

From our Chair....

Times are tough on college campuses throughout the country, and it is no different here in the Department of Economics. Last year we had to take budget cuts in both cash and open positions totaling about eight percent of our budget. The prospects for this year look equally bleak with more budget cuts threatened.

But, in this land of scarcity we are also overwhelmed with abundance. We now have in the neighborhood of 550 majors, a situation which has transformed our undergraduate offerings. Now instead of teaching upper-division classes to a select few, these classes have enrollments of 50 or, in some cases, 100. This is a great pedagogical challenge, one which has taken creativity and flexibility to overcome. However, we are succeeding.

If all the changes brought on by the budget cuts and enrollment increases were not enough, we will soon have to vacate Marshall Hall for fifteen months while it is renovated. During the renovation the Department of Economics will be split between Old Botany Hall and Owen Hall, on the other side of campus. While this will test our organizational skills, our cohesiveness as a department, as well as our ability to construct an equitable mechanism design to ensure that no one has to be displaced from their office into temporary quarters twice, we are very excited about the renovation plans.

The renovated Marshall-Adams Hall will be a show piece of historical renovation yielding a modern, efficient office space.

Last year an ill-wind blew from the south, and buffeted the Department with surprising fury. That is, the Department of Economics at the University of Michigan tried to recruit two of our outstanding faculty, Leslie E. Papke and Jeffrey M. Wooldridge. While the U of M did make them very attractive offers, at the end of the day both Professors Wooldridge and Papke decided that their academic futures and hearts were at Michigan State. We are thrilled.

The Department of Economics retains its vibrant intellectual character even in these times of great adversity. And, we will continue to grow and improve. This year we are recruiting two new faculty members, one in labor economics the other in econometrics. Initial interviews will be held at the ASSA Meetings in San Diego, California. If you're in the area, please join us at the Department of Economics reception in the Green Room of the San Diego Marriott from 6:00-8:00 pm on Sunday 4 January 2004. See you in San Diego!

Rowena A. Pecchenino
November, 2003



ALICIA "AL" KOSTOSKY
Outstanding Economics Senior
2003 Carlin Award Recipient
(with Mrs. Edward A. Carlin)
See article on p. 5

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Congratulations to...

Charles Hadlock, Associate Professor, Finance, and Adjunct Associate Professor, Economics, was appointed to receive *one of two new endowed professorships established by the late Philip J. May*, who died in August, 2002. May, who began his career at MSU in 1947 as comptroller and treasurer, pioneered the financing of the university's residential complexes.



Steven Haider, Assistant Professor, was named Research Affiliate at the National Poverty Center, University of Michigan.

Owen Irvine, Associate Professor, was appointed as paid Visiting Scholar in the Macro group of the Research Department of the Boston Federal Reserve Bank.

Delia Koo, wife of Anthony Koo, Professor Emeritus, received an *honorary doctor of humanities degree* at commencement in December.

Margaret (Sue) Lenhard, Undergraduate Adviser, received a *Professional Adviser Site Visit Grant* for a one-week site visit to Ireland and the Netherlands during Fall 2003 so that she could visit University College Dublin and Tilburg University – places with which we have recently established Study Abroad programs in Economics.

Carl E. Liedholm, Professor, received the College of Social Science's *Alumni Outstanding Teaching Award*, Spring of 2003. He also received the *Eli Broad College of Business Student Senate Teacher of the Year Award* for 2003.

David Neumark, Professor, was interviewed on the Voice of America concerning his research on the new economy and the employment relationship. He also had an op-ed on affirmative action published in the Detroit Free Press and the San Francisco Chronicle.

Peter Schmidt, University Distinguished Professor, was named *Fellow of the American Statistical Association* in August, 2003.

