

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

SPRING 2012

FROM THE CHAIR

FACULTY AT A GLANCE:

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

Dr. Cyril Chang
Room 312
cchang@memphis.edu

Dr. Michael Gootzeit
Room 419
mgoot@memphis.edu

Dr. Andrew Hussey
Room 423
ajhussey@memphis.edu

Dr. David Kemme
Room 405
dmkemme@memphis.edu

Dr. Albert Okunade
Room 450
aokunade@memphis.edu

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

A team of MBAs (Tim Xi, Laura Gardiner, Elizabeth Darling, Dan Maltby, and Bradley Heill) coached by Dr. Albert Okunade went to Virginia to compete in the 2012 Hilton Honors MBA Case Competition. Our team competed with teams from George Washington University, Georgetown University, the University of Virginia, and the University of Maryland.

One of our most brilliant majors, Terrance Garret, graduated last year and has started law school at Harvard. He intends to specialize in environmental law, where his training in economics will be indispensable.

Two of our PhD students are off to flying starts. Michael Jetter has started as an Assistant Professor at the University of Medellin, in Columbia – a fine school that is aggressively hiring promising young researchers. Greg Lubiani has just accepted a position at Xavier University in Cincinnati, OH. Xavier is an excellent liberal arts school. Greg has just had his first paper accepted by an academic journal, *Health Economics*.

Our faculty also had a productive year of research. Dr. Cyril Chang published a paper in *Health Services Research*. Dr. Andrew Hussey published three papers, in the *Journal of Economic Behavior & Organization*, the *Journal of Human Resources*, and the *American Economic Review: Papers & Proceedings*. Dr. David Kemme – our Chair of Excellence in International Economics – published papers in the *Review of International Economics*, the *Southern Economic Journal*, and *Economics Letters*. Dr. Alex Nikolsko-Rzhevskyy published two papers in the *Journal of Money, Credit & Banking* and another in the *International Journal of Forecasting*. Dr. Albert Okunade published several papers. Finally, Dr. Bill Smith had papers in the *Journal of Money, Credit & Banking* and the *Journal of Economic Dynamics & Control*.

We have always been known for our strength in health economics and this was evident last year, when the Department and the Fogelman College were asked to host the Southeastern Health Economics Study Group. This is a prestigious conference that attracts top-notch researchers in health economics from all around the country. The conference last October was held here and was organized by Dr. Albert Okunade.

We are known for our service as well as our teaching and research, however. Dr. Albert Okunade, in particular, has long shouldered multitudinous responsibilities for the Department, College, University, and community. Recently, he has been conspicuously active in resuscitating the Honors Program of the Fogelman College. Last fall he was named a Suzanne Downs Palmer Professor in recognition for his outstanding service.

We are going through a lot of changes, some bad and some good. On the down side, Dr. Julie Heath is leaving us to take over the Center for Economic Education at the University of Cincinnati. This is the largest, most influential center in the country, and we are happy for Julie. However, she is a nationally recognized educator, and we will miss her. On the up side, Dr. Douglas Campbell – also a brilliant teacher – is stepping into Dr. Heath's shoes to run our Center of Economic Education. We congratulate him on taking on such an important job. Also, we are losing two of our Visiting Assistant Professors. Dr. Ed Hoang has accepted a tenure-track position at the University of Colorado in Colorado Springs. Dr. Sanjeev Kumar is going to Yale University as a post-doc. They are both starting exciting new phases of their careers, and we wish them the best.

We are also delighted to report that we have hired two new Assistant Professors. Dr. Carmen Astorne Figari just finished her PhD at Washington University in St. Louis. Her dissertation was entitled "A Game Theoretic Interpretation of Behavioral Economics," which locates her work at the intersection of two of the most exciting areas in economics. She will be offering a new undergraduate course in Behavioral Economics next spring.

Dr. Joon Lee earned his PhD at the University of Texas at Austin. He has been working as a Visiting Professor at Southern Methodist University. His specialty is international trade and he is doing some fascinating work on how culture affects the organization and productivity of multi-national firms. He will take over the undergraduate course in International Monetary Theory & Policy next fall.

