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Letter From the Editors

Judaism understands that writing is not merely a transmission of knowledge, but a spiritual endeavor in which people attempt to transcend their mortality. By writing down what we know, we allow future generations to tap into our knowledge and experiences. This sentiment is shared by many economic greats. Milton Friedman famously stated, “A good book is the precious lifeblood of a master spirit, embalmed and treasured up on purpose to a life beyond life.” In our case, Incentives has become the embodiment of the business and economics passions of students that will forever live on in the SAR library.

Beyond just channeling economic passions, our goal as editors continues to be making economic concepts that are typically not discussed in high school palatable to all. From complicated dissertations on the benefits of Net Neutrality according to the perspectives of Friedrich von Hayek and John Maynard Keynes to the philosophies of Adam Smith, we aim to engage in complicated debates about ideas that will impact the future.

Within today’s hyper-complex political climate, cries for student activism are louder than ever. At the crux of some of the most complicated and debated issues lie economic concepts. We hope that by both contributing to and reading this magazine, students have begun to gain the economic literacy necessary to join the global conversation.

Thankfully, we were not alone in publishing this magazine. We had an amazing staff of writers, editors, photographers, artists, and layout who all contributed with their own unique creativity. As a magazine that prides itself on its artistic component, creativity became the best form of contribution, as seen in our record number of artistic submissions. We would also like to thank Joshua Dorfman who spent much time and effort making the cover and managed to turn our dreams into reality.

Last but certainly not least, we want to thank Ms. Schneider, the lifeblood of the magazine, who went above and beyond in her efforts. Despite having one of the busiest jobs in school, she gave us thoughtful and nuanced suggestions in all aspects of the magazine. We would like to dedicate this year’s edition of Incentives in memory of Moritz Perelman, Ms. Schneider’s father. Without Moritz’s dedication to education, Ms. Schneider would not be here to inspire us and countless others to pursue the study of economics. By working for the publication of Incentives year after year, Ms. Schneider has truly enhanced the study of economics in SAR, and we are beyond grateful for her and everything she has done for us.

As the final contributions to our SAR legacy, we hope that this journal takes on a life beyond itself, where it inspires students to join similar magazines, to write about nuanced topics, and to expand their intellectual horizons.

-David Lewis and Jonah Burian: Editors-in-Chief

Colophon

All headlines were printed in Charis SIL and all copy was printed in Droid Serif on two-sided 60# text paper uncoated paper.

The 4/C, 1 sided 100#/gloss cover was designed by Joshua Dorfman. The magazine was created using the web-based software application Lucidpress on a Macbook laptop.

Beehive Press was responsible for printing the two hundred copies of this 48 page book. Incentives is distributed free, to the SAR High School Community.
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Editorial Policy

Incentives is the economics and business magazine of SAR High School. Its purpose is to serve as an outlet of expression for the students at SAR High School interested in economics and business affairs.

The main goals of Incentives are to give the students and citizens of SAR High School an opportunity to share their research and interests by publishing their writing, and to support an increased appreciation for the study of economics as a whole. Incentives is an extracurricular activity of SAR High School students. Submission of any article or art is open to all students of the school. Article submissions undergo a rigorous editorial process that involves both the writer and multiple student editors. All students are encouraged to submit economics-related work through our magazine by emailing incentives@sarhighschool.org.

Article submissions should be typed in an easy-to-read font, e.g., size 12 pt. All submissions must include a title and a bibliography. Authors and artists are permitted to submit multiple pieces; only three per person may be published.

The Incentives editorial staff reserves the right to edit minor errors such as grammatical and spelling problems, while submissions may be returned to the author for other requested corrections.

We also reserve the right not to print any material that invades an individual's right to privacy, or material that is libelous or obscene. Authors and artists retain the copyright of printed submissions, but grant Incentives the right to use selected submissions as deemed by the editorial staff to be most appropriate in the publishing of the magazine.

All articles, graphics, photos, art, columns, pages, reviews, and other material creatively conceived will be bylined with the producer's name. All bylined writers will be held accountable for their work. When more than one person has contributed creatively to a piece of work, each person who has contributed to the work is bylined as a producer.

Corrections will be printed when mistakes are found or brought to the attention of the staff by emailing incentives@sarhighschool.org. Letters to the editor and guest articles are welcome and should be sent to the same email address.

We are most appreciative of the cooperation and support we received from the SAR High School administration, the SAR High School Art Department, and the school faculty in the publication of this magazine.

A special thank you as well to those whose artistic efforts made this endeavor possible.
A TALE OF TWO CITIES

New York and Venice: History Repeating Itself?
by Dov Levy

New York City is the modern epicenter of capitalism and the world’s most important financial center. However, this was not always true. In the 18th and 19th centuries, London preceded the Big Apple as the financial capital of the world, and, before that, it was Amsterdam. During the 14th and 15th centuries, the first centralized, European financial capital was Venice, Italy. In many ways, the Venice of the Renaissance Era was remarkably similar to that of modern New York City. Does this mean that New York’s future lies in the same kind of slow decline that Venice suffered?

By the beginning of the 14th century, Venice had become the shipping and trading empire of the Mediterranean, leading the world in the shipbuilding industry and dominating trade between Europe and Asia. Venice was strategically located between the East and West trade routes of the time, in a lagoon on the shores of the Adriatic Sea. It was a port that had easy waterway access to the Byzantine Empire and the traders of the East, while also having geographic access to the newly emerging European markets. Venice was, therefore, busy trading silk and spices from Asia and the Middle East, wool and slaves from the Adriatics and metal from German merchants. At that time, the trading and moving of goods often relied on shipping. The biggest enterprise in Venice was shipbuilding. The Arsenal, a public shipyard where Venetians built ships that could be leased to private merchants and traders, was considered the greatest shipyard of the time. Not only did Venetians import and export goods from other countries, but they also manufactured valuable goods such as the famous Venetian glassworks, jewelry, silk, spectacles (newly invented by the Italians) and artistic and decorative pieces. Venetians also exported salt from its lagoon and sugar from plantations they built in nearby Crete and Cyprus.

Venice’s robust economy was made possible by three primary factors. First, it created banking institutions, credit markets, and an early government bond market. Venice also began using financial practices such as insurance, bills of exchange and interest-bearing loans, which enabled capitalism to flourish in and out of the city. Wealthy families in Venice began to partner with traders and invest capital in local businesses, allowing poorer merchants to take business risks which fueled economic activity. These practices made Venice one of the richest cities in world. Secondly, the government of the city-state was favorable to commerce. The new banking and investment practices were considered reliable, because the republic was stable, guaranteed property rights and enforced contracts. Venice was also independent of the Church and, as a result, was relatively tolerant of non-Venetians, so immigrants of all religious and ethnic backgrounds lived in the city and contributed to its economy. Finally, Venetians
practiced skilled foreign diplomacy with an aim to appease the controlling powers of the warring nations around it always. As the OECD's publication, *The World Economy*, writes, “Venetian diplomacy was highly professional, pragmatic, opportunistic and dedicated to the pursuit of its commercial interests”. When the Byzantine Empire needed support, Venice offered help in exchange for freedom from excise taxes; when the Ottomans needed an ally against the Crusaders, Venice persuaded the Christians to attack Constantinople instead of Islam, and Venice was rewarded with bases in the Adriatics and the Aegean. This was important because ships traveled along the coastline; thus, having an uninterrupted string of secure coastal bases allowed Venice to provide its ships with safe sea travel. Venice's economic prowess was admirable at the time, but competition that would unseat them was bound to arise.

In the beginning of the 16th century, Venice's role in the world economy changed. The discovery of new trade routes, particularly the direct route around the Cape of Good Hope, meant that merchants from the West no longer needed to go through Venice to reach the markets of the East and vice versa. Portugal, for example, could ship sugar directly to Asia without using Venice as an intermediary. Competition, therefore, increased from other countries that were beginning to prosper. In addition, shipbuilding technology improved, so Venice lost its monopoly in that industry as well. Venice's reliance on its strategic location, which had forced the world economy to trade through its port, ultimately resulted in its economic downfall once those routes were supplanted. Had they realized that new trade routes were bound to be discovered, they might have better diversified their economy. In the end, Venice was still just a city-state – small in comparison to the empires of the time and unable to compete with the wealth of conquering nations once its supremacy as a maritime power diminished.

Fast forward 500 years and cross the Atlantic Ocean to New York City—currently the financial center of the world. It has weathered changes in trade and manufacturing, improvements in technology, financial bankruptcy and violent attacks of terrorism, yet it still remains a dominating, global economic force. However, its history and economic growth is similar to Venice, which could possibly foretell its fall as an economic superpower.

New York City's real growth began in the early 1800s as the premier port in North America. Like Venice in the 1400's, New York's deep-water harbor was strategically positioned for traders from the East, only, this time, it was from England and Europe. The port was only 20 miles from the Atlantic Ocean in the center of the Northern Coast of the U.S. and was connected to the long and easily navigable Hudson River. Its waters rarely froze, its depth allowed for larger ships, and it was connected to the Midwest by rivers (and later the Erie Canal) to the Great Lakes, which provided further access to the Mississippi River and the South. There were other similarities between Renaissance Venice and 18th and 19th century New York as well. Unlike Puritan Boston and Quaker-based Philadelphia, New York was never a religious colony, and the city was more concerned with commercial interests than with philosophical ones. It attracted immigrants from all over who contributed to New York’s manufacturing boom in the 1850s. Surprisingly, sugar refining was the largest industry in New York in the 1800s, followed by printing, publishing and the garment industry. Though, initially, New York’s manufacturing industries thrived because of their proximity to the port and raw goods that were shipped to the city, the immigrant population helped keep manufacturing an important part of New York’s vibrant economy even after its role as a port diminished. But the restrictions on immigration in the 20th century, along with the invention of the automobile and the truck, would take away New York's advantage in manufacturing.

The advent of the car created a move by the middle class urban population to the suburbs, and the invention of the truck made
transporting goods along land cheaper than across water. New York's access to the Hudson River and beyond was no longer so important, and its manufacturing could be moved to less costly, suburban spaces. These two factors caused a decline in the population and economy of most of the large cities in America, which was seen in New York. New Yorkers responded by expanding the financial services industry to offset the decline in manufacturing in the city. As early as 1792, with the birth of the New York Stock Exchange, New York had been the home of the country's finance industry. Originally this was because of New York's port, since protecting against loss from risky sea voyages gave rise to financial practices like insurance and suretyship. As the city's businesses grew, so did its importance in trading stocks and bonds. Finally, because New York was so densely populated and had the closest connection to many manufacturing industries, it had the greatest flow of information and knowledge. Access to information flow is the key to success in the financial markets. During the 19th and 20th centuries, to have the best and quickest access to information flow meant one had to be in the place where that information was known and discussed – New York City. As the financial industry grew, so too did financial service industries such as law firms as well as accounting firms, which contributed to the city's reputation as the headquarters of the business world. Improvements in technology, the growth of businesses and the increased need for capital around the world have all contributed to the boom in the finance industry, and New York's historical role as the financial capital of the country has grown with it.

Yet, like Venice in the 1500s, New York City may not always be the financial epicenter of the world. Harvard University Professor of History Niall Ferguson suggests that there is a shift in the global orientation today that is similar to the shift that took place in the 1500s. Venice lost its power because the world’s focus shifted from the East to the West as the New World was discovered and direct trade routes reoriented travelers away from the Mediterranean Sea. Now, Ferguson says, the world’s focus is shifting back, from North America and Europe to Asia, and the more business opportunities that flow to the East and the more New Yorkers' skills can be replicated elsewhere, the less advantageous it will be to be in New York. More importantly, information flow, which was critical to New York’s rise as the financial center of the world, can now be obtained by a finger swipe virtually anywhere in the world. Will improved computer technology and the rise of cheap, organized, skilled and unskilled workers in the East cause New York's downfall the same as the discovery of direct shipping routes to the West and improvements in shipbuilding technology caused Venice's downfall?

One factor that remains in New York's favor is that it is located in a country that is remarkably stable, both politically and economically. Democracy in the United States has made it possible for shifts in politics without huge changes in political stability. Businesses can count on America's freedoms and laws to survive changes in administrations, and, therefore, financial markets can count on New York. That is one factor that does not currently exist in all countries in the world, including China. Another difference between the history of Venice and New York is that Venice was its own city-state and had to defend itself against rivals, while New York is a city within the most powerful country in the world. As long as the United States remains a key influence on global economics, New York City will remain the city in the United States where that influence is strongest.

Perhaps the most important lesson to be learned from Venice is that a city that does not move forward dies. Had Venice made connections with traders who were following the new trade routes or embraced the new shipping technology and built ships that could sail on the same direct trade routes that others were using, it could have stayed as economically relevant as it had in the past centuries. So too, New York City and its institutions need to embrace innovations in the financial markets, such as the cryptocurrency buzz. It must maintain itself as the melting pot of peoples and ideas that made it great in centuries past. The city also needs to continue making itself a place in which people want to live. The flow of information and knowledge may run on the internet highway now, but the people that generate that knowledge will want to work in New York City if the city is an exciting and welcoming place to live. Survival means changing with the times, and New York City is good at both.

