# 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, 2012


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## FROM THE CHAIR

Happy Holidays to each and every one of you! It has been a busy fall and there is a lot to report.

First, we are happy to welcome two new Assistant Professors to the Department. Dr. Carmen Astorne-Figari is joining us from Washington University, in St. Louis, from which she recently earned her PhD. She is an expert in both behavioral economics and game theory. She is teaching our sequence of graduate courses in microeconomics but we have prevailed upon her to teach an undergraduate course in Behavioral Economics next spring.

Dr. Joon Lee earned his PhD from the University of Texas, Austin in 2011. He then visited at Southern Methodist University for a year before joining us this fall. His area of expertise is in empirical international trade, with an emphasis on how culture affects the behavior of multi-national corporations. He also is teaching graduate classes for us – in Econometrics and in International Trade – but will take on our undergraduate courses in International Monetary Theory & Policy and International Trade.

We also welcome two Visiting Assistant Professors. Dr. Satadru Mukherjee graduated from the University of Houston this year. His research is in empirical development economics. In addition to our graduate course in Advanced Quantitative Analysis, he is also teaching our undergraduate course in Econometrics as well as Principles of Economics.

Dr. Sumant Rai just graduated from the University of Washington in Seattle, where he was a student of the famous economist, Dr. Stephen Turnovsky. He does theoretical research on how social capital affects long-run growth. He is teaching our graduate sequence of macroeconomics courses, as well sections of Principles of Economics. In the spring he will teach our undergraduate course in Quantitative Methods.

Other members of our faculty have been busy too. In September, Dr. Douglas Campbell and Dr. Albert Okunade were honored with the Fogelman College's new Engaged Creative Teaching Excellence Award, at the undergraduate and graduate level, respectively. At the same time, Dr. Alex Nikolsko-Rzhevskyy received the College's 2nd Place Award for Best Paper, in the Empirical Category, for a paper published in the *Journal of Money Credit & Banking*. Dr. Alex is on leave this year, and is visiting at Lehigh University Pennsylvania. We are hoping that he will come home soon.

Our graduate students did well on the market this year. Greg Lubiani had a paper accepted at the prestigious journal *Health Economics* and accepted a position as an assistant Professor at Xavier University in Cincinnati. Jay Walker is now an assistant Professor at Niagara University in New York.

I'd also like to mention three of our majors who had great internships this year. Aaron Blackstone was honored with one of the University's "Green" Internships. He helped C.B. Richard Ellis assess the energy efficiency of buildings all over Memphis. Matt Hotz worked at the office of Representative Steve Cohen, where he got a unique opportunity to observe public servants at work. Lexus Chansavang worked at FedEx, where he served in the office of FedEx's famous Chief Economist, Dr. Gene Hoang.

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

Dr. William T. Smith, Chair

# In the News

We are fast approaching the "fiscal cliff." It seems appropriate to listen to an expert on fiscal policy who has a gift for explaining complicated issues in non-technical ways. This is a recent blog on the subject from "EconomistMom" (http://economistmom.com/). The Economist Mom is really Diane Lim Rogers. She earned her PhD from the University of Virginia (not too long after I did), where she specialized in Public Economics. She has vast experience in fiscal policy, and has worked in academia (Penn State University), think tanks (Urban Institute and Brookings Institution), and the executive and legislative branches of the federal government (Council of Economic Advisers, Congressional Budget Office, Joint Economic Committee, House Ways and Means Committee, and House Budget Committee).

## The Sticking Point on Taxes Gets Less Sticky

November 26th, 2012 . by economistmom

Lori Montgomery's front page story in today's Washington Post sounds like a downer, entitled (in the print edition) "Taxes still the big 'cliff' hang-up." Indeed, really since the George W. Bush Administration it's always been differences over tax policy that have prevented policymakers from coming up with a bipartisan approach to deficit *reduction*. (The bipartisan "compromises" have always been deficit increasing–a result of mutual "grabbing" instead of the mutual sacrifice that's needed.) Lori reports:

> For the first time in decades, a bipartisan consensus has emerged in Washington to raise taxes. But negotiators working to avert the year-end "fiscal cliff" remain far apart on crucial details, including how taxes should go up and who should pay more.
>
> Neither side gave ground in an opening round of staff-level talks last week at the Capitol. As President Obama and congressional leaders prepare for a second face-to-face meeting as soon as this week, the divide over taxes presents the biggest obstacle to replacing the heap of abrupt tax hikes and spending cuts, set to hit in January, with a less-traumatic debt-reduction plan.
>
> People in both parties are exploring ideas for bridging the gap. Without a deal on taxes, there is not much hope for agreement on a broader strategy for restraining the national debt that also tackles the skyrocketing cost of federal retirement programs such as Social Security and Medicare.
>
> But with tax rates set to rise automatically in January when the George W. Bush-era tax cuts expire, Democrats say they have little incentive before then to cut a deal that falls short of their revenue goals. That means going over the cliff, at least for a short time, remains a possibility, they say.

