



# *The Econ Exchange*

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*Market unsettled by failure to manage risk*

## **Fung Risk Management Research Center productive in its first year**

“The past four months have been a period of extraordinary turbulence in world securities markets. The underlying cause was not a real event; rather, the turbulence arose from a failure of risk management,” said Robert M. Anderson, Professor of Mathematics and Economics, and director of the Coleman Fung Risk Management Research Center.

“Ratings agencies assigned AAA ratings to mortgage-backed securities based on mathematical models. Those models turned out to be wrong, and the resulting illiquidity, and uncertain value, of mortgage-backed securities has shaken financial institutions and the entire world economy,” he said.

“The goal of research in risk management is to develop better models to help understand, measure and manage risk in the marketplace,” he said.

The first set of working papers, produced in 2007 with support from the new research center, include the following:

- \* 2007-01: Xin Guo and Pascal Tomecek, “Connections between Singular Control and Optimal Switching”
- \* 2007-02: Robert M. Anderson and Roberto C. Raimondo, “Equilibrium in Continuous-Time Financial Markets: Endogenously Dynamically Complete Markets”
- \* 2007-03: Robert M. Anderson, Kyong Shik Eom, Sang Buhm Hahn and Jong-Ho Park, “Stock Return Autocorrelation is Not Spurious”
- \* 2007-04: Xin Guo, Philip Kaminsky, Pascal Tomecek and M. Yuen, “Optimal Spot Market Inventory Strategies in the Presence of Cost and Price Risk”
- \* 2007-05: Xin Guo and Pascal Tomecek, “A Class of Singular Control Problems and the Smooth Fit Principle”
- \* 2007-06: Robert M. Anderson, “Time-Varying Risk Premia and Stock Return Autocorrelation”
- \* 2007-07: Roger Craine, Vance L. Martin, “International Monetary Policy Surprise Spillovers”

Each paper may be accessed from links at:

<http://fungcenter.berkeley.edu/resources/WorkingPapers.php>

Undergraduate Research Apprentice Program aids students and faculty

Known by the acronym URAP, the project is a gem of an activity for faculty and students alike, says Professor Stefano Della Vigna.

Students are trained in research and data analysis techniques, and faculty mentors engage projects they could not have done alone, such as one by Professor Della Vigna and a co-author resulting in an article in the most recent *Quarterly Journal of Economics* on how the Fox News cable channel influenced voters in 20% of U.S. towns to vote Republican.

Each student who participates in URAP gains skills that can be applied to the senior thesis. Details at <http://research.berkeley.edu/urap/>

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## From the desk of Ben Hermalin



Greetings!

In this, my third and final year as department chair, I am given to reflection on how the department has done since I started. It has not been the easiest period to be chair. We had a huge turnover in staff, but I can

happily report that we now have a wonderful staff in place and they're doing a terrific job. Another source of stress has been the incredibly large number of faculty retention battles we have had to fight. Although we didn't emerge unscathed, I can report that we succeeded in beating back most assaults. Last year's casualties were Ken Chay (who took a position at Brown) and David Lee (who took a position at Princeton).

On the other hand (sorry, I can't help but be a two-handed economist), we were very successful in the junior market, hiring a stellar young macroeconomist, Yuriy Gorodnichenko, who just completed his Ph.D. at Michigan. I also remain optimistic that we will soon succeed in a senior appointment in development. This year we seek to recruit four new faculty.

Another positive change has been that the campus has permitted us greater flexibility with regard to setting faculty salaries. This new ability to

### Did you hear?

In Spanish "jubilar" is to retire. **Professor Roger Craine** is feeling jubilation because he has written, with his friend Vance Martin from the University of Melbourne, "International Monetary Surprise Spillovers." It is forthcoming in the *Journal of International Economics*. **Professor Craine** insists: "I plan to retire later."

**Professor Maury Obstfeld** was elected Vice President of the American Economic Association. In May he

pre-empt outside offers will, I expect, lessen the retention problems we've been facing. It is also one more sign that the campus is solidly behind the Department. The one downside to this greater flexibility is that the Department will be expected to help fund some of our pre-emptive salary increases. This further strains our already tight budget and underscores the importance of donations to the Department if we are to maintain our excellence.

