

The Econ Exchange

Economics at UC Berkeley



Berkeley Economics Professor Receives 2009 Nobel Prize

The Economics Department is delighted that its very own Oliver E. Williamson, the Edgar F. Kaiser Professor Emeritus of Business, Economics, and Law, was awarded this year's Nobel Prize in Economic Sciences. Williamson is a pioneer in the multi-disciplinary field of institutional economics, and one of the world's most cited economists.

This brings the total of Nobel prizes for the UC Berkeley Economics Department to five. Williamson shares the prize with Elinor Ostrom (Indiana University). Both were recognized for their analyses of economic governance.

The Nobel committee cited Williamson for his "analysis of economic governance, especially the boundaries of the firm". Williamson showed that the way a firm is governed internally, and the way that firms interact with one another, play a major role in efficiency and profits. Policy makers must understand these dynamics when they design incentives and regulations such as antitrust policy, and decide which industries to privatize. Business strategists must understand them when they evaluate, for example, whether a firm should produce a component in-house or outsource it.

Some of the recent economic developments that came as such a surprise to the world, he said, might have been

foreseen if institutions such as the Federal Reserve and the Securities and Exchange Commission had been studied as much for how they're run as for what they do. As Williamson puts it, a sort of Council of Organizational Advisors might be created to counsel the president on how major financial institutions should best be governed.

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Emmanuel Saez Wins Clark Medal

Berkeley economist wins the most prestigious award for an economist under 40. See back cover for the story.

Note from the chair

Greetings!

The California budget crisis has hit the University of California very hard: furloughs of faculty and staff, layoffs, fee increases for students, and reduced admission numbers. Despite this unprecedented crisis, I can report that the Berkeley Economics Department has done remarkably well relative to other top Economics departments. Two extraordinary prizes were awarded to members of our department in 2009: the Clark medal to Emmanuel Saez in May and the Nobel prize in Economics to Oliver Williamson (jointly with Elinor Ostrom from Indiana University) in October. These are the two most prestigious prizes that an economist can receive.

Emmanuel's research on income and wealth inequality, and on issues of taxation and public economics more broadly, has profoundly influenced the profession and policy debates. Many recipients of the Clark medal later receive the Nobel prize. Emmanuel is the fifth Berkeley economist to receive the Clark medal, following in the footsteps of Dale Jorgenson (1971, now at Harvard), Dan McFadden (1975, Nobel prize 2000), David Card (1995) and Matthew Rabin (2001).



We were especially proud to learn that Oliver Williamson received the Nobel prize this year. He is one of the fathers of modern institutional economics, and his work on the theory of the firm is taught in business schools and economics departments around the world. On Google Scholar, his work has more citation counts than Adam Smith or Keynes! This is the fifth Nobel prize in economics given to a Berkeley professor, previous ones being Gerard Debreu (1983), John Harsanyi (1994), Dan McFadden (2000), and George Akerlof (2001). In terms of total number of economics Nobel prizes, Berkeley ranks #2 just behind Chicago,

and I am convinced that the gap between Berkeley and Chicago will narrow in the next few years. Already in the last 15 years, Berkeley has had more economics Nobel prizes than any other university in the world.

To summarize, the times are challenging but we are rising to the challenge!

Gérard Roland

Support Econ at Berkeley

Make a gift to the department. Visit econ.berkeley.edu and click on Give to Economics @ Cal. Gifts from new alumni will be matched 3:1.

See back cover for details.

News and events

Berkeley economists on the economic downturn

Roundtable on Boom to Bust

Economics professors **Brad DeLong** and **Martha Olney** joined professors from the Haas Business School and Goldman School of Public Policy for the Winter 2009 Lecture Series at the Osher Lifelong Learning Institute: “From Boom to Bust: Insights into the Current Economic Downturn”

This four-part lecture series was designed to better inform an educated lay audience about what’s at stake in the economic downturn. What do we need to know and understand about economic history, macroeconomics, and proposed policies to guide our own behavior as citizens, investors, and consumers?

This March in Berkeley, the public is invited to attend a follow-up roundtable discussion with the same group, called “Insights into the Economic Downturn One Year Later”

Wednesday, March 3, 2010 1-3 p.m.

Freight and Salvage Coffee House

<http://www.oli.berkeley.edu/programs/Winter2010-lecture-series.html>

Williamson wins Nobel prize—continued from the cover

What advice would you give a recent economics graduate?

