

MACROECONOMICS AT WORK EXERCISE

THE MACROECONOMIC EFFECTS OF A NATURAL DISASTER

REFERENCE: W. Neikirk, 'Jury still out on force of Katrina's killer punch', *The Courier-Mail*, 2 September 2005, p. 36.

CHAPTERS RELEVANT TO THIS EXERCISE: 6, 7 and 14

CONTEXT

Hurricane Katrina – in addition to the human loss and misery it created – had diverse *economic* consequences. This article considers some of these in relation to the US economy as a whole, though it makes the point that the diverse ramifications are by no means clear, both in regard to their nature and their aggregate effect.

QUESTIONS

1. Analyse the likely effect of the hurricane on consumer spending.
2. What is the reasoning behind, and significance of the statement that 'businesses may also retrench as well by cutting back on investment in their companies'?
3. Why does the question of oil prices feature so heavily in an analysis of the effects of the hurricane?
4. What has to be taken into account when considering the impact on the US economy as a whole?
5. Explain the comment in the article that 'the Federal Reserve would face a difficult decision at [its next meeting] to decide whether to increase interest rates again'.
6. Are there any positive indicators for economic growth?