Yet another piece of good news, about which you may have heard, is the \$100+ million gift to the campus from the Hewlett Foundation. This is a matching gift: if someone donates \$1 million for an endowed chaired professorship, the Hewlett Foundation will provide a matching \$1 million. This is a great way for people to endow and name a chaired professorship because their money will go twice as far. For details on the Hewlett Challenge, please go to <http://hewlettchallenge.berkeley.edu/>

For those of you who remember Evans Hall, I'm happy to report that we received funds to spruce the place up. The walls have been painted, we have a new front office (508-1 Evans), and the Peixotto room has been completely redone, including all new furniture. The only hiccup was that—for a short time thankfully—the new signs in Evans referred to us as the "Department of Econmonics."

Whatever it is called, it's a great department and it's been my honor and pleasure to serve as its chair.

With best wishes for the New Year,  
Ben

### Faculty News and Notes

gave the Ohlin Lecture at the Stockholm School of Economics, and a keynote on China's currency problems at the Bank of Japan. In November he gave the Money, Credit, and Banking Lecture at Ohio State.

**Professor Daniel L. Rubinfeld** gave the keynote, "Transition to Democracy: the South Africa Experience," in August at the Asian Law and Economics Association meeting in Taipei.

## New Labor Market Institutions ...and the Public Policy Response



Scholars from around the world who were students or co-authors with Professor Lloyd Ulman joined him at a conference in Berkeley to read their papers and honor him.

On October 27, 2007, the Institute for Research on Labor and Employment (IRLE) hosted a symposium in honor of Professor Lloyd Ulman, who joined the Department of Economics in 1958. The event, which was organized by Professors Clair Brown, Barry Eichengreen, and Michael Reich, featured original papers by leading academics in the fields of labor economics and industrial relations.

Four panel presentations addressed key issues in the study of labor market institutions. The first panel, on political economy and labor market institutions, featured Sandy Jacoby (UCLA), Frank Levy (MIT), and David Soskice (Duke and Oxford), with Peter Rappoport the discussant.

The second panel explored labor market behavior, with Clair Brown (Berkeley), Paola Giuiano (Harvard), Yoshifumi Nakata (Doshisha University, Japan), and David Levine (Haas School) the discussant. Robert Flanagan (Stanford), Theresa Ghilarducci (Notre Dame) and Knut Gerlach (Leibniz University, Germany) explored labor-management relations in the third panel, with Harry Katz, Dean of Cornell's ILR School, as discussant.

The final panel, which addressed the state of public policy in relation to labor market institutions, included David Card (Berkeley), Steven Raphael (Goldman School of Public Policy), and Michael Reich (Berkeley), with Bill Dickens (U of Maryland) as the discussant. The heavily-attended event provided a wonderful testimony to Professor Ulman's achievements as well as the academic contributions of Berkeley's Economics Department over the past four decades.

The papers, which will appear as an edited volume, are on the IRLE web site: <http://www.irlle.berkeley.edu/>

## Did you hear?

### *Faculty News and Notes*



The Institute for the Study of Labor (IZA) has selected Enrico Moretti as the first recipient of its Young Labor Economist Award for his paper "Estimating the Social Return to Higher Education: Evidence from Longitudinal and Repeated Cross-Sectional Data" (Journal of Econometrics, 2004). Professor Moretti's paper was chosen from among many submissions after impressing the selection committee with its "scientific originality, methodological rigor and policy relevance." The paper provided evidence that the social return to education may in fact exceed the private return.

## Thank you, Dear Donors

The Department of Economics would like to acknowledge the following donors. We are grateful for your gifts, which represent a remarkable expression of support for the study of Economics.