Dov Levy is a sophomore at SAR who enjoys analyzing the Stock Market as well as various Cryptocurrencies. He watches Shark Tank every Sunday Night and appreciates learning about new start up companies. When he is not focusing on economics, Dov likes to play basketball and build Franchises on NBA 2K18. This is Dov's first year writing for Incentives, and he looks forward to continuing his involvement in the coming years.
HOW'S YOUR MONEY SUPPLY?

The Role of the Federal Reserve
by Sarah Best

As the first woman to serve as the head of the Federal Reserve, Janet Yellen has been characterized by The New York Times as a “pop culture phenomenon.” While this description may seem excessive, it is nonetheless true that Yellen has raised public awareness of this powerful yet politically insulated institution. The power of the Federal Reserve derives from its control of the nation’s money supply and its independence from direct government oversight and intervention. As the chairmanship of the Fed has now passed from Yellen to Jerome Powell, public awareness of this institution’s central role in the American economy needs to be sustained.

Monetary policy is one of the two great instruments through which the government manages the economy. The other instrument, fiscal policy, refers to federal taxing and spending policy. Fiscal policy, carried out through the budget process and the passage of tax law like the new GOP tax law, is open to the push and pull of politics. It must work its way through the House and the Senate to be signed by the President. By contrast, monetary policy is fairly protected from politics and developed behind closed doors. To understand why the Fed is insulated from politics, it is helpful to look back to its founding in 1913.

From its early days as a nation, America was marked by financial instability. Periodic financial “panics” caused runs on the nation’s banks. In these instances, rumors of pending bank insolvencies prompted large numbers of depositors to withdraw their money. Having no emergency funds to cover these demand deposits, banks failed at a very high rate. In 1907, there was a particularly severe financial panic which led to the passage of the Federal Reserve Act of 1913. This law set up a central bank that would control the money supply and provide the banks with a dependable source of funds as a ‘lender of last resort’. Due to Wall Street’s concern that pressure for “cheap” money would push politicians to force the Fed to print money “on demand,” the Fed was designed to be relatively independent of politics.

This concern to remove politics from economic decision making is reflected in the structure of the Fed today. Members of the Fed’s Board of Governors cannot be hired and fired at will by the President. They are appointed for long and staggered terms. The seven members of the Board each serve for fourteen years, with one member’s term expiring every two years. No President can control all appointments to the Board. The Chairperson is, however, appointed every four years by the President. Although this opens the position to more direct political influence, it has been common for Presidents to re-appoint the incumbent Chairperson, even one originally appointed by a President from an opposing party. President Trump’s decision to replace Janet Yellen with Jerome Powell broke this long-standing tradition. Yellen resigned from her position on the Fed’s Board of Governors when her term as chairperson ended in February 2018, even though her position on the Board did not expire until 2024.

The Fed’s Board of Governors
sits at the top of twelve Regional Reserve Banks, each headed by a
president with a nine-member board of directors chosen from
private banks in each region. This organizational structure is
intended to balance national monetary policy with regional
needs. The Federal Open Market Committee (FOMC) is made up
of all seven members of the Board of Governors, in addition to the
presidents of the regional Reserve Banks. The FOMC, which meets
every several weeks, plays a
critical role in regulating the
nation’s money supply.

The Federal Reserve has several
tools for managing the money
supply. Through its open market
operations (conducted by the
FOMC), it buys or sells government
securities which influences
interest rates either higher or
lower. This is the Fed’s primary
monetary tool: selling securities
takes money out of circulation and
dampens an inflationary economy;
buying securities puts money into
circulation and spurs growth in a
sluggish economy. There are two
additional tools. The first, setting
reserve requirements, controls the
amount of money that banks must
have on hand at all times; the
second tool is in the Fed’s ability to
set the discount rate, which is the
rate at which the Fed charges
private banks to borrow money.
However, because changing the
reserve requirement can have a
powerful effect on the financial
stability of the banking system, this
tool is seldom used.

As one of the most successful Fed
chairs in recent history, Paul
Volcker effectively used these tools
to stabilize the economy during a
period of runaway inflation.

Volcker, appointed by Jimmy
Carter in 1979, was faced with an
inflation rate of over 12%. (Today’s
rate, by comparison, is around
2%). As Fed Chairman, Volcker
pursued a tight money policy,
selling governments securities and
raising the discount rate and target
Fed Funds Rate over a two-year
period to bring inflation under
control. Volcker’s tight monetary
policy, while successful in taming
inflation, brought about an
economic downturn. His critics
denounced him as a puppet of Wall
Street, more concerned with
curbing “easy money” and
inflation than with economic
growth and jobs. Volcker, however,
showed himself to be a pragmatic
manager of the money supply. As
Fed Chairman, Volcker needed to
address the money supply’s
growth, which had moved to its
highest levels since World War II.
Volcker turned to open-market
operations to contract the money
supply gradually and stabilize
interest rates. By the end of his
tenure in 1987, Volcker was
credited with a job well-done.

Unlike fiscal policy, which must
make its way through the slow
lawmaking process, the monetary
policy conducted by the Fed can
quickly influence the economy.
This position of power, combined
with its relative insulation from
political pressure, has made the
Fed a frequent target of criticism.
From its very beginning, the
Federal Reserve has been attacked
as promoting the interests of Wall
Street rather than Main Street.
Unlike her predecessors, Janet
Yellen has escaped much of this
criticism and has been praised for
steering the economy back to
health. With the stewardship of the
Fed now passing to Jerome Powell,
we hope for continued smooth
sailing.

Sarah Best is currently a junior at SAR High School. Her interest for economics started this year in Ms. Schneider’s
economics class. She is a member of Girls Who Code, as well as a contributing member of the Math Team. Ever since
she was a young girl, her father has taught her about business from his management of his small business. She has
helped her father both as a cashier and a stock girl. Sarah hopes to continue her growth and passion for economics
and plans to study it in the future.
A FLY ON THE WALL
The Unorthodox Genius of Richard Thaler
by Ben Stern

Ever since its establishment in 1969, the Sveriges Riksbank Nobel Prize in Economic Sciences has been awarded to the world’s greatest economic minds. The latest recipient of this prestigious award, Richard Thaler, merited the honor for his groundbreaking discoveries in further bridging the gap between psychology and economics. Born in New Jersey, Thaler graduated from Newark Academy before going on to receive his Bachelor of Arts in 1967 from Case Western Reserve University. He later received his master’s in economics in 1970 and doctorate in 1974 from the University of Rochester. After completing his education, Thaler began his professional career as a professor at the University of Rochester. From 1978 to 1995, he taught various economics courses at both Cornell University’s SC Johnson College of Business and the University of Chicago’s Booth School of Business. In 1993, he co-founded Fuller & Thaler Asset Management and has been successfully running the fund ever since.

Throughout both his teaching and asset management careers, Thaler achieved his success through a single ideology: “The recognition that economic agents are human, and that economic models have to incorporate that.” Early in his career, Thaler started to explore the consequences on the economy of humans’ limited rationality, social preferences and lack of self-control. This allowed him to better predict human decision making. This exploration, and, ultimately, expertise, on human decision making and its effects on the market economy, would later translate into great success for Thaler in his economic endeavors.

In the process of discovering that humans do not always act rationally and its effect on the economy, Thaler conducted a series of experiments that shaped the way economists think of human decision making. Thaler

A “nudge” is a small, indirect suggestion that a company uses in order to alter people’s behaviors in a predictable way.

and his colleagues went to a random Cornell University undergraduate classroom and handed out coffee mugs to exactly half of the students. He then opened a classroom market for the mugs, where students would purchase and sell mugs to each other. This experiment revealed that students who were originally randomly allotted mugs valued them at a much higher price than those who were not given mugs. On a larger scale, this experiment revealed the endowment effect: people tend to overvalue their own possessions.

In order for companies to capitalize on the limited rationality, social preferences, and lack of self-control that humans possess, Thaler adopted the idea of a “nudge.” A “nudge” is a small, indirect suggestion that a company uses in order to alter people’s behaviors in a predictable way, without forbidding any other option or dramatically shifting incentives. In 2008, Richard Thaler and Cass Sunstein published a book called Nudge: Improving Decisions About Health, Wealth, and Happiness, which brought nudge theory to prominence.

One of the most famous examples of a “nudge” is known as the “Urinal Fly.” This “nudge” consists of images, mostly of small insects, etched into the center of urinals, which began circulating through men’s rooms across the world as early as 1980. The image of the fly actually alters human behavior, encouraging men to aim for the bug, thereby reducing spillage on the floor. This results in not only improved hygiene in these
bathrooms, but significantly lower cost and time for cleaning the bathrooms.

Another finding of Thaler was that people will punish companies that they believe have acted unfairly. While this may seem obvious, it completely changed companies’ outlooks on shifting price to match demand. Previously, when demand for a good or service was high, companies would automatically increase the price of the object, to maximize short-term profits. Thaler believed that this would hurt the company in the long run, because customers would feel that the company was taking advantage of their immediate and temporary need for the good or service.

Thaler’s findings helped to shift companies away from this, as evident by the fact that Home Depot actually lowers the price of plywood just before a hurricane, a time when demand would be the highest. While Home Depot may be sacrificing some short-term profits, they are gaining a much more valuable asset: long-term customer loyalty. In an interview with CNBC in 2016, Thaler was asked about this phenomenon and replied, “That’s because those companies are in it for the long run. They want to be selling you stuff when you start fixing the house back up.”

Although Thaler’s findings may seem simple, his contributions to economics are undeniably ground-breaking and profound. Thaler is a trailblazer in the ever-growing field of behavioral economics and has modernized the way companies react to and enforce small changes. Although Thaler’s discoveries on human characteristics and tendencies are extensive, they are in no way complete. There is still plenty more to be explored in the field of behavioral economics, and, the more we can understand about the human mind, the better investors and businesses can predict how events and trends impact the economy.

Ben Stern, is a junior from New Rochelle. He currently studies economics in Ms. Schneider’s economics class. Ben has always been interested in the economy and has been successfully investing in the stock market since the age of 13. He is an editor of both the Math Mag and Lit Mag, as well as a writer for the popular sports media website FanSided. He is a member of the Chess Team, Debate Team and Math Team.
SPOTLIGHT: ADAM SMITH

Morality and the Economy

by Judah Fortgang

Adam Smith, an 18th-century Scottish philosopher, pioneered the idea of what we now call "free-market capitalism." Smith began his study at age fourteen in moral philosophy at the University of Glasgow. He spent the next thirteen years in Scottish academia, developing theories on human nature and morality which would inform his view of economics- and society more broadly- culminating in his two classic works: Theory of Moral Sentiments and Wealth of Nations. A philosopher by trade, Smith’s view on morality and human nature permeates his ideas of how society functions, the focus of Moral Sentiments, as well as wealth and economics, the focus of Wealth of Nations.

Just as Smith’s works are a dichotomy between philosophy and economics, I too will divide this article into two parts. The first will discuss Smith’s theory of morality and human nature, while the second will focus on his ideas and why they are still relevant and important today.

Philosophy

Before understanding the content of Smith’s argument, it is important to understand that Smith was the first philosopher to comprehend that marketplace actions were worthy of study as a social science. He viewed economics not as part of government policy, but as an endless chain of mutual transactions between people. Therefore, he believed man’s natural inclination- to his own self and to his fellow man- was a critical informant in studying the framework of the marketplace.

Thomas Sowell, a leading columnist, economist, philosopher, and Senior Fellow at the Hoover Institution, argues in his 1987 book, A Conflict of Visions, that Smith was a proponent of his “constrained vision of human nature.” Sowell’s constrained vision is best defined by Smith himself in Theory of Moral Sentiments.

Let us suppose that the great empire of China, with all its myriads of inhabitants, was suddenly swallowed up by an earthquake, and let us consider how a man of humanity in Europe, who had no sort of connection with that part of the world, would react upon receiving intelligence of this dreadful calamity. He would, I imagine, first of all express very strongly his sorrow for the misfortune of that unhappy people, he would make many melancholy reflections upon the precariousness of human life, and the vanity of all the labours of man, which could thus be annihilated in a moment. He would, too, perhaps, if he was a man of speculation, enter into many reasonings concerning the effects which this disaster might produce upon the commerce of Europe, and the trade and business of the world in general. And when all this fine philosophy was over,
when all these humane sentiments had been once fairly expressed, he would pursue his business or his pleasure, take his repose or his diversion, with the same ease and tranquility as if no such accident had happened. The most frivolous disaster which could befall himself would occasion a more real disturbance. If he was to lose his little finger tomorrow, he would not sleep to-night; but, provided he never saw them, he would snore with the most profound security over the ruin of a hundred million of his brethren.

Smith understood man to be inherently constrained by his egotistical self. This was not something that he could or should change. To Smith, man's moral challenge lies in what to make of these natural circumstances; that is to produce moral and social progress within societies' natural constraints. His solution begins by asserting that society can't function, neither practically nor morally, if people view themselves as more important than anyone else, their immediate neighbors, or even those who live in China. Smith argues that people must “sacrifice their own interests to the greater interests of others,” which Sowell writes, “is due to such intervening factors as devotion to moral principles, to concepts of honor and nobility.” Smith used human nature as a means to establish a framework for how markets ought to run. Markets run on a higher morality that people would act to produce for others, working within this “constrained” construct. Smith argued that people would use their moral underpinnings to fight their own self-interest and, therefore, produce goods and services to help others. In effect, self-interest yielded a culture of giving; human nature was a driving force in selflessness by producing for others in combating their own selfish urge. Economies and society only function if people act selflessly, and, thus, man's intentions are irrelevant, as societal norms force man to act selflessly.

