

# The Econ Exchange

## Economics at UC Berkeley



## Berkeley Economics wins 2009 Little Big Game— The Core stays in Evans

The Cal-Stanford Big Game is the big event of the sports season, but economists always like to do things their way. One of the oldest traditions of the Berkeley Economics Department is the Little Big Game (LBG), between teams of graduate students from the Berkeley and Stanford Economics Departments. The LBG takes place every November, at the same campus that hosts that year's Big Game.

The winning department earns the right to keep the Arrow-Debreu Trophy: The Core of the Economy (most call it The Core), a traveling trophy that references Nobel Laureates from each campus and their work. Kenneth Arrow (Stanford) and Gérard Debreu (Berkeley) collaborated on a fundamental model of general equilibrium theory. The trophy itself consists of a bronzed apple core at the center of an Edgeworth box.

Who wins The Core is still determined by the outcome of the football game, but by popular demand more events have been added to make the LBG an all-day sports extravaganza: basketball, volleyball, ultimate frisbee, football, and soccer. At the conclusion of these events comes sloshball,

a very casual version of kickball that features mixed teams (with students from both campuses) and copious amounts of beer.

In recent years the Berkeley team has been very strong in all the events except for ultimate, which they've lost in each of the last five years, despite heroic efforts. In the last five games, Berkeley

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## New Alumni Challenge

Gifts to the Department from new alumni are matched 3:1. See back page for more.

## Note from the Chair

As I write, the Department's commencement ceremony will take place in a few weeks. This is always a reminder for me, and many of my colleagues, that this is our preferred day of the year. Each year we hand out diplomas to hundreds of bright young men and women who will form the elite of this great country. What moves me most is to see the joy of the families in the Greek Theatre who cheer for their son or daughter, brother or sister, nephew or niece, cousin, friend, or parent. For many families, especially for families of first generation immigrants, the parents have worked so hard, invested so much in their children's education to make this possible, and they have every right to be proud of this major accomplishment of their child: to graduate from UC Berkeley, one of the best universities in the world.

Unfortunately, as we all know, the fiscal crisis and the dismal budget process in California have led to a dramatic reduction in state funding to the UC system, jeopardizing the quality of research and teaching. Our Department, as well as the Berkeley campus, is rising to the challenge. The Department's staff has been incredible this year. Facing a huge budget cut (20%) and furloughs, they have done their



absolute best to keep the Department working as well as it did before the crisis. However, we cannot, and will not, accept a decline in the quality of our research and teaching. The only solution is to increase revenues and raise funds. This has been a priority for me since I took the job of Department Chair last year.

We count on the many generous donors among our alumni and friends who recognize the unique quality of our prize-winning faculty. In the next newsletter, I will be able to announce the allocation of at least three new endowed chairs to some of my distinguished colleagues. An

endowment for graduate fellowships in the name of Helen Schneck and George Break will help us keep a competitive attraction package for recruiting the best graduate students. Thanks to the help of all our donors, large and small, the commencement ceremony will continue to be the exciting event that makes us realize, year after year, how unique UC Berkeley is.

*Gérard Roland*

## Support Berkeley's Excellence in Economics

Alumni can sustain the Department's excellence by making a gift online at [econ.berkeley.edu](http://econ.berkeley.edu). Click on Give to Economics @ Cal. Gifts from new alumni will be matched 3:1 — see last page for details.

## News and events

### Commencement 2010



This year's Economics Department Commencement takes place Tuesday, May 18 in the Hearst Greek Theatre. This year's ceremony will grant diplomas to over 400 undergraduate students and almost 20 graduate students.

The commencement speaker will be **Hal Varian**, Professor

of Economics, Business Administration, and Information Management and Systems, and Chief Economist of Google.

Congratulations to all the 2010 graduates!

### Department staff continues to excel

**Phil Walz**, Economics Department Student Services manager, received two awards for excellent student service in 2010: the Chancellor's Outstanding Staff Award and the 2009-2010 Excellence in Management Award presented by the Berkeley Staff Assembly. Big thanks to Phil and all the department staff who continue to make sure our students continue to excel even in such challenging times.

### Berkeley Econ ranks #4

The Tilburg University in the Netherlands has compiled a ranking of the top 100 worldwide economics schools based on research contribution from 2004-2008. The Berkeley Economics Department ranks #4.

The ranking is based on the number of publications in the 36 top economics journals. The Department's high ranking speaks to the consistent excellence and achievement of all our prolific scholars.