### **Hal Varian Fellowship Fund**

Hal Varian '73

### **Graduate Student Support Fund in Psychology and Economics**

Matthew Rabin

### **Economics Annual Fund Centennial Circle (\$1,000-10,000)**

The Lanzilotti Family Foundation  
John M. Quigley and Mary E. Curran  
William Dudley '82  
Steven Sidener '82

### **Friends of Economics (\$1-999)**

Michael Ash '99  
Selene Aw  
David Berke '75  
Marcus Berliant '82 and Clara Asnes  
Melvin Bers '56  
Nikki Blasberg '94  
Shari Chan '03  
Jeevika Chhatwal '05  
Claire Chen-Carter '94  
Hwan-Goo Cho '02  
Katherine Czukas '91  
Mary D'Amelio  
Daniele Facchini '84  
Kristine Fernando '02

Kevin Gold '97  
Louis '70 and Barbara Goldman  
Russell Green '04  
Jack '66 and Linda Hadge  
Amar Hatti '01  
Shelly Huang '99  
Julia Kim '03  
Larry Ludwig '63  
Rachel Markov '03  
Elizabeth and Scott McManus '78  
Pete Merkouris '06  
Duane Musfelt '73  
Alissa and Matthew Nagler '93  
Michelle Ng '04  
Roochita Patel '05  
Tricia Reilly '97  
Jamie '92 and Marcus Shen '91  
Jay Sheth  
Roger Simon  
Eldon Spencer '71  
Jermaine Spivey '94  
Stanley Stuka '00  
Craig Sundstrom '97  
Meei Ing Tsai  
Michael '76 and Sara Thaves  
Charles '82 and Lynnae Wolin  
Alden Yan '98  
Anders Yang '91





## Protecting Innovation Amid Thicket of Patent Applications

The Competition Policy Center (CPC) hosted 35 scholars at a conference in October on the Economics of Competition and Innovation.

The conference papers reveal the uncommon reach of the patent system, and the role of intellectual property rights and enforcement. They examine how patent reform can affect technology transfer for developing countries, and what factors lead inventors to patent their inventions. Panelists were asked what aspects of the patent system are amenable to fixing, and also for proposals for doing so.

Keynote speaker Brad Smith, General Counsel for Microsoft, stressed the historical similarities between contemporary innovation in the U.S. and the 1870s–'80s when new technologies also transformed the U.S. economy.

Stuart Graham, a UC Berkeley PhD, came from Georgia Tech where he is an Assistant Professor.

All papers from the conference are online at: [http://iber.berkeley.edu/cpc/Conference/papers.html?action=login&db\\_name=CPC2007](http://iber.berkeley.edu/cpc/Conference/papers.html?action=login&db_name=CPC2007)

The Berkeley contingent to the CPC conference was led by its corps of former Deputy Assistant Attorneys General for Antitrust—CPC Chair Richard Gilbert (front row center), Joseph Farrell (Economics) (left), Daniel Rubinfeld (right), Michael Katz (Business) (rear left) and Carl Shapiro, Director of the Institute of Business and Economic Research.

## Business and Academic Leaders Speak at Federal Antitrust Hearings at Haas

The Antitrust Division of the Department of Justice and the Federal Trade Commission cohosted hearings on single-firm conduct and anti-trust law over two days in January at the Haas School of Business.

The hearings explored how best to identify anticompetitive exclusionary conduct, examined whether and when specific types of single-firm conduct are procompetitive or benign, and when they may harm competition and consumer welfare.

Business leaders and professors in Economics and Law took part. Video of the hearings, with panelists' biographies, are online at:

<http://iber.berkeley.edu/cpc/News/PastEvents.html>

and also at:

[http://www.usdoj.gov/atr/public/hearings/single\\_firm/sfcjan2007.htm](http://www.usdoj.gov/atr/public/hearings/single_firm/sfcjan2007.htm)

## Student Peer Advisor Wins Study Abroad

Brittany Murlas, former Peer Advisor in Economics, won one of two undergraduate awards to study abroad.

Brittany studied through the full-immersion Education Abroad Program (EAP) in Ghana where she undertook sociolinguistic research.

Brittany is taking graduate-level course work in education and plans to present her research in a senior honors thesis for presentation at a conference in Boston in April 2008.

## Department Of Economics Commencement at Hearst Greek Theater Thursday, May 17, 2007

Economics departmental chair **Professor Benjamin Hermalin** welcomed the graduates and **Professor Thomas Sargent** of New York University gave the commencement address at the Hearst Greek Theater.

