

Economics at Carolina



A Letter from the Chair

2009



It is with some sadness but also an intense feeling of relief that I sit down to compose this my last newsletter as Chair of Economics. This will be my tenth year in that position and it is time to turn the job over to someone else. I have greatly enjoyed the chance being Chair has given me to get to know and interact with many of you. The alumni and other friends and supporters of the department are an amazingly diverse and almost infinitely fascinating group. What never ceased to amaze me in my interactions with so many of you is that such an outstanding collection of people could be so overwhelmingly nice and thoughtful. Perhaps it is economics training or maybe just the influence of having been at Chapel Hill! Whatever the cause, your humanity and warmth have been and continue to be appreciated. In down home English, I have just found you to be amazingly good folks. I trust you will be equally supportive of the new Chair when she or he takes over next July.

It is a beautiful September day in Chapel Hill, and the sun is literally shining in my eyes through my office window. The football team did get embarrassed by Georgia Tech and Virginia on recent Saturdays, but hope still springs eternal in Chapel Hill that the young players will mature as the season progresses, and that by the end of the season UNC will find itself in a nice bowl game in some warm and pleasant city. The semester is well on its way, and, despite the budget problems of the state and the university, the Department has been able to keep about the same number of student classes and seats as we offered last year. If things do not improve, however, that situation is unlikely to hold for yet another year. I hope the economy turns around quickly and we do not end up having to make cuts that seriously harm the students' ability to finish their degrees on time.

You probably remember from last year's newsletter that we recruited 9 new faculty members who joined the Department last fall. We have been well pleased with the group and their injection of new views and energy into the department has been both noticed and appreciated. Due to budget constraints we were not allowed to recruit any new faculty for this year but have now received permission to recruit two new people to join us next fall. Both recruitment searches will be for applied microeconomics specialists, with at least one of the two being a population researcher. The Carolina Population Center, one of the two or three most renowned population centers in the world, is supporting us in this search and will give the recruit an opportunity to become involved in and enjoy the resources of that center. All indications are that this will be a good year for recruiting because many of the institutions with whom we normally compete will not be hiring due to budget problems.

It seems that every year I report that our enrollments and number of majors have continued to grow or have remained very large. Even with our new faculty members and the expected two additions next year we will remain understaffed relative to the numbers of students we serve. We expect to continue recruiting for several more years. The aging of the "Baby Boom" generation of faculty continues and competition with other universities for faculty members to replace those who retire promises to become very intense. Anticipated enrollment growths at UNC also add to the need for the Department to grow.

This year the Economics Department's Minor in Entrepreneurship continued to grow and receive recognition at UNC and elsewhere. Approximately 100 new students entered the minor this semester, and present plans are to continue to add 100 new students each year. That will allow the program to operate at a level of about 200 total juniors and seniors in the minor at any time. We hope to keep the

program at that size to allow much person-to-person contact and the student development that results. To continue to offer each student choosing the minor the benefit of an internship with an entrepreneurial organization or firm is a major reason to keep the program at a relatively small size. We continue to operate the program of sending about 20 of the interns to Beijing, China, each summer. That program both adds to our international footprint and to the reputation of the minor.

Besides the football team having a winning record and the continued celebration of the basketball teams status as reigning national champions, there is other good news from Chapel Hill. Holden Thorp continues his dynamic Chancellorship and Karen Gil, who last year was Senior Associate Dean for the Social Sciences, has been installed as the new Dean of Arts and Sciences. Karen is a strong supporter of Economics and continues to serve as Chair of the planning committee for the Economics Department's Minor in Entrepreneurship. She is guiding our planning and fundraising efforts and is committed both to making the Minor a center of excellence and to assuring that its financial future is secure. In the Minor we expect both to build an exceptional teaching and mentoring program and to add a research component of which the Economics Department can be proud. We also are working with the Philosophy Department to strengthen the program in Philosophy, Politics and Economics, and expect to have exciting developments in that program to announce in the near future.

I continue to believe, as I often express in my yearly contribution to this newsletter, that UNC and the state of North Carolina deserve to have one of the best Economics Departments in the world. I and others in the Department are realistic enough to know that resources for that level of excellence only come with the aid of donors.

see **Letter from Chair**, page 3

The University of North Carolina at Chapel Hill

Graduate Program News



We were pleased to welcome another very talented class to Chapel Hill at the beginning of August for the three week math camp. For the second year, the students continued their mathematics

training in a fall quantitative methods course. With the separate course devoted to mathematical techniques, the fall semester econometrics, macroeconomics and microeconomics courses taught by Professors Renault, Hendricks, and Krishna can focus more on the economics.

For the second year, we are also offering several dissertation workshops at which students regularly present their research ideas to faculty and other students. The objectives are to have the faculty on the dissertation committees involved earlier in a student's dissertation work and to provide students with more opportunities to present their research and to make comments on others' work. In some fields, the preliminary and final oral exams are being scheduled as part of the workshop in order to give students an idea of what is required for a prospectus as they begin developing their dissertation topics. .

Professors Chari and Gilleskie are the Placement Directors this year and have been meeting regularly with the job market students as they prepare for the Atlanta ASSA meetings next January. The new job market webpage can be accessed from Prof. Gilleskie's website. Included there are links to documents that some of you prepared to provide future students with your insights. If you have any additional suggestions, Professors Chari and Gilleskie would be very glad to hear from you. To prepare for the market, students have been attending conferences throughout the world including the International Health Economics Association World Conference in Beijing, the Pacific Rim Conference on Disabilities in Hawaii, the Health Econometrics Workshop in Chicago, and the Southern Economics Association Meetings in San Antonio

Fortunately, the life of our graduate students is not all work. Faculty and graduate students enjoyed a potluck picnic at Umstead in August and the annual North

Carolina Barbeque in mid October. The Cobra Kai intramural football team made it to the third round of the playoffs but, alas, made it no further when half of the team gave priority to a workshop and a star first-year recruit was injured. As has been the case for some pro teams this year, there was also some grumbling about the calls. Now that the gridiron version of football is over, the intramural soccer team is beginning to organize and we wish them luck for the season.

We always enjoy seeing our alums back in Chapel Hill and hope that you will stop by the department if you are visiting the university. Best wishes for 2010.

Helen Tauchen
Director of Graduate Studies

2009 Entering Class

Aleksandr Andreev, Duke University
Vohla Belskaya, Belarusian State Univ.
Benjamin Cannon, University of Georgia
Anthony Diercks, University of Wisconsin
Matthew Horne, Lehigh University
Aaron Kearsley, Univ. of Nevada Las Vegas
Dae Young Kim, Seoul National University
Brett Matsumoto, University of Delaware
Kaiji Motegi, Waseda University in Tokyo
Giang Nguyen, George Washington Univ.
Erol Onat, University of Colorado
Nazire Ozkan, Middle East Technical Univ.
Daniel Parker, Temple University
Didem Pekurnaz, Middle East Tech. Univ.
Forrest Spence, Univ. of South Carolina
Matthew Spencer, James Madison Univ.
Riha Vaidya, University of Mumbai

2008-2009 Master's Recipients

Mark Jensen
John Kavekos
Kevin Kinlaw

Shaila Rajamani
Matthew
Ringgenberg

Nat Tharnpanich
Yi-Ching Wu

2008-2009 Ph.D. Recipients and Placements

Michael Aguilar, "Essays in Financial Econometrics: GMM and Conditional Heteroscedasticity" (Advisor: Eric Renault); University of North Carolina – Chapel Hill
Mikhail Bontch-Osmolovskii, "Essays in Labor Economics: Work-Related Migration and Its Effect on Poverty Reduction and Educational Attainment in Nepal" (Advisor: Thomas Mroz); World Bank
Xilong Chen, "The Semi-Parametric MIDAS Models and Some of Their Applications: The Impact of News on the Stock Volatility" (Advisor: Eric Ghysels); SAS
David Jones, "Essays on Preventive Care and Children's Health" (Advisor: Donna Gilleskie); Mathematica
Jason Jones, "Budgetary Balances and Restrictions in the European Monetary Union" (Advisor: Stanley Black); Furman University
Steven McMullen, "Two Essays on Students' Homework Time in High School" (Advisor: Thomas Mroz); Calvin College
Zafar Nazarov, "Unemployment Duration, Part-Time Versus Full-Time Reemployment and Wages" (Advisor: David Guilkey); Rand Corporation
Nilufer Ozdemir, "Essays in Macroeconomics of Small Open Economies" (Advisor: Patrick Conway); University of Mississippi
Sergiy Peredriy, "Endogenous Credit Market Incompleteness: RBC Approach to Emerging Markets Crises" (Advisor: Stanley Black); SAS
Sarah Riley, "Renaissance Man Meets the Pin Factory: A Theory of Diverse Specialization Under Uncertainty" (Advisor: Gary Biglaiser); UNC Center for Creative Capital
Katherine Rouse, "High School Leadership, Educational Attainment and Post-Schooling Earnings" (Advisor: Thomas Mroz); Elon University
Syed Saad, "Essays on Microfinance: Financial and Social Impacts in Rural Bangladesh" (Advisor: John Akin); University of St. Thomas, St. Paul MN
Tetyana Shvydko, "Essays in Labor Economics: Peer Effects and Labor Market Rigidities" (Advisor: David Blau); Bates White
Arthur Sinko, "Some Applications of Mixed Data Sampling Regression Models" (Advisor: Eric Ghysels); University of Manchester, UK
Alica Sparling, "Income, Drugs and Health: Evidence from Russian Elderly Women" (Advisor: Donna Gilleskie); Davidson College (visiting)

