

MACROECONOMICS AT WORK EXERCISE

THE MACROECONOMIC EFFECTS OF WAR

REFERENCE: ‘Even a short war in Iraq will cost us dearly’ (by Alan Wood), *The Weekend Australian*, 8–9 February 2003, p. 43.

CHAPTERS RELEVANT TO THIS EXERCISE: Chapters 1, 11.

OVERVIEW

This article, prompted by a paper by William Nordhaus, a US economist, and titled *The Economic Consequences of a War with Iraq*, is about the macroeconomic consequences for the US economy of what appeared, at the time of writing, to be a likely war with Iraq. The economic effect of a war (and keep in mind that we’re talking only about the effect on the US economy itself) will depend on a number of factors: the state of the economy prior to a war, the consequences of the war for different elements of aggregate demand within the US economy, and what might be termed ‘side effects’. There is also a temporal dimension; that is the short-, medium- and long-term consequences may be different. Analysis of ‘the economic consequences of war’ also raises the issue of the extent to which economists can divorce their role as scientific policy analysts from their rights, duties and responsibilities as citizens to influence political decisions that may lead to, or avoid, war. (The article refrains from discussing this issue!)

QUESTIONS

1. What would you expect to be the main *positive*, and *negative*, effects of a war on elements of aggregate demand?
2. To what extent can the fall in US share prices in early 2003 be attributed to a possible war?
3. What is the historic evidence pertaining to the economic consequences of war?
4. Identify some ‘long-term’ as distinct from ‘short-term’ economic consequences of war.
5. How is the issue of oil prices relevant to the current discussion?
6. How do you react to the suggestion that ‘it is immoral for an economist to even discuss the economic consequences of war’?