The long-standing impasse on tax policy has basically boiled down to this: Democrats want more revenue, raised entirely from households with incomes over $250,000. Republicans don't want any new revenue, and especially *not* from higher tax rates on the rich. It seems like an irreconcilable difference.

But if you turn the front page of the post over, there on the very next page (A2) is a story by Sean Sullivan called (in print) "Two in GOP: 'Cliff' deal worth defying Norquist" where we learn that:

> A pair of congressional Republicans reiterated their willingness Sunday to violate an anti-tax pledge in order to strike a deal on the "fiscal cliff," echoing Sen. Saxby Chambliss, the Georgia Republican who suggested last week that the oath may be outdated.
>
> Sen. Lindsey O. Graham (R-S.C.) said he was prepared to set aside Grover Norquist's Taxpayer Protection Pledge if Democrats will make an effort to reform entitlements, and Rep. Peter T. King (R-N.Y.) suggested the pledge may be out of step in the present economy.
>
> "I agree with Grover — we shouldn't raise rates — but I think Grover is wrong when it comes to we can't cap deductions and buy down debt," Graham said on ABC's "This Week With George Stephanopoulos."…
>
> Last week, Chambliss drew attention when said he was willing to buck Norquist's pledge. "I care more about my country than I do about a 20-year-old pledge," Chambliss told WMAZ-TV of Macon, Ga. "If we do it his way then we'll continue in debt, and I just have a disagreement with him about that."
>
> King echoed Chambliss's assessment Sunday. He said that while he opposes tax increases, he does not advocate taking "ironclad positions" during the negotiations between Democrats and Republicans on the nation's fiscal issues.

In other words, many Republicans aren't so enamored with Grover's "no new taxes" pledge these days, because they don't agree with the "no new revenue" interpretation. These Republicans recognize the economic difference between raising revenue by raising *marginal tax rates*, and raising revenue by *broadening the tax base and reducing "tax expenditures"*–the subsidies in the tax code. The former increases the size and influence of government; the latter reduces it. (continued on page 3)

# The Sticking Point on Taxes Gets Less Sticky (continued)

November 26th, 2012 . by economistmom

For any Republican who feels the same way that Chambliss, Graham, and King do, the common ground they share with the Obama Administration on tax policy and deficit reduction is actually very large. In every one of President Obama's budgets, he has proposed to limit itemized deductions to the 28 percent rate, which has the effect of reducing (not eliminating) the value of deductions taken by households above the 28 percent income tax bracket (who happen to be, not surprisingly, those households with incomes above $250,000), such that those households just can't get a larger subsidy on any given dollar value of activity (mortgage interest, charitable donations, etc.) than households with lower incomes would get. It seems to make "eminent" sense (among economists at least) to eliminate or at least reduce the "upside down" nature of tax subsidies this way. Only because tax expenditures are subsidies brought over to the tax side of the ledger, do we have so many government subsidies that are more generous the *higher* one's income.'

This year's version of the President's proposal to limit tax expenditures for higher-income households raises $500 to $600 billion over ten years. (The Obama Administration said $584 billion; the Congressional Budget Office said $523 billion.) That amount is higher than it has been in past years, because this year the Administration broadened the proposal to not just limit itemized deductions, but also limit the value of certain tax exclusions, including the exclusion of employer provided health insurance. (As explained in the President's budget (page 39): "This limit would apply to: all itemized deductions; foreign excluded income; tax-exempt interest; employer sponsored health insurance; retirement contributions; and selected above-the-line deductions.") Still, that only covers about one-fourth of the $2 trillion+ cost of extending even only the "middle-class" portions of the Bush tax cuts, a tax policy President Obama also proposes in his budget. For years CBO has scored a more aggressive version of the President's limit on itemized deductions–one where they would be limited to the 15 percent bracket. This would raise more than a trillion dollars over ten years ($1.2 trillion in CBO's March 2011 report)–enough to cover a bit over *half* the cost of the extended tax cuts, even without extending these limits to the exclusions.

