

# MICHECON NEWS

Fall/Winter 2011/2012

for University of Michigan Economics Department alumni and friends



## The Economics of Industrial Organization

From the coastal regions and eastern lowlands of Colombia to the factories and offices in Denmark, Department of Economics Industrial Organization faculty research is providing a better understanding of how modern markets work in a wide variety of settings.

Industrial Organization (IO) can trace its Michigan roots back to 1901 and the arrival of Edward David Jones as assistant professor of commerce and industry. As industrial growth was burgeoning in the United States, so was the need to understand economic-related issues. And so U-M students registering for classes in the fall of 1902 could, for the first time, select courses in Industry and Commerce. These courses, according to the University Calendar for the 1902-03 academic year, “have for their special object the study of organization and processes of modern business. They are closely related to economics, both

as a study of wealth production and as an account of economic principles in industrial society.”

Today’s IO economists are focusing on areas that could not have been imagined in 1901. For example, Assistant Professor Ryan Kellog examines ozone pollution and gasoline content regulation. In 1901 Henry Ford was trying to convince the world that an automobile could be mass produced.

The research highlighted on the following pages is representative of the IO research being done in the Department. Information about additional faculty and graduate student research can be found on the Department website: <http://www.lsa.umich.edu/econ/>.

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# From the Chair



Greetings from Ann Arbor!

Since becoming Department Chair this past July, I have had the pleasure of getting to know more of our alumni and friends. I am extremely impressed--and gratified--by how much you do for us. Recognizing this, I am pleased to report that we have taken steps to improve and enhance our ability to stay in contact with each of you. Foremost is the “new and improved” website we rolled out this summer.

I invite you to take a moment to “visit” with us online at <http://www.lsa.umich.edu/econ/>. On our homepage, “In the News” allows you to follow current media coverage about our faculty and students. Right below that, the “Events” section keeps you up-to-date with lectures, symposia, and other programs taking place in the Department. You can also check out some of your fellow Department graduates in the “featured alumni” areas in both the Undergraduate and Graduate student sections.

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And as the University begins preparation for the bicentennial celebration in 2017, take a look at the Department Timeline (under the heading “About Us”) for a quick tutorial on some key events in this Department (that, for the record, also dates back to 1817 and the founding of the University)!

But none of this would be possible without the continued support of persons like yourself. As you well know, we increasingly rely on gifts to allow us to support current programs and research projects as well as expand into new areas. All of this as the Department continues to grow. In an academic interest survey taken during Freshman Orientation this summer, incoming LSA students were asked what subjects they might like to pursue as a concentration: economics was the number one choice!

This issue of *MichEcon News* features many of our programs that enrich the Michigan economics experience for our students and faculty. Gifts to the Department Strategic Fund (for high priority initiatives/events) allow us to provide programs such as the public policy forum (facing page), the Undergraduate and MAE commencement celebrations (pages 6 and 7) and Finance Day (page 11). Gifts to the Department Economic Research Fund support research and field work such as the IO research outlined in this issue, as well as additional faculty and graduate student research that you can read about throughout these pages--and on the Department website in a new “Research” section.

Included in this issue is an envelope that allows you to make a gift to the Department. I encourage you to consider how you might be able to help and take a moment to fill it out. Or, while you are exploring the Department website, you can make a gift online at <http://www.lsa.umich.edu/alumni/giveonline>.

Several years ago, one of our graduate student fellowship recipients noted that “when someone is giving you money to do something, it feels as though they’re on your side.” That is true for all of us. Knowing that we have the support of our alumni and friends is a tremendous encouragement as we seek to provide the best education and research opportunities for our students and faculty.

I look forward to meeting more of you throughout my tenure as chair. Your dedication, support, and care for our students and faculty is appreciated by each of us in the Department. Thank you, come visit us when you are in Ann Arbor, and “Go Blue!”

