

The Econ Exchange

NEWS AND NOTES FROM THE DEPARTMENT OF ECONOMICS

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ECONOMICS AT CAL: *at the cutting edge for 100 years*

A Message from Chair Alan Auerbach...

This issue of *The Econ Exchange* comes to you shortly after our Department held its hundredth commencement exercises in the Greek Theatre on May 16. Well timed to avoid the freak series of rainstorms that hit Berkeley later in the week, the ceremony confirmed once again that the sun shines on Economics at Berkeley, even amidst the latest budget warnings from Sacramento.

Officiating at commencement is one of the relatively few unencumbered pleasures of the Chair's job, offering an opportunity to celebrate with students and their families the successful completion of our challenging program of study. This year well over 300 undergraduates participated in these exercises, including 39 honors graduates. An unusually large cohort of 27 students completing their Ph.D.s joined in the procession, marking what has probably been the Department's most successful year in Ph.D. job placement. Addressing the gathering as our commencement speaker was George Akerlof, this year's Nobel Laureate in Economics, who congratulated the students on having chosen a field (the study of which has endowed them with maturity and rationality) that has promoted world prosperity.

After an active recruiting season, we have continued our recent hiring success. Two new faculty members will join us this summer as Assistant

See CHAIR, page 11

Author's Note: The article that follows is not a comprehensive history of the Department of Economics at the University of California, Berkeley—nor is it intended to be so. It is, rather, a series of snapshots of aspects of its story since 1902 that offer insight into a few of the Department's innovations that have placed it at the forefront of academia over the last century. Jane Turbiner, Editor, *The Econ Exchange*

Economics at Cal didn't even begin as "economics". It was first known as "political economy" and claimed a single faculty member, Bernard Moses, who was later to identify most strongly with Cal's Department of History. Before 1902, all faculty who taught anything remotely concerned with economics did so as members of the Department of History and Political Science. In that year, the Department of Economics at Berkeley came into being. Its penchant for innovation started right from its inception: it was one of the first departments in the United States to be so named.¹ Except for Stanford University, Cal's nearby competitor, which founded its economics department in 1893, most universities did not recognize economics as a separate discipline until somewhat later. Yale University, for instance, did not unite its various faculty under an "economics" rubric until 1937. In 1903, History and Political Science itself became two separate departments, both chaired by erstwhile political economist and historian Bernard Moses. According to the University of California History Digital Library², "the term 'Political Economy' first appeared in the *UC Register, 1871-1872*, which announced a series of lectures on subjects by members of the faculty. From 1876 to 1890, Professor [Bernard] Moses taught two undergraduate courses in political economy, which were described as 'a critical study of the history of economic thought' and 'a general view of the principles and laws of Political Economy in its present position'". From this quite modest beginning, the Department of Economics has attracted a powerful and impressive faculty contingent, many of whom have been recognized for their innovations in the field, pioneered the advancement of women in academia, influenced the academic course of the University of California, and impacted hundreds of thousands of students at Berkeley.

Professor Ira B. "Doc" Cross, who taught in the Department from 1914 until his retirement in 1951, wrote and revised several department histories, completing his final revisions in 1967, in time for the University of California's Centennial in 1968.³ This chronology covers the years 1871 to 1942 and reads like a laundry list of faculty appointments, promotions, and retirements. It nevertheless offers keen insights into the evolution of a



Professor Ira B. "Doc" Cross

See ECON, page 4

THANK YOU TO OUR FRIENDS

The Department of Economics gratefully acknowledges the alumni and organizations who have made donations to our programs from August 2001 through April 2002:

Agnes and John Alden '42
Karen and Richard Aschenbrenner '69
Bank of America
Marcus Berliant '81 and Clara Asnes
Sophia P. Brownell
Chek S. Chow '97
Diane and Laurits Christensen '66
Melissa De la Rose Malloy '90 and Michael Malloy '91
Chad Eisenbud '99
Suzanne Palmer and Daniele Facchini '84
Pamela and William Fong '72
David Hansen '79
Yuko Kameoka '94
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Maggiem and Mark Reynard '79
Linda and Kneave Riggall '79
Deborah and Steven Rocha '78
Turan Sahinkaya '91
Susan Leong and Steve Sidener '82
Matthew Solem '95
Deke Sonnichsen '59
Ann and Eldon Spencer '71
Aleta Thielmeyer '61

We're adding an Alumni Exchange page to *The Econ Exchange*... and we need your help!

Beginning with the Fall 2002 issue, the editor of *The Econ Exchange* solicits items from alumni for its new Alumni Updates page. Similar in scope to its Faculty News & Notes and Graduate Student Updates, we invite alumni to send us items that detail professional accomplishments and do not exceed 75 words. They can include information about professional moves, publications, current research projects, and other news of professional note. Items for the Fall 2002 issue should be sent to newsletter editor Jane Turbiner no later than October 1, 2002. The editor retains editorial discretion over content and alumni should understand that space considerations may prevent all items from appearing in the relevant issue. Please contact Jane Turbiner (turbiner@econ.berkeley.edu) should you have any questions. Looking forward to hearing from you!

Econ alum's estate endows graduate fellowships

The Department of Economics has been notified that the late Mrs. Rachel Carter had bequeathed \$290,000 to IBER to endow a fund whose income will support graduate students. The fund bears the name of her late husband, Professor John P. Carter. A similar amount was bequeathed to the Institute of Business and Economic Research, with lesser sums going to the Haas School and UCSF.

John Carter did his undergraduate work at Columbia and received his Ph.D. in Economics from UC Berkeley in 1947. He spent his entire career in the Business School, starting as a Lecturer in 1946 and retiring as full professor in 1978. Prof. Carter's expertise lay in finance and transportation management, and he is probably best known for his book *The Structure of Transcontinental Railroad Rates* (with his dissertation advisor, Prof. Stuart Daggett), published in 1947 by IBER.