Prof. Williamson: I think that it is important to discover your passion. Once done, your job becomes a pleasure and you engage it with all of your powers and energy. So how to discover your passion? If you go to graduate school, think of it as an opportunity to discover your preferences and practice adaptive sequential decision making. The same applies in the “real world”: be adventurous.

Panel on Global Unemployment

This October, Economics professors **Brad DeLong** and **David Card**, together with colleagues from the Haas Business School, Goldman School of Public Policy, and Berkeley Law, assembled for a panel discussion on “Global Unemployment”.

Despite recent upticks in the economy, the U.S. and worldwide employment picture continues to be bleak. Are we facing a “jobless recovery?” Did the international economic collapse in 2008-09 alter the labor market permanently? What employment patterns and prospects should we expect as global markets and economies recover? UC Berkeley scholars answered these questions, explored the role of international organizations such as the G20 in addressing them, and offered proposals to prevent protectionism and promote a global solution.

You can watch the video recording and download slides at <http://www.law.berkeley.edu/6511.htm>

What do you recommend reading, from your research and publications?

Prof. Williamson: My 1979 article on “Transaction Cost Economics: The Governance of Contractual Relations” gives the structure and theory of transaction cost economics, and invited later empirical work. More recently, my 2000 article on “The New Institutional Economics” and my 2005 article on “The Economics of Governance” provide added perspective.

Research highlights

The impact of media—an economist's take

We've all heard the claims about media influence: our media is increasingly violent, consumerist, politically biased, and causes measurable shifts in Americans' values and behaviors. But what would an economist say about these claims? Berkeley professor Stefano DellaVigna takes a creative empirical approach to get new insight on two arenas of purported media influence: violent movies and their impact on real violence, and politically biased news coverage (Fox News) and its impact on viewers' political opinion and voting.

Do violent movies cause violent crime?

In the lab, psychologists have found that viewers who watch violence are more likely to be violent afterwards. But how about in the real world? DellaVigna and

colleagues studied the rate of violent assaults on the hours and days following the release of violent blockbuster movies, from 1995 to 2004. They found that, in fact, violent crime goes down on days with larger theater audiences for violent movies.

How could that be? First, when millions of people are sitting in a movie theater watching a violent movie, they are not on the streets committing violent crimes—what DellaVigna terms the “incapacitation effect.” Then, in the hours after the movie, violent crime goes down even more, largely because movie attendance reduces alcohol consumption. Keep in mind that audiences for violent movies are self-selecting, and represent a higher proportion of violent individuals. Attracting those individuals into movie theaters and away from bars is a “substitution effect” that, in the short run, deters almost 1,000 assaults on an average weekend.



Research highlights continued

The impact of media—an economist's take

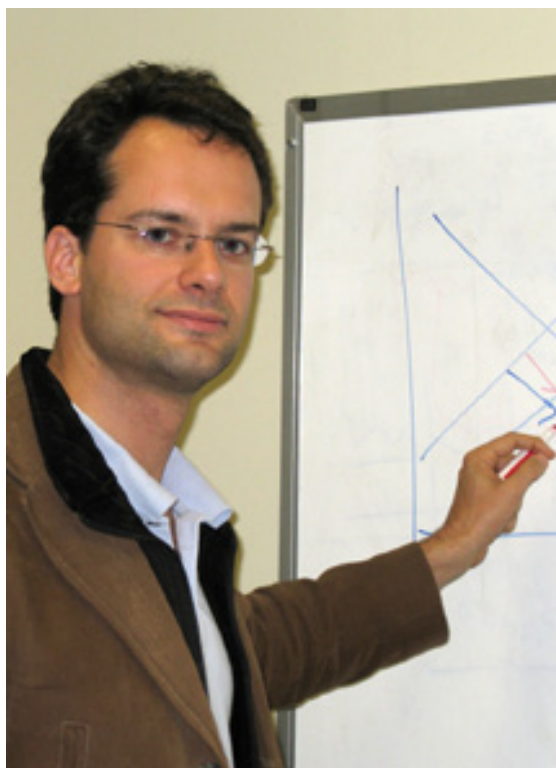
By approaching the problem as an economist, DellaVigna points out a previously neglected fact. Whether violent media are good or bad depends on the answer to the question—relative to what? His findings suggest that a good way to reduce violence in our communities is to offer appealing alternative ways for youth to spend time, particularly at night. One good example is Clinton's Midnight Basketball program.

DellaVigna notes that his research does not imply that movie violence has no long-term adverse impact on criminal behavior. "Quite simply", he says, "no one knows the long-term effects of media exposure, because we all are exposed to the media. We do better to study the short-run effects, which we can more easily analyze, and where there are important lessons to be learned."