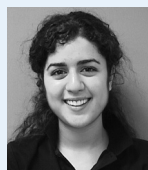
Faculty and Staff News

Recent Activity

Departmental teaching awards were presented to two faculty and three graduate students at a coffee hosted by the Economics Graduate Student Association (EGSA). The awardees were selected by voting processes carried out by the Undergraduate Economics Club and the EGSA.



Excellence in Undergraduate Teaching:
Geetha Vaidyanathan



Vijay Bhagavan Award for the Outstanding Econ 101 TA:
Racha Moussa



The Jae-Yeong Song/Chunuk Park Award for Excellence in Graduate Teaching:
Saraswata Chaudhuri



Best TA in a Graduate Level Course:
Justin Contat



Award for Outstanding Teaching Fellow in Undergraduate Instruction:
Codrin Nedita

A Letter from the Chair from page 1

State funds alone simply will not allow us to successfully compete with the many well endowed Economics departments we consider our peers for faculty and graduate students. Without excellent faculty and graduate students we will not be able to provide an excellent education to our undergraduate students. I hope you will again give some thought to what the Economics Department and your economics training has meant to your professional and personal success, and will conclude that you wish to support Economics training for other UNC students in the future. If you are interested in discussing the possibility of a major gift (or a smaller one) please call me [(919)843-9452] or contact Ishna Hall at the Arts and Sciences Foundation [(919)843-4885]. Any gifts to the University, including those to the annual giving campaign, can be designated to "The Department of Economics."

Thank you for taking the time to read this note and for all the support you have given me and the Department over the last nine years. We hope you will help us to keep communication links as open as possible. You and your accomplishments are an important component of the department's contribution to the world and to own feelings of accomplishment. We try to keep up with you and your lives and careers, but it is difficult not to miss news. Please send us updates on yourselves and your families when you can.

I hope all of you will feel free to drop in at the Department if you are in Chapel Hill. We are still in Gardner Hall, right in the middle of campus. I will try to personally welcome you and make your visit a pleasant one.

I wish all of you a good year and also take this opportunity to say how much I have enjoyed serving as Chair of Economics for these (going on) ten years.

Thank you and all my best wishes,
John S. Akin

Assistant Professor **Jonathan Hill** is visiting Tilburg (Netherlands) University's Econometrics and Statistics Department during the Fall 2009 semester.

The University of North Carolina at Chapel Hill has received more than \$22 million from the Bill & Melinda Gates Foundation for a new project that aims to improve the reproductive health of the urban poor in Sub-Saharan Africa and South Asia. The project, Measurement, Learning and Evaluation for the Urban Reproductive Health Initiative, will be run by UNC's Carolina Population Center. Working with the center on the project are the African Population and Health Research Center, based in Nairobi, Kenya, and the Population Reference Bureau in Washington, D.C. **David Guilkey**, Boshamer Distinguished Professor of Economics serves as the principal investigator and project director. John Stewart, Professor of Economics, is also collaborating on the project.

On Sunday, September 27th, colleagues, friends, and family gathered at La Residence to celebrate the retirement of Professor **Alfred J. Field, Jr.** Professor Field joined our faculty in 1967



and has held virtually every administrative job within the Department: Interim Chair, Associate Chair, Director of Graduate and Undergraduate Studies, Honors Director,



newsletter editor. He has taught courses in international economics and economic development at the graduate

and undergraduate levels, directed numerous Senior Honors and Masters theses, and has served as member or director of over 100 Ph.D. dissertations.

We all wish you well, Al, and thank you for your 30+ years of service!



Undergraduate News

News from the Director of Undergraduate Studies

The undergraduate program of the Economics Department continues to grow. For the 08-09 academic year we had 268 graduates and 961 declared first and second majors. The number of declared majors has increased by over 22% since last year and represents a 53% increase since the 06-07 academic year. The increase in enrollments is consistent with the countercyclical nature of Economics majors, i.e. the worse the economy the more students choose to major in Economics.

This past spring, the Department was reviewed by three outside economics professors. They had a number of interesting comments and suggestions for improving our programs. One we are actively studying this year is changing the format of our intermediate micro and macro courses. Specifically, we will be moving toward a medium-size lecture format conducted by faculty who are experts in those fields.

The spring semester brings another graduation. Graduating seniors are reminded to check with your Arts & Sciences academic advisor to verify that you have met all College requirements for graduation and to complete the necessary paperwork. Students can use the on-line "Degree Audit" to check their progress. The "Degree Audit" is available at Student Central on the UNC-CH website. If you have questions about meeting your economics major requirements, stop by the office or send us an email.

After four years of service to our undergraduate program, Professor John Stewart has stepped down in order to devote his full attention to the blossoming entrepreneurship minor. I know all the students he has helped join me in thanking Professor Stewart for his words of wisdom and encouragement.

As the new Director of Undergraduate Studies, I look forward to the challenges presented by our growing major.



William R. Parke
Director, Undergraduate Studies

Omicron Delta Epsilon

ODE was led this past year by President Denise Whalen and Faculty Advisor, Professor John F. Stewart. The annual induction was held on April 15, 2009, and well attended by inductees, family members and friends. Membership is open to outstanding junior and senior economics majors and economics graduate students. Only top students were invited into membership, and the inductees included:

Omicron Delta Epsilon 2009 Inductees

Danielle M. Allen
Sarah E. Arnold
Rachel A. Baker
Roshni Bam
Bradley R. Blaser
Christopher D. Chambers
John Mark D. Dalton
Andrew Delaney
Sebastian DeMarco
James Douglas
William L. Dworsky
James W. Flaherty, III
Thomas C. Ginn
Evan A. Hall
Katherine Hanley
Gregory Howard
Rishabh Kirpalani
Andrew Kupka
Christian R. Lincoln
James S. Lucy
Frances L. Mabrey
Anna J. Macmonegle
Matthew Mariani
David Martin
Paige Michael-Shetley
Michael N. Morrill
Alden B. Mueller

Jane E. Murchison
Charles G. Murphy
Laura L. Newman
Alex Owen
Courtney E. Patterson
Angela Schebell
Eric Stam
Robert Tedeschi
Thomas Thriveni
Carlos R. Toriello
Joao P. Toste
James J. Waters
Sarah Welker
Sarah C. Whitley
Kristen A. Wicher
Amy E. Wilson
Li Xu

Graduate Students

Mustafa A. Attar
Justin Contat
Christopher J. Cronin
Matt Harris
Justin Joffrion
Dimitris Katsoridas
Timothy Moore

This year, the annual ODE Outstanding Economics Professor Award was presented to **Dr. Michael Salemi**. Dr. Salemi has a long record of interest and excellence in economic education. While in graduate school, he was the Assistant Director of the Center for Economic Education at the University of Minnesota. Between 1994 and 2000 he was the chair of the American Economic Association Committee on Economic Education. He currently serves as the Co-PI for the Teaching Innovations Program, an AEA-NSF project to promote interactive teaching strategies in college-level economics courses, and he is the director of the Teacher Training Workshop at UNC.

His innovative teaching style has made him an immensely popular professor amongst students. A former teaching assistant said of him, "He's on the cutting edge of economics education, incorporating new technology into his lectures and challenging his students to apply narrow concepts more broadly."

Dr. Salemi has won numerous awards for his teaching. These include the Department of Economics Undergraduate Teaching Award, the Bowman and Gordon Gray Professorship for Excellence in Undergraduate Instruction at UNC, and the Tanner Award for Teaching. He has also received recognition on the national level by being named one of the top teachers in economics by the Gus A. Stavros Center in 2007.

ODE was honored to have Dr. Salemi speak at the induction ceremony. His speech on current economic and environmental challenges was both informative and motivational.