John Carter's love affair with railroads began in Akron, Ohio, where his family lived near a siding that was a daytime resting place for the sleeping car from the New York to Cleveland night train. Watching Pullmans from the Pennsylvania RR, selling tickets at the NY Central's office in Grand Central Station, working for the Kahului RR in Maui—Carter loved trains. After he retired, Carter moved to Sonoma. He bought an old caboose, had a length of proper track laid in his back yard, and hired a crane to lift the caboose and its platforms, lanterns, wood stove and four wheel trucks onto the tracks. This became Carter's office and guesthouse. All aboard!

Carter enjoyed a long retirement until his death in 1999 at the age of 84. His brother, Robert, recounts that the last words he heard Carter say were, "Amtrak" and "bye-bye". "I will never know if he was saying "bye-bye" to me or to Amtrak."

The gift of Mrs. Carter, in honor of her husband, will continue Professor Carter's impact on students in Economics at Cal into the future. "Supporting graduate students is one of the most important and challenging tasks facing our Department," said outgoing Chair Alan Auerbach. "With all the effort we have put in annually to find adequate funding for this purpose, the receipt of such a generous and unexpected gift is exceptionally gratifying."

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Guido Imbens:

Inspired by a Dutch Master (Econometrician)

A New Faculty Profile

There have been many stops on Guido Imbens' road to Cal, but the newest member of the Economics and Agricultural and Resource Economics departments says he was drawn to Berkeley by the "first rate" faculty in econometrics and labor economics, and by the department's reputation for being very friendly.

Imbens, a native of Holland, chose to major in econometrics at college while still in high school in Eindhoven. Unlike in the United States, where econometrics is a subspecialty within economics programs, in Holland it stands alone, thanks to Jan Tinbergen, the Dutch econometrician who, in 1969, won the first Nobel Prize in Economic Sciences for developing and applying dynamic models for the analysis of economic processes. Tinbergen worked to establish econometrics as a separate field of study because, in Holland, economics is combined with business studies, which does not offer students strong statistical training. While Imbens was growing up, with a flair for mathematics and chess, Tinbergen was "very influential in economic policy, and [had been] since the depression era, and [was] an example of a person doing very technical things with real world applications." Throughout Imbens' high school years, Tinbergen remained in the public eye through government service that combined his econometrics expertise with development policy creation and implementation. Inspired by this model, Imbens felt that "econometrics seemed to me to be useful, as well as something fairly technical." He had considered mathematics for a college major, but his older brother had already claimed that field for himself (and has since completed a Ph.D. in it), and so he chose econometrics. He enrolled at Erasmus University in Rotterdam, where Tinbergen had taught, and greatly enjoyed both the small size and intensity of its econometrics program. However,

after three years, Imbens sought adventures outside the Netherlands, and became an exchange student at the University of Hull in the United Kingdom. His studies ignited a strong interest in research, and he remained in Hull an additional year to complete a M.Sc. in Economics and Econometrics, with distinction. Five years later, in 1991, Imbens received his Ph.D. in Economics from Brown University and left Providence, Rhode Island for his first teaching job at Harvard. His dissertation, "Two



Essays in Econometrics" focused on semiparametric methods in econometrics, in particular on methods to deal with stratified sampling. After sojourning at Harvard and UCLA, Imbens joined Cal's Economics and Agricultural and Resource Economics Departments in January, 2002.

Imbens, who specializes in theoretical and applied econometrics, is interested in questions of identification and estimation of causal effects, which his current research addresses. He says that most statistics books, "if they mention causality at all, they talk about the fact that correlation is not the same as causality." He implies that it is not

enough to show, statistically, that two issues are related or associated, and therefore are correlated. Rather, it is necessary to demonstrate the effect one issue has on another. Therefore, Imbens seeks to develop methods for estimating causality. For example, a few years ago, Imbens published several biomedical papers that dealt with this problem of estimating causal effects. Entitled "Estimating the Effects of Flu Shots in a Randomized Encouragement Design" (with K. Hirano, D. Rubin, and A. Zhou, *Biostatistics* I.1, 2000), the "application concerned estimating the effect of the flu shot. An experiment was conducted [by] sending physicians letters encouraging them to get their patients vaccinated. However, we [Imbens and his co-authors] were interested in the effect of the flu shot, not of the encouragement letter. So, we extended statistical methods to allow for estimation of the treatment of interest, getting a flu shot, where the treatment that was randomized was different, namely getting the letter, and the two are related, but not the same."

Imbens has secured National Science Foundation support through 2005 for his research on developing methods for estimating causal effects. The overarching goal of this project is to address "program evaluation type problems in which [he] wants to estimate the effect of some policy intervention such as going through an employment training program or not, going to college or not, on outcomes such as earnings or employment". Earlier work with the RAND Corporation indicated that welfare-to-work programs that provided specific job skills to participants were in the long-run at least as successful as programs that focused on getting welfare participants into jobs quickly, contrasting with earlier work that had focused only on short-term outcomes and indicated the job search programs were more effective. His recent research has addressed the issue of the

See *IMBENS*, page 11

field of study, a department, and, indeed, of the Berkeley campus itself. Discrete departments at Cal are primarily a 20th century phenomenon; initially all faculty belonged to a particular college (i.e., agriculture, mechanics, mining, civil engineering, chemistry, letters, social sciences, natural sciences) and titles were assigned based on the academic preparation of the professor.⁴ For instance, Professor C. C. Plehn—who would become the first Dean of the College of Commerce in 1898—held the title of Associate Professor of Economics, although no such department would exist for a number of years. From the advent of her teaching appointment in the Department in 1903 until she achieved tenure in 1911, Jessica Peixotto, the doyenne of social economics at Berkeley, held the following titles: Lecturer in Sociology, Lecturer in Socialism, Assistant Professor of Sociology, and Assistant Professor of Social Economics. She held the title of Professor of Social Economics until her retirement in 1935.



