

## MACROECONOMICS AT WORK EXERCISE

### MACROECONOMIC FORECASTING

**REFERENCE:** ‘Brain sees doom in our debt binge’ (by Geoffrey Newman), *The Weekend Australian*, 5–6 October 2002, p. 35.

**CHAPTERS RELEVANT TO THIS EXERCISE:** Chapters 11–16.

### OVERVIEW

The article reports on a piece of analysis by a leading Australian economist, Professor Peter Brain, which predicts, ‘if not a severe recession, then ... a long period of below-trend growth’. The prediction follows from the perceived consequences of a high level of household debt, occasioned largely by the housing boom. The high level of debt makes households, and the economy generally, particularly susceptible to increases in interest rates and the possibility of the housing boom turning into a slump.

### QUESTIONS

1. What is meant by the reference to a ‘housing slump’, and why is it thought that it may occur?
2. Analyse the ‘doom and gloom’ scenario of a housing slump. What role does Reserve Bank policy on interest rates play in this?
3. Analyse the reference in the heading of the article to a ‘debt binge’. Why has such a situation arisen? Why is it suggested that this level of debt is ‘unsustainable’?
4. Should the Reserve Bank have acted much earlier to curb the housing boom (as Brain is reported to have declared)?
5. Explain what is meant by the suggestion that it is now ‘too late’ to do what should have been done some time ago.