Contributor: **Denise Whalen**

Meet our new Undergraduate Advisor

This year, **Stephen Lich-Tyler** is wearing a new hat. Tuition money from the College of Arts and Sciences is funding



Stephen's appointment so he can serve as our Undergraduate Advisor. (The informal title is *Friendly Neighborhood Undergraduate Advisor*.) Stephen has been teaching statistics, econometrics, and labor economics.

2009 HONORS STUDENTS



Sixteen of our majors successfully completed the Senior Honors Program this past year. The program consisted of completing two seminar courses (ECON 691H and 692H), completing the honors thesis under the direction of a faculty advisor, and passing an oral defense. The honors program was directed by **Professor Rita A. Balaban**. We had two students who



received the award for Best Honors Thesis: **Ginette L. Rowe** and **Hope Thompson** who worked under the supervision of Professors Donna B. Gilleskie and Alfred J. Field, Jr., respectively.

Undergraduate Prize

Special Department recognition was given to **Matthew M. Knepper** who was awarded



the *Undergraduate Prize in Economics*, presented annually to the top graduating economics major.

Another UNC Win!

The Federal Reserve Challenge Team won the Charlotte Branch Competition for a second consecutive year in November 2008 and in doing so advanced to the District Championship in Richmond. Team participants included Jonathan Brice, Samuel Brice, James David, Ivan Kirov, Mackenzie Linyard, and Andrew Owens.

Under the guidance of Professor Michael Aguilar, the organization of the team has expanded dramatically as they work toward continued excellence and the development of the next generation of Challenge participants. There are now two types of membership: the first consists of members who participate in the competitions; and

Evgeniya Bakunova, "r: Modeling Intertemporal Discount Functions on the Basis of Two Indifference Curves"

Annalee Bloomfield, "Contagion in CDS Spreads '01-'08: Lessons from a Troubled Economy"

Thomas Koester, "Factors Affecting the Rebuilding and Reoccupation of New Orleans Following Hurricane Katrina"

Sunjin Park, "Does the Excess Return for Collateralized Mortgage Obligations React Differently from that for Mortgage Pass-Throughs against the same Economic Factors"

J.J. Raynor, "The Impact of Trade on State Sponsorship of Terrorism"

Ginette Rowe, "Adolescent Body Mass, Rigorous Activity, and Sedentary Activity: Might Neighborhood Crime Influence Behavior"

Hope Thompson, "The Economic Partnership Agreements and Poverty in Kenya: A Case Study of the Dairy Sector"

Gerold Thomas Wharton, "Proximate Factors of Child Mortality in Post-Conflict Liberia"

Sarah C. Whitley, "The Risk-Loving Decisions of Low-Income Households"

John Wulsin, "An Analysis of the Effects of Public School Quality on House Prices in Durham, North Carolina"

Honors

Steven Couper, "Shirking Around Contract Time in the NBA"

Wesley Harris, "Investigating the Impact of Exchange Rate Regime and Macroeconomic Performance in a European Setting"

Matt Knepper, "Price Discrimination in the Market for Higher Education"

Anna Macmonegle, "The Effects of an Introductory Economics Course on Students' Political and Economic Opinions"

Quentin Ruiz-Esparza, "The Effect of Trade Liberalization on the Labor Allocation Decisions of Rural Households in Mexico"

Meghan Wing, "When Can Aid Create Growth: Policy, Democracy and Institutions"

Phi Beta Kappa 2008/2009

In 2008-2009, 268 students received undergraduate degrees in Economics. The quality of our students remained high and 33 of our majors were inducted into Phi Beta Kappa.

Danielle M. Allen
Warren K. Ashley
Scott J. Bearden
Mikhail M. Belikov
Elinor Benami
Matthew C. Bloom
Kaylan A. Christofferson
Samuel C. Cowan, Jr.
Sebastian S. DeMarco
William L. Dworsky
Matthew J. Garza
Thomas C. Ginn
Mark J. Godfrey
Alex J. Hardee
William R. Hobbs
George B. Hodgin

Gregory L. Howard
Wesley R. Johnson
Ivan J. Kirov
Matthew M. Knepper
Kathleen E. Mason
Alex J. Owen
Amit H. Patel
Courtney E. Patterson
Todd R. Penke
Rachel K. Rose
Ginette L. Rowe
Emir S. Sandhu
Angela G. Schebell
John H. Smith
James J. Waters
Sarah S. Welker
Jamie L. Whaley

the second consists of those who attend the open weekly meetings to discuss macroeconomic events. At each meeting a student introduces a topic and lively discussion inevitably follows.

The Team also participated in the "Day at the Fed" conference hosted by the Richmond branch. This was

a full day conference geared toward undergrads interested in monetary policy and possible careers at the Fed. There were presentations by several staff economists as well as President Jeffrey M. Lacker, with whom some of members spoke individually.

Undergraduate Research at Carolina

Summer Fellowships

Each summer the University's Office of Undergraduate Research awards Summer Undergraduate Research Fellowships (SURF) to students who wish to carry out a research project under the supervision of a UNC-Chapel Hill faculty advisor. The award provides a monetary stipend of \$3000 and up to \$3500 if foreign travel is involved. The process is very competitive and 19 fellowships were awarded this past summer to students who wished to pursue research in the Social Sciences (not including history). Two fellowships were received by current economics majors Greg Howard and Rishabh Kirpalani. I invited Greg and Rishabh to tell us more about their project and what they gained from this experience.

"The Financial Crisis and Asia and the Monetary Policy Response"



For my project I researched the recent financial crisis and how it affected Asia. In particular, I paid special attention to the responses of different governments, especially in monetary policy. The project itself focused on two channels of how the financial crisis hit Asia. One was in terms of trade and one was in terms of credit markets. To examine this more in depth, I looked at whether countries with larger trade dependence and higher bank lending suffered more. Not surprisingly, both of those factors led to greater output declines during the crisis. Based on that, I looked at how that affected monetary policy responses. Higher exports seemed to be correlated to more aggressive monetary policy. Bank lending did not seem to have much of an effect. Not surprisingly, countries that had a recent history of inflation were much more cautious in monetary policy. These results were not that surprising, but help us understand how the financial crisis affected Asia, and what countries did about it.

I worked with Professor Richard Froyen to set up the project, and have talked to him regarding the interesting questions it has brought up and what lines of thought were worth pursuing. The project itself

was an extension of a term paper I had written entitled Does Monetary Policy Matter in China? In that paper, I had some unexpected results regarding exports that I wanted to further investigate. With the timing of the financial crisis, I also wanted to investigate how that affected the region.

This experience was particularly valuable to me because it let me do very independent research that reaches beyond the classroom. Certainly my coursework at Carolina helped prepare me to approach these issues from an economic perspective. Classes like econometrics were very helpful in running a few of the regressions. And interpreting the results would have been impossible without the background I have received in macro and international economics from Carolina. Doing research like this is a great experience that demonstrates the very practical value of the knowledge I have learned.

I strongly considered continuing this research as part of an honors thesis, but it was infeasible with my workload this semester. As of today, I have no plans to publish anything, but I may incorporate parts of my research into an NSF graduate school grant proposal.

Greg Howard

(Advisor: Dr. Richard Froyen)

"An In-Depth Look into Intergenerational Flows"

The primary aim of my summer research project was to document intergenerational transfers that take place between parent and child such as paying for college or helping fund a retirement. Documentation of this nature is crucial to studies on wealth accumulation which are of utmost importance at the moment due to an aging population and a corresponding decline in the percentage of younger people. Through the course of the summer, I helped construct a novel child-level longitudinal dataset based on the Health and Retirement Study (HRS) transfer-level and child-level files and the RAND dataset based on HRS household-level files and enriched with various imputations of household variables. Currently, I am continuing work on this as part of an honors thesis and am using this newly constructed

dataset to document descriptive moments regarding the magnitude, direction, and timing of intergenerational flows and their association with child's and parents' characteristics such as income and education levels. My goal is to eventually get this work published.

Such an experience has greatly enhanced my academic experience at Carolina and has furthered my desire to engage in graduate studies once I finish. In particular, I had a chance to use many of the ideas and methods learnt in previous Economics courses and apply it to a relevant problem. In addition, working on a project of this nature has given me a unique opportunity to participate in economic research and produce output that I hope will help researchers in the years to come.

My adviser Dr. Oksana Leukhina was tremendous source of support and inspiration for my work.

This meant that I was constantly challenged and motivated throughout the summer and I look forward to continuing work with her over the year.



