

Economics at Carolina

The University of North Carolina at Chapel Hill



From the Editor

2005

Welcome to the 2006 edition of the Economics Department Newsletter. The beautiful fall weather has finally arrived, the athletic teams are doing well and the Carolina spirit remains strong. This fall I



am writing this column wearing two hats, that of the Editor and as Acting Department Chair while John Akin is reaping the benefits of a Kenan Research and Study Leave. His first term as Chair ended this past summer and he graciously agreed to serve for another term. However, he had already received the research leave so I am filling in until the first of the year when he will be back in harness.

As the fall semester began the Department was faced with an unexpected increase in demand for our economics courses, most notably in the principles of economics course. Two weeks prior to the beginning of the semester all our courses were full and more than 800 entering freshmen had not yet registered, many of whom were intending to take our Econ 10 course. We were able to meet some of this increased demand by adding two small? (50 person) classes, bringing our total fall semester principles enrollment to over 1350 students, an all-time high. At the same time, the number of declared majors has grown to over 600, increasing the demand for our major courses alongside the increased interest in our non-major courses. This growth in interest in economics appears to be widespread and not just a short-run phenomenon at Carolina. Not surprisingly, it is putting great pressure on Department resources. At the same time it is gratifying to note that in spite of

increased enrollments, the quality of our majors remains high. The number of econ major initiates into both Phi Beta Kappa and Omicron Delta Epsilon, the economics honorary, is growing steadily and the quality of our senior honors theses seems to improve every year.

The University is now in the midst of making the transition into the new College of Arts and Sciences curriculum which goes into effect Fall 2006. This represents an extensive reform in structure, perspective requirements and a revamped course numbering and will require considerable time and effort to get it on line and running efficiently. However, other than some minor administrative adjustments involving course numbering changes, it has had little effect on the nature of the economics major. The new Department entrepreneurship minor is moving along well and 46 students are currently enrolled in the minor and are taking their first classes this fall. This minor has stimulated considerable student interest and we fully expect it to grow in popularity. You can read more about our new minor and the University entrepreneurship initiative later in the newsletter. We welcome any comments or ideas you might have regarding the development of this new academic endeavor.

Two new assistant professors joined our faculty this year, both in the macroeconomics area, and we are hoping to hire additional faculty this year as well. Department faculty have continued to be successful in obtaining new research grants, publishing in high quality journals and consulting with international organizations and government agencies. Two major economics journals (*The Journal of Econometrics* and *The Journal of Economic*

Development) continue to be edited by Department faculty, several faculty members are serving on the editorial boards of important journals, and many are sought after to review articles for publication. Finally, there is still a strong involvement in international projects, particularly in Asia. The Department has been especially active in various aspects of labor and health issues, much of which has been carried out with support of the Carolina Population Center.

Overall, the Department has had a very successful year in spite of continuing financial constraints. The financial tightness was evident in the meager 2 percent increase in the faculty salary line for the coming year. In this period of tight state budgets, the funds provided by our private donors are of critical importance and we thank all of you who have contributed to the Economics Department Fund. Thanks also to all of you who took the time to communicate with us or stop by and see us when you were in Chapel Hill. We always enjoy spending time and catching up on what has happened since you left Carolina. We hope that we see more of you over the coming year and that you will keep us informed about important events in your life, give us feedback on ways we can improve our academic programs and make us aware of internships, experiential learning possibilities or possible job opportunities for our majors. Current information about the Department and on-going activities can always be found on our website, www.unc.edu/depts/econ. My very best wishes for a successful, prosperous and healthy year. Please stop by Gardner Hall and see us anytime you are on "The Hill."

Al Field

Economics Rese

Professor Tom Mroz

Professor Tom Mroz's research applies key insights from stochastic optimization models coupled with innovative econometric techniques to analyze important social issues related to labor economics, demography, and poverty. Since arriving at UNC he has been a Fellow at the Carolina Population Center, a member of the Steering Committee for the Odum Institute (formerly the Institute for Research in the Social Science), and a member of the Chancellor's Task Force on Diversity. In addition, for the past 13 years Mroz has been the main economist working on the Russian Longitudinal Monitoring Survey. This survey, based at the Carolina Population Center, has been providing researchers, government officials, and international donors with timely information about the consequences on the Russian populace of changes in social and economic organization in the country since the major reforms at the start of 1992. The data are available at <http://www.cpc.unc.edu/projects/rllms/>. Much, but not all, of his current research focuses on child related issues, and several projects are discussed below.

