

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

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SPRING 2009

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FROM THE CHAIR

I wish each of you a happy and productive New Year. As the new semester starts, I would like to look back and recapitulate what has been happening in the Department of Economics over the last year.

The most exciting event of 2008 was the arrival of a new faculty member, *Dr. Oleksandr (Alex) Nikolsko-Rzhevskyy*. Alex was awarded his PhD from the University of Houston last summer and is joining us as an Assistant Professor. He is a first-rate time-series econometrician; his specialty is estimating the decision rules of the Fed and other central banks. He already has a paper accepted at the prestigious *Journal of Monetary Economics*, so we are expecting great things from him.

Our other Assistant Professor, *Dr. Andrew Hussey* is also doing very well. He had a paper accepted at the *International Economic Review* – another top-notch journal -- and was awarded two impressive grants, one from the Management Education Research Institute, and the other from Project SEAPHE (Scale and Effect of Admissions Preferences in Higher Education).

Dr. Julie Heath was honored last year with two prestigious national teaching awards: She received the Elzinga Distinguished Teaching Award by the Southern Economic Association, and was named Educator of the Year by the Institute for Financial Literacy.

After nine successful years, Dr. Heath decided to step down as Chair of the Department. Under her guidance, the number of majors in the Department increased by over 400 percent. We all owe her a debt of gratitude for her efforts on behalf of the department over the last decade. I have foolishly agreed to step in as Interim Chair until the Department finds a permanent replacement for Dr. Heath.

Last summer, *Dr. Cyril Chang's* Methodist Le Bonheur Center for Healthcare Economics hosted a group of 22 Chinese rural health researchers and officials in a two-week training program, the China-Tennessee Health Care Exchange Program.

In June, *Dr. David Kemme*, our Chair of Excellence in International Economics, served as a Visiting Scholar at the Federal Reserve Bank of St. Louis.

Dr. David Ciscel, Professor Emeritus, has just accepted the post of Dean of the College of Business at Christian Brothers University. We wish him the heartiest congratulations but must hasten to add that this imposes some costs on us: he will not be teaching ECON 3024 (Economics of Ecology) for us this spring.

Dr. Douglas Campbell and *Dr. K.K. Fung* are among the finalists for the University's Distinguished Teaching Award this year. They are both superb teachers, as many of you have discovered for yourselves. If you have not written letters of support for either or both of them, I encourage you to do so; they weigh heavily in the deliberations of the evaluating committee. Letters of support must be delivered to the University Honors Program Office in 204 Scates Hall or submitted electronically to the Distinguished Teaching Award Co-Chair, Melinda Jones, at mljones6@memphis.edu. The deadline for receipt of letters is February 1.

Kyle Carlson was one of our best undergraduate majors in recent years. He received the Outstanding Undergraduate Student Award from the Department in 2006 and went on to become a research assistant at the Federal Reserve Bank of Boston. His trajectory of success continues: Just recently, he received a President's Award from the Bank. For more info on the internship program at the Federal Reserve bank: <http://www.bos.frb.org/economic/recruit/RAs/rabrochure.pdf>

I hope you will enjoy the Newsletter. Alumni, please stay in touch. It is always good to hear from old friends.

Dr. William T. Smith, Interim Chair

In the News

Dr. James Doti has a PhD in Economics from the University of Chicago and is President of Chapman University. He recently wrote this article in the "Chronicle of Higher Education" (12/9/08) on how basic tools of economic analysis have helped him run his University. We reproduce the article here courtesy of Dr. Doti.

MOVING UP

An Economist's Tools of the Trade

How the science of economics is instrumental in helping a president run his university

By JAMES L. DOTI

I've often been asked whether my academic background in economics serves me well in carrying out my presidential duties at Chapman University. No doubt, course work in accounting while I was an undergraduate has helped me to critically read and understand income statements and balance sheets.

But what about my many years of almost total immersion in the dismal science? Does it translate to executive leadership? Can economics help a chief executive be more effective, or is it only the stuff of dry mathematical models and esoteric theories, with little practical value?

In reflecting on those questions, I've concluded that my economic brainwashing has been instrumental in how I think about things and make decisions as a university president. I may not always be conscious of it, but economics rears its head in many telling ways. And the same holds true, I believe, for other university leaders, whether they know it or not.

Comparative advantage. In the early 1800s, the millionaire stockholder David Ricardo showed how the law of comparative advantage can be used to explain the gains of trade. That law is why most economists believe in the efficacy of free trade across international borders. I use the law of comparative advantage in a somewhat different way.