**Professor David Card** presented the **Eliot J. Swan Prize** to **Nicholas Li** in recognition of discipline and dedication in the first year of the Ph.D. program.

**Professor Edward Miguel** presented the **Journal of Development Economics Award** to **Pamela Jakiela** in recognition of outstanding work in Development Economics completed during the academic year. The goal is to support student thesis writing.

Honoring **Grace Katagiri** who contributed to the Economics Department for many years,

**Professor Jim Powell** presented the **Grace Katagiri Prize** to **Vikram Maheshri** for the best empirical econometrics paper by a second year graduate student.

**Professor Paul Ruud** presented the **Award for Public Policy Research** to **David Yves Albouy**.

**Professor Alan Auerbach** presented the **George Break Prize in Public Finance** to **Arthur-Damon Jones** for course work.

**Professor Chad Jones** presented the **Graduate Student Instructor Awards** to **Céline Ferré, Marina Halac, Andrew Jalil, Ryan Kellogg, Cha-young Kim, Prasad Krishnamurthy, Shi-Shu Peng, Nicholas Rosic, and Robert Santillano**.

**Professor David H. Romer** presented the **Departmental Citation**

and the **Earl Rolph Prize** to **Scott Ross Baker** and **Wai-Kit Wong** for the best undergraduate honors thesis in Economics. **Baker** and **Wong** were the student speakers.

### Conferral of Degrees

Ph.D. Candidates: **Professor Gérard Roland**; A.B. Honors Candidates: **Professor Roger Craine**; A.B. Candidates: **Professor Christina D. Romer** and **Professor David H. Romer**.

A reception honoring the **Class of 2007** was held at the Campanile Esplanade.

### Ph.D. Candidates

**David Yves Albouy**. *Causes and Consequences of Unequal Federal Taxation and Spending Across Regions*. Dissertation Advisors: **David Card** & **Emmanuel Saez**. David has accepted a position as Assistant Professor in the Department of Economics at the University of Michigan.

**Zhiyong An**. *Essays on Economics*. Dissertation Advisors: **George Akerlof** & **Alan Auerbach**. Zhiyong has accepted a position as Assistant Professor in the China Center for Economic Research at Beijing University.

**Sudarat Ananchotikul**. *Essays on Corporate Governance in Emerging Markets*. Dissertation Advisor: **Barry Eichengreen**. Sudarat has accepted a position as an Economist



in Monetary Policy with the Bank of Thailand.

**Raj Arunachalam.** *The Economics of Marriage Markets and Fertility in Developing Countries.* Dissertation Advisors: **Edward Miguel & J. Bradford DeLong.** Raj has accepted a position as an Assistant Professor in the Department of Economics at the University of Michigan.

**Christopher Blattman.** *Essays on Instability and Development: War, Violence, and Natural Resources.* Dissertation Advisor: **Edward Miguel.** Christopher has accepted a position as an Assistant Professor in Political Science with an additional appointment in Economics at Yale University.

**Kristine M. Brown.** *The Effects of Employer-Sponsored Retirement Programs on Savings and Retirement Behavior.* Dissertation Advisor: **Emmanuel Saez.** Kristine has accepted a position as an Assistant Professor in the Economics/ILIR Department at the University of Illinois, Urbana-Champaign.

**Avraham Yehuda Ebenstein.** *Fertility Choices and Sex Selection in Asia: Analysis and Policy.* Dissertation Advisor: **David Card.** Avi has accepted a Robert Wood Johnson post doctorate at Harvard University.

**Elizabeth Anna Weber Handwerker.** *Empirical Essays in the Economics of Aging.* Dissertation Advisor: **David Card.** Elizabeth has accepted a position as Research Economist with the Bureau of Labor Statistics.

**Konstantinos Hatzitaskos.** *Essays in Demand Estimation.* Dissertation Advisor: **Paul A. Ruud.**

**Konstantinos Hatzitaskos.** Konstantinos has accepted a position as Associate with Cornerstone Research.

**Vivian Hwa.** *Holding Schools Accountable: Evaluating Incentives in the California Education System.* Dissertation Advisor: **David S. Lee.** Vivian has accepted a position with the FDIC-Division of Insurance and Research.