Smith's ideas of morality went further than simply combating self-interest. Smith believed that humans have a desire to please others, even altering their behavioral patterns for others to experience pleasure. He argues in *Theory of Moral Sentiments* that human nature dictates a society where humans desire to please and sympathize with their brethren. People have an urge to create products for their fellow citizens to act kindly toward them and to improve their quality of life. People's desire to sympathize with each other, according to Smith, ultimately leads to a group of mutually accepted standards, a result of sharing the similar natural desires we just outlined. Societies or economies, as a social process, will modify and remedy the system to make it more fair and moral. Within society, people's natural inclinations force the system, social or economic, to constantly progress to fairer, more just systems. By understanding man's vision, Smith was able to construct a vision for an economy that had its very roots in morality. If people were selfish and did not “sacrifice their own interests to the greater interests of others,” then there would be no functioning economy. In addition, people's desire to please and sympathize with others would create an economy where, naturally, people desired to create better products for their fellow citizens, all within a system rooted in morality.

**Smith's Ideas and Why They Matter**

Smith's ideas, through their roots in morality, critique of mercantilism, and material success, are what make his ideas worth embodying as a people.

As we’ve already noted, Smith was among the first philosophers to comprehend that the economy ought to be a marketplace based on moral principles, not simply on another government program. Smith's ideas replaced the old system of Mercantilism, premised on the idea that there are finite resources in the world and to move ahead of your fellow man or country, you must own more of the finite resources. Governments fully controlled the economy, disincentivizing imports in order to export more, with the sole purpose of accumulating precious metals to gain what they viewed as wealth. Governments had little respect for their citizens' self-interest, forcing them to be pawns of the state by producing only what the state wished.

Smith's ideas opposed Mercantilist ideas both in efficiency and morality. To Smith, people were meant to be free members of society, producing and buying what they pleased, not what the government would want of them. To this end, we can look at *Wealth of Nations* to see how Smith visualizes economics. Smith's book fixated on how to produce wealth, not how people become impoverished. Smith believed that poverty results from a restriction of production either by way of governmental force or by people's standing idly. He wished to know
how nations and people could become wealthy in a just and efficient manner. While Mercantilists viewed wealth as the accumulation of metals, Smith viewed wealth as goods and services. Gold and silver are just media of exchange—gold and silver can’t save someone from starving or freezing if nobody is willing to buy the metals in exchange of food and clothing. He understood that a nation’s wealth is not finite; by producing more efficient goods and services at lower cost, a nation can increase its “pie” of wealth. This would not only increase the quality of life from an efficiency standpoint, but, on a moral level, it would do the most “good” for those who need it most.

Smith believed in a division of labor—that everyone would specialize in specific tasks and combine to produce more together than they could alone. He celebrated the ideas of performing tasks in self-interest. To Smith, the “selfish” motives were irrelevant—producing in self-interest is indispensable to economic progress. He wrote: “The natural effort of every individual to better his own condition...is so powerful, that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often encumbers its operations.”

In a free economy, nobody can declare themselves a ruler and demand others’ goods and services. He must produce what others want at a price they can afford if he is to receive what he desires. If people, not governments, decide prices, then those prices and profits would act as the “invisible hand,” and the subsequent competition over price and profit would produce cheaper and higher quality products for all. The system is not only more effective and efficient, but it is also more moral. People are free to produce what they please, without being confined to what the government asks of them. Not only will citizens be free members of society, but, through mutual transactions, economies can continually produce a larger “pie” to help the poor and disabled accumulate more wealth and prosperity.

Adam Smith’s ideas are necessary to embody today not only because of the material success his ideas have produced, but also because of their deep roots in moral philosophy. At a basic level, the free market is about people “pursuing their happiness” through their own work—they are free to choose the lives by which they want to live. Free enterprise, as we’ve learned, requires us to fulfill our ethical mission of working together to increase the “pie” in an effort to support our fellow man. The free market is about applying natural law and our natural liberties into a system of mutual transactions. The laws of the free market, as we explored, are not limited to the market, they are how citizens ought to live their lives as moral citizens. Everything we do, economically or socially, should be entrenched in a commutative justice of benefiting both parties. By living our lives as members of a free market and society we are living just and virtuous lives that go beyond economics. The laws of the free market ought to be the same as the laws of society based on justice, fairness, merit, and virtue. Smith’s economy is more than a well oiled money making machine. It gives our life purpose and meaning and makes us more virtuous people. Simply put, being a member of the free market and society is the right thing to do.

A New Rochelle native, Judah Fortgang loves to both play and watch sports in addition to trying to learn as much as he can about economics and human behavior. He’s written for Incentives for the last two years and currently plays the role of monetary policy maker for the Fed Challenge team. He plans on studying next year in Israel at Yeshivat Har Etzion and continuing his study at the University of Chicago.
ARE SUPER-TEAMS A SUPER SUCCESS?

Salary Collusion and its Economic Effects
by Josh Hyman

O ur whole lives, we have been taught to believe that competition is good for both the marketplace and the profitability of corporations. However, does a lack of competition in the National Basketball Association (NBA) cause harm to the value of its teams?

The issue of player salary collusion is becoming more relevant in today’s NBA. The players are protected from owner collaboration, yet there is nothing protecting the owners from player collusion. Over the past six years, a small group of superstars have colluded to create “super-teams,” which have dominated the league, winning five out of the past six championships. This superstar mentality is becoming more commonplace, as many players have begun to take salary reductions in order to contend on super-teams.

But what about the rest of the league? With only a few “super-teams” in contention for a championship, it would be expected that fan interest for the other 85% of teams will diminish, resulting in a decline in ticket sales, merchandising, and television revenue. The ultimate result should be a decline in the value of all the franchises but these “super-teams.” However, this is not the case.

In 2010, Lebron James and Chris Bosh joined Dwayne Wade’s Miami Heat. Lebron’s departure from Cleveland and Bosh’s from Toronto came at some expense. All three players agreed to take massive pay cuts in order to play together. A few years later, the ‘Big Three’ brought two NBA Championships back to South Beach, while suffering two Finals losses as well. Their second loss was in 2014 to the San Antonio Spurs, whose roster was comprised of aging players hopeful for one last shot. Tim Duncan, Tony Parker, and Manu Ginobili were all in the twilight of their careers, but they similarly were not seeking the payouts they might have otherwise received. Once again, pay cuts emerged as the key component to crowning an NBA champion.

Another more recent instance of collusion occurred less than two years ago, when the record-setting Golden State Warriors added Kevin Durant, a former MVP, four-time scoring champion, and seven-time All-Star, to their arsenal. The previous season, the Warriors surpassed the 1995-1996 Chicago Bulls’ all-time NBA record for the most wins in a season, with 73 (out of a possible 82). With the arrival of Durant, it became extremely challenging to steal a game from the Warriors, let alone four in a
best-of-seven series.

Being the realistic Knicks fan that I am, it is difficult to cope with the fact that the Knicks have absolutely no shot at beating the Cavaliers in order to advance to the NBA Finals. Lebron James has made seven consecutive NBA Finals appearances and is on the brink of his eighth with the newly orchestrated Cavs roster. Even if a team like the Celtics were to defeat the Cavaliers, their chances of defeating the reigning champions, the Warriors, are slim at best. While these epic showdowns may bring the NBA playoffs to new heights, shouldn’t the lack of competition stop fans from following the regular season?

Surprisingly, the answer is no. The single transaction of Kevin Durant revolutionized the NBA and prompted teams to head one of two ways. Now, teams either attempt to rebuild or try to go out and acquire multiple superstars in an attempt to contend for a title. This offseason, the Oklahoma City Thunder were eager to acquire new blood and provide Durant’s Warriors with a challenge, hoping to defeat them in the playoffs. They traded for Paul George and Carmelo Anthony, two top-tier players, to play alongside Russell Westbrook. Another team, the Houston Rockets, acquired Chris Paul to pair with James Harden in order to match the superpower of the top teams in the West, or, in other words, the Warriors. The Rockets’ General Manager, Daryl Morey, claims that the Rockets are “basically obsessed with beating the Warriors.” The Warriors have knocked the Rockets out of the playoffs the past two seasons, so they now understand that, if they want to win, they have no choice but to stack their roster with as many superstars as possible.

This strategy has generated more skillful NBA teams, which has kept fans excited and on their toes. The off-season craziness has assisted television ratings in bouncing back from last season’s low ratings. This year’s game attendance has been consistent with the last half decade, even for the lower tier teams. This poses a greater question: if the new look NBA has received average feedback, what drives NBA franchise values up, and how can the NBA assure its economic stability?

The answer is simple: the media. Before the 2014-2015 season, the NBA announced its agreement to a new, nine-year, and 24 billion dollar media-rights deal with ESPN and Turner Sports. This deal was an 180% increase from the previous one. To put that into perspective, the 2007 deal was only a 21% increase from the prior agreement. This meant that more money would be facilitated around the league and, ultimately, into the pockets of each franchise. According to Forbes’ 17th annual NBA team valuation in 2015, the average NBA team was worth 74% more than that of the previous year, thanks to the media deal. In the last two seasons since the media deal, each franchise has gained an average of 9% in value. Clearly, the steady gain in franchise value is purely dependent on television contracts, as, in the years since the new deal, the value of the teams has risen at a constant rate. Forbes’ evaluations prove the value of television contracts, but what about the other marketing aspects of running an NBA team?

According to Forbes, the New York Knicks’ 2015-2016 season set a league record with 141 million dollars in operating income, despite their 32-50 record. Practically, this meant that the Knicks had the greatest profit out of every franchise in the NBA despite having one of the poorer records in the league. If the Knicks were fifth in attendance and ninth in merchandise sales, how did they manage to take home the most money? In comparison, the Chicago Bulls, who were the number one team in attendance and fourth in merchandise sales, had a grand total of 45.5 million dollars in operating income. The difference between the two is that the Knicks own the 2nd richest local television contract in the NBA, which generates over 100 million dollars in annual revenue. Like it or not, the economic stability behind a big time market will always prevail in influencing a team’s value more than the team’s success. Since NBA franchise values rely heavily on television contracts, player salary collusion will have little to no effect on the values of franchises.

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THE ECONOMIC CALCULATION PROBLEM
The Fundamental Flaw of Collectivism
by Darius Gross

T he collectivist philosophy holds that the assets in an economy (or one industry) should be centralized and managed by a few people, often intended for the equal benefit of everyone. The idea is relatively new and has therefore faced much scrutiny over the past 150 years of its existence. Many of those who argue against it point to the horrors perpetrated by collectivist regimes or use data to show the failure of collectivist programs as compared to more privatized ones. Often, the reaction will be: “This time, our policy will work”- and a rebuttal is not always forthcoming.

Few economists have attempted to show why the failures of central planning are actually inevitable. Such an approach would be useful to explain why collectivism fails as a whole, showing that the entire concept itself is inherently flawed- not that individual poorly planned policies have dragged down collectivist economies in the past. By rebutting the whole system in a vacuum without using historical case studies, more scrutiny is placed on touted collectivist models.

Born in Austria in 1881, Ludwig Von Mises was an economist who opposed collectivism because he claimed that it would automatically lead to bad outcomes. Mises was one of the earliest political economists to

Since they seal themselves off from the flow of information between the participants in a healthy economy, bureaucracies cannot rationally respond to economic signals.

revive the almost-forgotten philosophy of laissez-faire (free-market) capitalism in 20th-century Europe. At the time, his beliefs were called “classical liberalism” or just “liberalism,” but today they can be more properly identified as libertarianism. In contrast to many of his European contemporaries, Mises believed the best and most moral outcomes could be reached by allowing unfettered free exchange of goods and services in the marketplace.

Mises theorized and tried to study the essential nature of market processes. According to him and similar thinkers of the era, markets work based on information transfers: each participant can signal the way they view goods subjectively through prices. “Each individual, in buying or not buying and in selling or not selling, contributes his share to the formation of the market prices.” If a consumer thinks that a retailer prices their furniture too high, the consumer can find another business selling the same furniture for a lower price, leading to a profit for that business. This is a signal to the second business that their price more accurately describes the

Photo: Manny Cohen
Mises believed the motive of profit is what drives innovation, efficient allocation of resources, and competitiveness. Since the public sector does not profit through better management as corporations do, it cannot effectively evaluate its efficiency. This is why the private sector is always more efficient than the public sector; “The elimination of profit... must transform society into a senseless jumble. It would create poverty for all.” Unlike private companies, which must adjust their prices, practices, and payrolls to succeed, “Bureaucratic management is management of affairs which cannot be checked by economic calculation.” A bureaucracy has a steady source of income from the government, no matter how poorly they provide services or manage their own affairs. Therefore, they cannot recognize if they are overspending or charging too much for a service-mistakes which would put a private company out of business. Since they seal themselves off from the flow of information between the participants in a healthy economy, bureaucracies cannot rationally respond to economic signals. Ultimately, government agencies cannot respond to market signals because they do not participate in the market process.