Joel Slemrod  
Department Chair and Professor

## The Post-Crisis Recovery: Prospects and Policy Choices



**Far Left: Professor and Chair of the Department of Economics Joel Slemrod served as moderator.**

**Panelists (l-r): Economics Leadership Council Members David Berson MPP '79, PhD '82 econ; Peter Hooper AM '71 econ, PhD '75 econ; Allen Sinai '61 econ, and Richard A. Musgrave Collegiate Professor of Economics James R. Hines Jr.**

A public forum “The Post-Crisis Recovery: Prospects and Policy Choices” highlighted this year’s annual meeting of the Economics Leadership Council (ELC), the alumni advisory board for the Department of Economics. Panelists included ELC members David Berson, MPP '79, PhD '82 econ, senior vice president, chief economist and strategist, The PMI Group, Inc.; Peter Hooper, AM '71 econ; PhD '75 econ, chief economist, Deutsche Bank Securities; Allen Sinai, AB '61 econ, chief global economist, president and co-founder, Decision Economics, Inc.; and faculty member James R. Hines Jr. (see also page 10). Professor and Chair of the Department of Economics Joel Slemrod served as moderator for the forum that was held in Lorch Hall’s Askwith Auditorium.

All speakers agreed that while the country is in an economic recovery, it will be slow. “There will be better times ahead,” Sinai said, speaking directly to the more than 150 students who were in the audience, “but I can’t promise you a great job market.” He outlined several factors that are impeding the recovery, including a flat housing market and auto sales, as well as cutbacks in state and local governments, corporate reluctance to spend, and the euro crisis.

Hooper said that “there is no question that this will be a fragile and lengthy recovery from an unusual recession.” He estimated that the recovery could take eight or nine years during which time there would be slow improvement in the labor market. He said that household balance sheets are improving, with household debt declining 10 percent a year and overall credit conditions looking better. However, he pointed out that the stock market is still well below peak levels and a further downward move in the stock market could undo a lot on the plus side. Recently the market has been held back by the debt-ceiling debates this summer, the subsequent downgrading of the U.S. credit rating, and the European economic crisis. “The focus is going to be on Washington,” he said, “but fiscal policy in Washington is about as dysfunctional as it has ever been.”

Berson said that home prices have, for the most part, stabilized with current home prices about where they were a year ago. However, he added that “financing constraints on loans and re-mortgaging are holding housing back. There are many credit-worthy households that can’t get a loan.”

Hines emphasized the urgency for policymakers to deal with the economic realities of emerging from the “significant bubble” of 2003-2007. “Here we are with a lot of debt and we are living in a fantasyland.” He said that a value-added tax, a more competitive corporate tax, and greater support for state and local governments were all necessary steps towards a more sustainable fiscal policy.

“The consensus,” said Slemrod at the end of the forum, “is that we need to get our fiscal house in order and seriously consider both reducing entitlements and raising taxes.”



**Above: Students attend the panel discussion. Left: David Berson talks with a student following the presentation.**



## Utility Subsidies in Developing Countries

Electricity and water are often subsidized in developing countries to increase their affordability for low-income households. Ideally, the existence of such subsidies would create sufficient demand in poor neighborhoods to encourage private investment in their infrastructure. Instead, many regions receiving large subsidies have precarious distribution networks supplying users who never pay. The persistence of this phenomenon is a puzzle.

**Assistant Professor Shaun McRae's** research demonstrates how a targeted program of utility subsidies leads to the persistence of low-quality infrastructure in a developing country. He estimated a structural model of household demand for electricity using customer billing data from Colombia matched to household characteristics and network outage data. Using this model, he predicted the change in household consumption and firm profits from upgrading low-quality electricity connections. He showed that the existing subsidy program, which provides greater transfers in areas with unreliable supply, deters investments to modernize infrastructure. Finally, he analyzed less costly programs that provide stronger investment incentives.



## Economic Impact of Advertising Expenditures

Advertising expenditures constitute more than two percent of GDP in the United States, and in many industries advertising spending approaches or surpasses ten percent of revenue. While a marketer or businessman might only care about whether (and to what extent) advertising works, economists are quite concerned with the issue of *how* advertising works.

Some of **Professor Daniel Akerberg's** research has developed methodology to use single source data to distinguish the different effects of advertising. Single source datasets measure both consumers' exposures to advertising and their purchase decisions. An example is grocery purchase data collected using "club" cards linked with television advertising exposures measured by Nielsen television meters.

The basic idea behind Prof. Akerberg's methodology is to compare the effects of advertising on consumers who have already

tried a product (experienced consumers) versus consumers who have not purchased the product in the past (inexperienced consumers). Intuitively, experienced consumers already have information about the product, i.e. they know it exists, its characteristics, and/or how it tastes. Therefore, informative advertising should not have much of an effect on experienced consumers. In contrast, persuasive advertising could affect both inexperienced and experienced consumers. So Prof. Akerberg classifies advertising that is found to primarily affect inexperienced consumers as informative, and advertising that affects both inexperienced and experienced consumers as persuasive.