In a forthcoming paper in the *Journal of Human Resources*, he and former student Timothy Savage examine the long term consequences of youth unemployment in the U.S. They posit that a major cost of unemployment for young workers is the loss in on-the-job training they would have received had they not become unemployed. Utilizing a dynamic stochastic optimization model they arrive at several predictions about how youths might respond to being unemployed by reformulating their decisions about future job training and the impacts of these revised plans on their future wages. Using National Longitudinal Survey of Youth data they find that recently unemployed youths train more than their continuously employed counterparts, that the wages of the recently unemployed fall somewhat precipitously in the year after becoming unemployed (8 to 10 percent) and that their wages then rise more rapidly when reemployed than those who had not experienced unemployment. These results



are explained by the hypothesis that the recently unemployed accept lower wage jobs in return for better training opportunities. As a result of this additional training their wages grow more rapidly, but not sufficiently to make up for the effects of unemployment. For example, those experiencing six months of unemployment at age 22 find that their wages ten years later are about two percent lower than the wages of those who did not become unemployed at age 22. Their research suggests that wage subsidies might help the recently unemployed make up for the loss in on-the-job training attendant with their unemployment.

Along with Professors Wilbert van der Klaauw and Haiyong Liu (at ECU, UNC PhD 2003) he has been studying how parents' choice of a school district and work behavior affect their children's achievement in schools. The motivation for this study comes from the often mentioned "fact" that children's scores on achievement tests have barely changed over the past few decades while real spending on schools has increased substantially. Recognizing that the labor force participation of women with children has also increased dramatically since the 1950s, they offer a simple explanation for this phenomenon. Working mothers will choose to move to better school districts and use these better learning environments to substitute for possible lower levels of involvement in their children's development. Using data from the Panel Study of Income Dynamics they find that working mothers spend significantly less time reading with their children. While this correlation lends support to their hypothesis, it is not compelling. They then examine detailed data from the National Longitudinal Survey of Youth and its Child-Mother Supplement to trace over time out how a family's decisions about a place of residence are related to the mother's decision to work and the child's performance on standardized tests. They find that working mothers' children appear

to have significantly lower test scores than the children of non-working mothers and that higher school spending improves test scores. Simulations based upon their econometric analysis suggest that mother's who plan to work are choosing to move to better school districts, supporting their explanation for why increases in school spending might not be associated with important improvements in child development. Over the next few years they plan to investigate a wide variety of issues related to the interactions of mother's work, school characteristics, and children's intellectual progress.

More recently, Mroz has been working with Professors David Guilkey and Gustavo Angeles (Department of Maternal and Child Development) on the relevance of one of the most established dictums in development economics, namely that improvements in women's education in developing countries would reap large reductions in fertility and infant mortality. This idea appears to be almost entirely based on simple correlations between women's education levels and their fertility and children's survival. They hypothesize that much of these observed correlations in developing countries might be due to women who achieve more schooling having higher unmeasured ability or coming from families with better, unmeasured, socio-economic circumstances. Using data from the Indonesia Family Life Survey they examine these relationships utilizing village variations in school characteristics at the time when young women and their parents were making decisions about how much schooling the young women would attain. Following these young women as they marry and have children, the authors relate differentials in their educational attainments due to growing up in different villages at different times with differing education environments to their subsequent fertility and their children's survival. They find that higher levels of education arising from improvements in school quality or in incentives to invest in schooling do not appear to be associated significantly with either lower fertility levels or lower child mortality. Their results suggest that the widely-held beliefs about the importance of increasing women's education in

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developing countries might have weak foundations.

Mroz is currently working on three additional child related projects. He has been working with Haiyong Liu and Professor Linda Adair (Nutrition) on a relatively new project exploring how parents adjust their behaviors towards their children in response to their children's developmental outcomes in Cebu, Philippines. Their results indicate that parental behaviors do respond to the physical developmental status of their child, with these parental responses yielding significant improvements in physiological outcomes for their children. They plan to continue this line of inquiry by following the children and their parents as the children progress through primary school, secondary school, and college and how they transition to work and the start of their own families as young adults. The second of these projects, carried out jointly with Professor Donna Gilleskie, examines econometric methods for examining data without imposing restrictive assumptions. These estimation methods are based on simple histograms, and they appear to work

exceptionally well in a variety of situations where more conventional econometric approaches perform quite poorly. Finally, he and Professors Paul Rhode and Koleman Strumpf have been examining how individual cities and counties in the U.S. used higher quality schools to lure more educated parents into their labor forces. This project uses data from the 1940 Census in conjunction with local expenditure data on schools and other amenities, and it explores whether better schools appeared to be important factors in getting more highly education workforces in California and other states.