Friedrich von Hayek, an economist who had a strong intellectual influence on Mises, claimed that this is the “fatal conceit” of collectivism. Collectivism is predicated on the flawed notion that central planners-government agents-can rationally calculate market values. He and Mises argue that it is impossible for a central agency to organize society rationally and efficiently. One agent in the market cannot know enough to provide services and set prices that accurately reflect true market values.

To Mises and Hayek, a competitive marketplace must rely on either its own success or the success of others to determine whether or not it is providing consumers with the best product for the lowest cost. Meanwhile, bureaucracies do neither because they are kept out of the competitive market process that reveals public preferences. “There is no such thing as prices outside the market. Prices cannot be constructed synthetically.” The lack of price signals to a government agency means their choices will not satisfy the needs of consumers. Therefore, government agencies will inevitably face scarcity, provide poor services, and require ever-increasing public funding. Thus, the economic calculation problem makes large-scale collectivism unfeasible as a political model.

Darius Gross is a junior who writes for the Buzz, is part of the Wrestling Team, and is involved with various political clubs at SAR. As a libertarian, Darius can be found discussing the most effective and moral ways to fix public policy and slash regulations. He also takes an interest in world history, philosophy, as well as Romantic and Semitic linguistics.
FLYING HIGH

The Economic Impact of Airports

by Coby Kranz

The world’s oldest airport, located in College Park, Maryland, was established in 1909 when one of the Wright brothers, Wilbur, arrived to train officers in the U.S. Army. Since then, countless airports have been built all around the world, making air travel an essential part of life. While airplanes and airlines typically receive most of the attention, the airport infrastructure itself is an underrated and unappreciated contributor to economic growth and development worldwide. The construction, operation, and maintenance of a modern airport can be costly, but in most cases, such costs should be viewed as a worthwhile investment that is far outweighed by the overall economic benefits.

Airport operation is no easy task, especially for those serving millions of travelers on a regular basis. Managing flights, passengers, bags, food service, wifi, flight crews, ground crews, terminals, shopping and security, among other items, requires a coordinated, conscientious and consistent effort among all airport management and staff. Due to this massive undertaking, major airports in the United States usually are operated by agencies like the New York Port Authority which oversees all airports in the New York area. Airports have become like mini-cities and thus require a meticulous attention to detail to ensure quality, efficiency and safety. While the burden can be overwhelming, it also can be well worth it.

For example, New Jersey has local, regional and international airports, all of which help contribute to its economy. In September 2016, the New Jersey Transportation Department issued the results of a study on the impact of its airports on the state’s economy. The study notes that “[t]he contribution of all airports, from small general aviation to large international commercial service, is crucial to the economy.”

In support of this statement, the study indicates that the thirty-seven airports in New Jersey (including aviation and all commercial services) produce a combined economic output of $18 billion. This contribution by the New Jersey airports includes revenue generated by airport hotels, restaurants and recreation. The study explains that this economic output represents 3.7% of New Jersey’s $565 billion Gross Domestic Product.

While airports are essential to both local and state economies, they have an even larger impact on a national level. In 2015, the Federal Aviation Agency (FAA) released a
study on the economic impact of airports which concluded that “at the national level in 2012, civil aviation generated $1.5 trillion in economic activity, supported 11.8 million jobs with $459.4 billion in earnings. Civil aviation accounted for 5.4% of U.S. Gross Domestic Product.” Civil aviation includes airports and the FAA study specifically notes that “airports contributed $73 billion in total output to the U.S. economy in 2012. California, Florida, Texas, Illinois, and New York were the top five states in the total economic impact of airport operations. Some of the busiest airports in the nation are located within these states.” The FAA is proof-positive that airports directly and mightily contribute to the national economy—not even taking into account the indirect economic boost created by passengers who rely on airports and air travel for business.

While U.S. airports are relatively important economic contributors, none of the top-ranked airports in the world (ranked by Skytrax) are located in the United States or even in North America. In 2017, the five highest-ranked airports are (1) Singapore Changi Airport, (2) Tokyo International Airport (Haneda), (3) Incheon International Airport (Seoul, South Korea), (4) Munich Airport (Germany) and (5) Hong Kong International Airport. A common trait among them is the excellence of their amenities (e.g., restaurants, shops, services) and the consistency of their cleanliness. This combination is a lure for tourists who yearn for a more pleasurable airport experience. This, in turn, leads to increased leisure travel and business travel, all of which generate revenue and (hopefully) profits. For instance, one of the factors that helps Singapore’s Changi Airport maintain its top-tier position is by offering free city tours to those waiting during a connection. This is a smart strategy to woo travelers who may not have intended to visit Singapore, which helps invigorate the economy. Along the same lines, Singapore Airlines is ranked as the best airline in the world, as customers appreciate their service, food and comfort. It is this attention to detail that can turn an airport into an engine for the economy and help it to soar.

An essential part of an airport that is often overlooked is the on-site transportation system. Getting to and from the airport in an affordable and convenient way is very important for most travelers. Having an efficient transportation system that can reduce travelers’ stress and enhance their experience, ultimately results in more frequent use. According to CNN, the top five airport-related transportation systems are located in (1) Hong Kong, (2) Seoul, (3) Singapore, (4) London, and (5) Paris. It is no coincidence that the top three also have the highest-ranked airports, as the relationship between the transportation system and the airport is symbiotic. In other words, a quality transportation system will enhance the airport experience, and the reverse is true as well.

According to the Gensler website, a world-class airport must not only provide superior air travel; it also must supply the other facets (e.g., reliable wifi, delicious food, cleanliness and convenience) so that the entire airport experience is pleasurable and memorable. This is particularly true with respect to modern-day travelers who have little patience and demand instant satisfaction. Catering to the reasonable demands of the average airport customer will place the airport in a position to succeed and to continue contributing to local, state, national and global economies. Of course, if Elon Musk and other visionaries have their way, air travel may one day take a backseat to space travel, which means that the economic benefits of airports could soon be rivaled by those of...spaceports. Either way, these airports will continue to help economies to fly high.

_Coby Kranz_ is a junior at SAR High School in Riverdale, New York, and he is both a contributor and an editor of Incentives Magazine. He also is part of SAR’s Investment Club, Math Magazine, College Bowl team and Tennis team, and, for fun, he runs his own Superhero Movie club. He enjoys studying economics and is planning on taking AP Macroeconomics next year. We look forward to Coby’s future input in next year’s edition of Incentives.
MONEY TALKS

Interview of Eric Goldstein, CEO of UJA Federation
by Jonah Burian

Last year, I attended a conference on “Effective Altruism” (EA) at the University of Pennsylvania. EA is a utilitarian, globalist philosophy for charity giving that measures success on the basis of maximizing lives saved. For example, the philosophy would prioritize providing mosquito nets in certain African countries over donating to a private school. The philosophy seemed compelling. It made me question why someone would donate to a museum when the same money could be used to save lives? I began to realize that, if everyone gave charity in the EA way, no one would fund long term systematic change, the arts, sciences or community needs. Is that the necessary sacrifice to save immediate lives or is there a balance? This internal debate caused me to seek answers. I wanted to talk to someone who works with charity every day. Luckily, Eric S. Goldstein, the CEO of UJA-Federation of New York was available for an interview.

Jonah Burian
What was your path to becoming the UJA-Federation’s CEO?

Mr. Goldstein
I had a very nontraditional route to this role. I was a lawyer at a large NY firm (Paul, Weiss, Rifkind, Wharton & Garrison LLP) for over 30 years, but I had always been involved with UJA, originally through Jewish education because we do not have a very viable model and fewer and fewer families are able to afford Jewish education. I was the president of my kids’ day school (Manhattan Day School) and I had heard that UJA-Federation had convened a committee on affordability in Jewish life. I joined that committee and slowly became more involved in the work of that committee and then in the work of UJA. I then joined the Board and became Vice Chair. When the CEO, who had been with UJA for 15 years, announced that he was leaving, I was put on the search committee to find a successor... Around three months into the process, the incumbent CEO called me to a lunch and said to me, “What do you most look forward to in your week? Is it your legal practice or is it your communal work?”... After lots of thinking, I put my hat in the ring... and the rest is history.

Within every allocating decision, there are vast numbers of judgments that we need to make, and they’re not necessarily right answers. They’re judgments.

Jonah Burian
Can you tell me about the overall philosophy on how UJA allocates grants?

Mr. Goldstein
We have a threefold mission. Our first mission is to help those most vulnerable within our community. Within New York itself, that’s people of all backgrounds, not only Jews. Beyond New York, it’s our mandate to help Jews in the most vulnerable position. The second mandate is inspiring a passion for Jewish life and learning. There was a time when you didn’t choose to be Jewish. There were both visible and invisible barriers. Today, there are no barriers, which is both a blessing of the acceptance of Jews in America, but also very much a challenge. How do you maintain the Jewish connection? How do you inspire people to engage Jewishly not because they have to, but because they want to? ... The third mandate is focused on forging Jewish connections.

So those are our mandates against which we give out over 300 grants
every year, and against the background where we are confronted with questions. How much do you give in your backyard versus to Israel or the former Soviet Union? How much is focused purely on the Jewish people? How much do you give to the broader community? In 2017, terrible hurricanes hit Houston, Florida and Puerto Rico. Puerto Rico was devastated and there were not a lot of Jews in need in Puerto Rico. However, the need in Puerto Rico was vast. What is the responsibility of an organization like ours? How much do you give to direct support like giving food to people who are hungry versus focusing on things that promote systemic change? Within every allocation decision, there are vast numbers of judgments that we need to make, and they’re not necessarily right answers. They’re judgments.

**Jonah Burian**

How does the UJA balance immediate human needs and more long term, institutional needs?

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**Mr. Goldstein**

Some of this is simply based on history. We started in 1917. During World War I, there were millions of hungry immigrants, Jewish immigrants, in New York. So we needed to provide a healthy amount of direct service. At the same time, we wanted to make sure that the community would be taken care of, so we created a bunch of organizations that take vulnerable people and give them the services to support themselves. We still do direct services to provide for immediate needs, but our focus now is on systemic changes.

**Jonah Burian**

How do you balance US, Israel and, now, Puerto Rico’s needs?

**Mr. Goldstein:**

It’s not as if this is a static issue, and we are constantly re-assessing funding priorities. Here’s an example of this shift. In 1986...70% of our total dollars ... were given overseas, and 30% stayed local. Fast forward to 2018: it's essentially been inverted. 65% of our dollars are staying local, and 35% are going overseas. Now, why is that? One reason is Israel. Historically, Israel was a poor country with millions of immigrants coming in with staggering needs. UJA helped on all fronts – helping to build the modern State of Israel and absorbing the immigrants who sought refuge there. Today, we still give over $35 million annually to Israel, but Israel is now a wonderfully prosperous nation, and the need for American philanthropy is not as great. That’s not to say that Israel doesn’t have very significant challenges requiring our support, but the need is reduced, as they have much more of a capacity to do it themselves. Today, there’s a dramatic need locally, so different times will lead to different judgments about how to allocate local versus international needs...

**Jonah Burian**

What’s the thought process behind supporting non-Jewish versus Jewish needs?

**Mr. Goldstein**

We believe that, as the largest Jewish charity in New York, we have an obligation to not only take care of Jews. It’s important as well to help address the needs of the poorer communities, and so we work in partnership with many other faith based organizations - Catholic Charities as well as the Federation of Protestant Welfare Agencies (FPWA) in an effort to come together and address common challenges around hunger, disabilities, aging, etc. Our primary focus is supporting the vast needs of the Jewish community, but we see the responsibility of also helping non-Jews.
Jonah Burian

How do you measure success when doing these projects?

Mr. Goldstein

We actually have a department that’s called IPAD (Impact Performance and Assessment Department), and every grant has a methodology to measure its success before it’s given...There isn’t one measure of success. You’re dealing with dramatically different types of allocations, different types of grants seeking to do different things... The decision about whether or not to renew a grant is going to depend on whether something is worth sustaining and whether we should scale it.

Jonah Burian

What are examples of systemic changes that UJA is trying to combat now?

Mr. Goldstein

Let’s talk about poverty. I think people would be amazed at the extent of Jewish poverty in the New York area. There are roughly 1.6 million Jews living in the five boroughs, Westchester and Long Island, and 565,000 of them live at or near poverty. So roughly a third of the Jewish community, which we all assume to be so affluent, is struggling. So what are the current strategies? There are food pantries. Food pantries are not terribly dignified. You stand in the line for a long time, and you get a standard bag of goods. You can be diabetic or lactose intolerant. It might not even be culturally sensitive to the types of foods people are accustomed to. So we were thinking about how to improve the process of delivering food to people who were hungry in a way that would promote efficiency and dignity and reduce significant waste. We’re currently investing in digital choice food pantries where you go online... Individuals have a certain number of points... and you get to make choices that are consistent with your needs. Whole wheat pasta is five points, while regular white pasta is ten points. Cookies are ten points, and fruit is five points. You also allow the inventory to shift constantly depending on what’s available. People are ordering what they want, which is promoting healthy living... We’ve piloted this into four Kosher food pantries, and the goal is to take them to all eighteen food pantries that we help fund through our partners. We want to take people from crisis to stability.

