The economy:
School is in

NYU business school dean talks about rising food and oil prices, jobs and real estate

Tom Cooley, dean of NYU's Stern School of Business, has been studying the economy long enough to gain some perspective. While he understands the difficulties for people here in New York City, he has a healthy dose of optimism about the future.

"He's a brilliant guy, and we read the same things," V. S. Puri, head of New York's School of Business, said about Cooley.

"I'm just more of an optimist in the way I interpret them," Cooley said.

On the money
Interview

Inflation rate is relatively low, though there's evidence it is creeping up.

But it is certainly true that the average consumer doesn't experience these times as a low-inflation environment, because of the pain at the grocery store and at the pump.

Cooley sat down with Your Money to help make sense of the challenges facing the local, national and global economies.

Q: How can the government declare inflation is under control when consumers are confronted with rockets gas and food prices?

Q: Can you look at the fundamentals, supply and demand, there have been a couple of hiccups such as unrest in Nigeria, but nothing major as we move from demand for heating oil to the driving season. Supply and demand are relatively well-balanced, so it's hard to understand why you would expect $200 a barrel oil, outside of speculative pressure. I think it is more likely it will go down than go up.

Q: Critics say ethanol hasn't helped reduce demand for oil, but has merely driven up the price of food. Has it been a disaster for American consumers?

A: Ethanol is a reasonable technology, but our ethanol policy is a failure. It's something we've pushed into, and the consequences have been that a large fraction of corn production has gone into the production of ethanol. That's raised the price of corn. Corn itself is oil intensive to produce. So it's just a bad policy right now and is having a negative affect on food prices around the world.

Q: Analysts at Goldman Sachs said last week the price of oil could leap to $200 a barrel over the next two years, while their counterparts at Lehman Brothers said it could fall to as low as $60. What do you say?

Q: Worldviews, banks have written down more than $300 billion worth of bad debt related to investments linked to subprime mortgages. Some experts say there's still a long way to go. Was the problem with the loans themselves, or the way they were packaged and sold?

Q: Securitization is not a bad thing. Subprime lending is not a bad thing. It makes sense to make credit available to people with less than stellar credit records, as long as you know what the risks are and as long as the people who bear those risks know what they are. Transparency is the key.

Q: Who bears most of the blame for the subprime meltdown: consumers, lenders or brokers?

Q: The brokers bear a lot of the responsibility. There were a lot of bad practices in the mortgage broker business. It is undoubtedly the case a lot of these loans were toxic when they were written and mortgage brokers just passed them down the line.

Q: How would you invest $10,000 right now?

Q: I would put it in an index fund and hold it for the long term. For the average person it is very hard — unless you have a lot of time to devote to it and a lot of specialized information — to do better than you would do in an index fund.

NYU Dean Tom Cooley predicts mild economic downturn.