John Strauss, Professor, was appointed as the new *Editor of Economic Development and Cultural Change*. He was also named co-Chair by the International Union for the Scientific Study of Population (IUSSP), based in Paris, of a new scientific panel it created for three years (2003-2005), the Panel on Population and Poverty, which is having its first workshop in Mexico City, Nov 21-22, 2003.

John (Jay) Wilson, was appointed as *Editor-in-Chief, International Tax and Public Finance*. He was also selected to chair the Scientific Committee of the 2004 Conference of the International Institute of Public Finance, Milan, Italy.

Jeffrey M. Wooldridge, University Distinguished Professor, was named *Fellow of the Econometric Society* in December 2002. Professor Wooldridge was named *6th worldwide among econometric theorists*, 1989-1999 (source: Table 4, Badi Baltagi, "Worldwide Institutional Rankings in Econometrics 1989-1999: An Update," *Econometric Theory*, 2003).

Department of Economics Reception at Annual AEA/ASSA Meetings

San Diego Marriott (Green Room)

Sunday, January 4, 2003, 6:00-8:00 p.m.

Please join us for hors d'oeuvres and cocktails before your evening out.

Questions or for more information, email lynchma@msu.edu

Bruce Allen Retires after 38 years



**Christine Amsler (L) and
Susan Linz**



**Ginny Allen (center) chats
with guests**



**Steve Matusz and
Lisa George**

The department Spring Reception was held at the Kellogg Center on May 1st. There was a large turnout for this year's honoree, **Bruce T. Allen**. He joined the department in September 1, 1965, was promoted to associate in 1975, and in 1980, he became full professor. Professor Allen taught microeconomics to generations of MBA students—daytime, executive, and weekend. He also taught microeconomics, antitrust, and industrial organization to undergraduate and graduate students. Even though he has officially retired as of July 1, in typical Bruce fashion, he has agreed to teach for the MBA program “just one more time” so will not be vacating his office until the end of Fall semester.

Bruce is almost as passionate about railroads as he is about Economics (some

might argue more so!). Bruce has followed the transportation industries closely, but his scholarly work more commonly concerned such commodities as cement and gasoline and the effect that concentration of sales in a



Ken Boyer, MC for the night

small number of firms had on the pricing of such goods.

Bruce has been a longtime member of the Eastminster Presbyterian Church and a member of the MSU Choral Union since 1990. In December, he will join his wife

Ginny in retirement. Ginny is the President of the Board of Directors of the Greater Lansing Symphony Orchestra (www.lansingsymphony.org/) and, over the years, both have worked tirelessly in support of the performing arts in this area.

For several years, Bruce has acted as the master of ceremonies for the Spring reception. It was finally his turn to be recognized for his many accomplishments over the years. His many friends and colleagues watched him open his retirement present—a model of a switching locomotive that he watched as a boy. He is looking forward to many happy hours with his model trains, his music, his church, and even a few with visits to his colleagues and former students.

Alumni News...

Kenneth Elzinga, PhD, 1967, has recently been appointed the Robert C. Taylor Professor of Economics. In addition, the Southern Economic Association is going to give its first award to honor teaching. The Association has decided to call the award the Kenneth G. Elzinga Teaching Excellence Award. The first winners will be named at the SEA's meeting this month in San Antonio.

Bill Horrace, class of 1996, is now Associate Professor at Syracuse University, Research Economist at NBER, and Associate Editor of the *Southern Economic Journal*. Just got remarried (Toni), and “expanded the kid count from two to five” (Ava & Ian + Lukas, Klaire Ann & Benjamin).

Larry Marsh, M.A. 1969, Ph.D. 1976 has been teaching economics at the University of Notre Dame since 1975 and has recently published a book: *Spline Regression Models* (Sage Publications) and another journal article: “Chow’s Lagrangian Dynamic Optimization Procedure” (*Journal of Quantitative Economics*), and is currently serving as a guest editor for the *Journal of Econometrics*.