Jonah Burian

Unfortunately, I think our time is up. Do you have anything else you would like to say?

Mr. Goldstein

There are no right answers, but the goal is to try to distinguish between the “nice to have” and the “need to have” in a community. Within that basic construct, what are your particular priorities? We see ourselves as a safety net for the needs of the Jewish community, and, so, that’s going to be our lens through the chessed agenda, the Jewish life agenda and the connecting Jewish community agenda.

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Jonah Burian is a graduating senior at SAR High School. He will be attending the engineering program at the University of Pennsylvania. Before that, he will take a gap year in Israel where he hopes to explore his philosophical interests. Jonah has a special interest in Economics dating back to when his dad gave him $20 to invest in the stock market with the goal of purchasing an Xbox controller. Since then, he has worked his way up from a contributor to an editor-in-chief of the award winning Incentives magazine.
STREAMLINING TV

The Death of Cable TV and the Rise of Streaming Services
by Josh Askowitz

The use of TV, in the traditional sense, is headed for extinction. As streaming services such as Netflix and Hulu have gained popularity, consumers have stopped using their TVs to watch their favorite shows. These platforms are preferable to cable TV because of their wide range of high-quality shows and original content. This is making it illogical for many consumers to continue paying their cable companies. While cable providers offer hundreds of different channels, consumers only end up watching a handful of them. Watching TV through a streaming service is more affordable, enjoyable and accessible for the viewer. These services make watching TV a more personal experience, helping connect the viewer to new shows catered to their preferences. Many streaming platforms, such as Netflix, have no ads, allowing for seamless binge watching of popular shows. Why rent a movie from Fios On Demand at $4.99 for two days when it is possible to have access to hundreds of movies, and TV shows for $10.99 a month?

In addition to the ability to personalize the viewing experience, the creation of original content by streaming services has garnered huge crowds to the platforms. Streaming services have created some of the most talked about shows over the past few years. Hulu’s The Handmaid’s Tale, Amazon Prime’s The Man in the High Castle and Netflix’s House of Cards have all been nominated for Emmys. A great example of the popularity of these shows can be seen in another of Netflix’s original series, Stranger Things. All nine episodes of the second season, a total of 7.5 hours worth of TV, were watched by over 361,000 Netflix subscribers within the first 24 hours of its release. Within the first three days of its release, the first episode had been viewed over 15.4 million times.

Facebook, Amazon, and Youtube have all made moves to cement themselves into the streaming world. Facebook is currently funding studios to create exclusive TV series to be streamed through their app. These TV shows, while attracting more Facebook users, will create more locations for ads, which comprises 97% of Facebook’s total revenue. Like Facebook, Youtube has also started to expand their premium content with Youtube Red. That incentivizes Youtubers and movie studios to create premium content for users who would then need to subscribe to Youtube Red in order to gain access to a massive growing library of content. Recently, Amazon purchased Twitch, a video game streaming platform, for about $1 billion. Every day, millions of users create and post their unique content, which is then, in turn, watched by millions of people. Twitch has over 55 million users with over a billion minutes of footage, which accounts for around 40% of all live-streamed video on the internet.

The streaming services have dealt a serious blow to cable networks, or traditional TV. In 2017, the number of Netflix subscribers surpassed those of cable. Netflix has approximately 51 million subscribers while cable companies have about 48 million. Due to Netflix’s increased popularity, cable companies have seen a 4% decrease in their number of subscribers.

With the rise of streaming services, it is understandable why the viewing of traditional TV has declined. Traditional TV is expensive and excessive, while streaming services offer a personal experience with high-quality content at a reasonable cost. For the foreseeable future, it seems as if the use of cable will keep declining as streaming platforms continue to expand and create original content.

Joshua Askowitz is a senior graduating from SAR High School. Joshua has been a part of SAR’s greatest economic activities, such as Kai Fan and the great Riverdale Kosher Market vs. K Grill War of 2018. When not engaging in economic discourse, Joshua can be found researching potential restaurants for dinner.
A JOURNEY INTO A NEW ECONOMY

Inside Saudi Arabia's Economic Transition
by Efraim Herstic

Under the guidance and vision of Crown Prince Mohammed bin Salman, the oil-dependent middle eastern kingdom of Saudi Arabia is undergoing a groundbreaking transformation. Currently, Saudi Arabia's economy is heavily dependent on oil exports as the main engine of the rentier state's economy. As such, the petroleum sector of the economy makes up 42% of the entire nation's Gross Domestic Product (GDP) according to Forbes. Therefore, as the world gradually moves away from fossil fuels towards other less environmentally harmful sources of energy (e.g. renewable energy), the Saudi Arabian government has started trying to diversify the nation's economy away from oil by allowing for the growth of the private sector under a plan titled "Saudi Vision 2030." Currently, most oil producing parts of the Saudi economy are state owned, and therefore the petroleum sector accounts for 87% of government revenues. As oil prices have steadily declined over the last decade, from a relative high of around $144 dollars per barrel to the current price of about $70 dollars per barrel, the Saudi government's revenue has declined. Despite Saudi Arabia's best efforts as part of the oil cartel known as OPEC (Organization of Petroleum Exporting Countries), which is composed of some of the highest oil producing countries in the world, to keep the price of oil high, the price has steadily declined. Consequently, Saudi Arabia is attempting to pivot its economy away from its dependence on oil based industries by courting foreign investment and nurturing the country's own domestic private industry. In November, Crown Prince Mohammed bin Salman took the first step in the country's economic transformation by attempting to restore confidence in the eyes of foreign investors and its own citizens in the notoriously corrupt Saudi government. To this end, the government has cracked down on corruption, as they have placed over 190 prominent Saudi businessmen and government officials under “house arrest” at the Ritz-Carlton Riyadh. Once under arrest, the accused are given a choice: either hand over a significant portion of the funds that they have corruptly siphoned off or face jail time. Under this campaign, the Saudi government claims that they have collected over $100 billion dollars of stolen funds. This anti-corruption campaign has achieved two goals: reclaiming stolen funds that the government can invest in the future, and increasing the global standing and trust in the Saudi government.

Furthermore, in accordance with this vision of a diversified economy, the Saudi government has recently announced a plan for the development of a completely new high tech city of the future along the coast of the Red Sea. This futuristic new city, to be known as Neom, is planned to be staffed by robots, have driverless cars roaming the streets with renewable energy sources powering the city. Despite this ambitious plan, it is estimated that the new city would cost nearly $500 billion dollars to build. It will be primarily funded by the Saudi government with the help of private investors. The government hopes for international corporations to establish residency in Neom, which would help the nation's private industry flourish.
Because of its central geographic location with close proximity to multiple key shipping channels, the Saudi government hopes that this new city, and the nation as a whole, can act as “global hub connecting three continents, Asia, Europe and Africa.” In order to fund these investments in private industry and the economy’s diversification, the Saudi government has been rumored to be mulling a potential initial public offering (IPO) for a fraction of the Saudi Arabian Oil Company, commonly known as Saudi Aramco, the state owned oil syndicate. In any potential IPO, Saudi Aramco would be valued at an estimated $2 trillion dollars, establishing it as the largest oil company in the world by market capitalization. If five percent of the company is listed as part of the IPO, as is rumored, Saudi Arabia would be able to raise billions of dollars in capital ammunition that it could use in its quest for economic modernization and diversification. As Saudi Arabia journeys down this ambitious path to become a modern economy and shifts away from its status as a rentier state, only time will tell how this unprecedented transition will turn out.

Efraim Herstic is a graduating senior at SAR High School and has been passionately involved in the study of economics for many years. An avid reader of The Wall Street Journal, The New York Times, The Buzz, The Washington Post, Bloomberg News, The Economist, and Gruen’s-News, Efraim is constantly up to date on all things business related. With the current state of Fed handouts through the IOER and ONRRP facilities, Efraim plans on incorporating a as a federally insured depository institution, and subsequently receiving interest on excess reserves, with the hope of never working again. Next year, Efraim plans to attend Yeshivat Maale Gilboa and to continue with his studies of economics in the years ahead.

THE LIBRARY

Book Review: Naked Economics by Charles Wheelan
by David Lewis

Charles Wheelan’s first book, titled Naked Economics, is a great introductory book for anyone looking to become economically literate. Wheelan manages to create a page-turner out of a subject that is generally perceived to be dry and technical. He doesn’t teach the subject as much as engage in a conversation with the reader. There are no charts, no numbers, merely eloquent yet simple stories. Additionally, he manages to stay away from politics in a very politically charged subject, staying in the center regarding many different issues. With a witty sense of humor, he manages to keep the reader’s interest throughout the entire book, making it more than a book to teach, but one for pleasure as well.

One thing that Wheelan stresses is the importance of incentives. He posits that the economy functions due to everyone acting to benefit themselves. Another point that he makes is that the market is amoral. It doesn’t care who succeeds and who fails. In a successful economy, creative destruction must happen. The essence of creative destruction is that the economy is becoming more productive and efficient. While in the short run, creative destruction may appear to be cruel, in the long run, it benefits society overall.

A second subject that is discussed extensively is the government and the economy. He stresses how a properly run government that provides regulation is essential for a complex market economy to function. The government lowers the cost of production by providing infrastructure, organizations that protect the integrity of the market (such as the SEC), as well as public goods which make everyone better off. However, if there is an inefficient government that is poorly run and over-regulates, everyone is worse off. For example in the Soviet Union, the government controlled every aspect of the market, from the prices to the supply of products. There were chronic shortages, starvation, and oppression. Wheelan also discusses the importance of free trade,
expressing that it makes everyone better off in the long run, and makes the point that countries that have had the benefit of free trade are significantly better off than those who don't, such as many underdeveloped countries.

Before I read Naked Economics for my basic econ class last year, I was the type of person who would read nearly any book, except for those that might relate to school or education. However, after reading Wheelan’s book, I have a newfound appreciation for books of this ilk thanks to Wheelan, I will try my best to pick up similar books in the future. This book is perfect for anyone wants an intro to economics. I would recommend it to anyone who is interested in the subject but might be afraid of econ’s daunting reputation.

David Lewis has been an integral part of the Incentives staff for the past two years, starting his Incentives career off as an editor, and now serving as the editor-in-chief. He can often be found researching for the Fed Challenge Team with his graphs or in the gym playing lunch-ball. He enjoys playing sports as well as reading and is always up for a debate about classical economics. He will be studying at Yeshivat Orayta in Jerusalem next year and will then be taking his talents to the University of Chicago, where he hopes to continue his economics study at the highest level.

THE COLLEGIATE PATH
A Reexamination of the Value of a Post Secondary Education
by Gabie Storfer

Every year across the United States, rising seniors are forced to decide about life after high school. Two thirds of these students will choose to attend some form of college or university. For more than seventy years, Americans have been encouraged to further their education at institutions of higher learning with the promise of advancing their earning potential when they enter the workforce. But, for all of the economic success higher education has provided Americans, the educational construct that has emerged has failed in its promise to many.

In the decades prior to the Second World War, a college education was widely considered a luxury reserved for the country’s wealthiest. However, in 1944, fearing a post-war economy with millions of uneducated soldiers returning to the United States with no job prospects, President Franklin D. Roosevelt passed the Serviceman’s Readjustment Act, better known as the G.I. Bill. The bill provided returning soldiers with access to a number of benefits including tuition support. The bill helped nearly double enrollment in colleges and universities. During the subsequent decades, the U.S. government offered citizens the Federal Perkins Loan Program, which allowed all citizens, not just veterans, the ability to borrow funds to go to college. These programs helped lay the educational foundation, allowing for economic growth and the creation of America’s middle class.

In an interview with National Public Radio, John Thelin, a professor at the University of Kentucky and the author of A History of American Higher Education, suggested that drastic changes occurred around 1970 when, as a result of inflation and poor economic conditions, federal and state governments began to retreat from their investment in higher education, and private loans started to replace federal grants for poor and middle-class students. Universities began to raise tuition in order to replace lost state funds, and students needed to borrow more and more because grant funds were
becoming less available.

Fast forward to 2017 and college fees haven’t reversed course. According to The College Board, the average tuition, fees, and room and board (Enrollment-Weighted) in 2017 dollars, from 1971-1972 to 2017-2018 shows that the cost of a four-year, non-profit private school education has increased by 37.5% while a public four-year school has increased by over 40%.

And yet, according to the U.S. Department of Labor’s Bureau of Labor Statistics, as of October 2016, enrollment in colleges by high school graduates in percentage terms stood at 69.7%, near record levels. What gives?

The conclusion often drawn is that those that complete a college degree will, over their lifetime, outpace those who don’t, and, as long as that earnings surplus exceeds the cost of college, or, in economic terms, the opportunity cost, that alone should be enough to drive high schoolers to college.

In fact, this was the topic of an article written in the 2016 edition of Incentives. Drawing on research provided by the Federal Reserve Bank of New York in its article “Do the Benefits of College Still Outweigh the Costs?”, the article suggested that college graduates, on average, earn roughly $1 million more than those without a degree. Additionally, those who focused on degrees involving STEM (science, technology, engineering, and math) increased their lifetime take to roughly $3.4 million over those without a degree. The Incentives article was not alone in its thinking.

