THE OPTIMAL BUNDLE

THE PENN STATE ECONOMICS ASSOCIATION PRESENTS:
THE OPTIMAL BUNDLE

Editor: Steve Leonard
Contributors: Joe Kearns, Steve Leonard

February 09, 2016
Spring Semester 2016: Volume 9

optimalbundle.org
psuea.org

Argentina vs. Wall Street: Fifteen Year Standoff Nears a Finish

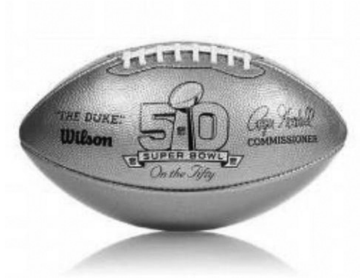
Argentine President Mauricio Macri is on the cusp of salvaging a monumental reversal of fortune for his own country and international creditors. Macri has offered to pay a total of $6.5 billion, which is 75% of what creditors in U.S. court claim they are owed. The offer would resolve a fifteen year dispute ongoing since the Argentine government defaulted on $80 billion of dollar-denominated bonds in 2001, the largest default ever by a government until Greece's default of $138 billion in 2012. In 2014, 93% of Argentina's bondholders agreed to restructure offerings that pay about 30 cents on the dollar, but federal judge Thomas Griesa ruled Argentina couldn't pay them without paying the holdout creditors. Now, holdout creditors Dart Management and Montreux Partners have agreed to accept Macri's offer, according to the Argentine Finance Ministry. However, other creditors like Elliott Management Corp. and Aurelius Capital Management LP need to make a decision. If the creditors agree to the deal, Argentina could be much more successful in raising capital and reviving its economy.—JK

The Yuan Loses Steam: The Power of Individual Actors

Du Hanbin of Shenzhen, China manages a toy and furniture maker that exports to the North American market. Unknowingly, he is helping push his country further along a currency free-fall. Aware that the yuan has been depreciating relative to the dollar since the People's Bank of China (PBOC) devalued the currency last August, Hanbin has decided to hoard his dollar revenue instead of converting it immediately to yuan. Fearful that the masses will continue to replicate Hanbin's decision, the PBOC has intervened several times since August by selling foreign-exchange reserves and buying yuan, putting upward pressure on the domestic currency. China's foreign-exchange reserves fell by $99.5 billion in January to $3.23 trillion, following a record $107.9 billion decrease in December. However, these central bank interventions might have exacerbated the problem of market instability because 2015 capital outflows were $700 billion, according to research firm GavekalDragonomics. Individuals like Hanbin now fear the PBOC has less flexibility to stabilize its currency, creating a self-fulfilling prophecy that shows no signs of reversing.—JK

Article Spotlight

"Rocket Mortgage" Backlash



Explosive. That's how some people might call the backlash that followed Quicken Loans "Rocket Mortgage" Super Bowl ad. Rocket Mortgage is a tool that enables customers to acquire a mortgage entirely online, with the commercial saying that Quicken Loans "[wants to do] for mortgages what the internet did for buying music, plane tickets, and shoes." Furthermore, the commercial concludes by asking, "if it were that easy, wouldn't more people buy homes?"

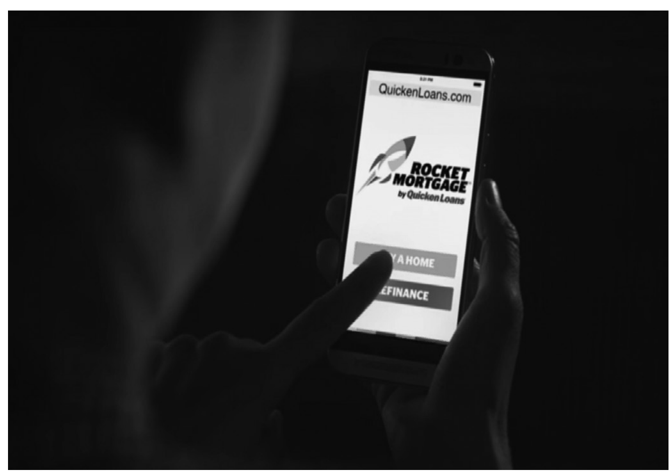
"Rocket Mortgage: explaining the 2008 financial crisis in one commercial."

The backlash to this commercial is based on the fear of inciting another 2008 housing market crash, which was partially due to the fact that borrowers didn't fully understand the intricacies of their mortgages. Assuming this venture is profitable for Quicken Loans, it's expected that other companies will follow suit with their own tools enabling home buyers to acquire mortgages online. But without proper guidance and counseling from face-to-face interaction with a loan officer, coupled with the supposed "ease of use" of this tool, many people with knowledge of the mortgage system are fearful. The concern is that there are dangerous forces at play that will create a loan market similar to that of the mid-2000's.

The commercial caused such a stir that even the Consumer Financial Protection Bureau tweeted in response to the ad, saying that "when it comes to #mortgages, take your time, ask questions and #knowbeforeyouowe." Other tweets from bothered viewers of the commercial were more humorous, but still highlighted the concerns of people. Among them, Wyatt Rasmussen, who said, "thanks rocket mortgage for thinking the '08 housing crisis needed a sequel," and Rahul Vedantam who said, "Rocket Mortgage: explaining the 2008 financial crisis in one commercial."

I'd be lying if I said I didn't agree with their concerns. In a time when financial literacy is falling by the wayside, face-to-face interaction is extremely important in ensuring that vital information is conveyed clearly and thoroughly. Providing individuals an opportunity to ask important questions and gather information on the spot is invaluable. This interaction not only protects individuals by keeping them out of potentially dangerous borrowing situations, but it also protects the housing market on a broader level because, collectively, these individuals determine the health of the market. For example, we know what happens when the housing market is full of bad mortgages as it was in 2008.

You must be thinking that face-to-face interaction alone didn't stop the 2008 market crash, but in the post-crisis financial world, stronger regulations are in place to quell incentives that lead to dangerous market conditions like those in 2008. However, easy-to-use online mortgage tools defeat the purpose of these regulations. Instead of having loan officers playing borrowers for fools like before, now the borrowers can just do that themselves by circumventing the loan officers altogether. The repercussions that could arise from this new behavior are frightening - explosively frightening. — SL



Upcoming Events

Annual DC Trip
Date: April 7th and 8th (overnight trip)
Where: The Federal Reserve and the BLS
Application due on February 23rd at midnight!

Social this Friday!
Johnson & Johnson still hiring, don't miss out
Third bridge: info session and study break session on February 23rd

WRITE FOR US!
education.psuea@psu.edu