

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 2010

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FROM THE CHAIR

It has been a busy semester for the Department of Economics, so I have a lot to report.

The State requires that all academic programs that are not evaluated by an external accrediting body (such as AACSB) must undergo periodic external peer evaluations. This semester our BA and MA programs were evaluated by two external reviewers, Dr. Raja Kali of the University of Arkansas, Fayetteville and Dr. Christopher Kilby of Villanova University. They visited us in early April and recently submitted their written report. I am happy to say both our BA and MAs programs passed with flying colors. They report that "... the Department has accomplished tremendous things with very limited resources," but they add that in order to maintain this trajectory we will need to be allowed to replace faculty who retire or leave. I think this assessment is exactly on target and hope that it will help us receive the resources we so desperately need.

Speaking of retirements and departures, I regret to mention two. Dr. K.K. Fung has just announced his decision to retire. Dr. Fung has been at the University of Memphis for 35 years and has touched the lives of generations of students. Dr. Pinaki Bose is going on leave to the University of Manitoba for a year. He is the mainstay of our graduate courses in microeconomic theory. Both will be sorely missed.

On a more pleasant note, I would like to mention some of the accomplishments of the Department this year. Dr. Julie Heath and Dr. Doug Campbell have resuscitated the Giffen Club, the economics club for undergraduate majors. Dan Albright, one of our most gifted majors, is the new President of the Club. Dr. Heath is replacing Dr. Fung as Faculty Coordinator for Omicron Delta Epsilon, the economics honor society.

Dr. Heath has just been awarded the University's Distinguished Teaching Award. This is very prestigious but only one of many teaching awards with which she has been honored in the College, the University, and nationally. Dr. K.K. Fung, Dr. Doug Campbell and Dr. Albert Okunade were finalists for the University's Distinguished Teaching Award. This means that the Department has now garnered *nine* major teaching awards or nominations in the last three years alone. Dr. Okunade was also nominated for the University's Distinguished Research Award.

Our graduate students are also doing very well. Debjani Kanjilal and Deepraj Mukherjee are both finishing their dissertations. We wish them the best on the job market. As an indication of the quality of the research of our PhD students, Sophia Pacurar received first prize in this year's Graduate School Fair, while Debjani Kanjilal received second prize. Thanks to the efforts of Debjani, Omicron Delta Epsilon earned 3rd place in the "Show the Promise" Competition for Best Table at Fogelman Promise Day.

At the Omicron Delta Epsilon luncheon this year we were proud to recognize some of our best students. Wei Wei Chen was named Best Graduate Student while Thierry Nianogo and Jay Walker shared the Tuckman Fellowship for PhD students. Cameron Hoffmeyer and Dean Griffin shared our Best Undergraduate Student Award. By the way, Cameron and Dean were two of only three students in the entire University to graduate with a GPA of 4.0 this year.

Kudos to everyone! Have a great summer - relax and enjoy. We look forward to the fall semester.

Dr. William T. Smith, Interim Chair

In the News

Which Came First—Democracy or Growth?

This article was adapted from "Which Came First—Democracy or Growth?," which was written by Ruben Hernandez-Murillo, senior economist, and Christopher J. Martinek, senior research associate, both of the Federal Reserve Bank of St. Louis, and was published in the April 2008 issue of The Regional Economist, a St. Louis Fed publication.

In today's world, most rich countries are democratic, and most dictatorships are poor. In the United States, democracy goes hand in hand with political institutions that promote economic freedom.

However, democratic governments, even in rich countries, often enact redistributive policies that reduce economic freedom and that are harmful to economic growth. Therefore, although most economists agree that economic freedom promotes growth, it is not clear that more political freedom (that is, more democracy or political rights) improves economic performance.

What Factors Create Economic Growth?

Economic growth is primarily a result of the accumulation of both physical capital and human capital. The accumulation of capital is affected by public policies, which, in turn, depend on the political institutions that are in place. In a classic study, Robert Barro explained that because citizens express their approval or disapproval when they vote, democratic institutions provide checks on government power that impose limits on politicians' ability to amass wealth and enact unpopular policies. These constraints, he noted, help improve economic freedom. On the other hand, authoritarian governments may also improve economic freedom as a matter of policy, without the need of institutional limits such as those provided by a democracy.