Miss Cora Jane Flood

Cora Jane Flood and the College of Commerce

One pioneering woman who has had a profound and continuing influence on the Department over the past one hundred years is Cora Jane Flood, whose generous gift to the University in 1898 endowed the College of Commerce and its successor units, the Department of

Economics and the School of Business Administration. The late Business School Dean Emeritus E. T. Grether—who with colleagues from Economics formed the first faculty of the new School of Business Administration in 1942—wrote that Cora Jane Flood made this gift to the University with “a simple and singular purpose—to be devoted to some branch of commercial education.”⁵ Although Miss Flood never stated her motive for making the endowment, it is assumed she did so in honor of her father, businessman and UC Regent James Clair Flood. The College of Commerce, which was originally intended to train young men for the export trade, did not have its own faculty complement and offered only undergraduate courses which were taught by professors from a variety of departments.

As increasing numbers of faculty devoted to disciplines such as commerce and finance made clear the need for a distinct department to house them, the University responded by founding the Department of Economics, with commerce faculty supported by the Flood endowment. The Department’s first Chairman, Adolph C. Miller, was named Flood Professor of Economics and Commerce in 1902. Miller, who had trained Stanford’s Thorstein Veblen and others at the University of Chicago, was recruited away by University President Benjamin Ide Wheeler, and was very influential in the development of the College of Commerce. Although he left Cal in 1915, Miller was to have a continuing and profound influence on scientific research on this campus. (See article on the Miller Professorship in this issue of *The Econ Exchange*.) Another Flood Chair, labor economist Ira B. “Doc” Cross, taught Principles of Economics (Econ 1) for over thirty years, from 1919 until his retirement in 1951. It has been estimated that Cross lectured to more than 50,000 students

during those years, more than any other single professor at Cal. Cross was known “for making controversial statements to disrupt his students’ complacency and stimulate their thinking about economic issues. One student labeled his method ‘education by sting.’” Since 1960, the state has paid basic faculty salaries, and the income from endowments such as Flood are now used for “enrichment” purposes by both Economics and Business Administration to support faculty research, student fellowships, teaching enhancement, recruitment, and travel.



First Department Chair and Flood Professor Adolph C. Miller

In 1942, the successor to the College of Commerce, the School of Business Administration (now the Haas School of Business), was established with nine faculty members and three teaching assistants from the Economics Department, and offered both undergraduate and graduate degree programs. Economics and Business Administration have continued to cooperate in the administration of the Institute of Business and Economic Research and the Business Administration/Economics library, both now housed in the Haas School of Business. Through the years, a substantial number of Economics faculty have held (and continue to hold) joint appointments, not only at Haas, but in other departments on campus, including Mathematics, Political Science, Public Policy, and Law.

Jessica Peixotto and social welfare at Berkeley

The Department of Economics is perhaps unique in that, from its very inception, women have strongly impacted its direction, and the influence of these women continues to reverberate throughout the Berkeley campus today. In the case of Cora Jane Flood, a single act led to the creation of the College of Commerce in 1898. Jessica Peixotto’s

influence on the field of social economics and social welfare, however, evolved over the first four decades of the 20th century, and led to the founding of the School of Social Welfare at Cal in 1940. Social economics is an area devoted to the study of the causes, consequences, and potential solutions to socio-economic problems, such as poverty, illness, crime, and unemployment. At Berkeley, social economics, a subfield that was led by a group of primarily female faculty, including Peixotto, Barbara Armstrong, Emily Huntington, and Lucy Ward Stebbins, by 1925 was one of four areas of concentration within the Department of Economics (economic theory, economic history, and labor were the others).⁶ The California History Digital Archives' thumbnail history of the School of Social Welfare⁷ states that "three historic trends contributed to the origin of professional education for social work at Berkeley: the multiplication of specialized institutions for charity and correction; the agitation for social reform; and the development of social science. They entered academic consciousness by way of the economics department in 1904 through the work of Ernest C. Moore and Carl C. Plehn, but it was primarily through the interests and efforts of Jessica B. Peixotto, an expert on "social economics," who had practical experience in the charities of Berkeley and on the State Board of Charities and Corrections, that an organized curriculum developed."

Jessica Blanche Peixotto was an innovator who broke new ground in many areas. In addition to being one of the department's first graduate students, she was only the second woman to receive a Ph.D. from Cal in any field. One of the first two female faculty members appointed at Cal (in 1903), Peixotto was the first woman to attain the rank of Professor, in 1918. Although a student of Bernard Moses, who had moved to History when the Department of History and Political Economy was broken up into three separate units during 1902-03,

Peixotto completed her Ph.D. in the Department of Economics in 1903. Her dissertation, *The French Revolution and modern French socialism* (1905) clearly demonstrated her interest in both economics and history, and in her teaching Peixotto required that her students be grounded in economic theory as well as in history. Peixotto's early research, which was influenced by the German Historical School training of her mentors, political economist/historian Bernard Moses and economist C. C. Plehn, was focused on broad social



Professor Jessica Blanche Peixotto

and economic reform movements and their origins. In her later work, she took a more statistical approach and gathered household budget data to document the need for such reforms, eventually developing a relative-income theory of consumption. One of her most influential studies, *Getting and spending at the professional standard of living: a study of the costs of living an academic life* (1927), was based on survey data of 96 members of Cal's faculty regarding their family income and expenditures. The study concluded that college professors were straining to meet their consumption goals and were underpaid, in comparison to other similarly educated professionals outside of academia. Peixotto's research was at the cutting edge for its time, in that she had included items such as insurance, recreation, and medical care

as part of her family expenditure dataset. Peixotto's expertise in this area led to her participation on a California State Civil Service Commission committee charged with investigating the adequacy of state wages and salaries in 1921—an issue that has not ceased to concern state employees to this day. She later chaired the Heller Committee for Research in Social Economics, which was established in 1923, and became best known for its annual "Heller Budget" which measured the cost of maintaining commonly accepted standards of living for families in different occupational groups. These budgets were used for many years in arbitration disputes and provided the guiding principles for the City Worker's Budget developed by a special committee of the U.S. Bureau of Labor Statistics, of which Peixotto's colleague and fellow social economist, Emily Huntington, was a member.