**THE TILBURG UNIVERSITY TOP 100 WORLDWIDE ECONOMICS SCHOOLS RESEARCH RANKING BASED ON RESEARCH CONTRIBUTION 2004-2008**

Rank	University	Score
1.	HARVARD UNIVERSITY	551
2.	UNIVERSITY OF CHICAGO	385
3.	NEW YORK UNIVERSITY	347
4.	UNIVERSITY OF CALIFORNIA, BERKELEY	332
5.	MASSACHUSETTS INSTITUTE OF TECHNOLOGY	296
6.	STANFORD UNIVERSITY	290
7.	UNIVERSITY OF PENNSYLVANIA	283
8.	LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE	280
	NORTHWESTERN UNIVERSITY	280
10.	COLUMBIA UNIVERSITY	268
11.	YALE UNIVERSITY	250
12.	PRINCETON UNIVERSITY	225
13.	UNIVERSITY OF CALIFORNIA, LOS ANGELES	210
14.	DUKE UNIVERSITY	203
	UNIVERSITY OF MICHIGAN	203

<http://econtop.uvt.nl/rankinglist.php>

### *Little Big Game—continued from the cover*

has won The Core every time but one (in 2007). The Core is currently displayed with pride in the Peixotto lounge at 611 Evans.

To get in the spirit of the event, each side designs and produces a LBG T-shirt, which serves as the de facto uniform for each side. The themes center around economics and each schools' superiority over the other. Professor Barry Eichengreen owns one of every Berkeley

LBG shirt produced since his arrival in the department. In 2009, the Berkeley team T-shirt read "Saez matters"—a reference to Berkeley Professor Emmanuel Saez who had just won the John Bates Clark Medal, and also to the greater height of the Campanile.

Congratulations to the Berkeley grad students, and may The Core remain on campus for many more years to come!

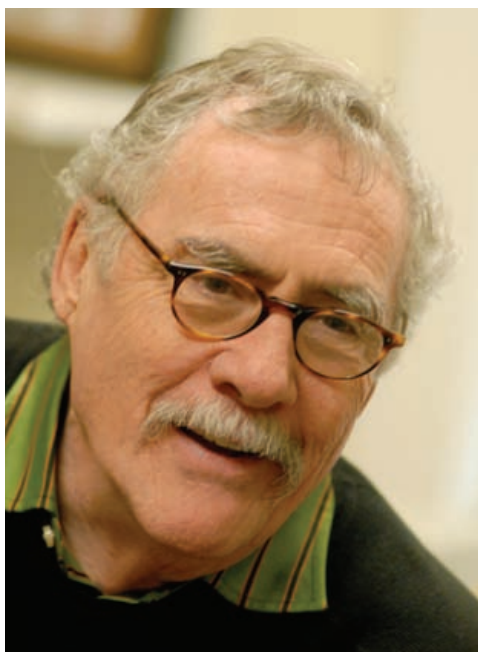
## Research highlights

### *The Mortgage Crisis; or, Making Mortgages Safe Again*

Buying a house has been the American Dream throughout the 20th century. With the mortgage and subsequent financial crisis that exploded in 2008, Americans have gotten an unexpected and bracing tutorial on the tangled laws, incentives, and financial structures that lie behind the ability of the average American family to buy a house.

John Quigley has been instrumental in making sense of mortgage markets. In October 2008, just six weeks after Fannie Mae and Freddie Mac had been placed into conservatorship, Quigley organized a joint Berkeley-UCLA symposium on “The Mortgage Meltdown, The Economy, and Public Policy” that included keynotes from Ben Bernanke (the Federal Reserve Board Chairman) and Janet Yellen (President of the Federal Reserve Bank of San Francisco, recently nominated by President Obama to serve as vice chairman of the Federal Reserve board of governors). Symposium presenters included the leading scholars on mortgage markets and monetary policy such as Robert Shiller (Yale), Glenn Hubbard (Columbia), and Dwight Jaffee (Berkeley). Papers made the case for reforms that we see implemented in recent government policies on Fannie Mae and Freddie Mac, interest rates, bankruptcy, and the new Federal Reserve credit facilities for housing and housing-related debt.

In Quigley’s own recent research, he asks what role the government should play to make it safe for Americans to buy homes on mortgage. The past ten or twenty years have



*John M. Quigley  
I. Donald Turner Distinguished Professor,  
Professor of Economics, and  
Director of the Berkeley Program on  
Housing and Urban Policy*

seen a marked change in the way mortgages work. Mortgages were turned into a security that investors could buy and sell according to risk and return calculations, and investors around the world began trading in pools of U.S. housing mortgages. Mortgages were no longer based on personal relationships between banker and client (à la “It’s a Wonderful Life”) but were analyzed as part of a global investment portfolio.