In a study of about 100 countries from 1960 to 1990, Barro found that at low levels of political freedom, an increase in political rights might enhance economic growth by imposing limits on government. But he noted that in countries that have already achieved medium levels of democracy, further increases in political rights might slow growth because of growing concerns about income redistribution. Barro's conclusion that the overall effect of democracy on growth is slightly negative continues to be challenged by alternate views.

One alternate view suggests that the adoption of democracy—or, more generally, of political institutions that impose checks and balances on the government—promotes investment in physical and human capital and, therefore, growth. In contrast, a second view suggests that reaching a certain level of economic development is what allows countries to adopt better institutions.

Do Political Institutions Promote Growth?

A study that supports the view that political institutions promote economic performance found a strong relationship between a measure of protection against government expropriation (as a measure of political institutions) and economic performance (measured by real income per capita) across a large sample of countries. The study looked at two types of colonization strategies that led to different types of political institutions.

The first strategy was the creation of extractive states. In these colonies, the main goal was to transfer much of the resources of the colony to the European power. Institutions created in these colonies did not provide much protection of private property and did not impose checks against government expropriation. Examples of this were the Spanish colonies in Mexico and Latin America, and the Belgian colonization of the Congo.

In the second colonization strategy, European settlers migrated in large numbers and created institutions that replicated those in their home country. These institutions emphasized the protection of private property and checks against government expropriation. Examples of these were Australia, New Zealand, Canada and the United States. The types of institutions adopted in the early stages of either colonization strategy lasted even after the colonies became independent.

Which Came First—Democracy or Growth? (cont.)

Or Does Economic Growth Stimulate Democracy?

The second view is that it is economic growth that stimulates democracy or the adoption of better institutions. Supporters of this view make the point that the accumulation of human capital is a more important determinant of economic growth than political institutions. Supporters of this belief studied a large set of countries in the period from 1960 to 2000, classifying them in four categories: autocracies, imperfect autocracies, imperfect democracies and stable (or perfect) democracies.

In 2000, nearly all countries with high levels of education were classified as stable democracies, and nearly all stable democracies were highly educated. In contrast, nearly all countries run by dictators were poorly educated. In addition, as education levels increased, democracies were more common, though many were imperfect. In 1960, most of the poor countries in terms of growth were run by dictators. In the four decades that followed, the growth rates among poor countries varied, and some of them managed to get out of poverty while still being run by dictators.

Supporters argue that this evidence suggests that it was not limits on dictators imposed by institutions that led to growth, but rather that dictators chose policies that provided security of property rights to foster investment in physical and human capital—which then led to growth. The study mentions China as an example of a dictatorship in which economic growth has been the result of favorable policy choices and not of institutional limits on the government.

The Debate Continues . . .

The debate about whether democracy and political institutions generate growth or whether economic development leads countries to adopt better institutions is likely to continue. In any event, fundamental features of Western economic systems, such as free markets and the importance of securing private property rights, seem to be safe bets for economies seeking economic growth.

Kyle Carlson, BA Econ Alum. Kyle has been working as a research associate for the Federal Reserve Bank in Boston. This is a highly competitive position and Kyle was chosen from a pool of candidates that included economics graduates from across the country. Kyle received the Outstanding Undergraduate Student Award from the Department in spring, 2007 and received his BA degree in December of 2006. This year he applied for and received an NSF fellowship that provides him with full funding at any graduate program of his choice. Kyle has offered to provide some pointers to our students.

My advice to U of M students who are thinking of getting a PhD in economics:

Many of the applicants to the top programs have a double major in economics and math. Do this. If you are doing a BA (rather than BBA) in economics, this will be easier because both of your majors will be in the same college. If you don't want to do a double major, at least take 2 semesters of linear algebra plus real analysis (this implies their prereqs). Tsz Ho Chan in the math department teaches both of these courses and is a very rigorous, challenging, and dedicated professor. Some of the top researchers in graph theory are at the U of M, so one idea is to study that field and work on modeling networks.

Take PhD micro and econometrics if possible.

You should definitely apply for the NSF Graduate Research Fellowship. This is an important signal of seriousness. Geographic diversity is supposed to be one objective (among many more important ones) of the NSF. Thus, applicants who attend school in Tennessee or another underrepresented area may have a small advantage at the margin.

Is there a penalty for coming from the University of Memphis (or, more generally, any school with an unranked economics department)? I know other people (who attended top 20 economics programs for undergrad) who applied this round with similar coursework, grades, GRE scores, and research experience. Our results were comparable.