Does Fox News breed more Republicans?

When Fox News burst onto the scene in the late 1990's, concerns about its political bias and undue influence resounded over the entire political spectrum. DellaVigna found a way to verify this claim quantitatively – he looked at voting patterns in towns that offered Fox News in 2000 compared to towns that did not.

Between October 1996 and November 2000, the conservative Fox News Channel was introduced in the cable programming of 20% of U. S. towns. Whether a town



Berkeley economist Stefano DellaVigna

offered Fox News was largely idiosyncratic, and was not determined by pre-existing political leanings. DellaVigna found a significant impact on voting: Fox News convinced 3 to 28 percent of its viewers to vote Republican (depending on the exact audience measure).

What we do not know yet is whether Fox News persuaded viewers to vote Republican based on emotions (a more permanent effect), or whether it provided useful information that helped rational voters make up their minds (a temporary learning effect).

Conclusion

DellaVigna shows us that the media can have profound effects on viewer behavior – though not always in the ways that we think. This is especially relevant today, because the economic recession is so closely tied to consumer behavior. If consumers expect a recession, they will cut spending and may cause a recession if there is none, or worsen one. What affects consumer confidence? The media. Who can shed light on media forces? Economists.

To read more of Professor DellaVigna's findings, visit his website at <http://emlab.berkeley.edu/users/sdellavi>.

Faculty news

This year we are pleased to add two new professors to our dynamic and diverse faculty. **Federico Finan** specializes in Development Economics and Political Economy, and received his PhD in Agriculture and Resource Economics from Berkeley in 2006. **Demian Pouzo** joins the Berkeley faculty after receiving his PhD in Economics from NYU. Pouzo's specialties are theoretical econometrics and macroeconomics.

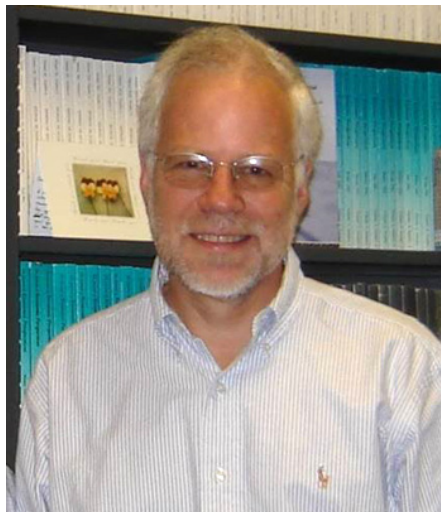
Two more professors from the department, both leading experts in antitrust economics, are moving to DC to join President Obama's "Brain Trust" this fall. **Carl Shapiro** has been named chief economist in the Department of Justice's antitrust division. **Joseph Farrell** is the new chief economist at the Federal Trade Commission, and the head of its Bureau of Economics.

Maurice Obstfeld, the Class of 1958 Professor of Economics, has traveled far and wide to speak on the topics of the financial crisis and international economics: he delivered the keynote address for the Bank of Japan

annual research conference in Tokyo in May, and presented to the Central Bank of Argentina in August.

A specialist in development economics, **Pranab Bardhan** held the Distinguished Fulbright Chair at University of Siena, Italy this past year. Over the past months he has spoken at University of Pisa, the Brooks Poverty Institute at the University of Manchester, and at CEPAL in Santiago, and gave the keynote lecture at the Singapore Economic Review Conference. Next year, Professor Bardhan will be the BP Centennial Professor at the London School of Economics.

Professor **Edward Miguel** has published a new book, *Africa's Turn?*, that describes hopeful economic trends throughout sub-Saharan Africa and suggests that we may be seeing a turnaround (www.africasturn.com). An article by Prof. Miguel and colleagues also recently appeared in PNAS: "Warming increases the risk of civil war in Africa." This work provides the first quantitative evidence linking climate change and the risk of civil conflict.



Barry Eichengreen wins the 2010 International Schumpeter Prize in Economics from the International Schumpeter Society. The prize, awarded once every two years, recognizes the best recent scholarly contribution to Schumpeter's work. Eichengreen, the George C. Pardee and Helen N. Pardee Professor of Economics and Political Science, is a leading economic historian who has published extensively on globalization and international economics.

Alumni profile



Michael H. Jones
Berkeley B.A., 2005
Harvard MBA, 2009
Currently a generalist banker at
Morgan Stanley

From the moment that Michael took Economics 1 at the beginning of his time as a Cal undergrad, he was hooked – economics explained so much

about what makes the world run, from the simplest behaviors to the most complex transactions. When he studied development economics with Professor Pranab Bardhan, his worldview expanded once again. He learned to look at economics, business, and financial issues from the perspective of the poor, and at an institutional level.