In 1912, the Department of Economics, stating that "the widespread interest in the control of poverty has given rise, in recent years, to a demand for services of the trained social worker," announced the inauguration of the Curriculum in Social Economics. The program included a year of graduate study, mainly in economics, with fieldwork in the Associated Charities of San Francisco.⁸ During the 1920s and 30s, Peixotto was joined in the Department by social economists Armstrong, Huntington, and Paul Taylor. Both Armstrong and Huntington had been Peixotto's students. During the Great Depression, their research and teaching focused on the planning and implementation of social security programs. Ultimately, Armstrong moved to Berkeley's law school fulltime, at about the same time as she was appointed director of President Roosevelt's Committee on Economic Security (1934). Emily Huntington taught "The Control of Poverty" and "The Economics of Consumption", which included what is today labeled microeconomic theory, and focused her research on both consumer economics and social insurance. She was also a member of the California Unemployment Commission and helped design the state legislation on unemployment insurance,

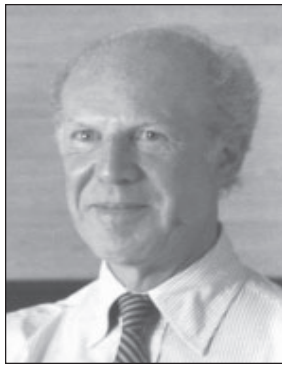
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and continued to teach, do research, and advise government agencies until 1961. Paul Taylor, who came to Cal after World War I to study with economist Solomon Blum, conducted research on Mexican agricultural workers and their migration to the U.S.—a subject of great interest in this state. In the 1930s, as field director of the Rural Rehabilitation Division of the California Emergency Relief Administration, Taylor investigated the economic conditions of California farm workers who had come from Arkansas and Oklahoma. This resulted in *An American Exodus*, a classic treatise on the Depression era, which included visual images by Taylor's wife, photographer Dorothea Lange. At Cal, this work was incorporated into Taylor's social economics courses on population and rural sociology, as well as into his labor classes, until his retirement in 1961. The heyday of social economics as a distinct field of endeavor at Cal ended with the retirements of Peixotto (1935) and Stebbins (1942), and the incorporation of their classes into the new School of Social Welfare.⁹

Economics and the Nobel connection

The Nobel Prize in Economic Science was first awarded in 1969, and is a relative latecomer to the pantheon of Nobel honors (which celebrated its centennial in 2001). "The Nobel Prize rewards specific discoveries or breakthroughs, and the impact of them on these on the discipline,"¹⁰ and is the ultimate academic honor. Fourteen years after its inception, in 1983, Gérard Debreu, the first of four Cal economists to achieve this great honor, was its recipient. A mathematical economist, Debreu is best known for his *Theory of Value*, published in 1959, which

provided a rigorous analysis of mathematical models underlying economic theories of supply and demand. This "slim, 114-page book formally proved the logic of Adam Smith's 'theory of general equilibrium' in a free market economy—commonly referred to as the 'invisible hand.' Nobel officials



Nobel Laureates Gerard Debreu (above) and John Harsanyi (below)



said the book 'has already become a classic both for its universality and for its elegant analytical approach.'"¹¹

A decade later, in 1994, Cal's second economist, John Harsanyi, was awarded the Nobel Prize. Harsanyi's early experiences—living under first the Nazis and then the Communists in his native Hungary—propelled him towards a lifelong search for the meanings of rationality and the study of the ways to understand and manage conflict. He became famous for his work extending the theory of games and opening the way towards its wide application to problems of conflict and cooperation in the economy, social and political institutions, and

international affairs. His 1988 path-breaking book, *A General Theory of Equilibrium Selection in Games*, with Reinhard Selten (with whom he would share the Nobel Prize, along with John Nash of Princeton), was the culmination of his work on equilibrium solutions to games with incomplete information.¹²

As one century closed and another dawned, two more Department faculty were honored with the Nobel Prize. In 2000, econometrician and 1975 Clark Medal recipient Daniel McFadden became a Nobel Laureate, to be followed a year later by macroeconomist George Akerlof. McFadden was recognized for "his groundbreaking method of predicting how people will choose among a number of options. By applying statistical measuring to psychological

theories about how various factors influence people in their decision-making, McFadden's models can incorporate a complex framework of motivations that traditional models could not. Before McFadden's innovations, any data that did not fit into traditional cost-benefit analysis was dismissed by economists as flawed by human mistakes. McFadden's model of discrete response was first used to predict potential ridership for BART when the planners were attempting to determine how the system should be laid out. It continues to be used by companies to determine what services to offer, by transportation agencies to locate new highways, as well as on marketing strategies. It would be accurate to say that McFadden's work probably touches our lives everyday."¹³

George Akerlof began with lemons, and on October 10, 2001, ended up with the Nobel Prize. Along the way, between 1970, when he published "The Market for Lemons", and last year, Akerlof's pioneering work in the study of the effects on markets of "asymmetric information" changed the way that people think in economics. His analysis of the used car market, in which one party has more information than the other, helped to prove a principle in economics: that asymmetric information exists in many markets, and that the "perfect information" of Adam Smith is not always available to each player in a particular transaction. This analysis of the effects of "asymmetric information" has now been applied to all kinds of markets, including the insurance, employment, and credit markets.¹⁴

Research support to the department

In addition to Cora Jane Flood's initial support of the College of Commerce in 1898, Economics has been the proud recipient of numerous endowments that bolster faculty research and expand the Department's commitment to academic excellence and cutting edge research. Several endowed chairs reside permanently in Economics, while other faculty members have been recognized for their excellence through the enthusiastic support of Berkeley's

