

9/11 Case Conference



QUESTION: Was 9/11 more of a human tragedy or an economic tragedy?

KEY CONCEPTS TO CONSIDER:

1. Psychological impact on citizens
2. Economic indicators
3. International implications
4. Firms, individuals, and markets affected

GUIDING QUESTIONS:

1. What economic indicators can you apply to quantify the economic impact of 9/11?
2. What are some of the consequences of the attacks that economic indicators are not able to demonstrate?
3. What are the social and economic implications of the government fiscal and monetary policy that was implemented because of 9/11?
4. What role did governments play in facilitating the economic and social recovery processes?
5. Using microeconomic concepts, explain the major firms and markets that were affected.

OVERVIEW AND BACKGROUND:

Introduction:

The substantial impact that the terrorist attacks of September 11, 2001 left on the American and world economies cannot be understated. The effects of 9/11 caused major fluctuations in the American economy and the effects of the attack could be felt worldwide.

Economic Indicators and the Business Cycle:

The severity of the attacks can be observed through the use of economic indicators, such as: gross domestic product (GDP), unemployment rates, and inflation. At the time of the attacks the American economy was in a downward trend, due to the contractionary policies the government had previously implemented. 9/11 served as a shock that led the economy into a recession. However, the impact of 9/11 was relatively mild and short-lived due to the quick and appropriate response from the American government.

Psychological Effects:

The attacks have left a mark on individuals throughout the world. Mental health issues, as well as a sense of vulnerability have become more prevalent, wherein individuals fear being attacked at any time. 4 million Americans faced exaggerated fear or had a generalized anxiety disorder as a direct result of the attacks. In the weeks immediately following the attacks, the Institute of Social Research conducted a survey on 668 Americans. The results of the survey align with the Terror Management Theory, which can be used to understand how people react under the danger of terrorism. The theory proposes that, "following major terrorist attacks such as 9/11, death salience and the realization that death is unavoidable becomes general in public." This further shows the impact that 9/11 left on citizens.

Fiscal and Monetary Policy:

The attacks threatened to further cripple an already struggling American economy through falling asset prices and reduced consumer confidence. Fiscal and monetary policy changes helped the USA and Canada avoid a financial meltdown. The American government operated under a budget deficit and introduced expansionary fiscal policies. The government increased spending and lowered taxes. Funds were allocated towards bailing out suffering industries as well as towards new security initiatives. The Federal Reserve provided ample liquidity options for banks to compensate for increasing demand. The Canadian Government injected money into the economy to fund new initiatives and to bailout Air Canada. The Bank of Canada dropped interest rates to increase demand for dollar-denominated assets in the U.S.

Government Intervention:

Government intervention was vital in facilitating social and economic recovery in Canada and the United States. The U.S was already amid a mild recession, which was only amplified by the widespread damage. The decline in GDP and the rising unemployment rate forced the government to apply a new fiscal policy and deficit spending. The fear of

international terrorism prompted the implementation of new legislation to tighten border security and amplify military spending. In Canada, new legislation and increased border safety spending addressed a similar fear of international terrorism. Key pillars of both Canadian and American welfare states included unemployment assistance. This was a key part of facilitating an economic recovery in a time where substantial damage was sustained in a short period of time.

Conclusion:

In conclusion, 9/11 was a very traumatic event for the world. The widespread impact of 9/11 was felt by many firms, markets, and economic stakeholders. The attacks had adverse implications for the American and global economies, and certain measures had to be taken to prevent the already severe consequences from escalating much further.

RESOURCES:

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5. <http://www.thefiscaltimes.com/Articles/2011/09/09/Economic-Cost-of%209-11-Three-Industries-Still-Recovering>