

ECON MATTERS

Newsletter of the Dept. of Economics, University of Memphis

"The ideas of economists, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else." John Maynard Keynes

FCB&E, ROOM 400—678-2785

FALL, 2010

FACULTY AT A GLANCE:

Dr. Doug Campbell
Room 146 FEC
dacampbe@memphis.edu

Dr. Cyril Chang
Room 312
cchang@memphis.edu

Dr. K.K. Fung
Room 413
kkfung@memphis.edu

Dr. Michael Gootzeit
Room 419
mgoot@memphis.edu

Dr. Julie Heath
Room 409
jheath@memphis.edu

Dr. Edward Hoang
Room 315
echoang@memphis.edu

Dr. Andrew Hussey
Room 423
ajhussey@memphis.edu

Dr. David Kemme
Room 405
dmkemme@memphis.edu

Dr. Sanjeev Kumar
Room 427
skumar7@memphis.edu

Dr. Alex Nikolsko-
Rzhevskyy
Room 415
nklrzhvs@memphis.edu

Dr. Albert Okunade
Room 450
aokunade@memphis.edu

Dr. William Smith, Interim
Chair
Room 400
wtsmith@memphis.edu

FROM THE CHAIR

Happy Holidays to each and every one of you! It has been an eventful semester for the Department so I'd like to take this opportunity to report what has been happening.

As many of you can attest, Dr. Julia Heath is an extraordinarily gifted teacher. She has taught Principles of Microeconomics, Sports Economics, and Econometrics to great acclaim. Last spring she received the University of Memphis Alumni Association Distinguished Teaching Award; before that she received the Elzinga Award for Teaching from the Southern Economic Association. Now I am proud to report that she has received yet another national award for her teaching. This semester she was named the top professor in Tennessee – not just in Economics, but across all disciplines – by the Carnegie Foundation. This makes her a serious contender to be the top professor in the entire country next year. Congratulations, Julie!

Terrance Garret is an outstanding student who is completing his major in Economics, with a minor in Biology. He had already been accepted to the Law School at Duke, but we were all excited to learn recently that he has also been accepted to Harvard Law School. He intends to specialize in environmental law, an area where he can apply his knowledge of both economics and biology. Terrance, we are proud of you and hope to see you on a Supreme Court bench one day.

Two of our majors, Louis Tomayako and Jasmine Jackson, presented their research project, "The Core Drivers of Excessive Prescription Drug Use and Expenditures in the State of Tennessee: A County-Lever Investigation," at the University's "Works in Progress" Symposium this fall. The work was completed under the direction of Dr. Albert Okunade as part of the requirements for the Honors section of Principles of Microeconomics, ECON 2120. They were judged by six independent judges, including faculty from several disciplines. Following the judging, Louis and Jasmine were selected as two of thirteen students from across the campus to allow them to present their research at the 2011 National Conference on Undergraduate Research in New York. This is a great honor, so congratulations to both Louis and Jasmine.

Dr. Okunade has always been active in encouraging undergraduate research in economics. This year he has begun to integrate undergraduate research into the economics classes of the Honors program. The paper by Louis and Jasmine from their ECON 2120 class is a great example. However, this is only part of Albert's efforts to jumpstart the Honors program. In particular, he has been instrumental in organizing the FCBE Honors Society, of which Jasmine is the newly elected president. I have always thought that Economics should be a major of choice for honors students, so I am delighted to see the Honors program taking off. Thank you, Albert.

The Giffen Club is also back in business, thanks to the efforts of its President, Dan Albright, and its faculty advisor, Dr. Doug Campbell. Giffen Club members were invited to hear Dr. Andrew Zimbalist, who is a famous expert on sports economics, speak while he was on campus recently during a trip to Memphis as the featured speaker at an Economic Club meeting. We thank the Economic Club of Memphis for sponsoring Dr. Zimbalist.

Both of our PhD students who graduated in 2010 have moved on to good academic placements. Dr. Debjani Kanjilal is now an Assistant Professor at Elizabeth City State University, in North Carolina, while Dr. Deepraj Mukherjee is an Assistant Professor at Waldorf College, in Iowa. Both are doing interesting research and should be publishing papers in major economics journals soon.

I hope you have a wonderful holiday, and wish you be best in the New Year.

Dr. William T. Smith, Interim Chair

In the News

Many of you have been asking me, both in and out of class, whether Quantitative Easing 2 (QE2) is inflationary. I have replied that, to my mind, it boils down to the degree of independence that the Fed can maintain. Here is an excerpt from an article that makes the same point by looking at evidence from quantitative easing in other countries. It is called “Doubling Your Monetary Base and Surviving: Some International Evidence,” by Richard Anderson, Charles Gascon, and Yang Liu, and was published in the November/December edition of the *Federal Reserve Bank of St. Louis Review*. You can access the complete article at <http://research.stlouisfed.org/publications/review/10/11/Anderson.pdf>. I also recommend the paper by Alan Blinder in the same edition, “Quantitative Easing: Entrance and Exit Strategies,” <http://research.stlouisfed.org/publications/review/10/11/Blinder.pdf>.