chancellors and deans of Letters & Science. The Herman D. Royer Chair in Political Economy, currently held by macroeconomist David Romer, dates to 1905, and its title reflected the very recent emergence of economics as a separate discipline at Cal. Other distinguished chair holders include 2000 Nobel Laureate Daniel McFadden, who holds the E. Morris Cox Chair in Economics, and 2001 Nobel Prize winner George Akerlof—current holder of the Richard and Rhoda Goldman Distinguished Professorship in the Social Sciences—who will assume the new Daniel E. Koshland, Sr. Distinguished Professorship in Economics in July 2002. Robert D. Burch, a Cal alum, endowed a research center in his name that is dedicated to the study of tax policy and public finance; the Burch Chair is held by Alan Auerbach, Professor of Economics and Law, and current Department Chair. Cal alumni have funded a substantial number of endowed chairs that are named for their graduating classes: four of these chairs are currently held by Economics faculty. The Class of 1939 Chair in Undergraduate Education is held by former Chairman of the President's (Clinton) Council of Economic Advisors and former Dean of the Haas School of Business Laura Tyson. Clark Medal winner and labor economist David Card holds the All Berkeley Class of 1950 Chair, while macroeconomist and economic historian Christina D. Romer is the holder of the Class of 1957-Garff B. Wilson Chair. Nobel Laureate Gérard Debreu held the Class of 1958 Chair until his retirement; it is now held by international economist, and former Chair, Maurice Obstfeld. Two recent gifts—the Peevey/Vial Career Development Chair and the Yousef Family Endowment—will, in future years, provide support for both senior and newly tenured labor economists in the Department. The Peevey/Vial chair, endowed by Economics alumnus Mike Peevey '51, is one of a number of alumni gifts assigned specifically to Economics.

Berkeley at the cutting edge in behavioral and transition economics

Nobel Laureates Daniel McFadden and George Akerlof do it. Clark Medal and MacArthur Award recipient Matthew Rabin does it. Assistant Professor Botond Köszegi does it. What is "it"? Behavioral economics, or applied

microeconomic analysis that seeks to explain economic behavior through the application of psychological evidence. For these theorists, behavioral economics is the search for what is wrong or missing in existing economic models—the human element—towards the development of a richer and more useful economic theory. Rabin's research has touched on issues such as why people procrastinate and engage in risky behavior, and how they evaluate dieting, impulse shopping, and their choices in health care coverage. McFadden brings in experimental results from psychology to help explain economic behavior that does not seem rational in a classical sense. And Akerlof's research looks at the economic consequences of making decisions with asymmetric information, in which the players' insecurities affect the function of entire markets such as health insurance and, famously, used cars. With Nobel Laureates and Clark Medal recipients at work, Berkeley is at the forefront in this important new field of endeavor.

The study of comparative social welfare systems in the Department of Economics dates back to Jessica Peixotto and the dawn of the Department. In later years, department faculty, such as Peixotto's successor Carl A. Landauer, Gregory Grossman, Benjamin Ward, and Laura Tyson, would specialize in Comparative Economics Systems, the field of political economy devoted to the study of Marxist planned economies in the Soviet Union, Eastern Europe, the People's Republic of China, and elsewhere. In the late 1980s, this field of endeavor went extinct with the collapse of the Soviet empire and China's tacit move towards a market economy. In the 1990s, the successor field to Comparative Economic Systems came into being: Transition Economics. The Department of Economics responded to this development by attracting two leading transition economists to its faculty: Gérard Roland and Yingyi Qian. Roland and Qian seek to analyze the institutional structures that underpin or undermine a society's efforts to achieve a successful transition to a market-oriented economy. Both scholars had extensive ties to each other and to Berkeley before joining the Department in 2001.

Conclusion and Notes

Over the past one hundred years, the University of California has grown from its single small campus at Berkeley into an intellectually vibrant World leader in many areas of academic pursuit—including economics—spread out over ten campuses. The Department of Economics experienced a similar flowering in its first hundred years that has strongly influenced the direction of intellectual development at Cal in areas such as business and social welfare. Its faculty has changed the ways we think about the economic consequences of conflict management, the purchase of used cars, and procrastination, to name just a few, and has trained hundreds of students who have gone on to impact the field of economics. As the Department transitions to its second century, it will continue to strive to meet the evolving intellectual demands of the University of California and the world in which we live.

(Endnotes)

- 1 See Mary E. Cookingham, "Social economists and reform: Berkeley, 1906-61" in *History of Political Economy 19:1* (Duke University Press, 1987)
- 2 See the following URL: http://sunsite.berkeley.edu/uchistory/general_history/ucb/departments_e.html
- 3 Ira B. Cross, "Economics at the University of California, 1871-1942". Unpublished manuscript, 1967.
- 4 E. T. Grether, "The College of Commerce, 1898: The Pioneering Predecessor of the Schools of Business Administration", in *Cal Business*, Fall 1984.
- 5 E. T. Grether, "The Initial and Continuing Role of Cora Jane Flood" in *Cal Business*, Spring 1984.
- 6 Mary E. Cookingham, "Social economists and reform: Berkeley, 1906-61" in *History of Political Economy 19:1* (Duke University Press, 1987)
- 7 See the following URL: http://sunsite.berkeley.edu/general_history/campuses/ucb/colleges.html.
- 8 See the following URL: http://sunsite.berkeley.edu/general_history/campuses/ucb/colleges.html.
- 9 Cookingham, 1987.
- 10 See the following URL: <http://web.uvic.ca/econ/nobel.htm>.
- 11 William Rodarmor, "Cheering up the dismal science", in *California Monthly*, December 1983.
- 12 Frederick E. Balderston, "In Memoriam", in *California Monthly*, November 2000.
- 13 Melinda Ridgway-Tichelaar, "Taking BART to Stockholm", in *California Monthly*, December 2000.
- 14 Ayala Ochert, "A twist of lemon", in *California Monthly*, December 2001.

WASHINGTON COMES TO BERKELEY

By Professor Richard Gilbert

The Antitrust Division of the Department of Justice and the Federal Trade Commission moved outside the Capital to hold hearings at UC Berkeley on "Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy." The hearings took place from February 25 – 28 at the Haas School of Business. The official sponsors were the Competition Policy Center (a joint venture of the Economics Department and the Business School), the Institute for Business and Economic Research, and the Boalt Hall Technology Law Center. The DOJ and the FTC explained that they came to Berkeley to tap its expertise on the subject of competition and intellectual property. A total of eleven Berkeley faculty, most of them members of the Department of Economics, made presentations at the hearings: **Richard Gilbert, Bronwyn Hall, Mark Lemley, Robert Merges, David Mowery, Daniel Rubinfeld, Suzanne Scotchmer, Howard Shelanski, Carl Shapiro, David Teece, and Hal Varian.** For balance, Kenneth Arrow, John Barton, and Tim Bresnahan represented that farm down in Palo Alto. There were presentations from several Bay Area high tech firms, including Hewlett-Packard, AMD, Intel, Amazon.com, Texas Instruments, Cisco Systems, Chiron, Immunex, and Aventis Pharmaceuticals. FTC Commissioners Mozelle W. Thompson and Thomas B. Leary attended the hearings, along with several staff from both antitrust agencies and the US Patent and Trademark Office.