**Kory Kroft.** *Essays in Applied Public Economics.* Dissertation Advisors: **Raj Chetty & Emmanuel Saez.** Kory has accepted a position as Senior Consultant with CRA International.

**Carlos Felipe López-Suarez.** *Currency Crises: Whom to attack or defend?* Dissertation Advisor: **Pierre-Olivier Gourinchas.** Carlos has accepted a position in the Treasury and Risk Management Department of the Canadian Imperial Bank of Commerce.

**Alejandro T. Moreno.** *Habit Formation and Oligopolistic Competition.* Dissertation Advisor: **Botond Koszegi.** Alejandro has accepted an academic position at the

University of Guanajuato, Mexico.

**Yooki Park.** *Essays in the Economics of Innovation Incentives.* Dissertation Advisor: **Suzanne Scotchmer.** Yooki has accepted a position as Associate at the Business Technology Office of McKinsey and Company.

**Devin Garrett Pope.** *Rankings and Consumer Decision Making.* Dissertation Advisors: **Stefano DellaVigna & David Card.** Devin has accepted a position as Assistant Professor at the Wharton School at the University of Pennsylvania.

**Tomas Andres Rau Binder.** *Essays on Applied Semiparametric Economics.* Dissertation Advisor: **David Card.** Tomas has accepted a position as Assistant Professor of Economics at Universidad de Chile.

**José Antonio Rodríguez López.** *Essays on Exchange Rates.* Dissertation Advisor: **Maurice Obstfeld.** José has accepted a position as Assistant Professor in the Department of Economics at the University of California, Irvine.

**Yooki Park.** Yooki has accepted a position as Associate at the Business Technology Office of McKinsey and Company.

**Devin Garrett Pope.** Devin has accepted a position as Assistant Professor at the Wharton School at the University of Pennsylvania.

**Tomas Andres Rau Binder.** Tomas has accepted a position as Assistant Professor of Economics at Universidad de Chile.

**José Antonio Rodríguez López.** José has accepted a position as Assistant Professor in the Department of Economics at the University of California, Irvine.

**Yooki Park.** Yooki has accepted a position as Associate at the Business Technology Office of McKinsey and Company.

**Devin Garrett Pope.** Devin has accepted a position as Assistant Professor at the Wharton School at the University of Pennsylvania.

**Tomas Andres Rau Binder.** Tomas has accepted a position as Assistant Professor of Economics at Universidad de Chile.





## Class of 2007 Graduation



**Jennifer Kaiser Shanefelter.** *Restructuring, Ownership and Efficiency in Electricity Generation.* Dissertation Advisor: **Severin Borenstein.** Jennifer has accepted a position as Staff Economist in the Economic Analysis Group of the Antitrust Division of the Department of Justice.

**Paige Marta Skiba.** *Behavior in High-Interest Credit Markets.* Dissertation Advisor: **Matthew Rabin.** Paige has accepted a position as an Assistant Professor of Law and Economics at Vanderbilt Law School.

**John Pao-En Tang.** *Essays on Industrialization in Meiji Japan, 1868 to 1912.* Dissertation Advisor: **Barry Eichengreen.** John has accepted a position as Research Economist at the Center for

Economic Studies with the U.S. Census Bureau.

**Ethan Yeh.** *Essays in Applied Environmental and Health Economics.* Dissertation Advisor: **Kenneth Chay.** Ethan has accepted a position as Associate with McKinsey and Company.

### M.A. Candidate

Gia Calvillo

### A.B. Honors Candidates

**Scott Ross Baker.** *Undocumented Aliens, Legalization and Crime: How the 1986 Immigration Reform and Control Act Affected Crime.* Thesis Advisor: **Ronald Lee**

**Thomas Barrios.** *Effects of Ending Affirmative Action in California Universities.* Thesis Advisor: Kenneth

Y. Chay

**Candice Gina Carvalho.** *Life Outside the Euro: Analysis of the Trade Effects of the Euro on Sweden and the United Kingdom.* Thesis Advisor: **Maurice Obstfeld**

Swetha Doraiswamy. *In the Mix: How the Racial Composition of California Public Schools Affects Academic Achievement.* Thesis Advisor: **Martha Olney**