Michael McPherson, class of 1992, is in his 12th year on the economics faculty at the University of North Texas, having been tenured and promoted to Associate Professor in 1999. His two daughters are 10 and 5 years old; his wife’s age is a closely guarded secret.

Michael Plummer, class of 1988 and now Professor of International Economics at Johns Hopkins University SAIS-Bologna, had his first child, Aurora Angelica, last March.

David Schimmelpfennig, class of 1992, became the proud father of twin boys, Lars and Everett, in February. With his wife, Robin Davis, the family traveled to South Africa where David was a senior Fulbright researcher/lecturer at the U. of Pretoria. Last October, he returned to his position as a program leader in the Economic Research Service (USDA) and his mother passed away this March.

Dave Smith, class of 1997, was recently promoted to Associate Professor at Pepperdine University. He lives in Thousand Oaks, CA, with his wife Jenny and two daughters, Karagan (4) and Sinclair (2).

Wendy Stock, class of 1996 and now an associate professor at Montana State University, had her second child, Kennedy Alston Stock (a girl) a year ago July. Kennedy joined her big brother Roth (age 3) in “helping to accelerate the depreciation of their mom’s human capital.”

Emeriti News...



Anthony & Delia Koo

The Eighth Annual Kwan-wai So/**Anthony Koo** (in our department 1950-1989) Lecture in Chinese Studies was held on March 10th in the **Delia Koo** International Academic Center. Philip J. Ivanhoe, U Michigan, was the Lecturer and presented “Philosophy and Religious Studies.”

Paul Strassmann, Professor Emeritus (in our department 1956-1995), recently attended his High School Class Reunion in Texas. He graduated in 1943 from San Jacinto Senior High School. He remains active in consulting, research and continues to travel extensively.



You see here, that to achieve a more optimal income distribution, Strassmann (2nd from left) in the 1940s was already pioneering a forthright application of microeconomic theory. You see him with friends of the time who later became a lawyer, engineer, architect, and an Episcopal bishop – none either economist or electronist. Except for one, they all have hair, were named “Bill,” and were at the reunion.

Featured Alumnus...

Michael (Mike) Plummer came to MSU from Johns Hopkins University, where he had begun graduate school in international relations at Hopkins' Bologna campus after completing a BA in Economics and French at the University of Michigan. His fields of specialization at MSU were International Economics, International Development, and Econometrics. He wrote his dissertation under Prof. Max Kreinin, on the economic effects of the second enlargement of the EC (yes, the place has enlarged considerably since then). While Mike continues to collaborate frequently with Max, it is ironic that he would end up doing most of his research on Asia over the next 15 years.



Mike taught for a year and a half at Albion College while finishing his dissertation, before taking up his first full-time job at the East-West Center in Honolulu. It was here where he changed gears and started to work on Asia. While the research job was great and life-style hard to beat in Hawaii, he decided to return to the Mainland to work in academics, first at the Monterey Institute for International Economics (1992-93) and then at Brandeis University, where he received tenure in 1998. In 2001, he received an offer to come back to Johns Hopkins SAIS-Bologna as Professor of International Economics, where he now eats better but watches less college football.

Mike has received several academic honors, including the Fulbright Chair in Economics, Viterbo, Italy (2000), and Pew Fellow in International Affairs, Harvard University (1994-95). He has also been a research professor/researcher at Bocconi University (Milan), Kobe University, the University of Auckland, the Institute of Southeast Asian Studies (Singapore), and the International Center for the Study of Southeast Asian Development (Kitakyushu, Japan), as well as being a faculty member for several years in Harvard University's Summer Macroeconomic Policy Program. He is on the Editorial Board of *World Development* and the *Journal of Asian Economics*, and has been consultant to many international organizations and government agencies. For example, he is currently helping the Economic Cooperation Organization write a trade agreement, and has been advising the African Capacity Building Foundation regarding macroeconomic policy "capacity building."