It was easier for the Department of Justice and the Federal Trade Commission to bring Washington to Berkeley than to move the eleven Berkeley faculty to Washington. The FTC's general counsel, Bill Kovacic, called Berkeley "A jewel of intellectual expertise in the field of competition policy". We agree. In the antitrust arena alone, five of the last six chief economists at the Antitrust Division were faculty associated with the Berkeley economics department. We are indeed proud of the contributions that Berkeley economics has made to competition policy.

FACULTY NEWS & NOTES

Pranab Bardhan addressed the India-China Faculty Seminar at the University of Michigan on the subject of Indian economic reforms in February; spoke on the global economy at the Central Bank of Sri Lanka in March; and, gave a public lecture in the Global Policy and Social Justice series at UC Santa Cruz in April.

Clair Brown and Post-doc **Greg Linden** are hosting a workshop on Globalization Competition and Firm Performance at Berkeley in June, sponsored by the Sloan Foundation. In April, Brown, along with **Andrew Hildreth** and graduate student **Ben Campbell**, made a presentation on combining linked employer-employee data with case study data for the semiconductor industry at a Census-Sloan Conference held in Washington, D.C.

The Economics Graduate Student Association has named labor economist **David Card** *Best Advisor for 2001-02*. Congratulations!

Aaron Edlin reports that he has founded the Berkeley Electronic Journals of Economic Analysis & Policy (www.bepress.com) together with Berkeley colleague **Ben Hermalin**, Don Fullerton (University of Texas), Bruce Meyer (Northwestern University), and Kyle Bagwell (Columbia University). These journals speed a review process that traditionally takes years to weeks. He has written extensively on predatory pricing issues, publishing in the *Yale Law Journal* and the *Antitrust Revolution*. He will be the next co-author of *Antitrust Analysis: Problems, Text, and Cases*, by Areeda and Kaplow, the leading antitrust casebook.

Barry Eichengreen gave the fifth annual David Finch Lecture at the Faculty of Economics and Commerce of the University of Melbourne on February 20th, on the subject "Can Monetary Union be Made to Work in an EU of 25 Members?" In April, he received the Robert Ehrnrooth Prize in Helsinki, Finland, which is awarded biennially by the Robert Ehrnrooth Foundation, which invites "outstanding lectures from Academia and Business."

See FACULTY, page 11

Chris Shannon Awarded Miller Research Professorship During 2001-02

Chris Shannon joins Economics Nobel Prize winner Gérard Debreu as only the second economist to be awarded the prestigious Miller Research Professorship from Berkeley's Adolph C. and Mary Sprague Miller Institute for Basic Research in Science. Professor Shannon, who specializes in mathematical economics, competed with science faculty from Berkeley and elsewhere for the one-year appointment from the institute "dedicated to the encouragement of creative thought and conduct of research and investigation in the field of pure science." The Miller Institute grants between four and seven awards annually, which pay salary and benefits for a semester or standard academic year, and thus release the grantee from teaching and administrative duties during the period of the award.

The Miller Institute was endowed by former Economics chairman Adolph C. Miller, a Cal alumnus, and his wife. After graduate education and teaching positions at Cal and elsewhere, Miller returned to the Berkeley campus in 1902 as Flood Professor of Economics and Commerce, and was instrumental in the development of the College of Commerce. Eleven years later, Miller left for Washington, DC, and positions as Assistant Secretary of the Interior and member of the Board of Governors of the Federal Reserve, which he held until his retirement in 1945. Following the deaths of Adolph Miller and his wife during the 1950s, the trust that they had earlier established with the UC Board of Regents was used to create the Miller Institute. The first appointments were made in 1957.

Professor Shannon joins a distinguished group of scientists as Miller Research Professor, ranging from Walter Alvarez of Geology & Geophysics, current Vice Provost for Research Beth Burnside of Molecular & Cell Biology, J. Desmond Clark of Anthropology, Nobel Laureate Yuan T. Lee of Chemistry, and former Chancellor Chang-lin Tien of Mechanical Engineering. Interestingly enough, although the Miller Institute was endowed by an economist, Shannon is the first solely in that field to hold the Miller Research Professorship, as

See SHANNON, page 11

Douglas Almond accepted a postdoctoral fellowship in aging and health economics at the National Bureau of Economic Research, beginning Fall 2002.

Elizabeth Cascio has received a 2002 Spencer Dissertation Fellowship for Research Related to Education. In her dissertation, she is using an episode of rapid kindergarten construction in the American South to study the longer-run effects of public preschool attendance.

Carlos Flores and **Pablo Ibarrran** both received Enroute-Masters and Pre-Dissertation Fellowships from the Institute of Labor Economics for 2001-02. They presented their current research at the ILE-sponsored Graduate Student Research Conference at UC Santa Cruz in January. Flores' paper was entitled "The Evolution of Inter-Industry Wage Differentials in Mexico" and Ibarrran's title was "The Impact of the 1995 Financial Crisis on Mexican Labor Markets and on Migration Flows to the U.S."

Galina Hale reports that she received a Berkeley Soviet and Post-Soviet Dissertation Write-up Grant this year, and has accepted a teaching position in the Department of Economics at Yale University, starting Fall 2002.

Following her May graduation, **Rene Kamita** joins the Antitrust Division of the US Department of Justice in Washington, DC.

This spring, **Nicole Maestas** presented her dissertation research on the retirement behavior of married couples at the annual meetings of the Society of Labor Economists in Baltimore.

Petra Moser has accepted a position at MIT 's Sloan School starting in Fall 2002.