Learn Stata and get some research experience as an undergrad. One good way to do this: do a senior thesis, which is de rigueur for your competitors coming from top ranked programs.

Find someone else who is interested in going to grad school and work together to maintain your motivation.

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

ECON 3021

MW 5:30 p.m-6:55 p.m.

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.

Economics of Ecology —

ECON 3024

TR 1:00-2:25

Examines the market system of resource allocation in the larger context of the natural world and ecological system. The course is writing intensive and involves written exams, homework assignments and a term paper. This class is taught by Dr. Doug Campbell

Economics of Sports — ECON 3123

TR 9:40-11:05

Is equal team playing skill the talent distribution that maximizes fan welfare? Does the player draft system help to equalize team playing strengths? What is the rationale for cities building stadiums at tax payer expense and renting them to teams for \$1? Elevate your sports expertise beyond "bar talk" and be able to analyze sports analytically. Taught by Dr. Julie Heath.

Intermediate Microeconomic Theory

ECON 3310

TR 11:20-12:45

Learn more about how individuals and firms make optimal decisions, especially with respect to resource allocation. Emphasis on application of economic analyses to public policy issues. This is a required course for majors, offered every fall. The prerequisite is principles of microeconomics. This class is taught by Dr. Hussey.

Money and Banking — ECON 3610

T 5:30-8:30

What is the relationship between the central banks and the other banks in the U.S.? Outside of the U.S.? How do the deposits and earnings operations of banks fit into the larger economy? This class is taught by Mr. Ed Gentry, the Executive Vice President of Triumph Bank. Principles of Macroeconomics is the prerequisite.

Intl Monetary Theory and Policy — ECON 4351

TR 11:30 - 12:45

Open economy macroeconomics; examination of payments among nations, foreign exchange markets, determinants of exchange rate policies; national income and foreign exchange, internal and external balance and international factor movements. Taught by Dr. Bill Smith.

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/>



SPOTLIGHT ON...



Bryan Winter

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

In May 2006, I graduated summa cum laude with a B.B.A. from the business school and a major in economics.

Why did you study economics?

Having done well in intro to macroeconomics, I received a letter from Dr. Heath, who was the Department Chair of Economics at the time. I was undecided my first semester, but her letter made such an impression that I decided to declare economics as my major. I never changed my major afterwards.

What are you studying in graduate school?

I am a PhD candidate in statistics at the University of Memphis, Department of Mathematics.

Why did you choose to study statistics in graduate school?

I chose statistics due to a simple Supply and Demand analysis. My junior year, I took ISDS 3711 (Analytical Business Tools) and it seemed like I was the only student there who was enthusiastic about being there. From a labor supply side, I realized many people hate statistics, even the mention of it. So there should be a short supply of statisticians. Nonetheless, employers need statisticians for making decisions in the face of uncertainty. Thus, there should be a healthy demand for statisticians. These are perfect ingredients for a career earning a high income. My research later confirmed that statisticians do make good money due to a short supply and high demand, especially in the medical/pharmaceutical industry. Furthermore, I have yet to read an interview of a statistician who regretted his/her career choice. Rather, all the interviewees emphatically declare that it was one of their best decisions, citing that their career is rewarding and involves always learning something new.

What do you plan to do after you finish graduate school?

Obtain a well paying job and raise a family.

Tell us about your family.

I married my college sweetheart, Julie, after I completed my undergrad. She is an award-winning nurse at St. Jude Children's Research Hospital. In 2009, she won the Daisy award for outstanding nursing care. She is also an award-winning wife to me and mother to our newborn son, Colin. Being a father and husband are two of the most humbling and rewarding experiences I have had thus far.

How has an economics degree benefited you?

My training in this subject has been crucial to my personal development. The concept of supply and demand helped me make my career choice to study statistics. Analysis of short term and long term effects of my personal decisions helps me to realize possible unintended consequences. Considering my opportunity cost reminds me what I am giving up if I choose to do decision X. Perhaps, every day I use some concept that I learned from my training in economics. It has transformed my way of thinking.

