy at the far end of the bar.

“By the way, Joe, how have your beer sales been this past month?”

“They’re up considerably,” replied Shipley.

“Up considerably,” echoed Anderson softly. “How does that square with our notion of economic depression, Bob?”

“Well, I think it is entirely consistent with it. Expectations are important in economics. Intuitively, people nationwide apparently realize that a depression is coming and they are instinctively spending more time drinking alcohol.”

“That makes sense,” responded Anderson.

As Miner and Anderson ordered their second beers, a challenge was issued from the vicinity of the pool table.

“Are you two guys interested in a game of pool?”

Anderson leaned toward Miner and whispered, "Let's play them. They don't know which end of the cue is up."

Miner nodded in agreement. "Sure, we'll play," he answered. "What's the game?"

"How about call shot to 25?" asked a big heavysset man named Ron Hurley, who looked as if he could maul a grizzly bear.

"Sounds good to me. What are we playing for? A pitcher of Buddemmer?" Affirmative nods followed.

"Let's lag to see who breaks, gentlemen," said Anderson .

The game was much closer than Anderson and Miner had figured even though Miner was shooting reasonably well. He ran a nice shot down the rail, making the score 15 to 14.

As Miner set up a new rack, Anderson went to the candy machine. Examining the selections, he exclaimed, "Darn inflation!"

Ron Hurley echoed the complaint. "I absolutely refuse to pay \$1.75 for a candy bar. Isn't this economy in a mess?"

"Sure is" concurred Anderson.

Miner shot and missed. As Hurley glanced over the potential shots, he continued, "You know, the sad state of the economy all goes back to imports from China. These imports caused a large deficit in the federal budget, which in turn has caused higher prices. Furthermore, Chinese imports have increased homelessness. If you want proof of all this, just compare the size of the budget deficit, the price level, and the homeless population now with what they were before trade with China."



Miner glanced quickly at Anderson and snickered slightly, as if to say: "Catch this, this guy has it all figured out."

After making a difficult bank shot, Hurley continued: "It amazes me that economists and politicians don't know how to stop inflation. The logic is simple. Inflation is caused by rising prices—it isn't all that complex. If you stop prices from rising, inflation won't continue. We ought to pass a law making it illegal to raise prices."

"Now that is absolute nonsense," Anderson interjected. "Things aren't that simple. You can't just legislate inflation away. Nor can you legislate away discrimination, unemployment, and homelessness. These are very complex economic and social problems. However, if you insist on placing blame for inflation and unemployment, you needn't look any further than labor unions. Now, there is something that can and should be legislated away."

Hurley, noticeably angered, reacted violently. "You are a real bozo, fella! You keep talking like that and you're going to have the this pool cue indented in your forehead! I happen to be a union officer!"

Miner quickly intervened. "Hey, cool it you two. You're acting like a couple of kids."

After several shots and a long period of silence, Miner attempted to reorient the conversation. "Dan and I are executives for a Hairpiece company and our jobs require a solid understanding of economic theory. For example, just today we discovered that our sales are way down. The economy is in a depression. The general public just isn't aware of it yet."

"What does that have to do with unions?" Hurley challenged.

"I'll tell you what," butted in Anderson . "Unions have raised wages in each of the last two years, forcing prices up. As a direct result of these higher prices, sales are down. Firms will have to lay off workers. And what's the cause? Labor Unions—like the one at ICU. They've caused higher prices and greater unemployment."

"You're asking for it again, buddy! Why don't you just shoot the ball and shut up!" Hurley countered.

Anderson , satisfied that he had made his case, addressed the cue ball and declared boldly: "This one will win it, gentlemen. Three-ten combination once to the side."

The cue ball smacked the ten, the ten sliced the three perfectly. The three ball hit the side cushion and banked directly into the pocket on the opposite side. Just as it had been called!

The cue ball scratched.

Anderson looked up at Miner and shook his head. "It's just one of those days, Bob—just one of those days."