Rishabh Kirpalani

(Advisor: Dr. Oksana Leukhina)

Mayo Undergraduate Research Fund

Undergraduate research funds are available through the Herbert B. Mayo Undergraduate Research Fund through the Arts and Sciences Foundation. These funds are used to support undergraduate research by covering costs of data collection, travel necessary for undergraduate research, computer software, etc. Interested students should contact Professor Bill Parke, Director, Undergraduate Program, Department of Economics, 107 Gardner, parke@email.unc.edu.

Scholarships

Benami Named First Eve Marie Carson Scholar

Elinor Benami (B.A. '10), a senior economics major and environmental studies minor, was named the first Eve Marie Carson Scholar at the University of



North Carolina at Chapel Hill. The scholarship funded Benami's junior summer experience in the Middle East, where she interned with Arava Institute for Environmental Studies.

Her efforts with the Institute focused on co-developing a guide for rainwater harvesting in arid regions in east Africa, contributing to a socioeconomic baseline report for the western portion of the Arava Valley region, and aiding in grant proposal preparation and review. The scholarship also provides Benami, of Knoxville, Tennessee, with financial aid equivalent to in-state tuition for her senior year. Benami was selected for her leadership and dedication to environmental issues, as well as her high level of academic performance. She is planning a career in environmental consulting.

The scholarship was named in honor of Eve Marie Carson, UNC's 2007-2008 student body president, who was killed in March 2008. One of Carson's main goals as president was to create a merit-based scholarship for UNC juniors. In her memory, the scholarship was established to honor balanced, ambitious students who have shown strong involvement in a leadership role at Carolina and have

at least a 3.0 GPA in their first three undergraduate years.

Garza and Raynor Receive Distinguished Scholarships

Matthew Garza (B.A. '10), a senior



majoring in economics, was awarded a Truman Scholarship, worth up to \$30,000 in support for graduate studies toward a public service-related degree. Garza, of Stockton, California, plans to use the award to pursue a Ph.D. in economics, with a focus on macroeconomics, monetary policy, and growth. Prior to starting his graduate studies, Garza's goal is to work as a Research Assistant with the Federal Reserve in either New York or Washington, D.C. Garza was one of 60 students from 55 U.S. colleges and universities to receive a 2009 Truman award.

Jessica (J.J.) Raynor (B.A. '09) received a 2009-2010 Fulbright U.S. Student Program award.



Raynor, a recent graduate with a degree in economics, is currently in Malaysia studying the impact of the capital controls that Malaysia imposed during the 1997 economic crisis. She will seek to discover whether these controls helped the country after the crisis or if the country's welfare was due to other aspects of its economy.

ECONOMIST IN TRAINING

Upon receiving my degree from Carolina in 2008, I began working for the Federal Reserve Bank of Chicago in the economic research department as an associate economist. I am primarily responsible for managing the international and inflation forecasts for the memo used by the president of the bank at the Federal Open Market Committee (FOMC) meeting every six weeks. Beyond FOMC work, most of my time is devoted to helping senior economists in their research or policy oriented initiatives, as well as contributing to the publication of the Chicago Fed's National Activity Index (CFNAI). Regardless of the particular project I am working on, though, I am constantly using the analytical skills and methods that I acquired in my economics and mathematics courses at UNC.



For someone interested in pursuing a graduate degree in economics or for someone who thinks that they might, I would strongly suggest looking into a possible stint at a Federal Reserve Bank. The opportunity to be exposed to such a wide variety of policy driven economic research is unparalleled. In addition, as an employee of the bank you are given every opportunity to further your own career development through daily seminars, tuition reimbursement programs, and software training sessions. The skill set and research experience that I have developed working here, will prove to be invaluable when I pursue a graduate degree in economics.

R. Andrew Butters

Carolina Economics Club

2008-2009 was another great year for the Carolina Economics Club (CEC). In conjunction with the aims of spreading economics education to the University and surrounding community, the CEC has worked tirelessly to provide the Chapel Hill populace with dozens of opportunities to learn more about the economics world. The CEC has over 100 members and recently changed its structure around three committees: Outreach and Engagement, Discussion Series, and Alumni Coordination.

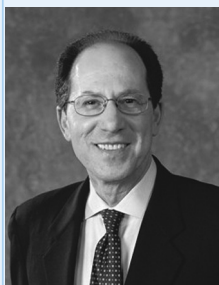
Over the past year, the CEC hosted a number of speakers in its lecture series. Among these speakers was Mr. Joseph Kampf, UNC Class of '66. Mr. Kampf graduated from UNC with a BA in Economics and has since grown companies such as Anteon and CoVant from mid-cap organizations to multi-billion dollar corporations. Mr. Kampf shared both his personal experiences as an entrepreneur and his insight on the current economic situation with the Economics Club. The CEC also welcomed Mr. Michael Munger, a Libertarian candidate in the North Carolina gubernatorial elections this past year, shared his perspective on the economic crash and the government's bailout package. Following his visit, Dr. Stuart Allen of UNC Greensboro addressed the Club concerning the benefits of graduate work in Economics, specifically regarding the Economics Masters Degree Program offered by Greensboro.

The CEC also hosted a Presidential Economic Debate and the ever-popular lecture by Professor Ralph Byrns, "The Economics of Love." CEC also strives to provide its members with information regarding the career possibilities following graduation and thus held several professional development programs, including the Lincoln Financial Group.

This semester, the CEC looks forward to a continuation of excellent guest speakers and events. Dr. Dan Ariely, author of "Predictable Irrationality" and Behavioral Economics professor at both MIT and Duke, will speak during the Fall 2009 semester, and the CEC greatly looks forward to the fresh perspective that Mr. Ariely will bring to the speaker series. The CEC also plans to expand its means of providing economics education on the UNC campus. In addition to the speaker series, the CEC will host a simulated Stock Market Challenge and has reinvented both its website and blog. We have initiated a discussion series led by students and professors, where students have the opportunity to design discussions around their own interests and involve their peers as well. Further, the CEC hopes to continue its tradition of helping students explore the immense possibilities of a degree in Economics through greater alumni interaction. If you have questions about the Club, feel free to contact the Co-Presidents: Lauren Williams (Williams.lauren.m@gmail.com and Alex Hardee (alex.hardee@gmail.com)).

CEC VP

“Personal Investment in UNC: Joe Kampf ('66) Supports Professorship, Graduate Students in Economics”



Like most UNC alums, Joe Kampf ('66 BA economics) is a fervent Carolina basketball fan. But his connection runs deeper than most—he was almost a member of the team. For four weeks in 1963, at the start of Dean Smith's third season as head coach, Kampf scrimmaged with the UNC team that featured Billy “the Kangaroo Kid” Cunningham. Eventually, Kampf was cut from the squad, but his sense of personal investment in the team and the University has remained strong.

“Personal investment” is a thread that has run throughout Kampf's long and successful business career and has led him back to Carolina. Kampf, co-founder, chairman and CEO of CoVant Management Inc., recently established a \$1 million distinguished professorship and \$125,000 graduate student fund in the Department of Economics. The Joseph M. and Jason S. Kampf Distinguished Professorship will leverage an anticipated \$500,000 matching grant from the State of North Carolina Distinguished Professors Endowment Fund to create a \$1.5 million endowment.

In October 2008, Kampf returned to Chapel Hill for the first time in more than 40 years to speak to students in the economics department. “It was terrific to interact with the students. They were so smart and inquisitive—much more so than I was at their age,” Kampf said.

In his remarks to students, Kampf stressed the importance of working hard, planning well and remembering to balance family and career. “As you get further along in life, you come to realize that a successful career is very important, but enjoying and sharing what you have is at least as important.”

Kampf was also struck by the role graduate students play on campus, both as instructors and researchers, and wanted to enhance their education. The Kampf Graduate Fund in the Department of Economics will support at least eight students each year with graduate excellence awards, summer research fellowships and travel stipends.

“The graduate student gift was especially important to me because I know that it's financially challenging for students to get out into the real world to gain experience that will make a difference in their careers and will bring them closer to discovering what they want to accomplish,” Kampf said.

The gifts couldn't have come at a better time, as the College faces a bleak state budget outlook and cuts in spending. John Akin, department chair, said, “The Kampf family's generous gifts will allow us to keep moving forward rather than losing ground. The Kampf funds will have a huge impact on the department's ability to attract and develop outstanding faculty and graduate students.”

“The more personally you're invested in an organization, the more watchful and involved you are,” Kampf said. “I consider our support of economics at Carolina an excellent investment, and I look forward to staying closely involved with the department's students and faculty.”

Kampf was accompanied on his recent visit by his son Jason, 32, who works with his father at CoVant. Jason spoke with students in the College's minor in entrepreneurship program. “If I'm the CEO of the family, then Jason is the pure entrepreneur,” Joe Kampf said.