Doubling Your Monetary Base and Surviving: Some International Experience

By Richard G. Anderson, Charles S. Gascon, and Yang Liu

The authors examine the experience of selected central banks that have used large-scale balance-sheet expansion, frequently referred to as “quantitative easing,” as a monetary policy instrument. The case studies focus on central banks responding to the recent financial crisis and Nordic central banks during the banking crises of the 1990s; others are provided for comparison purposes. The authors conclude that large-scale balance-sheet increases are a viable monetary policy tool provided the public believes the increase will be appropriately reversed. (JEL E40, E52, E58) Federal Reserve Bank of St. Louis Review, November/December 2010, 92(6), pp. 481-505.

The recent financial crisis has challenged monetary policymakers around the world on a scale that has not been seen since the 1930s. In normal times, the monetary policy for most central banks is implemented by (i) targeting an overnight interest rate and (ii) holding as assets securities issued by the country’s own national treasury. In some cases, a central bank’s assets also include foreign exchange or other nations’ sovereign debt. When large shocks occur and in response the policy rate has already been reduced to (near) zero, some central banks have aggressively expanded their balance sheet, a policy widely referred to as *quantitative easing*.¹ In the United States, for example, the Federal Reserve’s mid-2010 balance sheet was approximately *triple* its size of two years earlier.

The essence of quantitative easing policies is the purchase of assets from the private sector with newly created central bank deposits; such exchanges promise to reduce both risk and term premia in longer-term interest rates.² The currently sparse empirical evidence suggests that quantitative easing actions likely must be large because the private-sector’s substitution elasticities among high-quality financial assets are small.

In this article, we examine the experience of selected central banks that have used large-scale balance-sheet expansion as a policy instrument. We conclude that such increases are a viable monetary policy tool for central banks with significant independence and credibility, assuming the public believes the increase will be appropriately reversed.

To some analysts, large balance-sheet increases raise the specter of higher inflation. Historically, an absence of fiscal discipline was the cause of large-scale increases in central bank balance sheets. Sargent (1982), for example, reviews cases of hyperinflation and Meltzer (2005) reviews monetary policy in the United States during the late 1960s and 1970s. Recent actions in the United States, United Kingdom, Switzerland, Australia, and others have *proactively* used massive balance-sheet changes as a policy tool while sustaining a commitment to avoid rapid inflation.

¹ See Bernanke and Reinhart (2004).

² See Bernanke, Reinhart, and Sack (2004). Purchasing lower-quality assets raises discussion of the boundary between monetary and fiscal policy. Recent academic papers include those by Jeanne and Svensson (2007), Cúrdia and Woodford (2010a,b), Gertler and Karadi (2009), Reis (2009), Borio and Disyatat (2009), and Söderström and Westermarck (2009).

Richard G. Anderson is an economist and vice president, Charles S. Gascon is a research support coordinator, and Yang Liu is a research associate at the Federal Reserve Bank of St. Louis.

© 2010, The Federal Reserve Bank of St. Louis. The views expressed in this article are those of the author(s) and do not necessarily reflect the views of the Federal Reserve System, the Board of Governors, or the regional Federal Reserve Banks. Articles may be reprinted, reproduced, published, distributed, displayed, and transmitted in their entirety if copyright notice, author name(s), and full citation are included. Abstracts, synopses, and other derivative works may be made only with prior written permission of the Federal Reserve Bank of St. Louis.

SPRING SCHEDULE OF CLASSES

Intermediate Macro Theory

ECON 3320

MWF 10:20-11:15

Learn more about how the macro economic variables fit together and the implications for government policy. Principles of Macro is a prerequisite. Taught by Dr. Bill Smith.

Public Economics

ECON 4210

TR 2:40-4:05

This course focuses on analysis of the role of government in the economy; tax incidence and optimal taxation; externalities; public goods; and applications to current policy issues. Specific topics include: government policies on issues such as acid rain, global warming, poverty programs, health insurance, Social Security and other social insurance programs, effects of taxes on labor supply and savings rates, etc. Taught by Dr. Doug Campbell.

International Economics

ECON 4350

TR 9:40-11:05

Trade deficit, globalization, comparative advantage...what does it all mean? This course emphasizes policy implications with Principles of Micro as the prerequisite. Taught by Dr. Doug Campbell.