He applies these techniques to a newly introduced brand of yogurt, using econometric techniques that allow the effects of advertising to vary depending on each consumer's prior experience with the product. He finds that, at least for this product, advertisements mainly affected inexperienced consumers, suggesting that these advertisements were primarily informative.



## Gasoline Content Regulation and Ozone Pollution

Since the passage of the original Clean Air Act in 1963, U.S. state, and the federal, governments have implemented numerous policies designed to reduce human exposure to ground-level ozone pollution. Despite more

than 40 years of emissions regulation, however, many areas of the U.S. continue to experience ambient air concentrations of ozone that exceed standards set by the Environmental Protection Agency (EPA).

**Assistant Professor Ryan Kellogg** and Maximilian Auffhammer (UC Berkeley) examined whether U.S. gasoline content regulations, which impose substantial costs on consumers, have successfully reduced ozone pollution. Taking advantage of spatial and temporal variation in the regulations' implementation, they show that federal gasoline standards, which allow refiners flexibility in choosing a compliance mechanism, did not improve air quality. This outcome occurred because minimizing the cost of compliance does not reduce emissions of those compounds most prone to forming ozone. In California, however, they found that precisely targeted, inflexible regulations requiring the removal of particularly harmful compounds significantly improved air quality.



## Human Capital as a Determinant of Dispersion in Firm Productivity

Some businesses have much higher output--and sales--than other businesses. It is a remarkable fact that this dispersion holds true even when one controls for measures of the inputs used by firms, such as the number of workers and the dollar value of the stock of physical capital.

High dispersion in productivity holds even for firms in the same industry and geographic area, such as ready-mix concrete in Detroit. One possible explanation is that this high productivity dispersion reflects the somewhat crude measures of inputs typically used by economists, such as the number of workers for the labor input. In reality, workers are of quite different abilities and firms may hire workers of different backgrounds. In most datasets used in across-firm productivity analysis, there is not detailed information on the backgrounds of workers.

**Assistant Professor Jeremy Fox** uses data from Denmark on the detailed education backgrounds and work histories of all workers at all firms in particular industries. Therefore he is able to relate a firm's output (sales) to more properly measured labor inputs.

He finds that human capital is a much more important determinant of dispersion in firm productivity in service sector industries such as advertising than in manufacturing industries. However, mismeasurement of worker quality is only part of the explanation for productivity dispersion. This means that explanations such as variation in management quality and business strategies are likely stories for why some firms have much higher output conditional on inputs than other firms in the same industry.



## Effects of Firm Entry in Network Markets: The Fax Machine

**Assistant Professor Natalia Lazzati** studies the effects of firm entry in network markets--markets in which one individual's decision of whether or not to buy the product is affected both by its market price and the number of other people he believes will

buy it. The motivation of this work relates to an empirical observation: many network markets appeared long after the product was created. In the case of fax machines--a classic network good--it took around 150 years to start up the market!

Lazzati's research provides an explanation for this delay by formalizing, unifying, and extending earlier models of network markets. The main features of these markets are the real possibility that no market at all may arise even if people are willing to pay more than its cost. The reason is that if consumers believe that no one else will get the good, then the good has no value, and the firms have no incentives to produce it. However, if initial beliefs are higher, other equilibria with positive levels of production immediately emerge. These characteristics make the analysis interesting, and impose challenges from both theoretical and applied perspectives.

Lazzati's work, joint with Rabah Amir (University of Arizona), studies the concept of industry viability, investigates its determinants, and shows it improves with more firms in the market and/or by technological progress. These results illuminate many conclusions from case studies in the business literature.



## Entry under Subsidy: The Competitive U.S. Local Telephone Industry

The 1996 Telecommunications Act introduced entry into an originally monopolistic U.S. local telephone industry. As competitors cherry-pick rich, urban markets to enter, the Act calls for an explicit and pro-competitive subsidy policy to narrow the potential divide in telecom infrastructure.