Professor Eric Renault



Eric Renault's research focuses on structural econometrics in general and financial econometrics in particular. Structural econometrics can be traced back to the birth of the Econometric Society when systems of simultaneous equations were called structural

to mean that each equation is tightly related to economic theory and involves some parameters that may be considered as structural invariants. In this instance one cannot, in general, consistently estimate these equations by direct least squares due to a simultaneity problem. By contrast, reduced forms are well suited for least squares estimation but do not correspond directly to economic relationships. Instrumental variables estimation has been designed to accommodate simultaneity issues, and the Generalized Method of Moments (GMM) of Hansen (1982) has provided the most general framework for statistically estimating parameters of interest that are not directly linked to observed variables but are defined as solutions of some specified structural equation. Empirical asset pricing models are leading examples of the application of GMM in which key parameters are estimated as a result of using solutions of equations which provide asset prices based upon conditional expectations of discounted future payoffs. Another important econometric development in the eighties was the systematic use of nonparametric methods to infer functional relationships from eco-

Koleman Strumpf is a public finance economist who works on a variety of interesting research questions including property tax distortions, government decentralization, presidential election prediction markets and the behavioral dynamics of youth smoking. In the piece below, Koleman discusses another interesting question he has researched, *file sharing*, which recently has garnered much attention both within the profession and in the business world.



File sharing, the free exchange of digital information across a network, has exploded in popularity in the last decade. Current estimates indicate that half to two-thirds of all internet traffic is related to file sharing. Much of the information exchanged over these networks is copyrighted music and movies. In any given month, billions of files are downloaded in the United States alone. The conventional wisdom is that such activity has had a detrimental effect on recorded music sales and on movie attendance. Surprisingly there is little hard evidence to support this contention. Nonetheless, Congress and the Supreme Court have given copyright owners a new set of powers in an attempt to curtail file sharing networks. The record industry in particular has been quite active, and has sued thousands of file sharing participants in the United States.

The relationship between downloads and legal sales can be thought of as a special case of a more general topic which economists have long been interested in. For industries ranging from software to pharmaceuticals and entertainment, there is an intense debate about the level of protection for intellectual property that is necessary to ensure innovation. In the case of digital information goods, web-based technologies provide a natural crucible to assess the implications of reduced protection because these technologies have drastically lowered the cost of copying information.

In a recent study, Felix Oberholzer-Gee of the Harvard Business School and I examine the impact of file-sharing technologies on the music industry. In particular, we analyze if file sharing has reduced the legal sales of music. While this question is receiving considerable attention in academia, industry and in Congress, we are the first to study the phenomenon employing data on actual downloads of music files. We match 0.01% of the world's downloads to U.S. sales data for a large number of albums. To establish causality, we instrument for downloads using data on international school holidays and technical features related to file sharing. Downloads have an effect on sales which is statistically indistinguishable from zero. Moreover, our estimates are of moderate economic significance and are inconsistent with claims that file sharing can explain the decline in music sales during our study period.

economic data without relying upon a parametric model that is likely to be misspecified. One of the hottest topics in econometric research in recent years has been nonparametric structural econometrics which is direct statistical identification of functional economic relationships. The cost of this approach in financial applications is that the unknown interest function is only identified as a solution of structural equations and no longer has a simple empirical counterpart. Such extensions of the GMM approach to nonparametric settings raise difficult mathematical issues, usually termed ill-posed inverse problems. With two co-authors (Marine Carrasco of University of Rochester and Jean Pierre Florens of University of Toulouse) Renault has completed a one hundred page chapter for the forthcoming volume of *Handbook of Econometrics* (North Holland) about inverse problems in modern structural econometrics.

Renault's research has also resulted in two new developments on inverse problems for option pricing and for a nonparametric approach to instrumental regression. The option pricing issue addressed by Eric

Renault with two co-authors (Patrick Gagliardini of University of Lugano and Christian Gourieroux of University of Toronto) amounts to the nonparametric estimation of the implicit risk neutral probability measure as it can be backed out an observed cross-section of option prices. The difficult problem is that cross-section data of liquid option contracts on a given asset are typically too short to warrant a nonparametric approach. The trick then is to use time series information about the underlying asset and about interest rates to get a nonparametric counterpart of conditional expectations. The underlying statistical estimation method is called "Extended Method of Moments" (XMM) since it extends the common GMM approach to nonparametric objects. The output is a precise assessment of the estimation risk about out-of-sample option prices. It gives a warning to practitioners about the huge statistical uncertainty concerning the estimated prices of option contracts in which characteristics such as exercise price and time-to-maturity are far from the in-sample values.