In strategic planning for a university, we are often confronted with many proposals for new academic programs. Making choices is difficult but choose we must, since resource constraints limit what we can do. About 10 years ago, we had to decide at Chapman whether to significantly expand our small department of film production or focus on alternative programs with great promise.

In the end, we concluded that Chapman had a comparative advantage in film over other universities because of our location in Southern California and because of a team of leaders in our nascent program who shared a compelling academic vision. That small department has since grown to become one of the leading film schools in the nation.

Another area of Chapman's comparative advantage goes beyond its location. I have long observed that unlike professors at most universities, our faculty engage in a good deal of interdisciplinary work. Without much prodding, various schools offer a variety of joint programs; the disciplinary silos that impede interdisciplinary work at other institutions do not seem to exist at Chapman. While I'm not certain how that happened, I do know that it represents a comparative advantage for Chapman that should not only be nurtured but exploited.

With that in mind, we decided last year to recruit a world-class team of six faculty members in computational science — an interdisciplinary area of study that integrates physics, computer science, and engineering. The new center will use tools from various disciplines to study such hot topics as adaptation to climate change, nanotechnology, wildfire prediction, and even earthquake forecasting.

I believe we're making the right choices, but more important, I am confident that by placing great emphasis on comparative advantage, we're using the right decision-making process.

Incentives. Any discussion about the workings of a market economy ultimately falls back on the power of incentives. And any discussion about the workings of a vibrant academic community ultimately falls back on attracting and retaining the best and brightest faculty members and students. For that to happen, we must use an arsenal of incentives. The fact that people respond to rewards is understood even by noneconomists. But economists tend to be obsessed with the connection between incentives and results.

Salaries and scholarships are certainly among the carrots we offer. But the market economy has been unfairly pilloried for dealing only with monetary rewards. Incentives can and do take many other forms.

Economist's Tools of the Trade (cont.)

For example, realizing how much faculty members value endowed chairs and professorships, we began creating more of them. The number of endowed positions at Chapman has grown from one in 1991 to 33 chairs and 19 professorships today.

Creating those endowed positions also relies on using incentives in our fund-raising efforts. It always troubled me that donors who endow faculty positions get little recognition for their philanthropy. Naming a chair after a donor obviously lacks the panache that comes with giving money for a major construction project and seeing your name in large letters on a building.

One day, as I was jogging along the beautiful trails of the Borghese Gardens in Rome, I noticed busts of famous artists and scientists framing the paths. I'm not sure now, but probably because of my obsession with incentives, I was struck by the idea of creating a similar promenade on the Chapman campus. It would be flanked by busts of personages to represent the various disciplines of our endowed chairs and professorships, and by each bust we could name the donor whose money had made the position possible.

Our campus now has busts of Abraham Lincoln, Wolfgang Amadeus Mozart, George Washington, Ella Fitzgerald, Martin Luther King Jr., Adam Smith, and many others. Most recently, we had a public ceremony to celebrate the creation of a new chair in Italian studies. On the pedestal of an exquisite bronze bust of Giacomo Puccini is a plaque that also commemorates Paul and Marybelle Musco, whose donation made the chair possible.

In tough economic times, when both donors and institutions are suffering under fiscal constraints, the arsenal of monetary incentives will be limited. But market incentives can be as simple yet powerful as giving praise and public recognition to professors, staff members, students, and alumni.

Sunk costs. Those are expenditures that, once incurred, cannot be recovered. Sounds simple enough, but those costs are oh-so-powerful in administrative decision making.

Recently, in evaluating an academic program created several years ago, we reached a point where it became clear we had a failure on our hands. Students and faculty members weren't engaged or interested. The program lurched forward but had few prospects for real success. When our discussion turned to the possibility of ending the program, someone argued, "Yes, but what about all the money we've invested in this?"

That person was referring to sunk costs. But since these costs are "sunk," they should not be considered in evaluating whether to continue a program. Only its future prospects — both pro and con — are relevant.

Because of the long planning horizon for construction, the perceived benefits of a project often change during the time it takes to complete it. For example, we once spent close to \$1-million in architectural costs for a new classroom building. But by the time we were ready to break ground, we had come to the conclusion that we really needed a new student union more than a classroom building.

The \$1-million was already spent and, so, not directly relevant to forward-looking decisions. Let's say, for example, that the total cost (including architectural fees) for either the classroom building or the student union was \$10-million. In deciding between those projects, the relevant cost for the student union is \$10-million. But the relevant cost for the classroom building is \$9-million.

Clearly, an understanding of sunk costs is necessary for relevant cost-benefit analysis. In deciding what to do, presidents should not be swayed by sunk costs. The only relevant costs for decision making are the costs that would be incurred from the present to the future.