To study relevant economic factors in the design of such a policy, **Assistant Professor Ying Fan** and Mo Xiao (University of Arizona) estimated a dynamic oligopoly entry game using data on the competitors' entry decisions into local markets. Their data set contains the identities of potential entrants and their waiting time before actual entry, and their model allows firms to be heterogeneous, long-run players who have the option value of waiting. They found that both market- and firm-level heterogeneity play an important role in a potential entrant's local entry decisions. Moreover, these entry decisions are significantly influenced by the consideration of both current and future competition. Using structural estimates, they evaluated the effectiveness of different subsidy policies.

In other research, Fan, along with Department faculty **Kai-Uwe Kühn** and **Francine Lafontaine**, seek to understand what economic factors affect the franchising decisions of a chain, i.e., when to enter into franchising and how to grow (mainly via corporate-owned outlets or franchised outlets). They are particularly interested in whether the financial constraints of potential franchisees affect a franchisor's decision.

# Congratulations Class of 2011!



**Clockwise from top left: 2011 Graduates, faculty, family, and friends filled Rackham Auditorium for the Department's Undergraduate Commencement Celebration; Senior Lecturer Jan Gerson shares a laugh with graduates Spencer Smith (left) and Charles Boyer (right); Following the ceremony graduates and their families captured lasting photographic memories on the steps of Rackham; Guest speaker Gail R. Wilensky, AB '64 psych, AM '65 econ, PhD '68 econ.**

In what has become a distinctive tradition in the Department, the Undergraduate Commencement celebration held in Rackham Auditorium this past April recognized the achievements of the more than 400 members of the graduating class of 2011. Outgoing Department Chair Linda L. Tesar presided over the evening's festivities.

Guest speaker for the evening was Senior Fellow of Project HOPE Gail R. Wilensky, AB '64 psych, AM '65 econ, PhD '68 econ, who told the graduates that "your economics degree will be a valuable part of your future. This is not because most of you will be professional economists--I assume you won't be--but rather because economics teaches you how to be an analytical thinker and how to become an effective problem-solver, and those are skills that will serve you well no matter what path you follow in your later life."

She also encouraged the Class of 2011 "to be open to opportunities that come your way, even if they take you in a very different direction from what you had planned." Wilensky used her own extensive and varied career as an example "of how hard it is to predict what you are likely to be doing

over the next several decades." In her current position at Project HOPE she is able to use her "skills as an economist to help the world's less fortunate--with HOPE and the World Health Organization (WHO)."

The directions Wilensky's career took were not anticipated. "But I was smart enough to recognize a good opportunity when it came my way, worked as hard as I could to take advantage of it, tried to learn from my occasional screw-ups, and was willing to take some risks when that seemed appropriate.

So my advice to you is to recognize that you are living in a rapidly changing world. The job you will work in may not yet exist, some of the skills you will need you may need to pick up along the way--but you are well-positioned to succeed. Work hard, be flexible in your career path, take prudent risks, and remember to have some fun along the way. It will go by much faster than you can believe!"

# Alumni News

## Undergraduate Awards, Honors

At commencement time, the Department recognized undergraduates who received awards and honors. The 2011 honorees were:

### **Highest Honors**

James Fogel, Daniel Russo, Jody Schechter, Spencer Smith

### **High Honors**

Charles Boyer, Lauren Gumbiner, He Yang

### **Honors**

Kareem Alazem, Chuin Siang Bu, Neal Sangal, Philip Viges, Michelle Wein, Yuankai Zhou

### **Sims Honors Scholarship**

James Fogel, Maxwell Kiniria, Thomas Mathew

### **David Bunzel Scholarship**

Charles Boyer, Elizabeth Hamilton, Adam Lamm

### **Harold Osterweil Memorial Prize**

Kareem Alazem, Neal Sangal, Jody Schechter

### **Ferrando Honors Prize**

Daniel Russo and Spencer Smith

### **John Elliot Parker Memorial Prize**

Lauren Gumbiner and Jody Schechter

### **Service Award**

Jessica Bertolina, Christina Hodovanu, Haili Pang, Elizabeth Robinson



**Masters of Applied Economics (MAE) spring graduates posed for a class photo following their celebration held in Foster Library. Speaker for the event was Randall Heiser (center, back row), AB '82 econ and poli sci, MAE '84 econ. Director of the MAE Program Professor Miles Kimball and MAE Coordinator LaRue Cochran are also shown (front row, fourth and fifth from left).**

## A Tribute to a Steadfast Friend

John Sweetland, AB '58 econ; AM '59 econ, never forgot the words he heard at his freshman orientation. "The thing that most impressed me at my orientation in Hill Auditorium was when the speaker pointed out the buildings on campus that were gifts from alumni and friends--the Law Quad, the Rackham Building, Hill Auditorium, Michigan Union, and Michigan League, among many others--making Michigan unique among the nation's public universities. That has stuck with me these 50+ years later and has become part of my life."