Another important issue for structural

econometrics is the statistical identification of causal relationships between economic variables. Renault previously published several papers about the specific horizons of interest for causality studies in asset pricing. This horizon may be either infinitely short (for continuous time modelling) or rather long for long-term predictability. In a recently completed paper co-authored with Bas Werker of Tilburg University, the causality relationship between financial asset volatility and duration between trades is analyzed. They confirmed that financial transaction data show that transactions and quotes revisions may be more or less frequent depending upon the arrival of news on the market. Since news arrivals also have an important impact on price volatility, a statistical model of asset prices observed at random transaction dates cannot be correctly specified without a correct appraisal of the causality relationship between them. They concluded that long durations between trades or quote revisions reveal that little news has arrived on the market which leads them to revise downwards volatility predictions.

A New Face.....Assistant Professor Neville Francis

The past five years my main research has focused on the role of technology shocks in generating ebbs and flows (peak and troughs) of the economy. I got interested in this area of research when I came across a paper by Jordi Gali, in the *American Economic Review* in 1999 that found that when an economy experiences a positive technological innovation workers take more leisure time instead of working more hours. This finding contradicts one of the pillars of the standard real business cycle (hereafter, RBC) theory which says that all factor inputs, including labor, should increase when the economy goes through a technological improvement.



We test the robustness of this finding in several ways. First, we identify technology shocks in several ways implied by the RBC model and examine the correlation of the technology shocks from the different specifications. Second, we pay special attention to the way in which we control for trends in the data. Macroeconomic data is said to be characterized by cycles and trends. Since we are only interested in the cyclical properties we have to find ways to remove the trends. That said there is controversy as to the type of trend possessed by labor and we find our results hinge on the type of trend we assume. However, we find that the source of the trend in the commonly used measure of per capita labor results from slow moving demographics including aging of the population, school attendance and government employment. That is, the distribution of age, school and government employment have changed drastically over time. When we directly remove these low frequency components in per capita labor for a long time series extending to the 19th century and the post-WWII era we again find that people work less when technology improves. Third, my research checks whether this finding is unique to the U.S. or if it also a feature of the G7 countries. Included in this line of research is the extent to which monetary policy across the G-7 behaves in the face of positive technological innovations. Finally, we take an agnostic approach by imposing sign restrictions on other variables in the RBC model, leaving the labor variable free of any restriction. We then examine the implied responses of labor input under each scenario.

All these studies point to one main conclusion: labor input invariably falls when technology improves. All these results therefore cast serious doubt on the relevance of the standard RBC model, which predicts the opposite movement in explaining business cycle movements in macroeconomic data. To borrow a quote from one of these papers "the standard technology-driven RBC model appears to be dead".

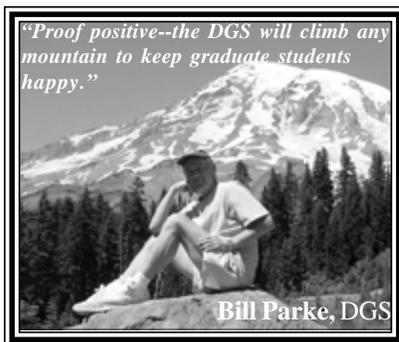
Understandably, the above line of research has recently gotten a great deal of attention because it challenges one of the core elements of macroeconomics. If technology shocks are not responsible for business cycle movements then the profession erroneously stopped its search for the key factors driving business cycles for the last 30 or so years. Real business cycle research either needs a new theory or needs better estimation procedures or both. Whatever the solution macroeconomics has witnessed the potential downfall of one of its core theories. That is why it should come as no surprise that interest has been rekindled in the origin of business cycles and that it has garnered much recent attention in the literature.

Graduate Program News

The graduate program continues to be strong and effective in the training of new Ph.D. economists. In the past year, we admitted 18 new graduate students and graduated a few as well. Helen Tauchen completed her fifth year as Director of Graduate Studies, and I am making a one-year return so that Professor Tauchen can take a well-deserved leave in Spring 2006. Having served as DGS from 1996 to 2000, I have a longer-term view of the program which gives me the opportunity to provide a unique perspective on changes which have occurred in the graduate program over the past five years.

One change that would probably surprise graduates from years ago is that we no longer have field exams. To help students get started developing their own research more quickly, we moved to requiring a field paper instead of the traditional field exam. In the second year, each student writes a paper in his or her major field. A committee in the field then decides whether the paper passes as a form of field test. Our hope is that a good field paper provides a running start at writing a thesis proposal in the student's third year.