**Gina Danielle Gregory.** *Are the Stock, Commodities, and Real Estate Markets Related?* Thesis Advisor: **Gregory Duncan**

**Hai J. Guan.** *The Source of Union Wage Premium Movements: The Effect of International Competition on Union Wage Premium in Manufacturing Industry.* Thesis Advisor: **Michael Reich**

**Samuel Chester Heft-Neal.** *Economic Development of Migrant-Sending Communities.* Thesis Advisor: **David Roland-Holst**

**Zachary Garth Hendlin.** *The Universal Service Fund: A Study of Disbursement-Limited Welfare Effects.* Thesis Advisor: **Howard Shelanski**

**Siwei Jian.** *The Structural Causes of the Great Depression.* Thesis Advisor: **J. Bradford DeLong**

**Cindy Kim.** *Simultaneity in Female Earnings and the Divorce Rate: A Look At South Korea.* Thesis Advisor: **Ronald Lee**

**Romàn T. Leal.** *A Disaggregated Analysis of Crime in Mexico's Municipalities.* Thesis Advisors: **Alain De Janvry & Elisabeth Sadoulet**

**Charles Harold Lin.** *Patent Expirations of Brand Name Drugs.* Thesis Advisor: **Richard Gilbert**

**Jenny Lin.** *Trade Impacts of the*



*Chinese Currency Revaluation.* Thesis Advisor: **J. Bradford DeLong**

**Angel WenJiu Luo.** *Development of Business Ethics in China.* Thesis

Advisor: **Jack Phillips**

**Xing Meng.** *Ownership Effect and Implications for Second-Hand Market Middleman.* Thesis Advisor: **Botond Koszegi**

**Vivek Kartik Mohan.** *An Analysis of the Oligopolistic Interactions within the Internet Search Industry.* Thesis Advisor: **Gordon Rausser**

**Uyen Phuong Nguyen.** *Uncovering Corporate Social Responsibility: A Case Study on the Impact of Corporate Social Responsibility Standards on the Factory Floor.* Thesis Advisor: **David Levine**

**Chencan Ouyang.** *Effect of Free Shipping on Bidding Behavior — An Experiment on eBay.* Thesis Advisor: **Ulrike Malmendier**

**Andrew William Person.** *The Euro and Trade: An Instrumental Variables Analysis.* Thesis Advisor:

**Barry Eichengreen**

**Johnson Weili Poh.** *A Discussion of the Impact of Tenants. Search, Vacancies and Equilibrium Distribution of Prices in the Housing Rental Market.* Thesis Advisor:

**David Card**

**Nippur Poolthananunt.** *College Football Rankings: Determinants and Bias in Voting.* Thesis Advisor:

**Martha Olney**

**Sharmini Radakrishnan.** *The Effects of Accountability on Performance in California Schools: A Comparison of State and Federal Systems.* Thesis Advisor: **Enrico**

**Moretti**

**Sheena Reddy.** *The Costs to India*

*of Complying with World Intellectual Property Rights: Effects on the Pharmaceutical Industry and Access to Drugs.* Thesis Advisor: **Edward**

**Miguel**

**Ronald Zibang Tong.** *Game Theory Modelling of the Water Impasse between Malaysia and Singapore.*

Thesis Advisor: **Shachar Kariv**

**Wai-Kit Wong.** *Revisiting the Earnings Profiles of Immigrants: New*

*Trends and Evidence.* Thesis Advisor: **David Card**

**Nan Zhang.** *Neopatrimonial Politics, the Resource Curse and the Political Economy of Botswana.* Thesis Advisor: **Edward Miguel**

**James Arshad Zuberi.** *Economic Shocks, Religious Holidays and Communal Violence in India.* Thesis Advisor: **Gérard Roland**

## Did you hear?

### Faculty News and Notes

**Professor Stefano DellaVigna** was awarded the Social Sciences Distinguished Teaching Award and **Professor David Card** was awarded the Social Sciences Distinguished Service Award for 2006–07.