By Jim Magaw ('89)

Alumni News

1960s

Stephen N. Hu (Ph.D. '66) currently resides in Okemos, MI. He recently wrote a book of probability entitled “A Solution to Roulette,” which was published in 2009 by Professional Press (Chapel Hill, NC).

1970s

Peter Mooney (Ph.D. '70) is pleased to hear of the continuing success of the Minor in Entrepreneurship. Over the decade of the 1970s he served as an economist within the Department of Finance and the Economic and Social Research Institute in Dublin, Ireland. One of his responsibilities was editing the Economic and Social Review. Upon his return to the States in 1980 he entered the field of technical/economic market research. In addition

to his “day job” he taught Continuing Education courses in economics at the University of Connecticut. In 1993 he decided to test his own entrepreneurial abilities, setting up a company to conduct single- and multi-client market research programs covering the plastics industry. In 1996 he relocated from New Canaan, CT, to a former dairy farm in rural Advance, NC, which he converted to a residence for his wife Danielle (MA Environmental Science '70) and children Kieran, Keelin and Conor as well as a location for his business.

Robert C. Shelburne (B.A. '74, Ph.D. '84) is Chief Economist of the United Nations Economic Commission for Europe in Geneva, Switzerland.

Peter Allgeier (Ph.D. '77) was named President of C&M International, Ltd. in September 2009. He joins CMI after nearly three decades at the Office of the U.S. Trade Representative where he more recently served as U.S. Ambassador to the World Trade Organization and Deputy U.S. Trade Representative.

1980s

Audie Cashion (B.A. '88) has enjoyed reading about the Entrepreneurship Minor and watching its development. Audie was the founder of the UNC Entrepreneurship Club in 1986 and started an export company while at UNC. He is currently doing turnaround work for companies and municipalities by leading strategic planning and facilitation. He is President

Harvey Provides Advice and Support for Entrepreneurial-Minded Students



Bob Harvey ('81), president and CEO of TRS Institute in Greensboro, N.C., established the Harvey Family Fund in Entrepreneurial Studies to support the Department of Economics' minor in entrepreneurship. He says he started the expendable fund in part because the minor recognizes the value of the humanities and sciences to business ventures.

"I'm glad to be associated with a school that fosters creative thinking outside the business curriculum," Harvey says. "It's a fascinating idea the way they did it — everyone can come together whether they're studying science or arts. The focus is on the development of their entrepreneurial notions regardless of major."

In offering advice for student entrepreneurs, Harvey emphasizes the importance of having a passion and vision for the outcome. He also stresses the value of being a self-aware leader—having an ability to recognize when something doesn't work and being willing to change direction.

Ultimately, though, Harvey just hopes that students will take the initiative to pursue their entrepreneurial goals. "If you're on the fence, absolutely go for it," he says. "It's definitely a way to fulfill a lot of professional dreams. If you go for it and you do it, then that's awesome. If you go for it and don't succeed, you still learn an amazing amount that can catapult you in your future endeavors."

Harvey also serves as a member of the dean's working group for the minor in entrepreneurship, which provides guidance and oversight for the minor.

By Joanna Cardwell

of Alpha World Properties, LLC of High Point, NC.

Mel Williams (B.A. '88) is co-founder of TrueBridge Capital Partners located in Chapel Hill/Durham. TrueBridge is an alternative investment management firm that was founded in 2007. From 2001 to 2007 Mel served as President of the UNC Management Company where he led the UNC Endowments efforts to invest all private asset classes. Mel received his MBA from Harvard in 1993. In the 1990s he co-founded and sold a healthcare services company in Boston and later he co-founded a healthcare technology company in North Carolina.

1990s

Alfred Guender (Ph.D. '93) is currently on leave from the University of Canterbury in New Zealand and is visiting at the Bank of Switzerland. The paperback edition of the book which Alfred co-authored with UNC Professor Richard Froyen (Optimal Monetary Policy Under Uncertainty, Edward Elgar Publishing) was published in December 2008.

Micah A. Lovette (B.A. '95) resides in Harrisburg, PA and is a Senior Reactor Operator at Exelon Nuclear.

Steven C. Bradt (B.A. '96) is a currently working with Capgemini UK in Birmingham in the area of healthcare improvement. In October 2009 he began the distance

Doctorate of Business Administration program at Manchester Business School.

Anastasia Heinzelman (B.A. '97) resides in Indianapolis, IN and is Director of Customer Service at Midwest ISO, Inc. She and her husband Nick welcomed son Colton Avery into their family on November 18th, 2008. Colton joins big sister Elinor Grace who turned five in July 2009.

2000s

Michael McRae (B.A. '01): currently resides in Charlotte, where he has been working for Vanguard, a mutual fund firm, for the past five years.

Marco Mascioli (B.A. '05): has returned to the Triangle and is enrolled in the Masters of Analytics program at N.C. State. Prior to his return, he worked for IBM in Baton Rouge, LA and then as an independent contractor for FEMA where he managed the temporary housing database for the trailer program.

Annalee Bloomfield (B.A. '09) resides in New York City where she is working for Goldman Sachs. She is a credit research analyst covering the retail, consumer, and technology sectors. Although she spends most of her time in an office, she is still having a blast exploring the city!

GT Wharton (B.A. '09) resides in Washington, D.C. where he is working with the Food and Drug Administration as an economist/program analyst for the

Office of the Commissioner. His group is currently working on an economic model for the savings generated by changing pediatric dosages for children.

John Wulsin (B.A. '09) has moved down the road to Durham to work as a Fellow for the Robertson Scholars Program. He continues to build on his thesis research (investigating how public school quality affects housing prices in Durham), while working with his thesis adviser Charlie Becker of Duke. On August 15th, John married Aynara Chavez, his high school sweetheart.

Let Us Hear From You

The Economics Department welcomes news from its graduates. Please use the form at <http://www.unc.edu/depts/econ/alumni/feedback.htm> to drop us a line and let us know how you are doing. If you prefer, you may fax the information to 919-966-4986. Please include in the fax, your name, address, year graduated, and degree, along with employment, family, and other interesting information to pass on to classmates in the next newsletter.

Entrepreneurship Minor

UNC-Chapel Hill's Department of Economics held a special ceremony on May 10th to honor 50 new graduates representing 21 majors who earned a minor in entrepreneurship. Joe DeSimone, the Chancellor's Eminent Professor of Chemistry at UNC, was the keynote speaker. He was introduced by Senior Associate Dean for Social Sciences and International Programs Karen Gil, who oversees the entrepreneurship minor. Graduates Ryan Perlowin and Carlos Toriello also spoke at the ceremony.

This Fall the entrepreneurship minor enters its fifth year with a new class of 100 students representing twenty five different majors from across the College of Arts and Sciences. This year the introductory course is being co-taught by Buck Goldstein and Maryann Feldman. The large group meets once a week for lectures and speakers; the second meeting of the week is structured as small discussion groups led by Goldstein, Feldman, Lowry Caudill (Ph.D., UNC, Chemistry, 1983) and Julia Sprunt Grumbles (B.A., UNC, 1975). This is Caudill's and Grumbles' third year instructing the course.

The Minor in Entrepreneurship is excited to welcome Maryann Feldman to the team. Dr. Feldman is the S.K. Heninger Distinguished Chair in Public Policy at the University of North Carolina, Chapel Hill. She holds a Ph.D. in Economics from Carnegie-Mellon University. Her research and teaching interests focus on the areas of innovation, the commercialization of academic research and the factors that promote technological change and economic growth. She is the author of more than 70 academic articles, 2 books, and 5 edited volumes. Her work focuses on the spatial distribution of economic activity and understanding the factors that make certain places vibrant.

The minor also welcomes Elizabeth Basnight as our new Internship Director. Elizabeth is a UNC graduate (B.A. 2007) who is now responsible for helping our students find internships for the summer and monitoring their progress. Seventy-nine students return this fall from summer internships from The Research Triangle Park™ in North Carolina to Los Angeles to Beijing, where they fulfilled their requirement for the minor in entrepreneurship. Genny King, who held that position for the last two years, has accepted a Sandbox Fellowship with the Deshpande Foundation to work with Vidya Poshak's Graduate Finishing School in Dharwad, India.