Graduates who remember long hours copying journal articles for faculty members and for their own research might already know that almost all journal articles are now available online. "Going to the library" now often means downloading a pdf file and clicking on "print." Davis Li-



brary has started adding electronic versions of some books to its collection as well. The fourth floor computer lab is just as hot as ever in the summer, but, thanks to a generous gift from an alumnus, printing is available and free.

Students from Duke are a lot more common in our classes and our students more routinely take classes at Duke thanks to the Robertson Scholars Program. That program, which promotes joint undergraduate study at Duke and UNC, runs a nonstop express bus every thirty minutes from the Morehead Planetarium to the Chapel Circle at Duke.

Even the Gardner Hall neighborhood is changing. In 1997, the Kenan-Flagler School of Business departed Carroll Hall for "corporate headquarters" down by the Dean Dome. Our new neighbor is the School of Journalism and Mass Communication. Venable Hall will be demolished starting

September 1, 2006, and is already being replaced by a new \$225 million Science Complex. After an \$18 million total reconstruction, Memorial Hall reopened in September, 2005, with two concerts, one by Tony Bennett and one by Itzhak Perlman and Pinchas Zukerman with Leonard Slatkin. Finally, Hanes Hall, the location for many of our graduate offices, is undergoing a \$5 million renovation from November, 2006 to April, 2008.

While the construction boom on campus is unparalleled, State financing for our graduate program has been tight in recent years. The really good news is that, thanks to private contributions, we have been able to support most of our first-year students on trust funds, funded by private giving. This generosity helps greatly in maintaining our tradition of supporting our first-year students without requiring teaching assistant responsibilities.

Some things, of course, have not changed. Second-year students still face qualifiers, and the nth-years still wonder if this might be the year.

We really appreciate hearing from our graduates. If you are in Chapel Hill, drop by Gardner Hall and say hello. Your classmates and those of us still in Chapel Hill would enjoy reading your news items. You can update us by phone, mail, e-mail (parke@email.unc.edu), or web form (<http://www.unc.edu/depts/econ/newsletter/register.htm>).

2004-2005 Degree Recipients

Ph.D. Recipients

Rouben Atoian, "Econometric Investigation of Policy Preference Evolution: The Case of Small Open Economies" (Advisor: Salemi)

William Grant, Essays in Pharmaceutical Economics" (Advisor: Stewart)

Tamah Morant, "Family Structure and Educational Attainment of Children: Addressing Income Controls and Endogeneity" (Advisor: Darity)

Matthew Woolley, "Essays on Life-Cycle Portfolio Choice with Endogenous Retirement" (Advisors: Ghysels & Zhang)

M.S. Recipients

Berna Akin (Advisor: Akin)

Arnie Aldridge (Advisor: van der Klaauw)

Tia Palermo (Advisor: Gilleskie)

David Schimizzi (Advisor: van der Klaauw)

2005 - 2006 Entering Class

Marcelo Alves da Silva, Federal Univ. of Rio Grande do Sul

Anthony Ciolino, Northern Illinois University

Michael Darden, NC State University

Rex Dwyer, Carnegie Mellon University

Sara Freeman, University of Arizona

Jiang Gao, SUNY-Buffalo

Zhicheng Guo, University of Memphis

Philip Jackson, Appalachian State University

Brian Jenkins, Clemson University

Manasigan Kanchanachitra, Thammasat University

Mai Anh Ngo, Carleton College

Lauren Raymer, Capital University

Teerawut Sripinit, Thammasat University

Nat Tharnpanich, Thammasat University

Umut Tuysuzoglu, Middle East Technical University

Denise Whalen, University of Maryland

Yi-Ching Wu, National Taiwan University

Murat Yilmaz, Gazi University

Institutional Link

The Department of Economics is linked to a number of research institutes throughout campus through the activities of the faculty. This section of the newsletter focuses on several of the organizations in which there are especially strong ties, the DEAR program, the Carolina Population Center, The Institute for African American Research, and the Sheps Center. In addition to these organizations, several faculty and graduate students are involved in the Institute of Latin American Studies, the Odom Center for Research in the Social Sciences, as well as other organizations in the area. Finally, the new minor in entrepreneurship provides an additional department linkage.