And what became a part of John's life has greatly benefitted faculty and students in this Department as well as throughout the University. In the Department of Economics he has funded the Professorship in International Economics which, from its inception, has been held by Professor Alan Deardorff. In addition, he has given generously of both time and resources. It was from the seed of an idea planted by John more than 10 years ago that the Economics Leadership Council (an outgrowth of the Department's Alumni Visiting Committee) was born. In recognition of John's tremendous service to this Department, the "John W. Sweetland Service Award" was established in 2006 as a way of acknowledging the contribu-



**John Sweetland (right) receives an illustrated copy of The Michigan Creed from Chair and Professor of Economics Joel Slemrod.**

tions of those who, like John, truly love this University and this Department.

The closing dinner of this year's ELC meeting featured a special tribute to John. Speakers included Chair and Professor of Economics Joel Slemrod, former Chair and John W. Sweetland Professor of International Economics Alan Deardorff, former Chair and Lawrence R. Klein Collegiate Professor of Economics Matthew Shapiro, and Gary Dorman, AB '72 econ, who has been a member of the ELC since it was established.

John received a framed copy of "The Michigan Creed," written by former U-M President Alexander Grant Ruthven, and illustrated by alumnus Wilfred B. Shaw.

# 2011 Fellowships/Awards

Robert V. Roosa  
Dissertation Fellowship  
Yeliz Kacamak  
Zahid Samancioglu

Mark and Lindsay Harms Scholar  
Harim Kim

Verne and Judy Istock Scholar Award  
Paul Brehm

James A. Miller Fellowship  
Dylan McNamara  
Xiaoqing Zhou

Rackham Merit Fellows  
Eleanor Wilking

Peter and Julie Borish Fellowship Awards  
Feiya Shao  
Yiyuan Zhang

Gail Roggin Wilensky Fellowship  
Fei Hou  
Julian Hsu  
Salma Khalid

Sasakawa (SYLFF) Fellows  
Dimitrije Ruzic  
Bryan Stuart  
Michael Zabek

Sasakawa (SYLFF) Awards  
Jesse Gregory  
Caroline Weber

Rackham Pre-Doctoral Fellowship  
Pawel Krolikowski

Rackham One-Term Fellowship  
David Agrawal  
Nora Dillon  
Daniel Murphy

STIET Fellowship  
Mark Fontana  
Christopher Sullivan  
Bartley Tablante

Public Policy/Economics Fellowship  
Andrew Litten  
Hope Thompson

Small-Grant Awards  
for International Study  
Kate Ambler  
Emily Beam

Jackie Doremus  
Jessica Hoel  
Jenny Lin  
Ryan Monarch  
Laura Zimmermann

I.L. Sharfman Fellowship  
Sarah Johnston

President's Challenge  
Alan Griffith  
Kookyong Han  
Morgan Henderson  
Hyejin Rho

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## 2011 PhD Placements

Sebastien Bradley  
Department of Economics and  
International Business  
LeBow College of Business  
Drexel University

Joshua Cherry  
Management Economics and Decisions  
Sciences  
Kellogg School of Management  
Northwestern University

Brendan Epstein  
Board of Governors of the  
Federal Reserve System

Jessica Goldberg  
Department of Economics  
University of Maryland

Brooke Helppie McFall  
Survey Research Center  
University of Michigan

Joanne Hsu  
Division of Research and Statistics  
Federal Reserve Board of Governors

Erik Johnson  
Department of Economics  
Georgia Institute of Technology

Owen Kearney  
U.S. Department of Treasury  
Office of Economic Policy

Logan Lewis  
International Finance Division  
Federal Reserve Board

Stephan Lindner  
Urban Institute

Dmitry Lubensky  
Kelley School of Business  
Indiana University

Nicholas Montgomery  
Franklin & Marshall College

Marta Murray-Close  
Department of Economics  
University of Massachusetts-Amherst

Todd Pugatch  
Department of Economics  
School of Public Policy  
Oregon State University