**Professor Bronwyn Hall** has joined two expert groups on innovation policy: “Knowledge for Growth”—advising DG Research at the European Commission and Business Innovation, and at the Council of Canadian Academies. From January to March 2008, **Professor Hall** will be a Visiting Professor at Hitotsubashi University, Tokyo. She is studying patent litigation and recently completed a study of (private) depreciation and development in measuring returns to R&D.

**Professor Emeritus Ted Keeler** is having too much fun to stop and write. He telegraphed: “I’ve been traveling. I feel as if I’m doing too many different things in retirement to summarize, but I can say one thing for sure: I’m enjoying it!”

**Professor Pranab K. Bardhan** gave the Latin American and Caribbean Economic Association Plenary Lecture in Bogota, Colombia in October on “Institutional Economics of Development: A Critical Assessment,” which was the topic also of his Development Economics Unit Lecture at the World Bank in April. **Professor Bardhan** gave lectures on “Awakening Giants, Feet of Clay: A Comparative Economic Assessment of the Rise of China and India” at Tsinghua University, Beijing in July, at the Brooks World Poverty Institute, University of Manchester in May, and at the University of Melbourne in April. He spoke on “Globalization and the Poor” at Presidency College, Kolkata in July, and on “Governance and Development” at A.N. Sinha Institute, Patna, India in July.

**Professor Paul A. Ruud** gave the 2007 Martin H. Crego Lecture at Vassar in October. His talk “Econometrics and Magical Thinking” focused on the difficulties of confirming causal relationships in applied economics research.

## Berkeley's Two Economists...

### John Letiche taught for more than half a century; Nobel Laureate Lawrence Klein has blurbed his latest book

John Letiche celebrated his 89th birthday in November and upon publication of his 15th book, *Russia Moves into the Global Economy* (Routledge), the BBC asked him to comment on a Pew survey that found that — if they had to choose— three of four Russians prefer a strong economy at the present time to a strong democracy.



The survey outcome did not surprise Professor Letiche given the hard landing felt by most Russians during the rough patch that followed the fall of the Soviet Union.

With the fire sale of Soviet government assets and, in its aftermath, the

Russian economy held in the hands of corrupt oligarchs, only 3% of Russians became wealthy and only about 20% currently own their homes.

Forty percent of the population is not satisfied, “and they are the ones who believe that the distribution of income has so deteriorated that they primarily want conditions to improve economically,” so much so that they “are willing to let democracy ride somewhat and wait it out,” said Professor Letiche.

While on a research trip to Russia last year, “to practically every family I spoke—from Siberia to the south—expressed the view for the first time—the women of the house especially— said: ‘We are saving. We are investing. We are doing this to try to buy a house or to start a small store.’ ”

Professor Letiche, who was born in Kiev and educated at the universities of McGill and Chicago, expects democracy to come later to Russia. “It is a question of patience—Russians know how to wait

more than any other country in the world.”

Between 550 and 1,000 newspapers in Russia “are quite free” though “television is not,” he said.

“Insofar as the security of Russian people is concerned, what they want most is an improvement in the standard of life for themselves and their children. Not having had that, the change is so great that the relationship of the economic side is more important to them than the political side.”

He interviewed Vladimir Putin and, while critical of the Russian president, his book reflects Putin’s emphasis on moral values and improving the lot of Russian women, who lost much during the conversion to capitalism. His book details Putin’s role since the 1998 crisis in the transition to Russia’s restructured economy.

In January, he told the *San Francisco Chronicle* that national economies are alike in one respect: “Their leaders know what motivates their people and they provide incentives—stable currency, balanced budgets, unemployment and health insurance—that boost individuals’ optimism and desire to work, invest and spend.”

A proponent of markets and globalization, Professor Letiche advocates moderation: “Globalization works for no nation without a moderately liberal social safety net in place.”

He taught in the Economics Department at Berkeley from 1945 through 1989, and was recalled to teach seminars in each of ten more years.