Demography and Economics of Aging Research Program

David Blau is the Director of the Demography and Economics of Aging Research (DEAR) program at UNC-CH (see www.cpc.unc.edu/dear). The program is housed at the Carolina Population Center, and collaborates with the Institute on Aging at UNC-CH to promote research and research training on the demography and economics of aging. The program has been supported by a grant from the National Institute on Aging, and recently received a new four-year award with increased funding which will allow it to expand its research program. Specific activities of the program include: (1) Seed funding for pilot studies on issues in the demography and economics of aging intended to lead to grant proposals submitted for external funding; (2) Sponsorship of seminars by outside speakers on demography and economics of aging research; and (3) Support for an internal UNC working group of researchers with research interests in the DEAR area. The researchers currently carrying out the pilot projects come from a number of different UNC departments and professional backgrounds. The current group of investigators, their department affiliations and project titles include:

“An Evaluation of the Impact of the Social Security Disability Insurance Program on Labor Force Participation in the 1990s,” Wilbert van der Klaauw, Department of Economics and Carolina Population Center.

“Family Care and Support for the Elderly in China,” Guang Guo, Department of Sociology and Carolina Population Center.

“Using Historical Records to Reconstruct Early Life Socioeconomic Status Exposures in Decedents,” Kathryn Rose, Department of Epidemiology.

“Nutrition and Aging in African Americans,” June Stevens, Department of Nutrition.

“Costa Rican Healthy Aging Study,” William Dow, Department of Health Policy and Administration, and Carolina Population Center (now at the University of California at Berkeley).

“Socioeconomic Status and Trajectories of Health Across the Life Course,” Kim Shuey and Andrea Willson, Carolina Population Center (now at University of Western Ontario).

“The Effect of Increasing Longevity on Long-Term Care Use,” Sally Stearns, Department of Health Policy and Administration.

“Alcohol and Unintentional Home Injury Death Among Older Adults in North Carolina,” Carri Casteel, Injury Prevention Research Center.

“Conference on Structural Models of Labor, Health, and Aging,” Donna Gilleskie, Department of Economics.

“Obesity, Physical Activity, and the Built Environment,” Barry Popkin and Penny Gordon-Larsen, Department of Nutrition and Carolina Population Center.

“Developmental Determinants of Young Adult Risk Factors for Aging-Related Chronic Disease,” Linda Adair, Department of Nutrition and Carolina Population Center.

Among the outside speakers sponsored by the DEAR program are Peter Diamond, recent president of the American Economic Association, speaking on Social Security reform.

Sheps Center by Donna Gilleskie

Several students and professors in the Economics Department at UNC-CH have engaged in interdisciplinary research with colleagues at the Cecil G. Sheps Center for Health Services Research. The Sheps Center seeks to improve the health of individuals, families, and populations by understanding the problems, issues and alternatives in the design and delivery of health care services. Hence, most of our connections have been through interests in health economics and family and population economics. More specifically, the center offers research programs with a focus on aging, disablement and long-term care; health workforce policies and programs; health care organization; medical practice and health care outcomes; child health services; health care economics and finance; rural health care; mental health services; preventive health services; and health policy analysis. Additionally, our graduate students have sought the input of researchers at the Sheps Center to advise on dissertation work and serve as committee members. Just recently a graduate student in Economics finished a two year pre-doctoral fellowship offered by the Sheps Center. This generous fellowship allowed the student to devote her time to thesis work and provided her with access to interdisciplinary research that complemented her work through regular weekly seminars on health services research. The Triangle Health Economics Workshop is also held at the Sheps Center, as it provides an off-campus location (with parking) that is accessible to UNC-CH researchers from various departments, as well as to those from Duke University, N.C. State University, UNC-Greensboro, and Research Triangle Institute.

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Institute of African American Research

The Institute of African American Research (IAAR), which began operation in 1995, was founded in order to “promote and advance scholarly investigation of the history, social experiences, culture, and intellectual thought of people of African American descent through the Diaspora, with a particular focus on Black Americans.” Originally a part of the Sonja Hayes Stone Black Cultural Center, the IAAR became a free-standing research institute in 2001 but has continued its close collaboration with the SHS BCC, where it is currently housed. William A. “Sandy” Darity, Jr., Boshamer Professor of Economics was appointed Director of the IAAR in 2001 and has played a pivotal role in developing the Institute’s programs.

Darity has worked steadily to advance the mission of the IAAR by developing research proposals in all disciplines associated with African American studies, by providing a vehicle for the integration of multidisciplinary research on African Americans, by nurturing younger scholars who enter the field, by designing and executing topical, multidisciplinary symposia and conferences, and by using the latest technology to disseminate the research of UNC scholars contributing to African American studies. He sees the IAAR as a place where diverse disciplines such as public health and epidemiology, educational policy, literature and literary criticism, cultural anthropology and folklore, as well as economics and political science can contribute to the study of the African American experience and find a more complete integration than they might if restricted to their departmental homes. The IAAR is seeking support for research on topics that include the racial standardized test score gap, black land loss and land management in rural North Carolina, racial differences in nutritional practices and their consequences, and a research seminar on fictional literature in the Diaspora.