Dan Simundza  
Securities Litigation and Consulting  
Group

Douglas Smith  
Federal Trade Commission

Ben Stearns  
Charles River Associates

Elias Walsh  
Mathematica Policy Research

Liyun Wu  
Social Development Center  
Southwestern University of  
Finance and Economics,  
Chengdu, China



## Two Economics Students Receive Fulbright Grants

Jacqueline Doremus, a PhD student in economics, and Dorothy Heebner, AB '11 econ, have received Fulbright U.S. Student Grants for the 2011-2012 academic year. Jacqueline is in the Republic of Congo conducting research regarding the implications of independent forest monitoring, and Dorothy is in Taiwan teaching English.

Fulbright student grants are awarded to about 1,700 students each year on the basis of academic or professional achievement as well as demonstrated leadership potential in their fields. These grants make it possible for students to do research, study or teach English for six to twelve months.

University of Michigan students have been awarded 29 Fulbright grants for the current academic year, topping the list of U.S. institutions for the fifth time in the past seven years.



**Noah Smith (left), a PhD candidate in economics and a Ryoichi Sasakawa Young Leaders Fellowship (SYLFF) recipient, traveled to Japan this past summer to undertake research on the mechanism of the bubble economy. He spoke with Katsuhito Iwai (right), Tokyo Foundation Senior Fellow and Professor Emeritus of the Tokyo University, to learn the renowned economist's views of the bubble economy and nature of capitalism. Noah also met with Sota Kato, a Tokyo Foundation Senior Fellow who was formerly a lecturer in the U-M Department of Political Science.**



**Ruud de Mooij (right), Program Chair of the 67th Annual IIPF Congress presents PhD Candidate David Agrawal (center) with the Richard and Peggy Musgrave Award. Assisting with the presentation is Robin Boadway (left), IIPF president.**

## PhD Candidate David Agrawal Awarded IIPF Musgrave Prize

PhD Student David R. Agrawal was awarded the Peggy and Richard Musgrave Prize for his paper “The Tax Gradient: Do Local Sales Taxes Reduce Tax Differentials at State Borders?” Agrawal presented his paper at the 67th Annual Congress of the International Institute of Public Finance (IIPF) held in Ann Arbor late this summer.

The IIPF created the Peggy and Richard Musgrave Prize in 2003 to honor and encourage younger scholars whose work meets the high standards of scientific quality, creativity, and relevance that has been a mark of the Musgraves’ contribution to public finance. It is awarded annually, on the advice of the Chair of the Scientific Committee, to the author(s) of the best paper presented at the Congress by someone under the age of 40.

Joel Slemrod, chair of the Department of Economics as well as chair of David’s dissertation committee, notes that

“this is a very prestigious prize usually awarded to young professors rather than PhD candidates.”

Agrawal’s winning paper can be viewed on the Department’s website: [http://www.lsa.umich.edu/econ/people/job-marketcandidates/ci.agrawaldavid\\_ci.detail](http://www.lsa.umich.edu/econ/people/job-marketcandidates/ci.agrawaldavid_ci.detail).

**This is a very prestigious prize usually awarded to young professors.**

Richard Musgrave was a professor in the U-M Department of Economics from 1948-1958. During his time here, the late Professor Musgrave wrote his classic book, *The Theory of Public Finance*, that provided the foundation for the modern approach to public economics. He and his wife Peggy Brewer Musgrave, who is also an economist, also co-authored *Public Finance in Theory and Practice* (1973).

# Faculty News



**Associate Professor Kai-Uwe Kühn** is on leave from the Department since being appointed as the Chief Economist of the European Commission's Directorate General for Competition. Kühn began his three-year appointment on May 1 of this year. He is the third to serve since the post was created in 2003, to reinforce economic analysis in EU competition matters.

Kühn, who has been at Michigan since 1998, previously held teaching positions at Princeton University, the Institute of Economic Analysis (CSIC) in Barcelona, and CEMFI, Madrid. His research in recent years has focused on antitrust economics, with a particular interest in collusion, vertical integration, and foreclosure. He has advised clients in competition cases before several competition authorities including the European Commission.

The Chief Economist assists in evaluating the economic impact of the Commission's actions in the competition field and provides independent guidance on methodological issues of economics and econometrics in the application of EU competition rules. He contributes to competition cases, in particular those involving complex economic issues and quantitative analysis and to the development of general policy instruments.