The course is bringing in a number of esteemed speakers this fall:

- September 8th, Jud Bowman (President & CEO of PocketGear, Inc. and Co-founder of Motricity, Inc.)
- September 29th- Janet Trefethen (CEO, Trefethen Family Vineyards, Napa Valley)
- October 6th- Catherine Rohr (CEO and founder, Prison Entrepreneurship Program)
- November 3rd- Keith Jarrett and Gary Mueller (Renowned venture capitalist; founder of securities on-line)
- November 17th- Anson Dorrance (Head UNC Women's Soccer Coach)
- November 24th- Liquidia Team Management: Joe DeSimone, Neal Fowler, Steve Nelson

UNC Faculty Boot Camp Aims to Encourage Entrepreneurial Mindset

Instructors for the workshop were: UNC adjunct professor of chemistry and Magellan Laboratories founder Lowry Caudill, an instructor for the scientific track of the minor; UNC entrepreneurship-in-residence Buck Goldstein, a senior



lecturer in economics who also teaches in the minor; Kimberly Jenkins, former consultant to such companies as Apple, Cisco Systems Inc., Microsoft, Oracle and Sun, whose area of expertise includes women and minorities in entrepreneurial careers; and John Stewart, professor of economics and director of the minor.

UNC faculty who attended the boot camp were:

- Ken Bollen, Henry Rudolph Immerwahr Professor of Sociology; director, Odum Institute for Research in Social Science.
- Roberto Camassa, professor, mathematics.
- Gina Carelli, professor, psychology.
- McKay Coble, professor and chair, dramatic art.
- Maryann Feldman, S.K. Heninger Distinguished Professor of Public Policy.
- Karen Gil, Lee G. Pedersen Distinguished Professor in Psychology; senior associate dean for social sciences and international programs.
- Dorothy Holland, Cary C. Boshamer distinguished professor, anthropology.
- John McGowan, Ruel W. Tyson, Jr. Distinguished Professor of the Humanities, English and Comparative Literature; director, Institute for Arts and Humanities
- Mary Napier, senior research associate, Kenan Center for Utilization of Carbon Dioxide
- Roberto G. Quercia, professor, city and regional planning and public policy; director, Center for Community Capital.
- Scott Singleton, associate professor, Eshelman School of Pharmacy/
- Philip Sloane, Elizabeth Shreve and Oscar Sexton Goodwin Distinguished Professor; Director, Academic Development, family medicine; co-director, Program on Aging, Disability and Long-term Care, The Cecil G. Sheps Center for Health Services Research.
- Francesca Talenti, associate professor, communications studies.
- John Thorp, professor, obstetrics and gynecology; director, Division of Women's Primary Healthcare.
- John Wilkerson, John R. and Louise S. Parker Professor of Physics and Astronomy.
- Sheryl Zimmerman, professor, School of Social Work.

Chapel Hill, N.C. — Sixteen faculty members from a range of academic disciplines attended the inaugural Chancellor's Boot Camp May 11-14, a pilot program on entrepreneurship for faculty members at UNC-Chapel Hill.

The workshop, titled "The Entrepreneurial Mindset — Maximizing Faculty Impact," was designed to help faculty members identify opportunities, develop strategies, understand costs and sources of finance, and develop high-performance cultures. The curriculum, adapted from the full-semester economics course, "Introduction to Entrepreneurship," was developed and offered by the Office of the Chancellor and the minor in entrepreneurship, a key program of the Carolina Entrepreneurial Initiative.

Roberto G. Quercia, professor of city and regional planning and director of UNC's Center for Community Capital, said he hoped to learn from other attendees who knew much more than he did about entrepreneurship. As director of a research center, Quercia wants to expand opportunities for funding, which is currently primarily through research grants.



"The boot camp was a week well-spent," said Quercia. "On a practical level, it was good to get a feeling of the whole entrepreneurial process, of how to

recognize an opportunity and then go through the process of making it happen. But I also gained an understanding of the teamwork it takes to do this, and how it will take teamwork throughout the university to accomplish a venture successfully."

The boot camp provided a historical and intellectual context for understanding



the entrepreneurial process, examined the sources and process of developing an opportunity, explored the different kinds of entrepreneurship (commercial, social, scientific and artistic) and introduced the basic skill sets required of all entrepreneurs. It also provided an opportunity to practice those skills.

Attendees engaged in intense discussions and case studies during morning sessions and participated in strategic planning and project development within a self-selected team in the afternoons. In the final session, each of the four teams presented their plans to a panel of outside judges.

Workshop participant Karen Gil, professor of psychology and senior associate dean for social sciences and international programs at UNC, saw the

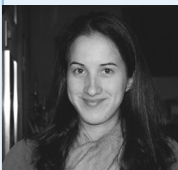
boot camp as a way to learn more about business principles and how to make them happen in an academic setting. Gil oversees the entrepreneurship minor, offered by the department of economics for undergraduate students in the College of Arts and Sciences.

"I found the boot camp exciting, stimulating and very useful," said Gil. "It helped us think and act like entrepreneurs from the conception of a great idea all the way to persuading potential investors to support it. Now I understand even better what our entrepreneurship minor in the College does to prepare our students for today's world, whether they intend to go into business, the academy, the arts, the sciences or a nonprofit venture."

High-profile entrepreneurs were featured speakers throughout the workshop, including UNC chemistry professor Joe DeSimone, who discussed his career as an entrepreneurial scientist; entrepreneur Jud Bowman, who passed up a full scholarship to Stanford University to found Pinpoint Technologies (later renamed Motricity); and Steve Nelson, a local venture capitalist who has backed Bowman in two startup ventures. Chancellor Holden Thorp discussed his experience in the world of entrepreneurship as well as his expectations for what might come out of the workshop.

*Reprinted from CEI Newsletter
May 15, 2009*

Life After Carolina



After graduating from Carolina in 2005, I headed off to graduate school at the London School of Economics for a Masters in Environmental Policy, Planning and Regulation. My economics major had prepared me well for this experience, and I found myself leading discussions and giving presentations on the economics of the environment, whether it be explaining the tragedy of the commons or the Coase theorem. During the second semester of my studies I attended the Carbon Expo in Germany where I was exposed to the burgeoning carbon market. This experience led me to write my thesis about the economic and social factors driving companies to become carbon neutral.

After coming back to the US in 2006 I began working for GreenHawk Partners, a real estate developer in Raleigh focusing on mixed-use urban infill redevelopment and transit-oriented development. Working at a small firm means taking on lots of responsibilities and I had the opportunity to work on everything from modeling cash flows to writing business plans and even dabbling in local politics and Native American archaeology. As I began to work I quickly realized that it is not only the analytical skills that you learn at Carolina that serve you well, but also everything else that you are exposed to along the way.

As we started to see signs of trouble in the financial sector in early 2008 I realized it was time to take a risk and try something new. My degrees from Carolina and LSE gave me the confidence to move to Santiago, Chile, where I soon got a job at the Chilean National Environmental Commission. I currently work on a three-year project, financed by the UN Development Program, to prepare Chile's Second National Communication on Climate Change for the UN. I coordinate with various government institutions such as energy, agriculture, finance in an effort to quantify Chile's greenhouse gas contribution, analyze the Country's level of vulnerability to the effects of climate change and develop short and long-term strategies to reduce GHG emissions. In December, I'll be heading to Copenhagen for international negotiations to see what becomes of the Kyoto Protocol!

Alexa Kleysteuer

Food for Thought

Economic events have dominated the news for over a year and have generated interesting discussion in our classrooms and hallways. This year the faculty research section of the newsletter has been altered so you can “listen in” on some of our discussions. In particular, I have invited three of our faculty members to write a position paper on topics that may be of interest to you. The focus of the first piece, by Professor Richard Froyen, is the Fed’s response to the current financial crisis. In the second piece, Professor Michael K. Salemi addresses the state of the economy. The final piece, by Professor John Akin, provides some comments on health insurance reform and health costs. If you enjoy this section, then please write to me (balabanr@email.unc.edu) and let me know what issue you would like us to address in a future newsletter.

Comments on the Federal Reserve Response to the Current Financial Crisis

(Presentation for a UNC Alumni Forum, October 2008 with a postscript)

The current crisis is often compared to the Great Depression. In the midst of the Depression business leaders expressed bewilderment about the situation. The head of Montgomery Ward was quoted as saying that “to describe the causes of this situation is rather beyond my capacity. I am unfortunate in having no friends that seem able to explain it clearly to me.” Myron Taylor the president of U.S. Steel stated that “Out of this depression we are going through we shall have learned something of high importance.” Then—“It is too soon to know just what we are learning.” Some thought they had solutions. Bernard Baruch, advisor to U.S. Presidents, insisted that the government should “Balance budgets. Stop spending money we haven’t got. Sacrifice for frugality and revenue. Cut government spending—cut it as rations are cut in a siege. Tax—tax everybody for everything.” This was a prescription for disaster.