In addition to supporting research funding activity, the IAAR has sponsored a number of symposia. Spring 2002 saw the initiation of three major programs: the annual Blacks in the Diaspora Student Academic Conference, the annual International Scholars Conference, which brought Mexican academics whose work studies the Afro-Mexicanos and African-Americans to UNC, and a symposium on “Tomming and Passing” that included scholarly panels on both topics, films, music, and performance. More recently in April, 2005, the International Scholars Conference hosted a two day conference on Negotiating Spaces: Black Identity, Culture and Politics in South America, and this fall the second Youth and Race conference directed its attention to the acting white stigma, its influence on racial identity formation, academic achievement and policy implications. Dr. Ronald Ferguson, from the Wiener Center for Social Policy at Harvard University gave the keynote address.

A third major focus for the IAAR is its hosting of the Minority Undergraduate Research Assistant Program (MURAP) – a Mellon Foundation funded 10-week summer program – aimed at encouraging talented Black, Latino, and Native American undergraduates to pursue doctoral studies in the social sciences and the humanities and in supporting the university’s Postdoctoral Fellowship Program for Faculty Diversity. Specifically, with respect to the latter program, the Institute maintains a seminar series, co-sponsored with the Carolina Population Center, the “Race-ing Research and Researching Race.” This seminar series will provide a forum for the postdoctoral fellows to present their research.



Eric Ghysels, joint with Jean-Pierre Fouque (Department of Applied Mathematics - NCSU) heads the 2005-06 Program on Financial Mathematics, Statistics and Econometrics of SAMSI (Statistical and Applied Mathematical Sciences Institute), a national institute and partnership of Duke University, North Carolina State University, the University of North Carolina at Chapel Hill, and the National Institute of Statistical Sciences (NISS), in cooperation with the Mathematical Sciences Research Institutes program of the Division of Mathematical Sciences at the National Science Foundation and in collaboration with the William R. Kenan, Jr. Institute for Engineering, Technology and Science.

The goal of a SAMSI program in Financial Mathematics, Statistics, and Econometrics is to bring together these disciplines, and focus on the major challenges in the three essential tasks: modeling, data analysis and computation, in applications ranging from financial and energy derivatives to real options and defaultable securities. The opening workshop of the program was held September 18-21 and gathered more than 200 scholars. The program also involves various advanced courses, workgroup meetings, workshops, visiting scholars and post-docs. For more information visit: <http://www.samsi.info/programs/2005finmathprogram.shtml>

Carolina Population Center

The Carolina Population Center is a community of scholars and professionals dedicated to promoting research to benefit world populations, train population scholars, develop new research skills, capacity and methodologies and disseminate research findings to population professionals, policy makers and the public. CPC was established in 1966 and has emerged as one of the premier population research centers in the world, well-known for its high quality research and training. The Economics Department has played a vital role in its development over the years and currently eight of the fifty-five CPC faculty fellows are from the Department. These elected faculty fellows constitute the permanent research core, which transcends departmental lines and geographical boundaries. The fellows represent sixteen Departments in five schools or colleges and are supported by nearly sixty predoctoral and postdoctoral scholars and a highly skilled staff.

CPC fellows, students and staff work jointly on population-related research ranging from local projects in North Carolina to more broadly based US projects to projects in some fifty additional countries. In 2004, CPC fellows participated in more than 60 such projects, primarily funded by federal agencies such as the US Agency for International Development, the National Institutes of Health, the National Science Foundation and the US Public Health Service. Currently Department of Economics Fellows are listed as the Principal Investigator or Co-Investigator on some fourteen different funded projects representing nearly 8.5 million dollars. This is in addition to the large USAID Measure project of which David Guilkey is a Co-Investigator. Because of the size and importance of this project, it is discussed in some detail below.

MEASURE Institutional Evaluation Project

The University, the Carolina Population Center (CPC), and the Department of Economics received some extremely good news last month when the United States Agency for International Development (USAID) made the following announcement:

We are pleased to announce the award of MEASURE Evaluation, Phase II to the Carolina Population Center, University of North Carolina, and their cooperating partners, the Futures Group International Inc., John Snow Inc., Macro International, and Tulane University School of Public Health and Tropical Medicine. This cooperative

agreement, for 5 years (9/30/03-9/29/08) and \$70 million, will work worldwide.