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Professor **Paul Rhode** received a Clio "Can" for Exceptional Support to the Field of Cliometrics, 2010-11. Rhode also received the Alice Hanson Jones Prize, awarded by the Economic History

Association for *Creating Abundance: Biological Innovation and American Agricultural Development*, a book he co-authored with Alan L. Olmstead. The biennial award is for the best book on North American Economic History.

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**Professors Tilman Börgers, Lutz Kilian, and Kai-Uwe Kühn** have been ranked among the top 100 German-speaking economists outside of Germany by the financial newspaper *Handelsblatt*. The rankings – Kilian (4), Börgers (16), and Kühn (71) – are based on weighted publications in academic journals and represent cumulative lifetime achievement.



In a separate article, *Handelsblatt* (9/4/11) named **Kilian** "one of the leading experts worldwide regarding the role of the price of oil for the global economy" and as "the second most productive economist in recent years." You can read more about Kilian's research, "Recent Oil Price Fluctuations Linked to World Economy," on the Department of Economics website <http://www.lsa.umich.edu/econ/research/economicsresearchinthedepartment>.

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Professor **James R. Hines Jr.**, the Richard A. Musgrave Collegiate Professor of Economics, gave the Professorship's inaugural lecture on Oct. 4 in the Rackham Amphitheatre. The lecture, titled

"Tax Havens," evaluated the behavior and consequences of tax havens in the modern world.

Collegiate Professorships are named for former faculty members and are awarded by the College of LSA based on the recommendation of the Department. Richard A. Musgrave, a U-M professor of economics, from 1948 to 1958, is often called the father of modern public finance. He is best known for his work, *The Theory of Public Finance*, an analysis of how governments allocate resources and respond to social needs. Professor Musgrave died in 2007 at the age of 96.

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The University of Michigan Office of Tax Policy Research, under the directorship of Professor and Chair of Economics **Joel Slemrod**, hosted the 67th Annual Congress of the International Institute

of Public Finance in Ann Arbor this summer. Over 350 people from 30 countries attended this four-day event that included five keynote speakers, 75 sessions, and more than 250 papers. The topic of the conference was "Rethinking the Role of the State: Responses to Recent Challenges."

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Assistant Professor **Martha J. Bailey** was on leave at UC Berkeley, 2010-2011. Her research focused on collecting the data and developing new methodologies for evaluating programs initiated during the War on Poverty. Her sabbatical was funded by an NIH-supported grant, "Documenting the War on Poverty's Community Programs."

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Assistant Professor **Mattias Cattaneo** is currently on leave. For the Fall 2011 semester he is a visiting scholar in the Department of Economics at Harvard University. For the Winter/Spring 2012 semester he will be a visiting scholar in the Department of Economics at the Massachusetts Institute of Technology.

His research focuses on developing unconventional large-sample approximations to commonly used semiparametric inference procedures. These procedures are very popular in theoretical econometrics because of their nice and well-understood properties, but are considerably less popular among empirical researchers and policymakers mainly because they are highly sensitive to how they are implemented in practice. This lack of robustness often translates into incorrect inferences that may lead to drawing flawed conclusions from empirical work that employs semiparametric procedures. His research agenda develops alternative asymptotic approximations to account for the effect of the specific user-defined choices of tuning and smoothing parameters required by these procedures. This new asymptotic theory leads to more robust inference because it captures the effect of certain terms that are assumed away by the classical large sample approximations. This research has been funded by the National Science Foundation through grants SES-0921505 and SES-1122994.

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Assistant Professor **Ryan Kellogg** is currently on leave at the Energy Institute at the Haas School of Business at the University of California-Berkeley, for the full 2011-2012 academic year. While on leave, he will work on issues relating to petroleum and transportation economics. A major focus of the early part of his leave will be collaborative work with Ashley Langer (University of Michigan Gerald R. Ford School of Public Policy), Soren Anderson (Michigan State), and Jim Sallee (University of Chicago), PhD '08 econ. They are studying the formation of preferences for different types and brands of cars, with an emphasis on how preferences spill over across households within families. For example, if your parents are Ford buyers, how much more likely is it that you, too, prefer to buy a Ford? What are the implications of such preference formation for automakers and policymakers?