His BBC interview can be heard online at <http://www.theworld.org/?q=node/13130>

Pew survey results are at: <http://pewglobal.org/reports/pdf/258.pdf>

*SF Chronicle* feature is at: <http://sfgate.com/cgi-bin/article.cgi?f=/c/a/2007/01/22/BAGMANMOV31.DTL>

## ...of Kiev

### Widely seen as the most promising graduate from Michigan in a generation, Yuriy Gorodnichenko joins UCB Economics Faculty

Yuriy Gorodnichenko's research has exceptional breadth, spanning both theory and empirical applications. Beyond macroeconomics he brings strength in econometric methods and international economics. He has already published three articles and has a further nine working papers (and this excludes his many publications in Ukrainian)—a phenomenal record of productivity for someone just completing a Ph.D. program.



One of his research projects deals with important puzzles in how sellers acquire information about changes in the price level, and

how they utilize that information to change their prices when it is costly to do so. Previous work by others yielded predictions at odds with actual experience. Gorodnichenko shows that accounting for the optimal behavior of sellers when they incur costs in collecting information about price shocks—coupled with adjustments costs—yields predictions that better fit the data.

Another project reexamines the border effect, the finding that international borders drive a wedge between the prices on one side of the border versus those on the other side. This has been a “well-known” fact in international economics since 1996. Gorodnichenko and a co-author show, however, it is not fact. Specifically, if countries on either side of a border differ in the degree to which they have internal price heterogeneity, then there is no way to determine the effect of the border. Moreover, when

they reexamine U.S.-Canadian data, they show that the so-called border effect is driven completely by the different distribution of prices in the U.S. and Canada. This is a major result, as it overturns accepted wisdom in the field of international economics.

Yet another project examines public-sector corruption in Ukraine. For Ukraine, Gorodnichenko and his co-author find that public-sector employees earn 24–32% less than their private-sector counterparts, but nevertheless match them with respect to consumption and asset holding. The presumed explanation is additional income public-sector employees make from bribery. Using this insight, the authors show that at least 0.9–1.2% of Ukraine's GDP is spent on bribes.

Gorodnichenko is interested in designing optimum monetary policy to stabilize economic activity and avert boom and bust cycles. “Monetary policy is extremely important in explaining volatility in the U.S. economy.”

He also said the collapse of trade can explain big recessions. With the collapse of the Soviet Union in 1991, Finland lost its only buyer for nuclear ice breakers. Nokia, Finland's corporate jewel, re-allocated resources from its inefficient sector into something dynamic and profitable—its cell phones, for which it is best-known today.

Educated in Ukraine, Gorodnichenko has lived in the states only six years. Homesick, he returns to Ukraine every six months. Beyond favorable climate, Berkeley, he said, “exceeds all my expectations. The senior faculty are supportive and this is a great environment to do research. Though I have not started teaching yet, I wish I could see more Ukrainian students here.”

His wife, Iryna, is a UCB doctoral student in ecology.



## Chancellor to match Hal Varian's Gift to the Economics Department

The generous gift given to the Economics Department by Hal Varian, Google's Chief Economist, is about to get better.

Jon Gjerde, Dean of Social Sciences, brings news that Robert J. Birgeneau, Chancellor and Professor of Physics at UC Berkeley, will match \$250,000—about half of the Hal R. Varian Fellowship Endowment.

Dean Gjerde said this match is part of the Chancellor's challenge for student support in the campus matching gift program. Dean Gjerde also said Professor Varian's gift will have major impact on promising researchers and scholars in the Department of Economics.

"Fellowships of this magnitude have a ripple effect on institutional excellence in the long term, allowing Berkeley to attract the best graduate students, which in turn directly links to faculty recruitment and retention," Dean Gjerde said.

Professor Varian is on leave from the Economics Department.

*The Journal of Public Economics* devoted its September issue to celebrating the 20th anniversary of the publication of "On the Private Provision of Public Goods" by T. Bergstrom, L. Blume, and H. Varian.

The September 2007 journal cover is depicted at:

[http://www.ischool.berkeley.edu/~hal/people/hal/images/PUBEC\\_COVER.pdf](http://www.ischool.berkeley.edu/~hal/people/hal/images/PUBEC_COVER.pdf)

Full text of the 1986 article is at:

<http://repositories.cdlib.org/ucsbecon/bergstrom/1986B/>



Hal Varian's gift has attracted matching funds to benefit graduate students in Economics as early as 2008.

**Bonnie Britt** is the guest editor for this edition of *Econ Exchange*.

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