Last but not least, our department secretary, Janis Lamar, has just been honored with the Fogelman College's Service Award. Ms. Lamar has been helping all of us, students and faculty, for years. She is indispensable. However, not all of you may realize what a big shot she is: She was honored with the University's Outstanding Employee Award in 2007 and then again in 2010. In 2011 she received the Distinguished Employee of the Year Award, the single most prestigious award that the University offers for staff members.

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

Dr. William T. Smith, Chair

In the News

Here is a perfect example of the pernicious effects of price controls, from the *New York Times*. It complements wonderfully the discussion of price controls in any Principles of Economics text. Bill Smith

With Venezuelan Food Shortages, Some Blame Price Controls

By WILLIAM NEUMAN Published: April 20, 2012 in the New York Times

<http://www.nytimes.com/2012/04/21/world/americas/venezuela-faces-shortages-in-grocery-staples.html? r=1>

CARACAS, Venezuela — By 6:30 a.m., a full hour and a half before the store would open, about two dozen people were already in line. They waited patiently, not for the latest iPhone, but for something far more basic: groceries.

“Whatever I can get,” said Katherine Huga, 23, a mother of two, describing her shopping list. She gave a shrug of resignation. “You buy what they have.”

Venezuela is one of the world’s top oil producers at a time of soaring energy prices, yet shortages of staples like milk, meat and toilet paper are a chronic part of life here, often turning grocery shopping into a hit or miss proposition.

Some residents arrange their calendars around the once-a-week deliveries made to government-subsidized stores like this one, lining up before dawn to buy a single frozen chicken before the stock runs out. Or a couple of bags of flour. Or a bottle of cooking oil.

The shortages affect both the poor and the well-off, in surprising ways. A supermarket in the upscale La Castellana neighborhood recently had plenty of chicken and cheese — even quail eggs — but not a single roll of toilet paper. Only a few bags of coffee remained on a bottom shelf.

Asked where a shopper could get milk on a day when that, too, was out of stock, a manager said with sarcasm, “At Chávez’s house.”

At the heart of the debate is President Hugo Chávez’s socialist-inspired government, which imposes strict price controls that are intended to make a range of foods and other goods more affordable for the poor. They are often the very products that are the hardest to find.

“Venezuela is too rich a country to have this,” Nery Reyes, 55, a restaurant worker, said outside a government-subsidized store in the working-class Santa Rosalía neighborhood. “I’m wasting my day here standing in line to buy one chicken and some rice.”

Venezuela was long one of the most prosperous countries in the region, with sophisticated manufacturing, vibrant agriculture and strong businesses, making it hard for many residents to accept such widespread scarcities. But amid the prosperity, the gap between rich and poor was extreme, a problem that Mr. Chávez and his ministers say they are trying to eliminate.

They blame unfettered capitalism for the country’s economic ills and argue that controls are needed to keep prices in check in a country where inflation rose to 27.6 percent last year, one of the highest rates in the world. They say companies cause shortages on purpose, holding products off the market to push up prices. This month, the government required price cuts on fruit juice, toothpaste, disposable diapers and more than a dozen other products.

“We are not asking them to lose money, just that they make money in a rational way, that they don’t rob the people,” Mr. Chávez said recently.

But many economists call it a classic case of a government causing a problem rather than solving it. Prices are set so low, they say, that companies and producers cannot make a profit. So farmers grow less food, manufacturers cut back production and retailers stock less inventory. Moreover, some of the shortages are in industries, like dairy and coffee, where the government has seized private companies and is now running them, saying it is in the national interest.

In January, according to a scarcity index compiled by the Central Bank of Venezuela, the difficulty of finding basic goods on store shelves was at its worst level since 2008. While that measure has eased considerably, many products can still be hard to come by. Datanálisis, a polling firm that regularly tracks scarcities, said that powdered milk, a staple here, could not be found in 42 percent of the stores its researchers visited in early March. Liquid milk can be even harder to find.

In the News

With Venezuelan Food Shortages, Some Blame Price Controls (continued)

Other products in short supply last month, according to Datanálisis, included beef, chicken, vegetable oil and sugar. The polling firm also says that the problem is most extreme in the government-subsidized stores that were created to provide affordable food to the poor.