Well, now you can see how the math of base-broadening tax reform works: the more one is willing to broaden the tax base and limit or eliminate certain tax expenditures, the more one can "buy" extended lower tax rates. If significant-enough base broadening is too hard to do (politically or economically) to achieve a certain revenue goal, then rates will have to come up to at least somewhere in between current policy and current law (with all tax cuts expired). Both Republicans and Democrats seem to like this general principle of substituting a broader base for lower rates, and even the particular combination of limits on itemized deductions paired with continued, low marginal tax rates for most Americans. The details as *to what extent* deductions and exemptions will be capped or limited, and *which* households would be affected, and (therefore) *which* tax rates would be kept *how* low, are the specific points that should be the focus of bipartisan negotiations on this sticking point called tax policy–if policymakers indeed want to get around to agreeing on policy. (What to do about preferential capital gains and dividend tax rates is another huge issue to work out in this base-vs.-rate tradeoff, and makes a huge difference in terms of both revenue and distributional effects.)

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For now, Democrats are seeking $1.6 trillion in new taxes over the next decade collected from about 3 million families at the pinnacle of the income spectrum — those earning more than $250,000 a year. The Democrats want to start by letting the top two tax rates return to 36 percent and 39.6 percent when the Bush tax cuts expire.

Republicans insist on maintaining the Bush rates, at 33 percent and 35 percent, through 2013. Instead, they want to raise cash by rewriting the tax code to eliminate individual loopholes and deductions, an approach House Speaker John A. Boehner (R-Ohio) argues would be less harmful to businesses and the economy.

It is also more popular, Republicans say. They pointed to a new poll by the Winston Group, a GOP research firm whose president, David Winston, is close to Boehner. ***Sixty-five percent of those surveyed preferred a deal that wipes out "special interest tax loopholes and deductions commonly used by the wealthy" over an approach that raises tax rates on "Americans earning more than $250,000" on Jan. 1.***

GOP negotiators have declined to say how much they are willing to raise, according to people familiar with the talks. In the past, Boehner has proposed $800 billion. But who, in the Republicans' view, should foot that bill is unclear. (continued on page 4)

## The Sticking Point on Taxes Gets Less Sticky (continued)

November 26th, 2012 . by economistmom

The preoccupation with this particular line in the sand ("tax the rich!"–"no, don't tax the rich!") detracts from the broader areas of agreement on the base-broadening approaches, as well as the tax-policy reckoning ultimately facing all politicians and all of *us*: that tax burdens will probably have to come up on almost *every*one, far from the "almost no one" fantasy tax policy world we've been stuck in. ("Wait, *who* are the rich?!") We could get closer to a real-world view of tax policy, and to a successful, productive, *bipartisan* resolution of both the "fiscal cliff" issue and our longer-term fiscal challenges, if our politicians can lead the people this time–rather than be led by the polls that can't possibly ask the right questions–and focus on the basic and essential math on tax policy that has got to be worked through immediately and for awhile to come. The groundwork of bipartisan tax policy ideas is already there though; they just have to stop bickering from the corners and step onto that common ground.

Some of this common groundwork has to be done right away in the negotiations over what to do about the fiscal cliff–which is just the first installment of tough choices regarding the entire future path of the federal budget. Ultimately for the larger and longer-term deficit reduction goal, however, it's not just that more Republicans will have to break up with Grover over the "no new taxes" pledge in order to do smart tax reform, but that more Democrats will have to be willing to consider reforms to Social Security and the health programs (Medicare/Medicaid) that, as Lindsey Graham has recently put it, should be considered "eminently reasonable."

## Economics at Sea

**Matt Ludlow was honored as Outstanding Economics Student in 2009, and was one of the best majors the department has ever had. He is now a 1st Lieutenant in the United States Marine Corps. His current deployment is with the 24th Marine Expeditionary Unit (MEU), a special rapid-response force designed to conduct amphibious and maritime special operations. He is true warrior-scholar, and we are very proud of him. Here is a picture of him teaching Macroeconomics to Marines aboard the USS New York, at an undisclosed location in the Mediterranean.**

# SPRING SCHEDULE OF CLASSES

Intermediate Macro Theory

ECON 3320

MW 12:40-2:05

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.

Economic Forecasting

ECON 4120

TR 9:40-11:05

Forecasting is a valuable tool that will be an asset whether you are headed to the workforce or graduate school. This is a terrific hands-on course. Taught by Dr. Albert Okunade.