U.S. News and World Report, citing a Pew Research Center study, determined that “the value of a college degree is greater than it has been in nearly half a century, at least when compared to the prospect of not getting a degree.” But key to this finding was that, although many college graduates are considered underemployed, on a relative basis, they are still better off financially than those without a degree. This, says the article, is because of “the collapse in economic opportunity for people who do not continue their education beyond high school.” In fact, according to the Pew study cited in the article, the poverty rate for millennials with a college degree was about twice as high as Generation X in 1995, baby boomers in 1979, and late boomers in 1986. To boil it down, college is a
fortune and much more expensive than ever before, but it is much more costly to not attend.

However, in a subsequent blog posted by the authors of the aforementioned Fed article, some important distinctions were revealed. The authors found that while they believe the economic value of a college degree, on average, outweighs the cost: “It does not mean that it is a good investment for everyone.” Measuring the income earned by high school graduates at the median, the authors calculate that a bachelor’s degree earned between 60 and 70 percent more. However, when looking at the lower 25 percent of earnings from the sample of college graduates, the authors found that there was almost no difference in wages between those with a degree and those without. Said differently, there are many college grads who ultimately don’t benefit, or may actually suffer financially from going to college. Although more than seventy years have passed since the introduction of the G.I. Bill, for many, the traditional four-year college remains a luxury, but is expected of all.

A Path Forward

The construct of higher education has changed little in America. Most colleges and universities still adhere to the liberal arts model of education, where students are required to take courses in History, Art, Music, Literature, and Philosophy. For students who are not interested in pursuing advanced degrees in the humanities, these areas of study increase general knowledge and hone critical thinking skills, but do little to advance the concrete skills that are currently sought by American companies. For many, these required courses cost money in the form of credits needed to graduate and actual time spent in school on campus, money that could stay in students’ pockets, which would reduce the cost of higher education. Still, more can be done. For many Americans, a better path forward can be attained through a revolutionary approach to education here in the U.S., and one that has been practiced in Europe for centuries. This system encourages apprenticeships as well vocational and technical education and is now being advocated by both Democrats and Republicans, including former Secretary of Labor, Robert Reich, as well as President Donald Trump.

While conventional wisdom (and Reich himself) argues that globalization and technological advances were going to demand well-educated workers necessitating a four-year college degree, there were two developments which caused Reich to have a change of heart. By 2000, the rest of the world became better educated, and technology allowed for the rapid outsourcing of many jobs and caused the obsolescence of others. Suddenly, a degree no longer guaranteed a good job.

In the emerging economy, Reich argues that jobs for technicians able to install and service high-tech equipment across the industry from hospitals to transportation to manufacturing will be in great demand, and, because innovation moves so quickly, much of their learning will occur on the job.

Reich looks to countries like Germany and Switzerland, who both have a long tradition of technical apprenticeships and vocational schools that produce world-class employees in fields such precision manufacturing and applied technology. He sees no reason why America should not provide a similar educational path as a bonafide opportunity for high school students.

Progress seems to be taking hold. In Colorado, an apprenticeship program called CareerWise links Colorado industries with school districts. The founder, Noel Ginsburg, is the CEO of a plastics manufacturing company who was looking to expand but had trouble finding qualified workers for his business. According to Ginsburg, there are 40,000 unfilled tech jobs in Colorado alone. With support for the program from Colorado’s governor, high school students can earn up to fifty credit hours toward college by working in businesses like his, get paid, and earn their high school diploma. After graduating high school, the program offers apprentices full-time employment and financial support toward community college. If programs like CareerWise can spread across the country, universities may find themselves competing for students with a proposition of educational value rather than students competing for acceptance based on perceived need.

Gabie Storfer is a junior from New Rochelle. He is on the Hockey, Volleyball, and Softball teams in addition to being a member of the Math Team and the Global Diplomats Club. Taking economics with Ms. Schneider this year has inspired him to become very invested in business and economics. Gabie hopes to become more involved in the business world in his future college and profession.
TO PAY OR NOT TO PAY

The Debate Over Paying College Athletes
by Rafi Fischer

On September 26th, 2017, two coaches from the University of Louisville were arrested on the accusation that they had helped arrange a quid pro quo with a sports agent. In exchange for a top high school prospect signing with Louisville and then signing with Adidas once he went pro, the family of the prospect would receive $100,000. Both of these deals violate numerous National Collegiate Athletic Association (NCAA) rules, including the whole section regarding amateurism. An amateur is a person attached to a particular sport, study, or science in a non-professional or unpaid manner. While the investigation is still ongoing, it escalated the debate about whether or not college athletes should be paid. Those in favor of paying the athletes believe it is immoral for the NCAA to exploit its athletes and make money off them, while the athletes receive no payment. After all, college sports such as college basketball or college football bring in millions of dollars of revenue. Why should the athletes who the fans are coming to watch not get paid? Those who believe that college athletes should not be paid say that these players are student athletes, meaning that they go to school and play sports. Many of the athletes are receiving scholarships and therefore are already being paid with a free education. The question of whether or not college athletes should be paid is really an economics question. Since colleges make so much money off of the players work, shouldn't the players benefit?

For those who are in favor of paying college athletes, the underlying argument is about athletes being compensated for the money that they generate for their schools. For example, the average college Division I football team generates roughly $29.5 million per year. Looking at college sports as a whole, the top 25 revenue generating schools generate at least $95 million on a year-to-year basis. Some powerhouse athletic schools, such as Alabama University, receive a massive amount of revenue from only one sport. Alabama’s football program netted the University almost $100 million in 2015. The people calling for players to be compensated are just asking for the playing field to be leveled. As college basketball expert Jay Bilas puts it, “If you’re an athlete that happens to make the schools in the NCAA machine billions of dollars, then the athletes are told, ‘You get only your expenses.’ And one of the biggest components of the expenses you get, we pay to ourselves, and claim it cost us money.” What Bilas is saying is simply that the system is rigged in favor of the colleges. College players on scholarships are promised room, board, and meals. However, the money that the college receives from giving these players little to nothing is monumental. In money terms, the players are receiving around an average of $10,000 while the colleges take in millions of dollars from giving players next to nothing. In addition, Bilas adds in his interview with Complex Sports that getting paid could incentivize students to stay longer in school.

Photo: Jacob Nayowitz
One of the major reasons that student athletes try to turn pro as early as possible is because, once they are pro, they have the ability to receive a seven figure contract. By paying the players, it incentivizes them to not only stay in college for the money but also to continue their education, with the ability to graduate. This allows for the player who jumps to the pros but fails to make a career out of it to have an option to fall back upon: their college degree.

There are a couple of reasons that people do not want to pay college athletes. The first reason is that it is simply too complicated to create a system that works for everyone. As shown by the chart on the left side of the next page, the discrepancy between Texas A&M, the top school in terms of revenue, and 77% of the other programs that only make $50 million per year is huge. In order to put a fair system in place, one would have to make sure that each team is getting fair representation and the programs that generate less than the leaders are still able to gain a profit from their programs. In addition, how would each University deal with Title IX? Title IX is the federal law that states, “No person in the United States shall, on the basis of sex, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any education program or activity receiving federal financial assistance.” Since women’s college sports do not generate the same amount of revenue that men’s college sports do, it would be unfair to pay these athletes an equal amount for the same reason that people think it would be unfair not to pay them at all: revenue. However, by doing this, the colleges would be breaking Title IX. The second reason why college athletes should not be paid is that, if college athletes are paid, where is the line drawn? Should players in the Amateur Athletic Union (AAU) be paid? What about Pop Warner? High school athletes? These are the major reasons why there has been no change regarding paying college athletes.

While it remains to be seen whether or not there will be a rule change, one system that I have found intriguing is to mimic both the NFL and NBA’s Collective Bargaining Agreement (CBA). The CBA, signed in 2011, says that players should receive a minimum of 47% of the revenue generated by each franchise (in this case, University). In the case of college football players, the 85 players on scholarship would be paid the same amount. The chart above illustrates how much the average player would make in the top fifteen revenue-generating programs. In the case of college basketball players, the thirteen players allowed on scholarship would abide by the NBA rules, which is compensation around 49-50%. One thing that I would add to this system would be to subtract the amount that the player receives from their scholarship while still allowing them to keep their benefits. This system would certainly incentivize players to stay longer and better develop not only their skills before going pro, but also to receive a better education.

Rafi Fischer is a senior from the holy town of New Rochelle. Ever the capitalist, Rafi is an avid supporter of classic free trade and enterprise. When not watching the market or advocating the ideals of Friedman or Hayek, Rafi spends his time preparing for fantasy football season. Mr. Fischer supports lowering taxes and fighting the debt by cutting spending. Despite being on the Fed Challenge Team, Rafi has even supported the idea of replacing the Fed with a robot. Mr. Fischer has been an important voice on the Incentives team, and we are thankful for all of his hard work.
FINDING A UTOPIAN SOLUTION
The Hidden Truths About Tipping
by Amichai Schleifer

In society, tipping has become a habit in the restaurant businesses. After eating a meal at a restaurant, the customer provides their waiter with a tip to show their appreciation for the waiter’s good work and service. This system appears to work well, as it seems to be beneficial to both the waiter and the consumer; it aligns their incentives. If the worker provides good service, they maximize their utility by earning the maximum amount of money, and, if the worker provides good service, the consumers maximize their utility as well, since they are receiving better service. So, if tipping benefits both the consumer and the producer, isn’t it a near perfect economic system? In this article, I will uncover some economic truths about tipping that may change the generally positive view of the system. Additionally, I will discuss what many don’t realize: tipping has brought negative social consequences, specifically concerning racial and gender equality biases.

When people argue for the system of tipping, their main point is that tipping workers incentivizes the workers to provide better service to the consumer, as their tip would be proportional to their level of service. However, a study conducted by Michael Lynn, a Cornell University professor of Food and Beverage Management, says otherwise. In this study, Lynn found that the quality of service and the amount that the consumer tips are not quite as correlated as many believe. According to Lynn, “Service ratings explained an average of less than two percent of the variation in a restaurant’s tip percentages.” This study demonstrates that, contrary to popular belief, tipping does not actually benefit the worker since they are not truly rewarded for the work they put in. Tipping is supposed to reward the waiter for their hard work. However, in reality, it does not do that, demonstrating that tipping is a flawed system.

Further evidence for the idea that the level of service of a worker is not correlated to their tip amount can be found in a study published in 2001 in American Demographics. The study showed that about a quarter of Americans will tip a certain amount, regardless of the level of service provided at their meals. In conclusion, consumers come into the meal with a preexisting tipping amount, and, no matter how hard the waiter works during the meal, they will receive that set amount. This seems completely unfair to workers, as they are not being rewarded for their good service, which was the point of tipping in the first place.

Photo: Manny Cohen
Another flaw of tipping is that it causes workers to suffer lawfully unallowed low wages. People who do not like the system of tipping argue that, regardless of tips, it should be illegal for servers to have a base salary that is below minimum wage. 'Pro-tippers' respond by saying that it does not matter if their base salary is below the minimum wage, as tips add to their overall earnings. In fact, federal law enforces this idea; a law was implemented stating that as long as workers receive a salary above minimum wage including their tips, it is legal to have a base salary below minimum wage. This law makes sense because tips are a substantial part of waiters' hourly wage. However, many employers are failing to meet even this criterion. According to the Department of Labor, from 2010 to 2012, 84% of restaurants were in violation of this law. Not only are most servers not being paid base pay of minimum wage, but 84% of them are not even receiving pay of minimum wage with tips. It is clear that tips don't compensate enough for workers' low average base salary and are leaving the workers in a position where they are being mistreated. This is yet another reason why the system of tipping leads to adverse consequences.

As already shown, tipping does not truly meet its purpose, as it does not reward good service with higher tips. Additionally, tipping creates negative social consequences, specifically concerning racial and gender biases. The Sociological Inquiry published a study which showed that, regardless of their level of service, white workers tended to receive a higher tip than African-American workers. It was also found that women who were deemed more 'attractive,' with thinner bodies, larger breasts, and blonde hair, received more tips than the average waiter. Both of these pieces of evidence demonstrate that the tip amount is not merely about the level of service of the worker but is, instead, more highly correlated with other factors. It seems as though tipping does not only provide an incentive for the worker to provide a higher level of service, but it also causes harm by taking advantage of racism, sexism, and objectification of women's bodies.

While racism might influence how a customer tips his waiter, it also plays a factor in how the server treats the customer. In Michael Lynn's paper, "Racial and Ethnic Differences in Tipping: The Role of Perceived Descriptive and Injunctive Tipping Norms", he describes another problem in the tipping system: waiters who believe that ethnic minorities are 'bad tippers' will adjust their service to match the tip that they expect to get. Asians, African Americans, and Hispanics are largely perceived by workers to be 'bad tippers,' so they then suffer by receiving poor service based solely on the racial biases of the workers. If the customer receives bad service, the tip will consequently be lower for the server. This means that the waiter's naive and racist preconceived notions only end up hurting himself in the long run, even though he believes he is 'protecting' himself. Therefore, tipping is also a flawed system because it puts Asians, African Americans, Hispanics, and people of other races at a very unfair and uncontrollable disadvantage.