In May, **Jesse Rothstein** presented "College Performance Predictions and the SAT" at the NBER Higher Education working group annual meeting.

Jason Seligman had his doctoral fellowship with the California Public Utilities Commission renewed for Summer 2002. He is researching regulatory interaction and response in California's electricity market. He has also accepted a teaching position with the Carl Vinson Institute of Government at University of Georgia, Athens.

NEW GRADUATE STUDENT FIELD RESEARCH OFFICES UNDERGO RENOVATION

Economics graduates who struggled in the past to find research space, computing resources, or even a comfortable chair to sit on, are in for a big surprise. In 2001, the Economics Department dedicated five offices, located on the interior hallways of the fifth and sixth floors of Evans Hall, as "field research offices". Previously, Graduate Student Instructors had priority for office space. Students writing dissertations would work at home or in the libraries, with computational support from one of three computer labs on the sixth floor of Evans Hall.

By 2000, faculty had reached a consensus that office space must be given to "dissertating", as well as teaching, students. They believed strongly that advanced graduate students needed access not only to the latest in statistical software, but also the opportunity to work closely with their peers and their advisors, and to be able to rely on departmental support on a daily basis. Within a short time, the five offices had been identified, faculty in each field had donated research funding, and departmental endowment funds had been committed to the renovation of these spaces. At the very least, each field research office received a fresh coat of paint, some new furniture, new computers, and site licensed software programs such as STATA and Acrobat. Designated by area of specialty, space in these rooms is allocated to advanced graduate students on an annual basis. These rooms are without windows and without much native charm, but they house computer equipment and other resources that are essential to the success of graduate students who are writing dissertations, preparing papers for public presentation or publication, and job hunting. However, with this initial work completed, ongoing financial support to insure continued success for future graduate students will be required.

Room 608-11, which serves students in labor, demography, and public finance, has seen perhaps the most dramatic change. Historically significant as the home of the VAX server on which Computer Science researchers first developed Unix System 7, it is sacred ground for Unix people. However, Grace Katagiri, Econometrics Laboratory Manager, reports that when Economics inherited the space from CS a few years ago, the office housed nothing more than "an old power source, an equally old HVAC from the VAX days, plus a lot of decrepit wiring that went nowhere (CS just clipped the wires when it left). [It] had a few grungy old desks. That was it. No computers in there at all." The room was dark, air circulation was poor, and it was crowded by a raised platform that had supported the nearly room-sized VAX mainframe. This inhospitable workspace was initially assigned to Graduate Student Instructors. Early in 2001, Professors David Card, Alan Auerbach, Ron Lee, Maury Obstfeld, John Quigley, and Jan DeVries committed



Views of Room 608-11: before (left) and after (right)
Photos: Grace Katagiri

Continued on next page

funding to the project. The Letters & Science Dean's Office also contributed financial support. Assistant Professor David Lee, like Card a labor economist, and department staff Casey Gardner and Mindy Ruzicka oversaw design details and the actual renovations. By April, the room had been transformed into a brightly lit, well-ventilated, room with eight workstations and file and book storage space. New, high-powered, computers with up-to-date software applications and ethernet connections for e-mail and internet access, were installed. Carpets, couch, coffee maker, and a small refrigerator completed the furnishings.

The other four offices house students in Macroeconomics/International Economics, Industrial Organization, Econometrics/Economic Theory, and Economic History/Development. David Lee, who worked closely on the renovations in 608-11, spoke to the issue of continued support for the field offices. He envisions that all field offices will need some sort of upgrade on an annual basis, and that none of these upgrades are particularly low-cost. For instance, faster computers with improved memory will need to be purchased every two to two-and-a-half years, and statistical software packages, such as STATA, must be purchased every two years. In addition to these base-line resources, Lee mentioned other materials, such as journal subscriptions, reference books, and computer manuals, as important to further enrich and support graduate research. For instance, the estimated cost of replacing computers on a biennial basis is \$40,000. STATA upgrades can be expected to cost \$3,000 every two years. In addition, creature comforts such as carpeting in each room would greatly enhance the experience for students who may spend many hours at work in the field research offices.

Field research office support is an area where even modest donations to the Economics Annual Fund can make a profound difference in the department's ability to continue to improve these essential resources for current and future graduate students. Previous issues of the *Econ Exchange* have clearly illustrated the Economics Department's overwhelming success in placing its Ph.D.s in both academic and non-academic positions. Only the most recent graduates have benefited from these offices; it is the department's goal that students will continue to take full advantage of these essential resources for years into the future.

IN MEMORIAM: Bent Hansen

by **Kathleen Maclay**, Public Affairs
(Reprinted with permission)

Bent Hansen, a former University of California, Berkeley economics professor known for seminal work in macroeconomics, public finance, development and Middle Eastern economic history, died April 15 in Alexandria, Egypt at the age of 81.

His work established the importance of doing conventional macroeconomics and microeconomics in underdeveloped countries, and set new standards for development economics, said George Akerlof, a former Hansen colleague in the UC Berkeley economics department and 2001 winner of the Nobel Prize in economic science. Models resulting from Hansen's studies were developed for Afghanistan, Bangladesh, India, Thailand and other countries.

Unlike flashier colleagues, Akerlof said, Hansen did not avoid careful use of data and hard-to-acquire sources. "He was not the development economist in the airplane, but instead the development economist in the archives," Akerlof said. "He was the greatest development economist of his generation."

In one of his studies, Hansen looked at what Egyptian laborers did with their spare time, in an effort to dispel the surplus labor argument. He dug into old records to compute index numbers, measured the rate of return on the Suez Canal, analyzed Egyptian crop quotas, and co-authored a book about the Egyptian economy's performance that looked at implications of exchange rate regimes and performance of particular industries.

Hansen's first major publication, in 1951, was "A Study in the Theory of Inflation", in which he showed how there could be a "quasi-equilibrium" in which wages and prices would both be growing at the same steady-state rate, and wages and

prices behaved in basically the same way.

Hansen was a professor of economics at UC Berkeley from 1966 to 1998 and served as chair of the Economics Department from 1977 to 1985. He also was on the faculty for the university's Center for Middle Eastern Studies in the Institute for International Studies and served as its director from 1984-85.