Price discrimination. Private colleges and universities are price discriminators. That is, they use tuition rates and grants as pricing tools to achieve certain quantitative and qualitative objectives. Tuition grants in the form of financial aid, for example, can be used to make a college experience more affordable. They can also be used in the form of academic or athletic scholarships to attract better-prepared students or star athletes.

Our ability to charge different net (after-grant) tuition rates to different students is to be contrasted with businesses in which everyone pays the same price for a particular product. For example, unlike higher education, most sellers of agricultural products do not have the ability to maximize revenues and shape customer profiles by charging different prices for such commodities. Commodity customers face the same stated market price and determine whether to buy or sell on the basis of it.

Many experts in the economics of higher education, however, argue that colleges and universities are losing their ability to effectively price discriminate. I made that argument myself in a November 2004 article I wrote in the *Journal of Higher Education Policy and Management* ("Is Higher Education Becoming a Commodity?"). In my research, I found that the ability to use price discrimination is declining at different rates for different types of institutions. I found that more-selective colleges had a greater degree of price-discriminating ability. That is consistent with economic theory which suggests that price discrimination is conducted more effectively when demand for a product or service does not vary much with price, which is certainly the case at selective institutions.

Strategically, the findings suggest that more-selective institutions will be better able to price tuition and grants at relatively high levels. Less-selective colleges would be better off with a low tuition and grant strategy.

At Chapman, recognition of that relationship helped us to significantly increase student selectivity. Not only would the recruitment of better-prepared students improve the intellectual life on the campus, but it would also place us in a stronger market position. As our selectivity increased — moving steadily upward from a "student selectivity" rank in *U.S. News & World Report* of 92 out of 112 Western master's universities in 1991, to a rank of 2 out of 127 campuses in 2008 — so did our net tuition. We found that being more selective made it possible for us to increase tuition at a faster rate than the rate at which we increased financial aid. In contrast, less-selective institutions generally have to give most of their tuition increases back in the form of scholarships and tuition grants, resulting in no increase in net tuition revenue.

Those are but a few examples of how economics can be used to inform administrative decision making in academe. I could go on. But there is something else I know about economics, in addition to its usefulness in decision making: The human mind is capable of absorbing only so much economics at one time. So let me end here before the dismal science becomes even more dismal.

James L. Doti is the president of Chapman University.

WHAT IS ECONOMICS ANYWAY?

Every decade or so, the “Economist” Magazine publishes a list of the best young economists in the world. The most recent came on December 30, 2008 (pp. 58-60), http://www.economist.com/finance/displaystory.cfm?story_id=12851150. You might pay attention to these names, not only since some of them might be Nobel laureates one day, but also because their areas of research are suggestive of what economics is and where it is headed: They are Raj Chetty (Harvard), Esther Duflo (MIT), Amy Finkelstein (MIT), Roland Fryer (Harvard), Xavier Gabaix (NYU), Marc Melitz (Princeton), Jesse Shapiro (Chicago), Iván Werning (MIT). In summarizing their work, the “Economist” concludes with some following observations that touch upon nature and evolution of economics as a science:

“Over 60 years ago Paul Samuelson laid down “the foundations of economic analysis” in his seminal work of that name. In the introduction, he describes his dawning realisation of the underlying unity of the subject. As he laboured in each field—consumer behaviour, public finance, international trade, business cycles—he encountered similar problems, which yielded to the same set of mathematical techniques. Mr Samuelson’s book squeezed a shapeless body of economic knowledge into a tight corset.

In the decades since, the laces have been unpicked. It is not just that economists are nosing into new fields of social behaviour. They have been doing that at least since Gary Becker of the University of Chicago wrote about crime and the family in the 1960s and 1970s. But today’s economists show no great attachment to the rational model of behaviour that guided Mr Becker. Economic theory has become so eclectic that ingenious researchers can usually cook up a plausible model to explain whatever empirical results they find interesting. Economics is now defined neither by its subject matter nor by its method. What, then, unites these eight young stars and the discipline they may come to dominate? Economists still share a taste for the Greek alphabet: they like to provide formal, algebraic accounts of the behaviour they explain. And they pride themselves on the sophistication of their investigative methods. They are usually better at teasing confessions out of data than their rivals in other social sciences. What defines economics? Economics is what economists do—the best of them, anyway.”



