Key US Statistics

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<tbody>
<tr>
<td>Dow Jones Indus. Avg.</td>
<td>8,829.04</td>
<td>9,882.17</td>
<td>10,318.16</td>
<td>10,309.92</td>
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<td>NASDAQ</td>
<td>1,535.57</td>
<td>2,116.09</td>
<td>2,146.04</td>
<td>2,138.44</td>
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<td>S&amp;P</td>
<td>896.24</td>
<td>1,063.41</td>
<td>1,091.38</td>
<td>1,091.49</td>
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<tr>
<td>Other Rates</td>
<td></td>
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<tr>
<td>Consumer Price Index</td>
<td>October 2006</td>
<td>October 2008</td>
<td>September 2009</td>
<td>November 2009</td>
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<tr>
<td>Unemployment Rate</td>
<td>201.8</td>
<td>216.6</td>
<td>216.0</td>
<td>216.2</td>
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<td></td>
<td>4.8%</td>
<td>6.6%</td>
<td>9.8%</td>
<td>10.0%</td>
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Recent News & Analysis on the United States Economy

Virginia’s unemployment rate has dropped to its lowest this year, 6.3%, the Associated Press (AP) reports. Virginia is faring considerably better than the rest of the nation, with nationwide unemployment rates continuing to rise (see table above). Virginia now has the seventh-lowest unemployment rate of any state the nation, and the lowest in the southeastern United States (notably, the four states with the lowest unemployment are all in the northern plains/Rockies). However, the AP reports that Virginia’s unemployment rate is normally lowest around the end of the year, due to holiday-related jobs in retail, transportation, and food service; the seasonally adjusted rate has remained largely unchanged at 6.6%.

The AP further reports that urban unemployment data was mixed last month. 44% of metro areas experienced rises in unemployment rates, while unemployment fell in 45% and remained steady in the remaining 11%. The AP notes that cities with large manufacturing or housing sectors, such as those in the Rust Belt and the Sun Belt, respectively, fared the worst, while Midwestern cities and smaller cities showed the most strength. The AP further notes that these rates are not seasonally adjusted.

Bloomberg reports that Bank of America will repay $45 billion in bailout funds in order to avoid federal limits on executive pay. Bank of America has been having trouble finding a new chief executive, and it is believed that the pay caps were responsible for these difficulties.
Recent developments leading to where the economy is today may be summarized as follows:

- The depth and breadth of the current downturn began to be felt in the second half of 2008, when a major crisis engulfed the financial system and the pace of growth quickly slackened and then turned sharply negative during the early months of 2009.

- As the general economic environment worsened, unemployment rose and the fiscal position of the Federal government deteriorated rapidly in response to the recession itself and various measures the government implemented to stem the decline.

- As economic activity contracted the trade deficit, which had been financing the budget deficit, shrunk, necessitating greater reliance on domestic saving and monetizing the debt.

The current situation in the country may be summarized as follows:

- The economy remains in a precarious state at what is hoped is the start of at least a weak recovery, with growth forecasted to reach a pace of 2 to 3 percent next year.

- Unemployment is at 10 per cent of the labor force and expected to remain above 9 per cent through 2010.

- Inflation remains low, but an upturn in the world economy could spark commodity price inflation, which could be transmitted to the domestic economy.

- Bank failures continue to describe the state of the country’s banking system.

- The dollar is sinking on foreign exchange markets; and

- The Administration projects a budget deficit for 2010 equal to almost 10½ of the GDP with an average budget deficit exceeding 5 per cent of GDP for the foreseeable future.
Controversies in the U.S. Economy: The Cap-and-Trade Bill

In next week, President Obama plans to attend an international climate summit in Copenhagen, Fox News reports. President Obama says that he hopes to decrease America's carbon dioxide emissions by 17%. This brings attention to the cap-and-trade bill currently before the United States Senate. As explained by the Environmental Protection Agency, a cap-and-trade program gives businesses a certain number of certificates, which entitle it to emit a fixed amount of carbon dioxide. If a business produces more carbon dioxide than its certificates allow, it must purchase additional certificates from a business that has extra certificates to spare. In other words, cap-and-trade is a quota (“cap”) system with a “trade” feature that allows businesses that don't use the full quota to sell their extra allotments to those that exceed the quota.

Arguments in Favor

The Environmental Protection Agency argues that a cap-and-trade program could produce: “Greater environmental protection at lower cost; Broad regional reductions, facilitating state efforts to address local impacts; Early reductions, a result of allowance banking and market incentives; Environmental integrity and transparent operations and results; Fewer administrative costs to government and industry; Efficiency and innovation incentives; Incentives for doing better and consequences for doing worse; Accounting for all emissions; and Partnership with existing requirements to ensure protection of the local population and environment.”

Arguments Opposed

The Wall Street Journal argues that by increasing costs of production, the cap-and-trade bill will increase prices and decrease productivity throughout the economy, costing $1,870 for a family of four in 2020 and $6,800 for a family of four in 2035. It also argues that the cost will be higher on some states than others, and will be particularly expensive for poorer families that spend a higher percentage of their income on energy.

Also, Martin Feldstein of Harvard University argues in the Washington Post that unless other countries, such as China and India, enact similar programs, implementing a cap-and-trade program in the United States will have little effect on global warming.

Questions to consider:

1. The EPA argues that a cap-and-trade program will produce allowance banking and incentives for innovation. What effects would allowance banking have on long-term and short-term pollution? If such banking does occur, what does this say about businesses' expectations for future emissions?

2. The Wall Street Journal argues that increasing the costs of energy production could have adverse impacts throughout the economy. Considering the relevant supply-and-demand graphs, how would a cap-and-trade program affect energy prices? The prices of manufactured goods that use energy as a factor of production?

3. Martin Feldstein argues that a cap-and-trade program in the United States would not affect global warming unless other countries imposed similar restrictions. What basic economic problem is at work in this issue?