Health Economics

ECON 4740

TR 1:00-2:25

Unique nature of health care as economic good, health care market and its participants including patients, physicians, and hospitals, and financing and delivery of personal health care in United States and other countries. Taught by Dr. Albert Okunade.

Quantitative Economics Analysis

ECON 4810/6810

MW 2:20-3:45

Introduction to application of mathematical tools in business and economics; review of matrix algebra, differential and integral calculus; optimization with and without constraints; comparative statistics.

Taught by Dr. Alex Nikolsko-Rzhevskyy.

Interested in our MA program? Check out http://economics.memphis.edu/acad_index.html

How about our PhD? Try http://economics.memphis.edu/acad_index.html

A wonderful website with lots of information about PhD programs nationwide is <http://www.econphd.net/>

Recommended Websites (if you have found some yourself, please let me know what they are):

Gregg Mankiw holds forth on income inequality (this summarizes in a nutshell the consensus view of the profession): <http://gregmankiw.blogspot.com/2006/06/on-inequality.html>

Gregg Mankiw gives useful advice to aspiring economists: <http://regmankiw.blogspot.com/2006/05/advice-for-aspiring-economists.html>

To see what is going on in behavioral economics, check out David Laibson's website at Harvard: <http://www.economics.harvard.edu/faculty/laibson>

It's always fun to see what Steve Levitt will come up with next. Check out his blog: <http://freakonomicsbook.com/>



SPOTLIGHT ON...



Ray Williams
Econ Major

Tell us about your life. Where did you grow up? Tell us about your family.

I was born in Memphis and I grew up in Oakland, Tn. My younger sister Emily is also a student at the University of Memphis, and she will be graduating in the spring. I joined the Navy in 2003. I got out in 2008 and began school at Southwest Tennessee Community College. I transferred to the U of M in the Fall of 2010.

What made you want to become an economics major?

When I first returned to college I had no idea what I wanted to major in. I started taking my gen-ed courses at Southwest Tennessee Community College and I really liked the Econ courses I took. I enjoyed watching the news and understanding what was going on in the world. I decided that I wanted to learn more about the role that economic policy plays in society.

What have been your favorite courses?

I enjoyed my physics courses at Southwest a lot. I also like Literature classes. My favorite class at Memphis so far is International Monetary Theory and Policy with Dr. Smith.

What do you plan to do after you graduate?

I plan to attend law school after I am finished at Memphis and hopefully eventually become a political adviser.

Why do you think studying economics is important?

I think that studying Economics is important because everyone should have a basic understanding of how the markets work and how supply and demand interact. So often people make their decision on whom to vote for or which policies to support based only on what others tell them, but if they were educated in economics they would be more capable of making their own decisions.



SPOTLIGHT ON...



Jarrold Hunt
U of M Graduate

What degree or degrees did you receive from UM? When?

BBA with a focus in economics in 2006
 MA in economics in 2009

Why did you study economics?

In my first economics class, Principles of Microeconomics, I found that I naturally related to the methodology used to analyze various issues. Though the terminology was new, the concepts were very familiar and the material just seemed to click with me.

What were some of your favorite courses or professors?

Over the years, I have been fortunate enough to take classes from many enjoyable professors. Toward the end of my undergraduate program, I took a few classes from Professor William Smith and Professor KK Fung. Though they had different teaching styles, their classes were both very challenging and intellectually stimulating. I was drawn to the depth of the analysis and I believe these classes were a motivating factor in my decision to continue studying economics at the graduate level. In my MA program at Memphis, I was able to take classes from Professors Alex Nikolsko-Rzhevskyy, Pinaki Bose, David Kemme, as well as a few more classes from Professor William Smith. I had great experiences with all of these professors and I feel that they prepared me well for my current PhD program.

How has having an economics degree benefited you?

My studies in economics have provided me with a set of tools I can use to analyze most issues. Notably, economic training develops the intuition to consider various issues from a number of different perspectives. The ability to approach a problem from a different direction not only fosters deeper insight, but can potentially highlight a previously obstructed solution. Though it is often assumed that the concepts in economics pertain primarily to financial matters (especially lately), the truth is that the subject is far broader in scope. I often find myself applying what I have learned while studying economics to situations in everyday life.

Tell us about graduate school at Houston. What are your favorite courses?

The PhD program in economics at The University of Houston generally focuses on the empirical side of the analysis. Though the theoretical side is also taught and studied, learning how to test the theory is not only useful, but interesting, too. I have enjoyed all of my classes in this program so far, especially my econometrics courses.

When do you plan to graduate? What will you do afterwards? What will be your areas of specialization?

If all goes well, I should graduate in the spring of 2014. And with some luck, I hope to find a position in academia primarily focused around research. Macroeconomics and econometrics are currently my preferred areas of specialization, but I am trying to keep an open mind and take classes in various fields to gain greater perspective.