Perhaps the tipping system is appealing because of its convenience, restaurant owners don't have to pay their workers a full wage, and consumers can tip what they want based on the service they receive. While tipping is the system currently in use in America, that does not mean it's a good system. Change is hard and takes a lot of work to overcome, but, sometimes, and especially in the case of tipping, it is truly necessary.

A junior from the Upper West Side of Manhattan, Amichai Schleifer has found the study of economics to be fascinating from a young age as he has always been eager to learn from his older sister, who was an economics major in college and works in a behavioral economics firm. Amichai's favorite books include Thinking Fast and Slow by Danny Kahneman and Freakonomics by Steven Levitt and Stephen Dubner, both of which have allowed Amichai to become passionate about the study of behavioral economics and the way the human mind works. Amichai is also an avid basketball and baseball fan, with his own blog about the New York Knicks and a love for the Yankees. Additionally, he enjoys playing tennis, basketball, baseball, and is a strong chess player as well.
PRICE PREDICTION

How Airlines Price their Tickets and How to Beat the System
by Sam Feder

Prior to 1978, all airline ticket prices were set by the U.S. government. However, in 1978, Congress passed the Airline Deregulation Act, which deregulated the airline industry and created a free market in the skies. Since then, airplane fares have dropped by nearly 50%. Now, rather than the airfare prices being set by the government, the prices are set by the airlines themselves. While people spend hundreds or even thousands of dollars on an airplane ticket, few bother to learn where that price came from and why it fluctuates. However, if the consumer can better understand what factors go into the ticket price, they can book more smartly the next time they travel.

An airplane ticket is comprised of two parts: the taxes and fees and the base fare. Like most goods that a consumer buys, there are taxes and fees that need to be paid when a ticket is bought. These taxes and fees are an add-on to the ticket which is not set by the airlines, but rather by the government and the airports themselves. Some examples of these taxes are the International Transportation Tax, which gives $17.70 to the Federal Aviation Administration for international arrivals or departures, and the September 11th Security Fee, which gives the TSA $5.60 for any flights that travel within American airspace. In addition to taxes, the fees for takeoff and landing are charged by the airport to the consumer. These taxes and fees can sometimes account for only 15% of the ticket price, while, at other times, they could amount to the same as, or even more than, the base fare.

The base fare is the part of the ticket that the airline itself sets. The base fare is ultimately the passenger covering the airline’s costs and profit which is usually anywhere between 2-10% of the ticket price. There are a multitude of factors that go into the prices that an airline sets, leading to the volatility that is seen in the market for tickets. One common misconception is that the volatility of fare pricing is solely the result of the fluctuation of oil prices, but, in reality, this will not significantly alter the price. For longer flights, the cost of fuel accounts for about 30% of the ticket price. That means that, if there is a $500 ticket and oil prices jump 5%, the ticket prices will only increase $7, or about 1% of the ticket price. Besides fuel, one of the largest costs for the airline is the wages they pay their employees. About 30-35% of the base fare goes toward the wages of airline employees. This money is paying both the employees on the airplane itself, such as the pilots.
and stewards, and also any other employees of the airline, such as the janitors and customer service providers at the airline's headquarters.

The remaining part of the base fare covers a large amount of miscellaneous costs. The initial cost of purchasing the airplanes themselves needs to be covered, and, within every plane ticket, a small percentage goes towards paying off the price of the plane. The most widely used group of commercial aircraft is the Airbus A320 family, with an average cost $100 million. Within every ticket sold, there is a tiny percentage of the initial price tag of the airplane itself. Additionally, these planes are used extensively, and there are often repairs which need to be done, and the money for those repairs comes from a small percentage of the price of the ticket.

Once the airline assesses their costs for a particular route, they will try to figure out what type of passenger is traveling on that specific flight. This is done because airlines price tickets differently depending on what type of traveler they anticipate will fly on a particular route: business travelers or vacationers. For flights with a majority of business passengers, they will start with low prices far in advance to attain a base level of passengers and then raise the prices steeply in the weeks before takeoff. The airlines recognize that people traveling for business tend to book their flights shortly before their needed date and they often do not care about the price of their seat, as their expenses are usually paid for by their company. For example, if someone were to browse for tickets on January 22nd for flights from New York to Chicago, they would see that a flight for later that week would cost $308, while a flight departing one month later, on February 17th, would cost them merely $174. Furthermore, airlines do the same type of profiling for vacationers. On a route such as New York City to Bermuda, with a majority of passengers being vacationing passengers, airlines will set the price of the tickets high far in advance and keep the prices at those levels. So, if one was to look for a ticket on that flight they would see that a flight for later that week would cost $259, while a ticket for February 17th, a month later, would cost $265, which is relatively the same price as the earlier ticket. Airlines recognize that most vacationing families will book in advance and will not wait until the last minute, so they have nothing to lose by setting the prices higher in advance if they know that the seats will be booked.

The last factor that sets the price of an airline ticket is basic supply and demand. When many people want to go to a particular place at a particular time, the tickets to that destination will be rise. A common example is that during Christmas, a common vacation time, it is much more expensive to travel than nearly any other time all year. This is because nearly everyone has vacation, so consumer demand grows. However, the laws of supply and demand affect airfare prices daily, not only during holiday season. Whenever there is a large event in a city, airlines will make sure to capitalize on that growth in demand, and the ticket prices will reflect that. For example, the 53rd Superbowl took place in Minneapolis, Minnesota, on February 4th, 2018. A ticket to Minneapolis on January 31st, a little while before the Superbowl, only cost $203. However, a ticket on February 3rd, the day before the Superbowl, cost $361, a 78% increase in price. Airlines recognize the growth in demand and will raise the prices accordingly.

Finding the right price for a seat is a problem for airlines to this day. If they do not price their tickets correctly, that could mean empty seats on their plane, which is lost revenue for them. The airline business is not an easy place to make money. The primary way to stay afloat is to find the right balance between generating profit and not overcharging.

**Sam Feder** is a junior at SAR High School who is interested in aviation and travel. Sam is a member of the Investment Club, Math Team, and the Global Diplomats Club. This is his first year writing for Incentives and he hopes to continue contributing in the future.
KEYNES VS. HAYEK DEBATE

Should the FCC Repeal Net Neutrality?
NEGATIVE by Shabbos Kestenbaum, Class of 2017

On December 14th, the Federal Communications Commission (FCC), on a strictly partisan divide, voted to repeal Title II of the 1934 Communications Act and abandon its current policy of net neutrality. As coined by Columbia University professor Tim Wu in 2003, net neutrality is the defining principle that it is the responsibility of the federal government to mandate Internet Service Providers (ISPs), such as AT&T, Verizon, and Comcast, to treat all data on the internet equally. ISPs, before the repeal, were unable to intentionally block, slow down or charge money for specific websites and online content. Since ISPs are the sole provider of access to the web, it remains critical that they operate in a manner conducive to an open and accessible internet to all consumers. In fact, being that virtually all small businesses in a competitive market rely upon fast, top-quality internet access to serve clients, if ISPs can speed up, slow down, or restrict access to certain sites, costs associated with doing business online will increase dramatically, something only large corporations would be able to pay. In an unusual joint statement, the National Small Business Association, streaming sites such as Netflix and Hulu, and commerce giant Amazon have all condemned such a repeal as unfairly concentrating pricing power in the hands of unregulated ISPs.

As pages take longer to load, small businesses would be forced to sell goods in a more public setting such as brick and mortar shops or physical markets, creating a more labor-intensive, time-consuming, and costly effort. Much like the domination of big box stores over mom-and-pop shops in the past decade, due to lack of resources and convenience, small business, which accounts for 89.4% of all business nationwide, would be crowded out of the sales market. As Maureen Clyne of The Washington Post puts it:

Time is absolutely the essence in a market such as real estate, where a client can lose a bidding war in a matter of minutes if paperwork is not submitted quickly. When out with clients, I need to be able to pull up listing information on the spot if we pass by an interesting property. A transaction has many legal deadlines that must be met, or a client can be held liable and penalized for contract violations. Business cannot afford to pay additional fees to access the same level of Internet service we all have today. It's preposterous to expect me or anyone else to do so.

Net neutrality helps those businesses that can least afford exorbitant Internet fees to succeed. However, some agree that, although ISPs have the authority to set prices and differentiate their services in a more open system, the status quo, so to say, would continue. Yet, even before the disastrous repeal of net neutrality, ISPs were already slowing down speeds for consumers. As documented by countless outlets, Comcast said that they would slow down Netflix download speeds in 2013 and 2014 unless Netflix paid Comcast a streaming fee. From October 2013 until Netflix finally agreed to pay in February 2014, Netflix download speeds for Comcast customers had slowed by up to 25%, compared to on other ISPs where download speeds had consistently increased in the same time period. The relationship between broadband suppliers and content delivery systems is naturally hostile. Thus, it remains the duty of a governing agency to ensure that consumers can access the information they require to make smart economic decisions, businesses can offer and stream sites to remain competitive, and the internet remains free, fair, and accessible. No one owns the web, and shame on the FCC for thinking otherwise.
On December 14, 2017, The Federal Communications Commission (FCC) voted to repeal the Obama administration’s 2015 internet regulation policy known as “Net Neutrality.” While many complained following this decision that the rollback of these 2015 regulations would hand too much power to Internet Service Providers (ISPs) by granting the Federal Trade Commission (FTC) much of the regulatory power held by the FCC, this order, called the “Restoring Internet Freedom Order,” actually allows customers greater access to valuable services and encourages technological innovation.

By defining ISPs as “common carriers,” any public program that transports people or products, the Obama administration sought to ensure that all internet users were provided equal service. While this idea seems fair in theory, it actually prevents ISPs from supplying internet “fast lanes,” or varying classes of service based on the application in use. The effects of this unintended consequence are far-reaching; for example, lags in internet speed negatively affect online video streaming, an industry expected to reach a valuation of $70.05 billion by 2021.

While some view internet fast lanes as unequal, fast-lane users may in fact bolster internet service quality for everyone else. ISPs may ultimately invest some revenue generated by these internet users to subsidize the cost of internet service for non-high-speed users or bolster network infrastructure. Similarly, while many argue that deregulating ISPs ensures unfairness in Americans’ access to the internet, it does just the opposite; customers are still able to choose neutral ISPs if they desire, along with the new option of paying more for superior access.

Under the Obama-era FCC regulations, technological innovation was stifled under the guise of fairness. In a time when the future of technology seems limitless, self-imposed regulations on ISPs are entirely counterproductive. AT&T CEO Randall Stephenson said in an interview with the Economic Club of New York, “You don’t want your self-driving car operating on best-effort-delivery bandwidth. If you have any expectation of medical professionals using wireless networks for surgery or EMS or other types of medical applications, you don’t want to outlaw paid prioritization.” Like Stephenson, many other leaders of major ISPs and technology companies agree that regulating broadband service means curtailing innovation. In fact, AT&T, Comcast, and Verizon all released statements affirming their commitment to equality in internet service while highlighting the many benefits to the deregulation. While many believe that the repeal will have disastrous effects on their access to free, high-speed internet service, history has proven that this simply is not the case. Before the new regulations took effect in 2015, almost no instances of abuse by ISPs had been noted. In fact, one of the only documented cases of such abuse involved the North Carolina-based Madison River Communication, which was fined by the FCC for Voice over Internet Protocol (VoIP) calls in 2004. The 2018 deregulations will still allow the FCC to punish abusive ISPs while allowing rule-following ISPs to offer far better service when needed.

While the repeal of Net Neutrality has served as a rallying point for many people opposed to the new administration, the effects of the overhaul are simply minute for some Americans while beneficial for others. Instead of viewing these changes through a political lens, American citizens should recognize the benefits of internet deregulation and increased technological innovation.
NEGATIVE REBUTTAL

Nate, I understand you’ve been out of school for a year, but that is no excuse for poor arithmetic. You argue net neutrality “prevents ISPs from supplying varying classes of service based on the application in use.” Yet, that is exactly the point. When broad sections of the economy are operating under different technological speeds, nationwide production will be unable to properly compete with international markets. Already, the United States lags behind most of the developed world in regards to internet speeds, creating different tracks for only those who can afford it would only worsen the situation. However, perhaps your argument can be boiled down to one question: Nate, if ISPs weren’t planning anything nefarious such as a hike in prices, why should there be any objection to net neutrality at all? Furthermore, the idea that ISPs may ultimately invest some revenue generated by new internet users to subsidize the cost of internet service for non-high-speed users or bolster network infrastructure is ludicrous. If the objective of ISPs was to guarantee the highest speeds possible, wouldn’t they have already been providing it? Lastly, your refutation offers a clear philosophical divide between the liberal and conservative base: Having a freedom of choice is holistically separate than having the practical abilities of obtaining it. While I concede that consumers will have universal access to an unprecedented internet, only those at the top of the economic ladder will be able to afford it. Repealing laws that made the internet safer and more fair will and have ultimately affected the backbone of our country: the American worker.
AFFIRMATIVE REBUTTAL

Shabbos, while I applaud the extensive research and eloquence of your argument, your approach towards Net Neutrality seems more focused on partisan politics than it is on the best interests of the American people. Net Neutrality was only established in 2015, a fact that many seem to forget when lamenting the exaggerated negative effects of the repeal on internet users. Your argument that ISP-provided “fast-lanes” will hurt any percentage of internet users is simply false; in addition to providing the obvious faster internet connection to paying fast-lane users, many ISPs have promised to invest profits in all-around better service. Additionally, for those seeking ISPs who do not provide fast-lanes to any users, neutral ISPs are available.