Mike has authored/co-authored numerous articles and books, many with Professor Kreinin. These include articles in *World Economy*, *Review of International Development*, *World Development*, *Weltwirtschaftliches Archiv*, *Journal of Common Market Studies*, *International Trade Journal*, *Journal of Asian Economics*, *ASEAN Economic Journal*, *Journal of Economic Integration*; and several books, such as *Economic Integration and Development* (2002); *Economic Integration and Asia: The Dynamics of Regionalism in Europe, North America and the Asia Pacific* (2001); *Asia-Pacific Economic Linkages* (1999), *OECD and ASEAN Economies: The Challenge of Policy Coherence* (1995), and *Emerging Patterns of Direct Foreign Investment in China: Korea, Taiwan, Hong Kong* (1994).

Featured Undergrad, ALICIA "ALP" KOSTOSKY from 02/03...

ALICIA "ALP" KOSTOSKY
Outstanding Senior
2003 Carlin Award

Ali began her career at MSU in the Fall of 2000, as a recipient of the Michigan Merit Scholarship. She was on the Dean's List every semester and maintained a cumulative GPA over 3.9 and an Economics GPA of 4.0. She graduated in August.

She joined the Undergraduate Economics Association in 2001 and served as Vice-President of the Association last year. Ali has also functioned as one of our department's Undergraduate Teaching Assistants 2002/03, working with Professor Ballard in the Fall and Professor Obst in the Spring. During the Spring 2002 semester

she provided tutorial support for student-athletes.

While her more immediate plans included marriage this past summer and continuing her work in real estate development at the Oakwood Companies, she aspires to enter a Ph.D. program in Economics at a later date.

(Also see picture on page 1)



Featured Grad, Alina Luca...

Alina Luca completed her dissertation on financial dollarization in July 2003, after five years of study and work as a graduate student in our department. Her thesis work focused on causes and consequences of the use of foreign currencies in the banking sector in emerging markets and transition economies. In it, Alina explains the high levels of dollarization of the banking sector observed in these countries based mainly on real activity and overall economic integration, and less on macroeconomic uncertainty.

Alina's interest in dollarization issues comes from the realities of the day-to-day life in Romania, her country of origin, and also her undergraduate studies at Universitatea de Vest, Timisoara. At MSU, Alina was under the supervision of Professor Rowena Pecchenino. She also worked with Professors Susan J. Linz and Ana María Herrera. She stated that not only did they provide guidance through each step of the research and graduate life, but they also offered friendship and encouragement.

In September, Alina packed her stuff and moved to Philadelphia to start her first full-time job as an Assistant Professor in the Department of Economics and International Business at Drexel University. At Drexel, in a young and growing department, she plans to continue working on dollarization and exchange rate related issues. She will start by teaching a course in introductory macroeconomics. Although the PhD program is rather small, she will also have the opportunity to work with graduate students and teach a graduate course in international macroeconomics.

Trade Liberalisation Compensation And Welfare by Carl Davidson and Stephen Matusz. Complete article can be found at

http://www.nottingham.ac.uk/economics/leverhulme/research_papers/02_10.pdf

While the benefits of trade liberalization are felt by the many, the costs such as (short-term) job losses and re-skilling are felt only by the few. If workers are compensated for these adjustment costs but the compensation scheme itself distorts worker incentives then aggregate welfare may fall below the first best solution. Carl Davidson and Steve Matusz (both Michigan State University) consider these welfare losses for various types of compensation schemes. Carl and Steve are both External Fellows of GEP.

Abstracting from terms of trade effects and other distortions, most economists tend to agree that trade liberalization generates positive net benefits for the liberalization economy. However, the benefits of liberalization do not accrue to all workers. For example, if labor is not free to move between sectors, then those workers who are employed in the export sector benefit from liberalization, while those who are trapped in the import-competing sector find that liberalization induces a decline in their real wage. Moreover, if some workers are able to flee the import-competing sector, they may bear substantial adjustment costs as they re-tool and search for jobs in the export sector. If there were no incentive effects involved with compensating workers for their losses, the existence of positive net benefits of liberalization would guarantee that it would be possible to compensate everyone for their losses without changing the aggregate level of welfare. Moreover, any compensation scheme that did not influence incentives would be equivalent.