Public Economics

ECON 4210

TR 1:00-2:25

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 2:40-4:05

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. Joonhyung Lee.

Sex, Drugs, and Rock and Roll - The Economics of Vice

ECON 4763

TR 11:20—12:45

Drawing mainly from recent books in the popular press written by economists and empirical studies in applied microeconomics, this course will expose students to issues both economic and social, surrounding areas of perennial interest: crime, sex, drugs, music and other unconventional, yet important, topics which have begun to catch the economist's eye. This class is taught by Dr. Andrew Hussey.

Behavioral Economics

ECON 4764

MW 2:20—3:45

Taught by Dr. Carmen Astorne Figari

Quantitative Economics Analysis

ECON 4810/6810

MW 5:30-6:55

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. Sumant Rai

*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/

If you've not yet watched the Fall 2012 Green Internship video, please see the link below. Two students, Aaron Blackstone and Gary Jenkins are featured.

**Returning Fall Green Interns** (employer requested!)

**Aaron Blackstone**--Economics major, CB Richard Ellis Memphis, MILE

**Brandy Brown**--Economics major, ServiceMaster by Stratos

**Kelsey Vollner**--Economics major, Shelby County Sustainability Program

https://www.youtube.com/watch?v=KhsLmWBuVzY

# SPOTLIGHT ON...

## Jake Sylvestri
### Econom Major

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

I am the oldest of five children. My father is in the Air Force, so we moved a lot when I was growing up. We moved fifteen times before I graduated High School. After I graduated I decided it was time to stay in one place for a little and decided to attend the University of Memphis. My parents and younger siblings now live in south-western Illinois across the river from St. Louis and I really enjoy getting to visit them over the holidays and during the summer.

**What made you want to become an economics major?**

Early in my college career, when I was taking principles classes, I realized that I was good at Economics and really enjoyed it. I would say I really became passionate about economics when I was taking Dr. Smith's Advanced Macroeconomics class. I really enjoyed learning about the models and seeing how they described things that we can see happening in real life. Economics is an extremely broad field and it can provide answers to so many of the things we see happening around us in the real world every day.

**What have been your favorite courses?**

Like I said, Dr. Smith's Macro class is what got me really into economics in the first place. I also really enjoyed Dr. Hussey's Game Theory course. During the fall, I also had the chance to take Dr. Astorne-Figari's graduate Economic Theory class, which was an awesome introduction to some of the concepts that are studied in graduate school.

**What do you plan to do after you graduate?**

I hope to work toward a graduate degree in economics.

**Why do you think studying economics is important?**

Life is full of exchanges and economics can help us understand a lot those exchanges better. We are all so intertwined now that I think it is important to understand how our decisions affect each other. On a more personal level, concepts like opportunity costs and sunk costs can literally change your life and the way you make decisions. As behavioral economics and neuroeconomics really mature as sub-disciplines, I think economics will become more and more important in understanding ourselves and the world around us.

# SPOTLIGHT ON...

## Skipper Seabold

*U of M Graduate*

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

I graduated in Fall 2005 with a B.A. in International Studies and minors in Economics and French.

What was your first job after graduation?

I was a research assistant to a portfolio manager in a wealth management firm.

What is your current job?

I am a Ph.D. candidate in Economics at American University in D.C.

What do you like best about your job?

I enjoy collaborating with others on research projects. It's a pleasure to work with people that are so motivated, passionate, and insightful.

Why did you study economics?

Initially, I wanted to be able to follow public discourse on economic policy and to have my own informed opinions. I was curious about how currency markets worked, and I wanted to understand why some nations had strong economic growth while others did not.

What were some of your favorite courses or professors?

I enjoyed taking International Economics with Dr. Kemme, International Monetary Theory with Dr. Smith, and Econometrics with Lu Echazu who was a Ph.D. candidate at the time.

How has having an economics degree benefitted you?

The toolset that I have from studying economics has afforded me a variety of opportunities. I have been a research assistant for a portfolio manager and for the Financial Crisis Inquiry Commission. I've worked at a startup as a software developer for a statistics project, and I've been part of research projects on topics ranging from econometric theory to economic history.

What advice would you give students who would like to enter your field?

I do a lot of applied work that is computationally intense. If you're also interested in working in applied economics or another field in the quantitative social sciences, I'd urge you to use your time in school to "tech up." In addition to taking courses in economics, pursue coursework in math and computer science, if possible. Coursework in scientific programming and statistics/statistical programming will allow you to be on the cutting edge of research in this era of "big data" and to be a value addition to any research project.