CHECK IT OUT



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://gregmankiw.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 is always fun to see what Steve Levitt will come up with next. Look at his blog: <http://freakonomicsbook.com/>

One of my heroes, Maurice Obstfeld at Berkeley: <http://elsa.berkeley.edu/~obstfeld/>

Brad Delong, also at Berkeley, has one of the best economics websites around:
<http://www.j-bradford-delong.net/>



SPOTLIGHT ON...



Mike Neal

Michael Neal graduated from the University of Memphis in 1996 with a degree in Finance. He came back to earn an MA with us in Economics (1998). Since then he has gone on to a highly successful career at FedEx as a business strategist.

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

B.B.A. with a finance concentration; M.A. in economics—1996 and 1998, respectively.

What was your first job after graduation?

While I was in the economics program I started working at FedEx as an analyst in the Properties department. I was recruited to build planning models, forecasts cash flows and help optimize the real estate portfolio.

What is your current job?

I am a business strategist at FedEx Express. In short, I work in a small group that supports the executive and senior officer teams at FedEx Express in the development and execution of the company's strategy.

What do you like best about your job?

The opportunity to work across the enterprise on a wide range of strategic issues.

Why did you study economics?

I was always intrigued about economic development, or the lack thereof. I wanted to get an

in-depth understanding of why countries fail to develop even when they are rich in natural resources, so I studied economics.

What were some of your favorite courses or professors?

My entire experience in the economics program was superb. Advanced macro and micro were challenging courses but I learned a great deal. The History of Economic Thought was a very good course and introduced me to W. Arthur Lewis, one of the recipients of the Nobel Prize in economics in 1979 (his seminal work was in economic development).

How has having an economics degree benefited you?

Economics is a way of thinking. When you study it at a high-level you develop unmatched analytical and quantitative capabilities. These skills have been a tremendous benefit to me in being able to understand extremely complex issues and articulating what they mean.

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

Organizations (business, not-for-profit, and government) value people that can help them solve problems. Apply your training in economics to help organizations solve problems...and understand issues well enough so that you can communicate solutions to anyone at any level. If you can do this you will be successful.

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/>

CONGRATULATIONS

DEAN'S LIST - FALL 2008

COLLEGE OF BUSINESS ECON MAJORS

Whitney Baker
 Bethany Barranco
 Nolan Chantara
 Fatoumata Diallo
 Alyssa Espinoza
 Rex Gaines
 Curtis Gibbs
 Dean Griffin
 James Harris

Caroline Hemphill
 Julio Hernandez
 Lekesha Hoy
 Jerry Ivery
 Mark Jobe
 Xavier Jones
 Amanda Lockett
 Perry McManis
 Michael Nelson
 Jonathan Newport

Olena Nikolsko-Rzhevskia
 Chelsea Peterson
 Benjamin Reiner
 Chalina Seligson
 Jeremy Smothers
 Sarah Su
 Chiquita Thompson
 Nimrod Thompson
 Jessica Wargo

COLLEGE OF ARTS AND SCIENCES ECON MAJORS

DID YOU KNOW?
 The Department of Economics has a higher proportion of majors who are high-ability students than any department in the FCBE.

Joshua Cockerell
 Jorgen Ekdahl
 David Endicott
 Terrance Garrett
 Matthew Ludlow
 Caleb Moss
 Khallada Simpson
 Matthew Thomas
 Jeramia Trotter

- Top Five Reasons to Study Economics:**
5. You get the analytical skills that employers demand.
 4. More CEOs majored in Economics than any other discipline.
 3. Your friends/family will be impressed by how smart you are.
 2. The curriculum includes real- world projects.
- And the #1 reason:**
1. Economics has one of the highest starting salaries of any discipline.



SPOTLIGHT ON...



MATTHEW LUDLOW

Matthew Ludlow is a graduating senior, with a double-major in Economics and Philosophy. He is also a Staff Sergeant in the United States Marine Corps; he will be commissioned next spring.

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

I was born in Memphis, but spent 9 years of my childhood living with my family - I have a younger brother and younger sister - in Japan where our parents worked. Though we traveled back to the US periodically for visits during that time, we moved back permanently before my sophomore year in high school. I finished school at Germantown HS, and left for the Marine Corps shortly thereafter. My wife and I have been married for nearly five years, and we have a one-year-old son, Isaiah.

Tell us about your military career

Since joining in 2000, I've been stationed North Carolina and Okinawa, Japan. My deployments include Operation Iraqi Freedom in 2003 at the beginning of the war. I am currently participating in the Marine Enlisted Commissioning Education Program (MECEP) in order to earn an associate degree and a commission. I attended Officer Candidate School in the summer of 2007 as part of the requirements for commissioning. I am currently a Staff Sergeant, and look to commission in May upon graduation.