Michael became deeply interested in global development issues, and started a Berkeley student group called Bears for UNICEF. The group raised awareness on campus and in the community about the needs of children in poor countries, and raised funds for projects that helped address them. Upon graduating, Michael received the John Gardner Fellowship (awarded to three Berkeley and Stanford graduates a year) to pursue work in public service. It had always been a dream of his to work at the United Nations, and he landed a fellowship in the Executive Office of the Secretary-General (who was at the time Kofi Annan). Michael spent the next two years at the U.N. working on a special task force for counterterrorism policy.

Since then, Michael attended Harvard Business School, where he was the President of the Finance Club. After graduating this spring, he has begun a career in investment banking at Morgan Stanley, where he currently spends most of his time working in Mergers & Acquisitions. He has learned a lot about how companies think about finance, strategy, and the capital markets. But it was his time as a Berkeley economics major that set the

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.

stage for how he thinks about the world and approaches problems. At a later point in life, he hopes to combine his passion for development economics and his interest and experience in international governance and policy, with his new expertise in finance and business.

Most memorable classes

The development economics class with Professor Pranab Bardhan represented a major shift in perspective for me. I learned the limits of economics theory, and realized that rational decision-making does not necessarily work when people don't have their basic needs met or countries don't have the right institutions in place.

Professor Ted Miguel also played a major role as a mentor, and gave me the great advice upon graduating to round out my training in economics by orienting myself in the policy world; the intersection of economics and policy is where things get done.

The skills that are most valuable at work today

In the econometrics and methods course I took with Professor Gregory Duncan, I learned to think about the validity of the data and assumptions that underlie models, and how to interpret their outputs. This helps a lot in my current job: when I build a model to help get answers for the client, I remember to step back, assess the main assumptions, and be careful in interpreting the results.

Favorite memories of being an economics major at Berkeley

The years at Berkeley were the best time of my life. I remember the beautiful weather, and playing Frisbee with my friends in the field in front of Evans. I would read my Econ 1 assignments on the lawn, and think about how economics explains so much in the world.

Clark Medal Goes to Berkeley Economics Professor

Economics Department professor Emmanuel Saez, a leading researcher of income inequality and tax policy, is this year's recipient of the John Bates Clark Medal. One of the most prestigious awards in the field, the Clark Medal is awarded by the American Economic Association to a U.S. economist under age 40 who has made the most significant contribution to economic thought and knowledge. Saez, 36, joins four other UC Berkeley economists who have received the prize.

The medal recognizes Saez for major contributions to tax theory, including how governments can optimally set tax policy and how households behave in response to taxes. Saez has brought new attention to the often understudied field of the optimal tax policy, which asks: what is the best possible income tax system, considering that taxation may interfere with market incentives and discourage productivity?



Saez's research on income distribution has shown that, before the onset of the financial crisis, the top 1% of families by income accounted for nearly a quarter of U.S. income—their largest share since the late 1920s. With this in mind, Saez points out optimal ways to redesign taxes, such as the top tier of income tax rates, income transfer programs, capital income tax, and the marriage tax.

Saez describes the UC Berkeley Economics Department as “a wonderful place to do research, a place where the most experienced colleagues care deeply about the research and success of younger colleagues.” An engaged teacher as well as scholar, Saez was also recognized with the Best Graduate Teacher Award from the Berkeley Economic Graduate Students Association. The Economics Department looks forward to many more great things from Emmanuel Saez.

Support the Economics Department

New Alumni Challenge

Did you complete your degree at Berkeley in 2005 or later?

Or, do you plan to finish this academic year? If so, any gift—up to \$1,000—you make to the Berkeley Economics department before June 30, 2010 will be matched 3:1 by the trustees of the UC Berkeley Foundation. This means that the value of your gift will be quadrupled—\$1 becomes \$4.

The New Alumni Challenge invites all undergraduate and graduate alumni from the Classes of 2005 through

2010 to participate in this first-ever 3:1 match. Every gift you make up to \$1,000—no matter what size—will help preserve the vital programs that directly impact the Berkeley experience. Times are tough for everyone, so this is a great way to make even a small gift go a long way. Join the hundreds of alumni who already give to Berkeley Economics—and ensure that our department remains the top in the world!

To make your contribution, go to econ.berkeley.edu and click on Give to Economics @ Cal

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