NAME____ Class Period ______

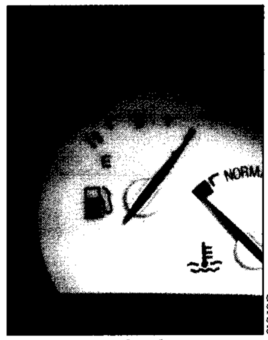
ECONOMICS
HOMEWORK ASSIGNMENTS
DUE FRIDAY, MAY 29, 2009

I. Raising the Fuel Efficiency of Tomorrow's Autos

The Week, May 29, 2009

What happened

The White House this week forged a groundbreaking agreement to increase the average fuel efficiency of cars and light trucks to 35.5 miles per gallon by 2016—a 30 percent increase over today's actual fleetwide mileage of 28 mpg. The new standards, which are the product of negotiations by the Obama administration with the auto industry and environmentalists, will raise mileage requirements 5 percent every year between 2012 and 2016. The White House said the new requirements would save 1.8 billion gallons of oil over the lifetime of autos sold over those five years—more oil than the U.S. imported last year from Saudi Arabia, Venezuela, Libya, and Nigeria combined. Under the agreement, greenhouse gas emissions from cars and light trucks will be cut by 30 percent over the same period. President Obama called it "a historic agreement to help America break its dependence on oil, reduce harmful pollution, and begin the transition to a clean energy economy."



Corbis

More miles, less gas

The agreement marked the end of the struggling auto industry's 35-year resistance to raising mileage requirements. In return for their support, 10 major domestic and foreign automakers, including Detroit's Big Three, received guarantees that California would drop its legal battle to impose its own strict standards. The deal will add $600 to the cost of a car, but the White House said the rules would lead to $2,800 in consumer savings on gasoline over the life of a vehicle.

What the editorials said

It's about time, said ***The New York Times***. For eight years, the Bush administration was "indifferent" to the auto industry's insistence on building SUVs and other gas-guzzling vehicles, despite the fact that runaway gas consumption made the U.S. dangerously dependent on foreign oil. By forcing Detroit to make more fuel-efficient, desirable cars, the new standards "may also end up being a boon to the beleaguered automakers."

Now Detroit only has to figure out how to sell small, expensive cars that no one wants, said ***The Wall Street Journal***. By setting standards at an "astonishing" average of 39 mpg for passenger cars, the White House will force automakers to produce a lot of expensive hybrids and electric vehicles. If gas is anywhere below $4 a gallon, Americans will leave them sitting on the lots. With their dependence on federal bailouts, though, automakers were no longer in a position to say no. Good luck to the "Obama auto-design team."

What the columnists said

Yes, the automakers are taking a hit, said **Jonathan Adler** in ***National Review Online***. But in return, they "avoid some potentially serious downside regulatory risks." Without a deal, Obama would have let California establish its own stringent standards, which a dozen or more states would have adopted. By creating "a certain schedule" and "a single national standard," Detroit can at least plot a coherent future.

What future? said **Tom Walsh** in the ***Detroit Free Press***. It's not clear that automakers are technologically capable of reaching these "challenging targets." And from a market perspective, "it's almost ludicrous to expect consumers to choose so many higher-mileage vehicles if gasoline is still selling for $2 or $2.50 a gallon." The automakers know this, but they're too bloodied to fight anymore. To stay alive until 2016, "they'll promise anything."

This is bigger than Detroit, said **Jad Mouawad** in ***TheNewYorkTimes.com***. When you combine the new auto fuel standards with the climate change legislation moving through Congress, you see the nation's whole approach to energy and transportation is "profoundly changing." Even the oil companies get it; Exxon Mobil now predicts "gasoline demand will be lower by 2030 than it is today." The end of the carbon era is now within sight.

What next?

The new regulations "could have serious negative consequences" unless Washington adopts policies raising the price of gas, said **John Carey** in ***Business Week Online***. Raising fuel economy by 10 mpg or more will reduce demand for oil by as much as 2 billion gallons a year. If lower demand leads to lower gas prices, consumers will have little incentive to pay a premium for fuel-efficient vehicles. Without a big gas tax or some other means to keep gas prices high, consumers could spurn the smaller, more expensive hybrids, and maintain their preference for light trucks, SUVs, and other "gas hogs."

II. Questions

Answer the following question on a separate sheet of loose-leaf paper.

1. What are the positive affects President Obama sees from stricter fuel efficiency standards?
2. What was the consequence of the Bush administration's fuel efficiency policies, according to the *New York Times*?
3. What is the problem with producing small, fuel-efficient cars according to *The Wall Street Journal*?
4. What is the positive side of federal action, according to the *National Review Online*?
5. What does oil giant Exxon Mobil predict will happen by 2030?
6. What does John Carey of Business Week Online claim the government needs to do to avoid "serious negative consequences" (hint – it will not be popular)?