Quigley focuses on two troublesome aspects of this mortgage system: incentives and government institutions. Problems in both brought about the worsening situation that exploded into crisis in 2008; both are high priority areas for better policy.

### **The right incentives**

Mortgage brokers and lenders, ironically, had the incentive to sell more and more high-risk mortgages. Their fees and bonuses were paid when a loan was signed, and there were no rewards if a loan was repaid. By the time mortgage payments started, only the borrower would be punished if the mortgage failed. These misaligned incentives made it more likely that borrowers would default.

Quigley has carefully identified the troublesome incentives, and suggests several ways to realign them. Reward lenders over the life of the mortgage, or at least the first few years. Require mortgage brokers to be bonded in the same the



## Research highlights continued

### *The Mortgage Crisis; or, Making Mortgages Safe Again*



way as securities firms. Require lenders to evaluate the suitability of borrowers (this last recommendation has become a reality: as of October 1, 2009 lenders will be held for the first time to a suitability standard similar to stockbrokers who must consider the suitability of investors before selling them securities).

### **The right institutions**

Meanwhile, agencies that the government set up to handle mortgages—government-sponsored enterprises (GSEs) such as Freddie Mac and Fannie Mae—received significant subsidies and exemptions without the oversight and incentives to make sure they were making decisions in the best interests of the public. Because the GSEs had the backing of the government, they took riskier decisions; because they were set up like private corporations, with shareholders and investors, they were driven by returns rather than public good.

With reforms in place and the GSEs shrinking in the market, Quigley sees a new role emerging for the Federal Housing Administration. The FHA had as its original mission to increase home ownership in America. Today, with the proper incentives and regulations, the FHA can take on new responsibilities to keep the mortgage market safe and functioning and to protect consumers from predatory lending. Quigley suggests that the FHA expand its home mortgage program, making it insured by the government and targeting it to lower- and middle-income households. This would be similar to recent federal reforms in the student loan system.

The crisis has, hopefully, put Congress in a mindset to consider a new approach with greater responsibility and oversight—aligning both private incentives and proven government programs in the larger market for housing and for housing finance.

## Faculty news

**Pranab Bardhan** is presenting his research on international trade and development in India and China at a series of invited talks and keynotes around the world this spring and summer, including the International Food Policy Research Institute, Columbia University, Brown University, the London School of Economics, and the Paris School of Economics. For 2010-11 he will co-direct a project of the United Nations University-WIDER in Helsinki on the topic “Land Inequality and Decentralized Governance”.

**Aaron Edlin** presented “Predatory Pricing” to the faculty of NYU Law School during spring break 2010, a paper in which he argues for a new consumer oriented standard for monopolization called “Consumer Betterment”.

**Bronwyn Hall** has given several invited lectures and keynotes around the world this spring on her research topics of innovation, technology transfer, clean technology, and intellectual property, including the keynote lecture at the KDI International Conference on Intellectual Property for Economic Development in Seoul, Korea.

**Ulrike Malmendier** and **Adam Szeidl** received Alfred P. Sloan Research Fellowships for 2010. The fellowships, awarded to 118 researchers each year, recognize and support fundamental research by early-career scientists and scholars of outstanding promise in the fields of chemistry, physics, mathematics, computer science, economics, neuroscience or computational and evolutionary molecular biology.

**Emmanuel Saez** has been elected to the American Academy of Arts and Sciences (AAAS), one of the nation’s oldest and most prestigious honorary societies. Professor Saez is among 229 new fellows and foreign honorary members announced on Monday April 19. The new fellows will be inducted in October at a ceremony in Cambridge, Mass.

Saez also directs a new research center on campus that supports and promotes research into ways to achieve economic growth that is widely and fairly distributed: the Berkeley Center for Equitable Growth.

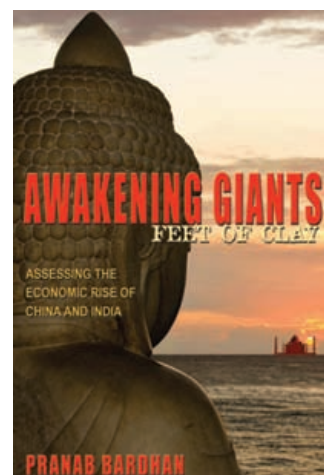
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### New books by faculty



**Bronwyn Hall** is the co-editor of *The Handbook of the Economics of Innovation*, published this April from Elsevier.

**Pranab Bardhan** recently published his newest book, *Awakening Giants, Feet of Clay: Assessing the Economic Rise of China and India*, from Princeton University Press.