What made you want to become an economics major?

I took Dr. Doug Campbell's Principles of Microeconomics and thought it was one of the most fascinating things I had ever learned. A systematic discipline that explains the underlying current of how and why we make certain decisions seemed to compliment my other major - philosophy - perfectly. One of the key assumptions in economics - that consumers are *rational* agents - is complimented by the philosophical question, what is rationality in the first place? It's all very interesting.

What has been your favorite course(s)?

I've really enjoyed just about every aspect of the economics courses I've taken thus far (8 courses). But my favorites have been Dr. Smith's Macroeconomic Theory, International Monetary Theory, and Dr. Heath's Economics of Sports (though I discourage anyone from taking this course if you'd like to continue believing that everyone's in it "for the love of the game"!). I also did an extremely interesting independent study with Dr. Campbell this past summer on the bursting of the Japanese asset price bubble in the 1980's and their subsequent decade long recession.

What do you plan to do over the next few years?

Upon graduation and commissioning in May, I will be attending a few follow on Marine Corps schools before returning to the operational Marine forces. I incurred an additional four years of obligated service as a part of this program I'm in, so once I've completed that time, I will have over 13 years in the Marine Corps. Provided things are still going well for my family and me, I'll most likely stay in until retirement.

Why do you think studying economics is important?

I'm of the opinion that a basic course in economics and philosophy should be a requirement for all students - but of course, I'm a little biased! As consumers, it seems imperative that we have a basic understanding of the system in which we operate when we buy and sell things. I remember Dr. Campbell saying on the first day of Principles of Micro that "if you take anything at all from this course, you must understand the concept of 'opportunity cost.'" The ability to understand the full "economic costs" and the incentives that motivate us to make certain decisions seems fundamental to our roles as not only consumers, but also as citizens and voters. The same holds true, of course, for philosophy - learning how to think and analyze about the way you think and analyze seems to me to be just as crucial of a life skill (pardon the plug for my other major!).

DIEGO NOCETTI

We are proud to announce that one of our PhD graduates, Diego Nocetti, has just received a prestigious international award for his research. Last year he published a paper called "Properties of the Social Discount Rate in a Benthamite Framework with Heterogeneous Degrees of Impatience" in the top-level journal *Management Science* (volume 54, number 10). This paper has just been named the "Best Article" in a contest on European research on Finance and Sustainable Development sponsored by the Forum for Responsible Investment (well, ok, I'm translating all that from the French). The award comes with a prize of 5000 Euros, and his article got a write-up in the French newspaper *Le Monde*. Congratulations Diego!

The Koch Associate Program: Great Job Opportunities in the Non-Profit Sector

The Charles G. Koch Charitable Foundation is now accepting applications for the 2009-10 Koch Associate Program. This is a very selective career opportunity for bright, talented young professionals who are interested in pursuing a career advancing the ideas of a free society.

The **Koch Associate Program** is designed to help individuals develop the knowledge, skills, and experience necessary for a successful future with free-market think tanks, policy institutes, or other non-profit organizations. During the year-long program, each Associate works in a full-time, competitively paid position, while also receiving valuable management training. One day each week is spent in a seminar setting at the Foundation, where the Associates engage in reading discussions and group projects, network with their peers, listen to guest speakers, and learn how to apply Market-Based Management[®] in a non-profit setting through interactive exercises and workshops. This unique format provides the Associates with both the practical work experience and developmental instruction that will benefit their professional careers moving forward.

There are many positions still available for next year's program, including roles working in policy research and analysis, non-profit operations, communication and public relations, management, business development, and new media.

Associates range in experience from recent graduates to those with up to ten years of work experience, and they come from diverse fields and academic majors. To apply for the program, visit: www.cgkfoundation.org/associate-program, and click on the link titled "Application Requirements." The application deadline is March 16, 2009.

INCREASE YOUR MARKETABILITY!

University of Memphis students have a unique opportunity to increase both their chances of getting a job and their starting salaries. The University has the only undergraduate SAS Certificate Program in the country. SAS is a programming language that many local (and national employers) use. Obtaining a Certificate only requires two courses (and a basic statistics prerequisite) and will enhance your employment (or graduate school) prospects. For Economics students, one of these courses (4530) will count as an elective. This is an outstanding opportunity for Economics students to supplement the analytical skills they already receive. Employers look for individuals who can think critically. Adding this Certificate to your resume gives you a decided edge in this competitive environment. For additional information, see the brochure at <https://umdrive.memphis.edu/g-aatech/public/sas-brochure.pdf>.

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