A native of Denmark, Hansen was a prolific author, writing numerous articles and books on the economic theories of interest rates, foreign trade and exchange, and development. He also served as a consultant to international agencies and governments, including Morocco, Turkey, Egypt, Denmark and Syria. Three of his books focused on Egypt, where he lived the last four years of his life.

Laurence Michalak, vice chair of the Center for Middle Eastern Studies, described Hansen as "a profound scholar of the Middle East."

Hansen earned degrees at the University of Copenhagen in Denmark and at Uppsala University in Sweden, before becoming an assistant professor at Uppsala in 1947. He also taught at the National Institute of Economic Research in Stockholm, and at the University of Stockholm. He served as an advisor to the Institute of Planning in Cairo from 1962-65.

He was named a fellow of the Econometric Society in 1953 and a fellow for the Association for Middle East Studies in North America in 1975.

Hansen broke his hip during a visit to Switzerland in 1999, and after that moved to Alexandria, Egypt, with his wife, Soad. He suffered from numerous health problems since and died of gastric hemorrhage, according to his stepdaughter Eglal Zaklama of Switzerland.

Zaklama and Hansen's widow plan a memorial service for Hansen at UC Berkeley in August.

Survivors include Hansen's wife, Soad; stepdaughters Zaklama and Magiha of Alexandria; a son, Simon, of Denmark; and two daughters.

Professors, both from Harvard: Emmanuel Saez, a specialist in public finance who has been on the faculty there and visited Berkeley during the past academic year, and Stefano Della Vigna, a behavioral economist and applied theorist who is just completing his Ph.D.

Amid such success and celebration, it is with (some) regret that I step down as Department Chair on July 1, turning over the Chair's gavel (for which I have found little need in faculty meetings) to long-time Department faculty member Richard Gilbert. One of Rich's first tasks will be to preside over the Department's November 8th symposium, at which we will mark our centenary with panel discussions of current and past faculty members and distinguished alumni focusing on the contributions of Berkeley Economics to the field over its history. (See preregistration form insert.) I hope that many of our alumni will join us for this event, not just to remember where we've been, but also to see where we're going.

IMBENS, from page 3

effect of unearned income on labor supply and peoples' willingness to work. Understanding the disincentive effects of receiving unearned income is essential for state governments that plan welfare, work-fare, or other programs aimed at increasing financial self-sufficiency among their populations. In a case study, he surveyed people who won the lottery in Massachusetts and compared them to those who played the lottery, but didn't win, to see how their labor supply differed. For example, a person who wins a half-million dollars will receive \$25,000 annually over the next twenty years. The study showed that for each dollar won in the lottery, the winner earned 10 *per cent* less on the job, and so, ultimately, the unearned extra income impacted the recipients' willingness to work very little. Imbens found that using the lottery was an excellent mode for testing because the unearned income was randomly assigned,

and this made a strong case for causality rather than just a correlation for this particular sample. Imbens is co-authoring a book on causality with Harvard statistician Donald Rubin that will sum up much of his research over the past few years.

Although it is very early in Imbens' career at Berkeley, he has a very ambitious teaching agenda. Next year, he plans to teach a new graduate course on causality and program evaluation with colleague Ken Chay, a labor economist who just received tenure. Ultimately, he would like to teach a similar course to undergraduates as well. Imbens, who commutes from Stanford, where his fiancée teaches economics, says he will have to work hard to sustain his colleagues' model of remaining accessible to students and each other in the Economics' "Metrics Zone".

FACULTY, from page 8

In February, **Bronwyn Hall** testified at the FTC/DOJ (Antitrust) hearings on Intellectual Property, Competition, and Innovation, held at the Haas School of Business. (See Gilbert article on page 8.) In addition, a special issue of the *Oxford Review of Economic Policy* on technology policy that Hall edited with David Ulph (University College London) appeared during Spring 2002.

Newly-arrived Professor **Guido Imbens** (see his New Faculty Profile in this issue) has recently been elected a Fellow of the Econometric Society.

Ted Miguel has received a Small Research Grant from the National Science Foundation to complete his research project entitled "Ethnic Divisions, Social Capital and Public Goods in East Africa".

John M. Quigley was the keynote speaker at the Nordic Public Finance Conference in Helsinki in November. During 2001-02, he lectured at New York University, Brown University, the University of Nevada, the University of

Paris (Cergy Pontoise), the University of Amsterdam, and the Stockholm School of Economics. He presented papers at conferences sponsored by the Brookings Institution (Washington), DELTA (Paris), ZEW (Mannheim), and at the annual meetings of the Regional Science Association, the American Economic Association, and the American Finance Association. He was appointed to the External Advisory Board of Jonkoping University (Korea) and the Research Advisory Board of the University of Texas. Quigley organized the Third Annual Conference of the Berkeley Program on Housing and Urban Policy in Berkeley and the AREUEA International Conference in Seoul.

Matthew Rabin and **Laura Tyson** have been elected a Fellow of the American Academy of Arts and Sciences, two of seven U.S. economists so honored this year.

Visiting Assistant Professor **Emmanuel Saez**, a public policy specialist who will join our faculty on July 1, has been named *Best Teacher for 2001-02* by the Economics Graduate Student Association. Welcome and congratulations!

In March, **Glenn Woroch** presented a paper entitled "Open Access Rules and the Broadband Race" at the 3rd Annual Quello Communications Policy Symposium in Washington, DC. His paper, "Local Network Competition" is to appear as a chapter in the *Handbook of Telecommunications Economics*, edited by Martin Cave, Sumit Majumdar, and Ingo Vogelsang (Elsevier Publishing, 2002).

SHANNON, from page 8

Professor Debreu held joint appointments in both the Departments of Economics and Mathematics. Mathematicians are indeed well represented among the winners of the research professorship, but over the past forty-five years, the majority of recipients have come from the physical sciences. During her tenure as Miller Research Professor, Chris Shannon has pursued her research on several topics, including the effects of uncertainty on markets, and testable implications of equilibrium models.