If compensation schemes do impact incentives, then providing compensation introduces a new distortion, reducing the level of welfare below the first best, free-trade level. In addition, if different compensation policies have differential impacts on incentives, then some policies create smaller distortions than others and therefore lead to higher social welfare. In our paper, we explicitly model the transition between tariff-distorted and free-trade states, allowing for a variety of compensation policies that impinge on worker incentives. Our purpose is to find the policy that fully compensates workers for their losses while providing the highest level of aggregate welfare. Toward this end, we explicitly consider four policies: wage subsidies; unemployment compensation; employment subsidies; and training subsidies.

Our primary finding is that the factor that determines how effective a policy is at achieving full compensation depends on the manner in which it affects the average worker in the targeted group relative to

Continues on p. 7

Trade Liberalisation Compensation And Welfare... *cont'd from p. 7*

its impact on the marginal worker in that group. The policy's impact on the average worker determines how big a program will be needed to compensate the group. Only a modest sized program is required to fully compensate the targeted group if the welfare of the average worker in that group is highly sensitive to the policy parameter. On the other hand, even a modest sized program might trigger a great deal of inefficient relocation by workers if the welfare of the marginal worker in the targeted group is sensitive to the policy parameter. Therefore, we conclude that the best policy has a large impact on the average worker and a small impact on the marginal worker. Applying this

rule to the four policies that we considered, we find that a temporary, targeted wage subsidy is the best way to compensate those who switch sectors after liberalization. This follows since the marginal worker (the one who is just indifferent between staying in the import-competing sector and moving) has lower ability, and therefore a lower wage than the average mover and since the wage subsidy is correlated with the wage. By contrast, the best way to compensate those trapped in the import-competing sector is with a temporary, targeted employment subsidy. In this case, the marginal worker has higher ability (and therefore a higher wage) than the average worker

who remains in the import-competing sector.

Finally, we calibrate our model to get some sense of the overall cost of compensating those who lose from liberalization. We find that, if the proper policy is chosen, the overall cost, measured as lost welfare relative to the free trade first-best level, is extremely modest. However, implementing the wrong policy generates extremely large distortions and can be very costly. In the most extreme case, all of the benefits of liberalization could be eaten away by the compensation scheme.

Reprinted from Leverhulme Centre for Research on Globalisation and Economic Policy Newsletter, Winter 2002.

Job Market Candidates for 2002/03 - Where They Are Now...

Sang-Hoo Bae, IO, Micro Theory Dissertation Title:

A Model of Piracy; Essays on Entry and Patents

Obtained Position at: Clark University

Heeseon Choi, Field: Labor; Dissertation Title:

Maternity Leave and Education Policy

Obtained Position at: Korea Institute for Industrial Economics and Trade (KIET)

Scott Darragh, Fields: Public, IO; Dissertation

Title: Effects of Earned Income Tax Credit on Labor, Poverty & Human Capital

Obtained Position at: Michigan Department of Treasury

Shin Dong Jeung; Fields: Banking, International;

Dissertation Title: Banks' Risk Taking Behavior

Obtained Position at: Financial Supervisory Services, Korea

Jaimin Lee, Field: Public; Dissertation Title: On-

line Business, Tax Evasion and Welfare

Obtained Position at: Korea Transport Institute

Alina Luca, Fields: Macro, International;

Dissertation Title: Financial Dollarization: Causes and Consequences

Obtained Position at: Drexel University

Elda Pema, Fields: Labor, Public; Dissertation

Title: Tournament Theory /Migration of Human Capital

Obtained Position at: Naval Post-Graduate School, Monterey CA

Yuri S.D. Soares; Fields: Development, Labor;

Dissertation Title: Essays in Labor and Gender Economics

Obtained Position at: Inter-American Bank – Washington, D.C.