Taylor was right; we did learn something of high importance. It is what Franco Modigliani called the practical message from Keynes’s General Theory, namely, that “a private enterprise economy using an intangible money (substitute here having a highly complex financial system) needs to be stabilized, can be stabilized, and therefore should be stabilized by appropriate monetary and fiscal policies.” The application of Keynes’s message to the current financial crisis is the recognition that the central bank is the only agent with the ability to expand its own balance sheet to provide liquidity to the financial system to prevent the widespread collapse of financial institutions and drying up of credit to the rest of the economy. This ability is almost without limit.

SPECIFICS OF THE FEDERAL RESERVE RESPONSE

Beginning in September of 2007 the Open Market Committee began to lower the target federal funds rate. The FED began a loan auction program in December of 2007 when it became clear that banks were reluctant to lend freely to each other. This program has been expanded several times.

The FED began in March of 2008 to make loans accepting collateral in the form of mortgage backed securities. In January

of 2008 they set up the term facility to make funds available to banks for periods longer than overnight. This program has also been expanded several times. The FED opened the discount window to primary dealers in government securities in March after the failure of Bear Stearns. When lending to these financial institutions did not result in adequate credit availability to non financial firms the FED entered the commercial paper market. They also began an initiative to lend to the issuers of money market funds. These initiatives have resulted in increased borrowing from the Federal Reserve by over \$500 billion in the past year. The expansion of loan facilities has been much greater. The money market initiative alone is \$500 billion. The Federal Reserve response has been broad in scope and large in size.

THE RESULTS

The Federal Reserve has been able to respond to each new area of difficulty only as it has arisen; the FED has had a learning curve. Also important are three constraints on what the Federal Reserve can do:

1. A solution to the overall crisis requires measures outside the sphere of appropriate Federal Reserve action. The FED has been operating on the boundary of that sphere using a provision of a depression era statute that allows them to lend “in cases of financial exigency to any corporation, partnership or individual.” But to recapitalize the banking sector or to buy up massive amounts of troubled assets puts large amounts of taxpayer money at risk and Congress should be brought in, albeit kicking and screaming. Choosing which institutions to save and which to let fail is also testing the bounds of the responsibility of the central bank—even in concert with the FDIC. It is no surprise that it was after the weekend in September when Lehmann Brothers was allowed to fail and the Federal Reserve lent \$85 billion to AIG that Bernanke asked Henry Paulson to go to Congress with him.

2. Other central banks must be part of the solution to what is a global financial crisis. As the FED lowered interest rate during the first half of 2008, the value of the dollar fell. This was because the ECB, Bank of England and other European central banks did not do the

same. They provided liquidity which helped but by June a potential run on the dollar was a concern. The October 15th rate cut was a coordinated one by the Federal Reserve and all the major European central banks. European governments have also become aggressive in other measures to support their financial institutions.

3. Until recently commodity prices were rising rapidly and fear of inflation was a constraint on Federal Reserve rate cutting. Fear of inflation also constrained the action of European central banks. Now with commodity prices, most notably oil prices, falling sharply, this constraint is relaxed.

What can we expect? I believe that the FED can on its own prevent a collapse of the financial system and thus will avert a depression. The Federal Reserve’s capacity to expand its balance sheet is virtually unlimited. So far, as I said, the Federal Reserve’s balance sheet has expanded by roughly \$500 billion. Before they get to the level of the Bank of Japan in the 1990s as proportion of GDP, they would have expanded their balance sheet to \$4 trillion. They can contain the financial crisis. This doesn’t mean that there will not be more nasty surprises. It is a statement about the medium –run. If there is cooperation with fiscal and regulatory authorities here and abroad we can avoid anything like a decade of stagnation such as that experienced by Japan in the 1990s. This does not mean that the economy is not in for rough going over the next several quarters.

POSTSCRIPT (October 2009)

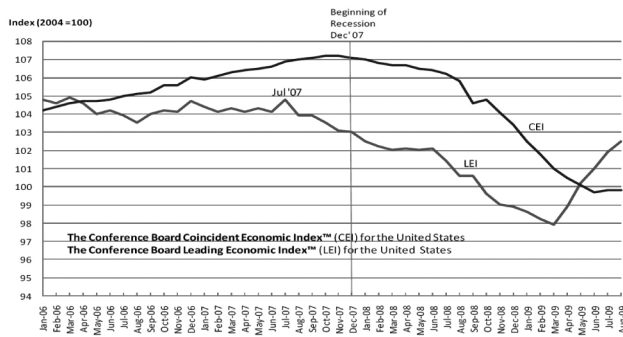
The Federal Reserve has continued an aggressive program of quantitative easing. In the last year it has made large purchases of long-term government bonds and mortgage backed securities. Smaller programs have been launched to purchase securities backed by credit card and automobile loan debt. The most recent program partners the FED with private investment firms to buy troubled assets held by banks. Together these programs, along with the earlier ones, have expanded the Federal Reserve balance sheet from \$800 billion to \$2.1 trillion.

Richard Froyen

The State of the Economy

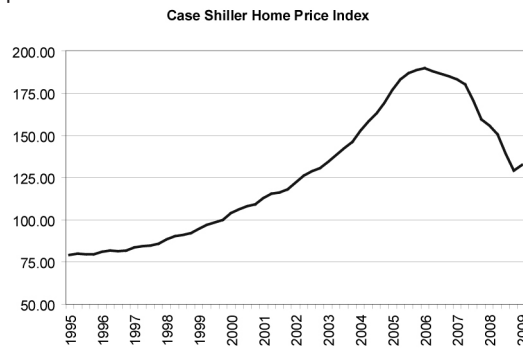
In December, two months hence, our recession will celebrate its second birthday. While there are signs that it may soon be over, it is the longest since the Great Depression and more than twice as long as the average recession in the post World War II period.

Signs of recovery are apparent in the index of leading economic indicators (LEI) which bottomed



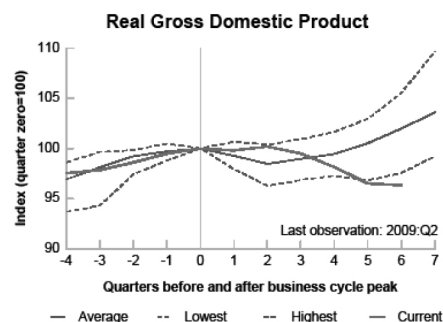
out in March, 2009 and has risen each month since. The index of coincident indicators (CEI) has also flattened and may soon signal the recession's end.

How did we get here? The expansion that ended in December of 2009 lasted 73 months, over a year longer than average. In that sense, a recession was due. The match that lit the tinder was the bursting of the housing bubble in the second quarter of 2006. Between 2006II and 2009II, the Case-Shiller home price index fell by 32 percent. It too now appears to have hit bottom and started back up.



The economic effect of the bursting home-price bubble was greatly magnified by the threatened failure of financial institutions—some that had taken substantial positions in mortgage-based derivatives and others that had not. The combination of slower spending growth (common as an expansion matures), falling real estate values, and the threat of a financial-system melt down created a perfect storm of economic bad news that dramatically lowered equity prices and destroyed trillions of dollars of wealth.

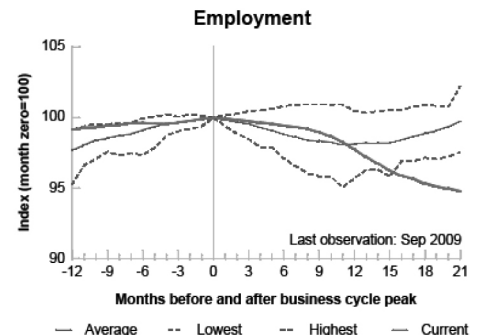
By any accounting, the current recession has been a bad one. The following graph from the St. Louis Federal Reserve compares real GDP movements in the current recession to those in other recessions.



In the average recession seven quarters after the peak, real GDP has begun to recover. In our current recession, real GDP continues to fall relative to its past peak and the size of that fall makes this the worst recession in the post World War II period.

Our current situation is precarious. Consumer confidence grew during the first five months of 2009, but has oscillated since and declined a bit in September. While retail sales grew slightly in September, the New York Times reported on October 3 that retailers are expecting a “flat Christmas.” Some retailers think that “flat” is good news and are relieved that another record sales decline does not appear to be in the offing.

Even if the leading indicators are correct and recovery is on the way, it will still be many months before job markets recover. Unemployment is a lagging indicator and does not typically rebound until two or three quarters after the trough in GDP. Our current recession may have a longer-than-typical impact on job markets. St. Louis Fed data show that US employment continues to fall.