## Alumni profile



**Brittany Murlas**  
Berkeley B.A., 2009  
*Currently Development Director  
of Transitions Foundation, a  
Guatemalan Association for  
People with Disabilities*

When Brittany Murlas graduated in 2009, into the difficult job market we know all too well, she decided to be creative. An econ

major who studied development economics and economic justice, Brittany had volunteered for many years coaching wheelchair basketball, and co-founded the Wheelchair Basketball DeCal, which puts able-bodied and disabled students alike in wheelchairs to learn the game.

Upon graduation, and after much soul-searching, Brittany found a way to bring her two interests together. Turning down an offer for a more traditional job in Hong Kong, and facing her fear of not knowing exactly what she'd be doing next when she walked onto the graduation stage in May, Brittany took a leap of faith and traveled to Guatemala to volunteer for an organization that helps people with disabilities—Transitions Foundation. Before too long, the volunteer position turned into a full-time job as their Development Director, and Brittany has now been living in Guatemala for a year.

### Most memorable classes

Economics 1 with Professor Martha Olney is what drew Brittany to the major in the first place. The class made her think and rack her brain in a way that felt like hard physical work. She also remembers Public Economics with Professor Emmanuel Saez, and draws on her readings from that class in her work today: where markets fail (for example, when it comes to employing people with disabilities), where the government needs to step in, and how much the private sector can do.

**Alumni:** please send us your updates for the next issue of the newsletter. Let us know where you work, where you live, where you travel, and any other news, at [exchange@econ.berkeley.edu](mailto:exchange@econ.berkeley.edu).

### The skills that are most valuable at work today

Economics education for Brittany means having a broad perspective on everything she does. When Transitions employs ten local people with disabilities to build wheelchairs, Brittany knows that it's part of an entire puzzle of labor, markets, and demand. Her economics degree lets her think strategically about new programs, and about the organization's financial survival over the long term.

As an econ major, Brittany studied non-profits and sustainable funding models. She learned that in today's economy especially, non-profits need to look beyond traditional grant funding for alternate ways to earn revenue. At Transitions, one of Brittany's programs allows an individual donor to sponsor a wheelchair for a particular individual and match their contribution (the share for a local in Guatemala is usually around \$1-\$50). Thanks to her background in microeconomics, as well as international economics, Brittany can create strategic initiatives that put economic principles into practice.

### Favorite memories of being an economics major at Berkeley

Brittany worked as an Econ Peer Advisor for Jenny Cornet for almost two years, one of her most enjoyable activities at Cal. She remembers sitting in the hall of Evans for hours on end, giving Econ 1 advice to Freshman and answering the "Hass vs. Econ" question.

She also has very fond memories of staying up late doing problem sets with her classmates. The study groups became tightly knit learning communities that stuck together for midterms and finals, and ended as great friendships with the people you cheered for the loudest at graduation.

To learn more about Brittany, visit her blog at <http://britspeakingspanish.blogspot.com/>.

*Faculty news—continued from page 6*

**Ted Miguel** received the 2010 Excellence Award in Global Economic Affairs from the Kiel Institute for the World Economy (Germany). The award recognizes the brightest young researchers in the area of global economic affairs and supports research relevant to policy-making and business.

**Hal Varian** gave the invited Ely Lecture at the 2010 American Economics Association meetings this January in Atlanta. His address, entitled “Computer Mediated Transactions,” appears in the May 2010 issue of the American Economic Review.

**Glenn Woroch** organized a conference on developments in wireless technology, called “Mobile Impact”, held at the Berkeley Information School’s Institute for Business Information this April.

**Yuriy Gorodnichenko** received the first ever Russian National Prize in Applied Economics for 2009-2010 (<http://econprize.ru>). Founded by the leading Russian universities and economic schools, the prize recognizes an outstanding publication devoted to the analysis of the Russian economy. This year, the jury awarded the first place prize a paper by Gorodnichenko and co-authors: “Myths and Realities of the transition to a flat rate of taxation: Microanalysis of tax evasion and welfare changes in Russia”, published in the *Journal of Political Economy*.

## Support the Economics Department

### New Alumni Challenge

Thank you to the members of the Classes of '05, '06, '07, '08, and '09 who have made a gift to the Department this year. Your contributions, combined with the 3:1 match from the UC Berkeley Foundation trustees, will result in more than \$10,000 for the Department!

All gifts from the Classes of 2005-2010 (yes, including May 2010 graduates!) up to \$1,000 will be matched between now and June 30, 2010. Take advantage of this incredible opportunity to leverage your philanthropy in support of the Department.

To make a gift online, visit [econ.berkeley.edu](http://econ.berkeley.edu) and click on Give to Economics @ Cal.

For more information on the challenge, please see:  
<http://campaign.berkeley.edu/new-alumni-challenge>

**Thank you for your support!**