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Assistant Professor **David Albouy** visited the Economics Department and the Wagner School of Public Service at New York University from the Fall of 2010 through the Summer of 2011. There, he researched the connection between local land values, housing prices, and land-use regulations. He also revisited questions of how populations are efficiently distributed across space, and whether cities tend to become overcrowded.

In addition, Albouy consulted at the New York Federal Reserve Bank and began collecting data to quantify the costs and benefits of public infrastructure. At the Brookings Institution in April 2011 in Washington, he presented his research on "Cost of Living and the Supplemental Poverty Measure," sponsored by the University of Kentucky Center for Poverty Research. Albouy has also been expanding his research on quality of life across and within cities in the United States, Canada, and more recently, China. In August of 2010, he traveled to Shanghai to attend the Econometric Society Meetings and attend the World Expo, themed "Better City, Better Life."

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Finance Day, jointly sponsored by the Department of Economics and the Finance Department of the Ross School of Business, featured recent research conducted by faculty and gradu-

## Tribute



**E. Philip Howrey**, emeritus professor of economics was killed in a bicycle accident on Friday, June 17, 2011 in Boulder, Colorado. He was 73.

Howrey graduated from Drake University in 1959 and received his PhD in economics in 1964 at University of North Carolina at Chapel Hill. He taught at Princeton University and the University of Pennsylvania before coming to Ann Arbor.

At the time of his retirement in 2005, Professor Howrey had been a member of the U-M faculty since 1973, during which time he established a long record of distinguished contributions to macroeconomics and time series analysis. As an active member of the National Model Comparison Seminar, he was deeply involved in cooperative research with members of modeling groups at numerous centers of economic modeling activity in the U.S.

As a senior faculty member in the Research Seminar in Quantitative Economics (RSQE), Howrey produced a number of publications

ate students in both departments. Organized by Economics Professor **Bob Barsky**, the day-long event was held November 9 in Lorch Hall's Foster Library. Presentations included:

"Risk-Taking By Banks: What Did We Know And When Did We Know It," Associate Professors of Finance Sugato Bhattacharyya and Amiyatosh Purnanandam. Discussant: Professor of Economics **Kathryn Dominguez**.

"The Effects of the Financial Crisis on the Well-Being of Older Americans: Evidence from The Cognitive Economics Study," Lawrence R. Klein Collegiate Professor of Economics **Matthew Shapiro**. Discussant: Assistant Professor of Finance Kenneth Ahern.

"Nominal Rigidities, Asset Returns, and Monetary Policy," Assistant Professors of Finance Erica X.N. Li and Francisco

dealing with the reliability of macroeconomic data, the accuracy of economic forecasts, and the theory underlying the techniques used in economic forecasting.

His research focused on the proper use of economic models and data to increase understanding of economic behavior, an early example of which is the well-known 1974 paper, "Notes on Testing the Predictive Performance of Econometric Models" co-authored with Nobel Prize recipient Lawrence Klein and the late Mike McCarthy.

In 1978, Howrey published "The Use of Preliminary Data in Econometric Forecasting," a seminal contribution to what became a critically important strand in the literature of economic measurement. That same year saw the publication of "The Measurement and Determination of Loanable Funds Saving," in which Howrey and his colleague Saul Hymans investigated the important, if controversial, issue of the impact of the rate of interest on personal saving. His work in this area continued in the 1990s when he and his student Michael Donihue wrote "Using Mixed Frequency Data to Improve Macroeconomic Forecasts of Inventory Investment," and in 2001 when Howrey brought his considerable skills to bear on evaluating "The Predictive Power of the Index of Consumer Sentiment."

Palomino. Discussant: Professor of Economics **Bob Barsky**.

"Safer Ratios, Riskier Portfolios: Banks' Response to Government Aid," Assistant Professors of Finance Ran Duchin and Denis Sosyura. Discussant: Richard A. Musgrave Collegiate Professor of Economics **James Hines Jr.**

"The Impact of Foreign Liabilities on Small Firms: Firm-Level Evidence from the Korean Crisis," Assistant Professor of Economics **Jing Zhang** (joint with Economics PhD Candidate **Yun Jung Kim** and Professor of Economics **Linda Tesar**). Discussant: Associate Professor of Finance Amy Dittmar.

"Managing Markets for Toxic Assets," Associate Professor of Economics **Christopher L. House** and Assistant Professor of Economics **Yusufcan Masatlioglu**. Discussant: Associate Professor of Finance Uday Rajan.



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