Michael K. Salemi
October 15, 2009

Some Thoughts on Health Insurance Reform and Health Costs

I will not attempt to suggest the best approach to organizing this nation's health care system. Every nation has its own approach, and what is best for each is to a great extent the result of the culture and history of that nation. In the U.S. we have developed over time a hodgepodge of different insurance systems, neither of which is coordinated with any other. We have two separate systems that serve the elderly, poor or rich (Medicare), and the very poor (Medicaid); a separate child health system that serves children of less than high income families (SCHIP); a Veterans Administration system that serves military veterans and their relatives; and a private insurance system, that works both through policies paid for by employers and through individually purchased insurance. What we do not have is anything that even resembles a normal competitive market. Most health care bills are paid by third-party payers (either private insurance or government) so that both providers and the patient do not generally view the patient as the person who will pay the bill. We also have a law that requires emergency rooms to treat patients needing emergency care, a system through which a good number of the uninsured non-wealthy often are treated. Such care also often is never paid for by the recipient, with the result being that hospitals must find ways to raise enough funds from other sources to pay the real cost of such charity care.

While we could write volumes on the complexity of health systems and their funding, much of the basic story is relatively simple. The desire for health sector reform results from three related objectives of health systems: coverage, quality and cost. Coverage of as much of the population as possible, high quality of the care provided to those who are covered, and the lowest feasible cost of providing this coverage and quality are all admirable objectives, but unfortunately it is impossible to achieve all three. In general, as coverage increases either costs will increase or quality will decrease. It is virtually impossible to cover more people at the same quality levels without increasing cost significantly. And if costs are to be reduced it is almost a certainty that either coverage or quality of care will be reduced. By the same logic, increasing quality without lowering coverage will inevitably lead to higher costs.

Some would suggest that all the results with respect to all three objectives could be improved by becoming more efficient and reducing waste in the system. While there tend to be inefficiencies and resultant opportunities for savings in any actual production system, the suggestion that normal economic resource tradeoffs can be avoided (i.e. we can get something for nothing) by moving to improved efficiency is often made but seldom realized. At best, improving efficiency is a one time way to save costs but will not lead to long term cessation of cost increases. If costs tend to grow 10% per year in an imperfectly

efficient system it is likely they will also resume growth at near that rate even if many of the inefficiencies can be removed. That such things as electronic record keeping may cut costs when first put into practice does not mean that such changes will cause reductions in future cost increases. So while inefficiency in the health system may be a plump target for early cost savings it is doubtful that the rate of long term cost escalation will be much affected by such changes. Technology changes that make available costly ways of reducing illness and death, demand growth (probably to a large extent due to increasing incomes of the population), and changes in population needs (due to such factors as aging) will not be affected by improved efficiency of the operation of the health system. The tradeoffs among coverage, quality and cost are likely with us forever.

That real long-term health sector reform is likely to require that Americans either spend much more, forgo significant additional coverage, or settle for a lesser quality of health care (at least to the extent that quality costs money) is not a message that the public is happy to absorb. The perception of the population tends to be that we can provide all of the most technologically advanced health services to all who need them at low cost to everyone. This is simply an illusion. The real questions of health reform are how much are we willing to spend, who is to receive the services, and what types of services will they be. Part of the answer is that unless we are willing to spend inordinately large amounts we must find ways to decide not to provide some possible health services to some people. A pure market system would ration the scarce services to those with the money to pay while a more egalitarian system might make all services that are provided to anyone available to all while reducing the sets of services available or the quality of the services provided. Systems ration by money, by waiting time, by not allowing some types of expensive services, by refusing certain services to those deemed to be beyond help, etc. But all systems ration care. No country is so rich that all health services can be free and all demand for the free services can be supplied. And the resource constraints on health systems are likely to increase as technology continues to improve, populations age and demand for care grows.

For there to be a real reduction in costs of the U.S. health care system, which now consumes over 16 percent of GDP and has been growing quickly, the U.S. people must make a painful decision, one which no politician seems to want to admit. There must be additional rationing. How that is to be done is an interesting question.

It is not at all obvious that under any of the reforms now being considered this necessary rationing will occur, or that the reforms will have much or any impact on the growth of costs. It is highly likely that with more people

insured, costs will escalate even more quickly than they have in the past. We can watch attentively for reform suggestions that may help. The suggested reforms, which seek to provide insurance for all while requiring insurers to take all comers and charge all who are insured similar premiums, almost certainly will not reduce cost growth in the health system. If the system makes the purchase of health insurance mandatory some of that added cost will be spread over relatively healthy individuals who have either purchased low cost individual coverage or chosen to purchase no insurance at all under the present system.

One aspect of our U.S. health system that almost all economists agree increases costs is the federal tax deductibility of insurance premiums paid by employers. Not only does this tax break make expensive coverage cheaper for providers to purchase for their employees than its real resource cost, but the effective subsidy is greatest for those in the highest tax brackets. This tax deductibility represents almost the "perfect storm" of bad tax policy. It both leads to inefficient overuse of resources and is unfair. Even if it is politically impossible to remove the tax break for employers, for the sake of fairness the tax break should be extended to all private insurance purchases. Then even though all Americans would have an incentive to overinsure, at least those who do not have the luxury of employer provided coverage (often the less wealthy) would get a tax break similar to that of those who do have such coverage. Even better, however, would be to do away with the tax break completely. The money saved for the government would be almost enough to pay the added cost of covering all Americans with health insurance.

The other characteristic of the U.S. health system that probably contributes most to cost escalation is the fee-for-services approach to paying providers. Being paid for each service gives the provider an incentive to provide almost all services that may be of any value. Often services and tests are provided for which the benefits are much less than the cost. That the payment for those services is usually made by an insurer or the government removes the dilemma for the provider of worrying about the financial strain on the patient.

With the combination of third party payment and fee-for service payment mechanisms the U.S. system of health finance tends to have great incentives for excessive services and costs. Setting up systems where health providers are paid for the results they produce or simply paid a fixed amount for each client whose health needs they are responsible for over the year, rather than for the numbers of services provided, could go a long way toward cost reduction. The present health reform proposals do not treat this problem.

I will close by noting that there is a strong sentiment among health economists that the main driver of costs for health care is not

defensive medicine, malpractice insurance costs, or even doctors salaries. Research suggests that the most important cause of cost escalation is the rapid growth of very expensive technologies and treatments. The problem is made even more difficult by the fact that these high tech treatments do not simply cost

a lot of money, they also often save lives or reduce serious illness. To effectively reduce the explosive growth of health care costs the U.S. (and other nations) almost certainly will have to determine methods for deciding when such treatments and technologies will be paid for and when they will be denied. Making those policies

and decisions is neither simple nor pleasant. It is probably something we as a society eventually must face up to.

John Akin, Chair

Yes, I want to give to Economics

PERSONAL INFORMATION

Name _____ Degree/Class Year _____
 Preferred Address and Phone: ☐ Home ☐ Business
 Company _____
 Street Address _____ Apt./Suite _____
 City _____ State _____ Zip _____
 Phone Number _____
 E-mail Address _____

YES! I WANT TO GIVE TO ECONOMICS.

My gift to the Economics Department is:

☐ Personal Gift = \$ _____
☐ Company Match + * = \$ _____
TOTAL = \$ _____

This is a joint gift. Please also credit:

* **Matching gifts** can double or triple your gift. If you or your spouse works for a matching gift company, please ask your personnel officer for a matching gift form to send in with your gift.

PLEASE APPLY MY GIFT TO:

☐ Department of Economics Fund (#1191)
☐ A specific Economics fund or program: _____

METHOD OF PAYMENT

☐ **CHECK.** Enclosed is my gift payable to *The Arts and Sciences Foundation, Inc.*
☐ **BANK DRAFT or STOCK.** Call Ishna Hall at 919-843-4885.
☐ **PLEDGE.** \$ _____ annually for _____ years, beginning _____
 Please send an annual reminder each _____ (month/year)
☐ **CHARGE.** Please charge my gift of \$ _____ to: ☐ Visa ☐ MasterCard ☐ Amex
 Card Number _____ Exp. Date _____
 Signature _____ Today's Date _____

*Annual gifts of \$1,500 or more qualify donors for membership in the College's Dean's Circle.
 Young Alumni Levels: 1998 to 2002 - \$500; 2003-2007 - \$250*

Please mail all gifts to the Arts and Sciences Foundation at 134 East Franklin Street Chapel Hill, NC 27514 or give online at <http://college.unc.edu/foundation>.

Contact Ishna Hall at 919-843-4885 or ishna.hall@unc.edu if you have any questions.

Department of Economics
Gardner Hall, CB 3305
The University of North Carolina
Chapel Hill, NC 27599-3305

Nonprofit Organization
U.S. Postage
P A I D
Permit No. 177
Chapel Hill, NC