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

If you are interested in statistics or econometrics, begin using your electives to take Calculus I, II, III, intro to linear algebra, linear algebra, intro to probability, and intro to statistics. Utilize the double major option in math and economics that Dr. Heath helped create for econ majors. Take the SAS courses offered by the econ department and the math department. Pass the SAS Certified Base Programmer Exam—employers love seeing this on resumes. Google and apply for Summer Institute for Biostatistics (SIBS) before you graduate. If you get accepted, the room, board, and travel are all paid for. I went the University of Wisconsin for the summer, learned a lot, and had a blast! Seriously, check it out! Also, consider becoming a student member of the American Statistical Association. They maintain valuable information about the career opportunities for and salaries of statisticians.

Finally, one thing I wish I did as an undergrad was look up the academic interests of the econ faculty, pick out the professors whose interests appealed to me, then go ask them if there was anyway I could help them in their research.

CONGRATULATIONS

ODE Honor Society Inducts

New Members

The following students were inducted into Omicron Delta Epsilon, the honor society in economics at the annual ODE luncheon on April 14, 2010:

Jane Gullet
Jacob Ryan Mantooth
Terrance K. Garrett
Tarah Kerr

Michael Tyler Nelson
Amanda Luckett
Justin Robert Wright

Undergraduate students must have an overall GPA of 3.0. In addition, students must have a 3.0 average in at least 12 hours of economics courses. Graduate students must have at least 9 hours of economics overall and a 3.0 average.

PAY IT FORWARD!



STUDENTS FROM DR. K.K. FUNG'S INTRO TO MICRO CLASS

The students in Dr. Fung's ECON 2120 class saved almost \$6,000 collectively by using a free online textbook written by Professor Fung, "LIVEconomics". They decided to "pay it forward" and collected enough money to donate \$200.00 to three different charities. The Make a Wish Foundation, LeBonheur, and Memphis Athletic Ministries are the charities that benefited from their generosity. They hope their donations will encourage other students to be equally generous to their favorite charities.



SPOTLIGHT ON...



Daniel Albright Econ Major

Tell us about your life. Where did you grow up? What have you done? Where have you been?

I was raised and still live in Memphis, Tennessee. Before now I'd been pursuing a computer science degree while working in IT in both systems and networks. Before school, I also ran my own technology consulting, media design, and branding firm. I am also avidly interested in volunteer work and politics which includes working for then U.S. Senator Fred Thompson of Tennessee. I've worked in Washington, D.C. and Boston; but San Francisco is where I hope to end up for at least some modicum of time in my life after visiting last year. As of now I'm a network engineer at Hilton and attend the University of Memphis full-time.

What made you want to become an economics major?

It was the financial crisis and the ensuing election that spurred me to go ahead and take my principles courses to understand what was happening and why. While it may have been more for personal reasons at the time, the insights I gained from those classes made me realize that this is bigger than just you or me. This affects everybody at every level. We are still struggling to understand it. It's a deep, contentious, and exciting field and I could easily see being eighty and still trying to wrap my head around economic theories old and new.

What have been your favorite courses?

All of them! We are really lucky as a department to have the professors we do. I have especially enjoyed Dr. Gootzeit's History of Economic Thought and Dr. Smith's Macroeconomic Theory.

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

I'll be finishing undergrad and likely be pursuing my masters in economics while producing research during both.

Why do you think studying economics is important?

No subject seems to bring debate and spark passions like economics which indicates to me that as a science, it's still relatively young. Think of what we know so far and how big of an impact it has already had on mankind. Then think of what we have yet to discover in this field and the further exponentially larger impact. What could be more important than that?

Econ Students Score Higher on LSAT and GMAT!

A recent study by the National Institute of Education looked at the scores of 550,000 students who have taken the LSAT and GMAT over the last eighteen years. It shows that economics majors score substantially higher on these exams than do other majors. The two columns on the right show the percentage deviation of the average score for that major from the average score of all students taking the test.

Major	LSAT	GMAT
Mathematics	+12.8%	+13.3%
Philosophy	+8.7%	+11.0%
Economics	+9.6%	+7.3%
Chemistry	+7.6%	+7.5%
English	+5.6%	+4.1%
Foreign Languages	+5.7%	+3.3%
History	+2.9%	+ 4.6%
Biology	+4.0%	+3.3%
Psychology	+0.9%	+0.8%
Political Science	-1.6%	+ 0.6%
Arts & Music	-0.5%	-1.2%
Business	-4.5%	-0.8%
Sociology	-7.0%	-5.0%
Education	-8.7%	-4.2%