But with inflation so crippling, many shoppers at those stores said the inconvenience was worth it. “It’s an enormous help,” said Ana Lozano, 62, a retiree who takes in ironing to supplement her pension, who was waiting outside the Santa Rosalía grocery. “That’s why there’s such a long line.”

The government appears keenly aware of the twin threats of shortages and inflation as it prepares for [the October election](#) in which Mr. Chávez is seeking a new six-year term. The price controls have been defended in government advertisements and accompanied by repeated threats from Mr. Chávez to nationalize any company that cannot keep its products on the market.

Vice President Elías Jaua has warned of a media campaign to frighten Venezuelans into hoarding, which would provoke artificial shortages. Government advertisements urge consumers not to succumb to panic buying, using a proverbial admonition: Bread for today is hunger for tomorrow.

Francisco Rodríguez, an economist with Bank of America Merrill Lynch who studies the Venezuelan economy, said the government might score some political points with the new round of price controls. But over time, he argued, they will spell trouble for the economy. “In the medium to long term, this is going to be a disaster,” Mr. Rodríguez said.

The price controls also mean that products missing from store shelves usually show up on the black market at much higher prices, a source of outrage for many. For government supporters, that is proof of speculation. Others say it is the consequence of a mis-guided policy.

Emilio Ortiz, 52, a shop owner, said he could buy sugar and powdered milk from his distributors only once last year. He gets cooking oil once a month, but only about half of what he requests. He also said that profits were so low on controlled products that he must raise other prices to compensate.

One of his customers asked if the store had Harina Pan, which is considered the quintessential local brand of flour to use in making arepas, the signature corn cakes that are a staple of the Venezuelan diet. “There isn’t any,” Mr. Ortiz said. It would be like an American store not having any Coca-Cola. The customer asked if other stores nearby carried it. “You can’t find it,” Mr. Ortiz said glumly.

If there is one product that Venezuela should be able to produce in abundance it is coffee, a major crop here for centuries. Until 2009, Venezuela was a coffee exporter, but it began importing large amounts of it three years ago to make up for a decline in production.

Farmers and coffee roasters say the problem is simple: retail price controls keep profits close to or below what it costs farmers to grow and harvest the coffee. As a result, many do not invest in new plantings or fertilizer, or they cut back on the amount of land used to grow coffee. Making matters worse, the recent harvest was poor in many areas.

A group representing small- to medium-size roasters said last month that there was no domestic coffee left on the wholesale market — the earliest time of year that industry leaders could remember such supplies running out. The group announced a deal with the government to buy imported beans to keep coffee on store shelves. Similar problems have played out with other agricultural products under price controls, like lags in production and rising imports for beef, milk and corn.

Waiting in line to buy chicken and other staples, Jenny Montero, 30, recalled how she could not find cooking oil last fall and had to switch from the fried food she prefers to soups and stews.

“It was good for me,” she said drily, pushing her 14-month-old daughter in a stroller. “I lost several pounds.”

María Eugenia Díaz contributed reporting.

MEMPHIS
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 BUSINESS

Intermediate Microeconomic Theory ECON 3310

TR 2:40 - 4:05

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.

Economics of Ecology

ECON 4230

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

After the Deluge: Economics After the Financial Crisis of 2007-2010
 ECON 4761 -Online course

The course presents a brief historical background to the Great Meltdown of 2008 and then offers an alternative perspective for understanding the crisis. Taught by Dr. John Komlos, Professor Emeritus of Economics, University of Munich.

Intl Monetary Theory and Policy —
 ECON 4351

TR 11:20 - 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. Joon Lee

Topics in Macroeconomics
 ECON 4762

MW 12:40-2:2:05

This course is a sequel to Intermediate Macro, ECON 3320. After a quick review of the basic models, it will explore more advanced issues in macroeconomics including long-run growth, the microeconomic foundations of saving and investment, a dynamic model of aggregate demand and supply and time consistency and policy games. Taught by Dr. Bill Smith

Econometrics
 ECON 4820

MW 2:20 - 3:45

Introduction to statistical procedures used to estimate and test quantitative economic theories, using microcomputer software for regression analysis.

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...

