

The Comprehensive Essay Question

This is exactly the question you will be given on May 14 as your comprehensive essay question.
You will have 4 lined pages (or more, if needed) on which to write your essay.

Congratulations! You've landed a summer internship with Senator Barbara Boxer's office. She was impressed by your Cal education and your knowledge of economics. Your first assignment is to prepare a briefing paper on government subsidies for business and consumer investment in green technology. Senator Boxer will rely on your analysis to decide whether or not to publicly support the subsidies.

Her chief of staff gave you the following memo which lays out the points you should address for the Senator. Remember that the Senator is a well-educated woman, bright, but not an economist. So you want to explain things in clear language. Graphs will be helpful only if they enhance your presentation and are clear to someone who hasn't taken an economics class in over 40 years. Here's the memo:

Welcome to our staff. We'd like you to write a briefing paper for the Senator on the advisability of offering government subsidies for purchases of green technology. The subsidy program would cover many different products, from new high-efficiency yet environmentally-sensitive equipment for businesses, to insulation and double-pane windows for homeowners, to purchases of hybrid vehicles by both businesses and consumers.

There are three motivations for this program: helping the economy recover, promoting long-run economic growth, and addressing environmental concerns. Another intern will address the environmental and scientific issues. We want you to address the economics. In assessing the program, we'd like you to take the following items into account.

- In talking about the possible sources for economic recovery, the Senator wants a good overview of the causes of the economic recession. Could you set the stage by defining recession and recovery? Then can you explain how the housing bubble and the credit crisis each contributed to the recession?
- President Obama's advisors are saying the recovery from this recession will be long and slow. That certainly makes this recession different than any we've seen in the last several decades, when housing construction and consumption spending quickly led the way back to recovery. Why is this recession different than the other post-WWII recessions?
- If we offer government subsidies for purchases of green technology, how will that spur an economic recovery? Is this simply a benefit to the manufacturers of the equipment, insulation, windows, and hybrid cars?
- The use of green technology benefits more than just the company or family that purchases it. Why should the government subsidize business and consumer purchases of green technology? How big should the subsidy be?
- Some people oppose subsidizing purchases of hybrid vehicles because of the impact on manufacturers of other vehicles. What is that potential impact? Is this a reason to not support the subsidies?
- What are the long-run benefits to the economy from supporting green technology? Is that a reason to support the subsidy program?
- Finally, the Senator would like to know your opinion. Please tell the Senator whether or not you think she should support the bill offering federal government subsidies for business and consumer investment in green technology. She is interested particularly in the reasons behind your opinion.

Thanks! We look forward to receiving your paper. Please have it on my desk by 8:00 p.m. on May 14.