Unfortunately, your chief arguments against the Net Neutrality repeal often spiral into unlikely hypotheticals. For example, you claim that small businesses will be hurt if users find it more difficult to access their websites. This claims is particularly untrue, as 60% of small businesses don’t even have websites and only 8% of small business sales are conducted online. Conversely, the quicker internet access caused by the repeal may cause more small businesses to invest in websites and bolster sales overall. While your argument that “No one owns the web” might sound nice on a bumper sticker, it fails to recognize that without internet service providers, there would be no internet. Ultimately, the FCC followed through on its promise of deregulation in allowing ISPs more freedom to offer varying degrees of service (all of which are greater than or equal to internet service under Net Neutrality regulations) to customers.

Shabbos (Shabbi) Kestenbaum, SAR High School’s favorite proletariat and chess team benchwarmer, is back. Unfazed by the Trump presidency and his GPA, Shabbos continues to argue for the merits of neoliberalism, especially tuition-free college. A former Editor-in-Chief of this very publication, Shabbos hopes to become the first Orthodox U.S. Congressman, but, until then, he is busy advancing his agenda wherever he can.

Nate Katz, a lazy, last minute east-sider type of guy, is too busy finishing his article to write this bio. Somehow, this did not stop the Wharton School of Business from accepting the young prodigy. In true conservative style, Nate will not give Shabbos credit for writing this and is watching Sean Hannity instead.
CRYPTOCURRENCIES-BOOM OR BUST?

Is the Cryptocurrency Craze Here to Stay?

by Joe Minkove

According to Joe Minkove, the cryptocurrency market boomed beyond anything imaginable in December 2017, when Bitcoin, the most famous cryptocurrency, hit a high of $19,783.06—a 1,824% increase from the beginning of 2017, when Bitcoin’s price was only $968.23. As of March 2018, it seemed clear that the cryptocurrency bubble had popped. The unsustainable and rapid price increases gave way to a period of steep contraction. What caused the massive growth in the crypto market in the first place? People invested in and bought Bitcoin, as well as other cryptos, on the belief that they are a superior store of value relative to fiat money issued by governments. Fiat currencies have a history of being inflated by their governments, something that cryptocurrencies are insulated from. It is further believed that cryptocurrencies can be used as a means of transaction.

Cryptocurrencies use blockchain, a system that keeps track of every transaction made, which is grouped into one large block and is confirmed by the owner. Once the block is confirmed, the blockchain is updated to show the most recent transactions. Blockchain is viewed as the technology of the future, and, as a result, many continue to invest in it. Because cryptocurrencies are decentralized, they grant the owner freedom and autonomy.

Madhur Todi, M.D. of Mera Money Advisors said, “Bitcoins are here to stay and will keep on steadily gaining value in the coming years.” Madhur believes that the crypto market, and Bitcoin in particular, is only going to become more valuable in the future. Additionally, the continued growth has caught the eye of many countries. Jerome Powell, Federal Reserve Chair, has said that “Cryptocurrencies are something we monitor very carefully,” and that at some point their volumes “could matter” for monetary policy, though not today. The cryptocurrency market growth has caused Wall Street to hop on the cryptocurrency bandwagon. The Commodity Futures Trading Commission permitted two Chicago exchanges to launch Bitcoin futures. Futures are financial contracts that obligate the buyer to purchase an asset, or the seller to sell an asset, such as a commodity or a financial instrument, at a predetermined future date and price. The development of Bitcoin futures opens the door for easier accessibility for Wall Street and main street investors to trade Bitcoin. In addition, the Nasdaq is also planning on rolling out Bitcoin futures within the next year. Although there are many investors that expect the cryptocurrency market to keep growing, many believe that this growth is unsustainable and primed for a collapse. Alan Greenspan, the former Chairman of the Federal Reserve, said, “You have to really
stretch your imagination to infer what the intrinsic value of Bitcoin is,” calling the cryptocurrency a “bubble.” Alan Greenspan is saying that, because there is nothing backing Bitcoin, the market is primed to collapse. Additionally, Jamie Dimon, the CEO of J.P. Morgan, believes that the crypto market is primed to crash, also calling it a "bubble." One causes for worry is the high volatility of Bitcoin. On January 17 2018, after opening at $11,000, Bitcoin dropped to $9,300 within a few hours before recovering and closing at $10,700. Additionally, another cause for concern is that countries are banning cryptocurrencies. On November 2, 2017, China banned the use of cryptocurrencies. A month later, South Korea also banned the use of cryptocurrencies. Both of these bans are another indication of the challenge cryptos face in becoming a reliable currency and maintaining a market. While many believe that the cryptocurrency market is primed to collapse, the fact that it continues to grow indicates there is a market for alternative currencies. Despite the volatility, there's still opportunity for the market to develop and mature. For example, after the China ban on cryptocurrencies, the market for cryptocurrencies still expanded. As Wall Street jumps on the crypto bandwagon, people now have more access to the booming market, illustrating that the cryptocurrency market isn’t going anywhere and may in fact still be looking upwards.

A senior at SAR, Joe Minkove is extremely interested in economics and the stock market. Joe has been writing for Incentives for the past two years and has been a member of both the Investment Club and Self Help. He has an affinity for sports, playing both basketball and baseball at the varsity level for SAR. Joe plans to study in Israel next year and will then be attending college.

COMPETITORS?

Samsung and Apple: An in Depth Look at Two Competing Companies

by Manny Cohen

The cellphone market in the United States has become a race for large corporations to create the most aesthetically appealing phone with the best features. Huge rivalries have formed between the fan bases of major corporations and the corporations themselves. Samsung and Apple have been at the center of these rivalries ever since Samsung released the Galaxy S, the first major competitor to the iPhone. Yet, since the release of the first iPhone, Samsung has been the supplier of many of the iPhone’s major parts. According to a 2011 article from The Economist, Samsung manufactured at least 26% of the component cost of an iPhone. The components included the iPhone’s physical storage, RAM memory, and processing chips. At the same time, Samsung was making their own competing phones. It is therefore counterintuitive for them to manufacture parts to supply their direct competitor. Yet, Samsung and Apple have continued this relationship. Apple Inc., originally Apple Computer, was founded in 1976 by Steve Jobs and Steve Wozniak. The company started off by selling computers and expanded to become a household name. They released the world’s first smartphone, the iPhone, in 2009. Samsung, on the other hand, started in 1969 by making various appliances. Over time they became a big name in the TV market. Their first mobile phone was released in 1988 in South Korea and was deemed a failure. They then entered the components industry to challenge Sony in becoming one of the world’s leading consumer electronics manufacturers. In the early 2000’s, they became the world’s largest technology company and one of the world’s largest mobile phone manufacturers. In March 2010, Samsung released the Samsung Galaxy S. Although they had entered the smartphone business, Samsung did not stop their component-producing sector. Until 2013, Samsung posted record breaking profits from its manufacturing of displays and semiconductor processing units for Apple. After 2013, Apple gave the manufacturing rights for their processors to Taiwan
Semiconductor due to a patent dispute with Samsung. Recently, before the launch of the newest iPhone, The Washington Post revealed that Samsung would once again make these processors for Apple. Ideally, Apple would manufacture their own components or outsource the work to a company that is not a direct competitor. However, Samsung is currently the world’s leader in OLED technology and the only supplier that can successfully meet Apple’s demands. OLED offers higher power efficiency and color accuracy than LEDs causing many companies to make the switch to OLEDs. Samsung’s unique position of power enables them to charge a premium of $110 for each display sold to Apple for the iPhone X. At face value, Samsung producing for their main competitor makes no sense. However, if the iPhone X reaches expected sales, Samsung will generate four billion dollars more in profit than they would from the Galaxy S8, giving Samsung ample reasons to continue selling products to Apple. Apple is trying to escape their relationship with Samsung. According to MacRumors, Apple has recently invested $2.67 Billion into LG’s OLED display production line. This would strike a decisive blow to Samsung, ending a highly lucrative deal for them. In the future, LG is likely to have a single production line solely for the iPhone, which will result in cheaper displays for Apple since they helped LG set up the line. While Samsung will likely continue to manufacture other components of the iPhone, Apple’s departure from using Samsung’s displays is potentially the beginning of the end to Samsung’s hold on the industry.

Manny Cohen is an 11th grader whose interests range from photography to technology and social media. Additionally, he enjoys learning about marketing as well as its impact on the economy. Additionally, he is an active participant in the Global Diplomats Club as well as a teacher for the 3D Printing Club.
TESLA TILES

Tesla is moving into Solar Energy, but Will it Succeed?

by Noa Kalfus

Since its establishment in 2003, Tesla has grown to be one of the most talked-about companies in both America and the world. In fact, in 2017, Tesla ranked 42nd on Forbes’ “Global 2000: Growth Champions” list and 2nd on Forbes’ “The World’s Most Innovative Companies”. Tesla is already marketing self-driving cars, leaving other car companies racing to catch up, and is not stopping there. In 2016, co-founder and CEO Elon Musk unveiled the Solar Roof. These roofs will be made of a combination of regular roof tiles and solar panel tiles and will, according to Tesla, be more affordable than the price of a regular roof and commercial electricity.

Tesla began development of the Solar Roof when it acquired
SolarCity, a company that develops solar energy technology, for $2.6 billion in 2016. Before the deal closed, many speculated that it would have negative effects on Tesla’s stock value, but the opposite was true. On November 21, 2016, the day that the deal was finalized, Tesla shares, which had closed up 2.5% at $188.66, rose 1.4% in after hours trading, and SolarCity shares rose 2.5% after hours to $20.90.

The tiles come in four different styles, which allow owners to maintain the styles of their homes while still allowing for energy efficiency. Storage of energy, however, requires a Powerwall battery, which must be purchased separately. Tesla also published that “Solar Roof tiles are more than three times stronger than standard roofing tiles.” That alone is a huge benefit for residents in areas with extreme weather. Furthermore, SolarCity’s CEO, Lyndon Rive, said that Tesla/SolarCity solar panels have efficiencies in the 22-to-24% range, an improvement over standard solar panels, which usually only converts 10% to 15% of sunlight into electricity. Additionally, Tesla is claiming that the tiles will be much more economical than standard solar panels, and, on the Tesla website, there is a calculator to help homeowners calculate the value proposition and cost of purchasing their own Solar Roof. The calculator uses customers’ addresses to determine the ratio of solar to non-solar tiles needed for their house to get 100% of its energy from solar power. Tesla told Consumer Reports that it does not use the addresses for marketing purposes. Tesla also published that, for many homes, the roof will pay for itself in thirty years, and that, for a typical home in Maryland, “the roof will actually pay for itself and earn you about $8,000 over 30 years.” This time frame coincides with the warranties provided for both power generation and weatherization, such as leaks resulting from installation. Finally, although the calculator factors in the 30% Solar Investment Tax Credit, it does not factor in state and local incentives, which could possibly make purchasing a Tesla roof even better. For example, in New York, there is a 25% Solar Energy System Credit that increases to $5,000, which could further lower the cost of the entire system.

This all seems too good to be true, and there are, in fact, many who claim that the Solar Roof is actually a bad investment for homeowners. Not only do the critics doubt the ability of the average citizen to pay the hefty upfront fee, but they also question the amount of time the Solar Roof requires to pay for itself. This is because the typical ownership of a private home is only thirteen years, and, therefore, if someone sells their house before the thirty years, they are at risk of not actually seeing any savings and possibly spending even more than they would have with a conventional roof. Additionally, President Trump has imposed tariffs on solar panels that will start at 30% during the first year and gradually fall to half that figure over the next four years. However, despite knowing of the impending tariffs, Tesla continued production and distribution of Solar Roof as originally planned. Finally, the Solar Roof raises the value of the home and associated property taxes. When this issue was brought to Elon Musk’s attention, he tweeted, “This is true. The economics are not yet compelling where housing and utility costs are low and property taxes are high.” If the CEO of the company cannot reconcile the product with the market, what are the odds it’s a good investment? As David Levine for Forbes wisely wrote, “Everyone needs electricity. Everyone needs a roof. Everyone does not need the Tesla Solar Roof.” At least for now, but, with some adjustments to pricing, the Tesla Solar Roof could surely become a worthwhile investment.

Noa Kalfus is a sophomore at SAR High School. She is on two sports teams, the Debate Team, and is a passionate member of the Environmental Club. She spends her time writing, painting, pranking her friends, and consuming as many sour lip gummies as possible. Incentives hopes for her continued support throughout her high school career.
A Tale of Two Cities


How’s Your Money Supply?


A Fly on the Wall


Spotlight: Adam Smith


Are Super Teams A Super Success?


The Economic Calculation Problem


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To Pay or Not to Pay


Finding a Utopian Solution


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Cryptocurrencies: Boom or Bust?


Competitors?


Tesla Tiles