Timothy Swanson *Alumnus*



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

Master of Arts in Economics, 1995

What was your first job after graduation?

Market Researcher

What is your current job?

Forecasting Analyst at ConAgra in Naperville, IL.

What do you like best about your job?

Sales and forecasting analytics regarding consumer consumption trends and the interaction with various colleagues across numerous departments

Why did you study economics?

I simply enjoyed reading economic theory in undergraduate school. The graduate program in Economics at the University of Memphis gave me the knowledge base to apply the theory to the real world. This only gave me more appreciation for the field.

What were some of your favorite courses or professors?

Favorite courses – Macroeconomics, International Economics, History of Economic Thought.

Favorite Professors – I enjoyed all the professors. They all had passion for teaching and brought excitement to the classroom.

How has an economics degree benefited you?

An economics degree from an employment standpoint has benefitted me because it provided me the framework to think analytically. It gives you the ability to analyze the details, while conveying the big picture.

An economics degree from a personal standpoint has benefitted me because it allows me to understand the key indicators that impact my financial security.

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

Major in economics because you enjoy it.

Do not be intimidated by the field. Take a course you will be amazed that an intro to macroeconomics can help you understand the Wall Street Journal, Squawk Box, etc. and you can relate it to how it impacts your daily life.

If you take an econ course and need help, reach out to the professor. The professors at the University of Memphis care and want you to succeed in understanding economics and equally important, they have the passion and willingness to help.

Try and take a course that offers learning statistical/forecasting software.

In relation to #3, try and get an internship in a company that you enjoy the product lines and also can learn a statistical/forecasting application.

An economics degree is invaluable in corporate America, Government, and teaching.



Alumnus Tim Swanson's license plate

CONGRATULATIONS

Carlisle Jasper and Amy Donaghey were named our Outstanding Undergraduate Students in Economics this year. Denba Fofana and Stephanie Steinberg were named our Outstanding Graduate Students. Weiwei Chen was awarded the Barbara Tuckman Fellowship.

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...



Jobu Babin ***Econ Major***

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

I am a resident of rural Lauderdale County, Tennessee and manage a 45-acre family farm property for a living. I was born in California; my father was working in academic medicine around the time I was in high school and moved us to Memphis. I have lived in the mid-south most of my life, although I have travelled extensively. My father is still a practicing physician in town and my brother is an MBA student at USC.

I am a certified executive chef and sommelier and my dishes have been featured in national media. In my first life, I managed successful kitchens domestically and in Europe, authored corporate training manuals, and consulted, specializing in upscale-casual dining establishments.

Before my mother passed, she convinced me I was not particularly happy (apparently, I prefer to question and argue) and we agreed it was time for me to return to the university. Now my life is mostly school-work but in my spare time, I am a voracious reader, musician, gardener, and motorcycle enthusiast. I am happier.

What made you want to become an economics major?

The elegance and the dynamics of the field. Initially, I was drawn to the delicate balance between science and philosophy. I have a passion for asking questions, and economics is an intellectually challenging field that allows one to explore both 'what is' and 'what should be.' I have always been a people-watcher; I particularly enjoy exploring why people make the choices they do.

Then the financial crises happened and I likened studying economics during such an event to Hemingway writing during the war.

What have been your favorite courses?

Both the macro and micro theory courses have been marvelous (Drs. Smith and Hussey). I have enjoyed the game theory class and have benefitted from having a pair of very robust and enthusiastic principles classes (Dr. Kumar). My primary academic interests include behavioral and experimental economics, as well as macroeconomics, and I look forward to offerings in these areas.

What do you plan to do after you graduate?

I plan to pursue a J. D. but have recently considered work towards a graduate degree in economics at the University of Memphis first.

Why do you think studying economics is important?

We are all consumers and we are all producers. The basic tenants of economics (opportunity cost, scarcity, gains from trade) remind me exactly how dependent we all are upon each other. Not a day passes that each of us won't make a bevy of economic decisions and economics offers a framework for thinking about our existence which enables us to capitalize on all we have. It provides one with the knowledge and insight necessary to understand the impact of developments in business, society and policy, and enables one to make the most appropriate decisions and solve the most painful problems.