Chien-Ho Wang, Fields: Econometrics,

International Finance, Micro; Dissertation Title:

Essays on Nonlinear Transformations of Nonstationary Time Series

Obtained Position at: National Taipei University in Taiwan

Kyeongwon Yoo, Fields: Development, Applied

Micro; Dissertation Title: Household Saving

Behavior in Developing Countries

Obtained Position at: Bank of Korea

See article on Alina Luca on p. 6

Pittman's Commit \$6 Million to Renovate Marshall Hall...

Michigan State University Trustee Randall L. Pittman and his wife, Mary E. Pittman, at a special Board of Trustees meeting on September 20, [2002] pledged \$6 million for the rehabilitation of Marshall Hall, a home to the Department of Economics. As a tribute, the Pittmans requested, and the board approved, that Marshall Hall be renamed Marshall-Adams Hall. The new name honors the late Walter Adams, president emeritus of MSU, an acclaimed economist, a distinguished professor, and a friend and mentor to Randall Pittman.

"I am extremely pleased that Randall and Mary have agreed to make this truly exceptional gift," said President Peter McPherson. "The picturesque buildings that have stood along Laboratory Row for more than a century have become enduring symbols of the land-grant vision and commitment of Michigan State University. Just as these historic buildings on circle drive stand at the heart of our campus," McPherson said, "for many students, Dr. Walter Adams stands at the heart of their academic experience."

"The late Dr. Walter Adams had a tremendous influence on my life and considerable influence on the history of MSU as both a prominent professor of economics and former president," Randall Pittman said. "Dr. Adams was committed to teaching and to MSU; being able to honor him while at the same time supporting my alma mater is truly a winning combination." *Reprinted with permission from University Development*



Randall and Mary Pittman with Pauline Adams (center), wife of the late Walter Adams.

Maxfest held in honor of Mordechai (Max) Kreinin...

At a conference held at Johns Hopkins University SAIS-DC on January 5-6, Professor Mordechai (Max) Kreinin was honored by his many colleagues and former students throughout the world, who came to celebrate Max's enormous contributions to international economics on the occasion of his 73rd birthday. Scholars came from Asia, Oceania, Europe, the Middle East, and all over the United States to participate. The conference was attended by many of the Who's Who in international economics, with a myriad of others who were not able to attend sending messages to underscore Max's lasting legacy in international economics and his tremendous presence as a scholar and a friend over these past three decades.

The two-day conference was organized by Max's former student, Mike Plummer (MSU 1988), and featured about 12 paper presentations, including a paper by MSU's Profs. Carl Davidson and Steve Matusz (several other MSU faculty were also in

attendance, including Carl Liedholm). Other presentations were given by distinguished economists, such as Robert Baldwin, David Richardson, Dominick Salvatore, Ronald Jones, Sven Arndt, Michael Michaely, Seiji Naya, Richard Pomfret, and Robert Scollay, as well as former students, such as Steve Husted and Jorge Gonzalez. These papers will be eventually published as a volume; drafts have already being considered by publishers.

In addition to the academic side of the conference, a "personal touch" was added, where each participant was invited before every presentation to share a story about his/her relationship with Max. A summary of these stories is beyond the scope of this summary. However, what was clear from the presentations that Max's has made a lasting mark not only on the field of international economics but also on the people as a great friend and colleague.

If you have any news you would like to share with us, please send it to lynchma@msu.edu. Accompanying picture would be welcome too!

Help Support Economics....

If you would like to make a tax deductible donation to our department, you can do so on line by going to <http://www.givingto.msu.edu/give.html>.

When filling out the form, in the field "Enter specific Fund Name," write "Department of Economics". Thank you for your support.