Key staff for the project are: Sian Curtis, Project Director; Gustavo Angeles and Philip Setel, Deputy Directors; and Scott Moreland (Futures Group), Demand and Data Utilization Specialist. All key staff will be co-located at the UNC headquarters offices in Chapel Hill.

Phase II will build on a tradition of leadership in collection, analysis, and use of reliable demographic and health data for monitoring, and evaluating health programs. While continuing to address ongoing monitoring and evaluation challenges across all five BGH strategic objectives, Phase II activities will place greater emphasis on understanding data needs, generating strategic demand for data and ensuring appropriate utilization of data for policy formulation and program decision making. Fulfillment of this goal will be achieved through the implementation of a continuum of data demand generation, collection, dissemination, and use supported by strong coordination, collaboration, and capacity building. Some specific innovations in Phase II will include: development of data user mapping tools and demand and data use profiles, country and global data use calendars, increased emphasis on routine health information systems and emerging data collection options such as sample vital registration, integrated longitudinal data collection systems, and PLACE (Priorities for Local AIDS Control Efforts), and development of tools to facilitate use of data such as PIMS (Performance Information Management Systems), DSS (Decision Support Systems) and GIS Toolkits for spatial analysis. Phase II will also include a greatly expanded capacity building agenda including new strategies for institutional capacity strengthening.

This \$70 million project is the largest grant in the social sciences that has ever been received by the University and validates work that started 12 years ago with the award of the EVALUATION Project to CPC. Prior to the decision to bid on the EVALUATION Project, there was a great deal of debate about whether this type of contract research was in the best interests of the University. Many felt that USAID requirements for technical assistance for its overseas missions and the need for fast evaluations would be incompatible with the University's mission to produce first class research that is published in peer reviewed journals. However, during the 6 years of the

EVALUATION Project and the 6 years of Phase I of the MEASURE Evaluation project that followed, this did not prove to be the case as many UNC-CH faculty have managed to do cutting edge research while providing state of the art technical assistance to USAID and its missions.

Faculty and graduate students in the Economics Department have played a very important role in these two earlier projects and will continue to play important roles in the new project. David Guilkey was the deputy director of the EVALUATION project and then moved to the position of senior technical advisor in the MEASURE Evaluation project. He will continue that role in Phase II. Gustavo Angeles started working on the project as an Economics Department graduate student, wrote his dissertation using data generated by the project, and is now a faculty member in the Department of Maternal and Child Health at UNC-CH. In addition, he is the current deputy director for the new project. Tom Mroz has also been involved since the beginning of the EVALUATION Project and has played key roles in projects in Tanzania, Peru and Indonesia. John Akin directed projects in the Philippines and Uganda that have led to practical advice to USAID as well as publications in peer reviewed journals. John Stewart took the lead in a series of projects that developed methodologies for measuring total program costs so that projects could be compared in terms of cost effectiveness. He also was involved in a study of health care usage in the Philippines. Finally, Brad Schwartz played a key role in one of Guilkey's projects that dealt with the impact of decentralization of the health care system in the Philippines.

An excellent example of how this series of projects has benefitted both the university and USAID is the work done by Guilkey and colleagues in Tanzania. In 1991, USAID began a ten year project designed to help the government of Tanzania lower its extremely high fertility rate. The project had three main components: logistical support to make sure that contraceptives were available in health facilities, training of health care providers so that they could properly assist clients, and an education component to inform individuals about the benefits of smaller family sizes. Prior to Guilkey's involvement, USAID's evaluation strategy simply involved comparing changes in contraceptive use and fertility through time using population based surveys. However, this evaluation strategy was flawed because it did not allow one to assign causality to the program components. To correct this problem, a series of facility surveys were

designed under the EVALUATION Project and continued under the MEASURE Evaluation Project that allowed one to form a direct link between program outputs and program inputs.

The design and implementation of these facility surveys kept many generations of Economics Department graduates students employed and led to data sets that several used on their dissertations. In addition to providing the proof that USAID were indeed having an impact on contraceptive use and fertility, research funded by the project resulted in publications in leading journals such as Demography and Journal of the American Statistical Association. In addition, graduate students who worked

directly on the project received valuable training in research methods that served them well even if they did not directly use the data for their dissertations. Many other graduate students also benefitted from the project since Guilkey has used the data sets in his graduate courses both as examples of how to conduct program evaluations and also in problem sets. Guilkey has also used the data sets in Economics 70, our undergraduate statistics course, both for in-class examples and for homework assignments. Just this past year, an undergraduate student wrote his honors thesis using the 1999 round of the data set to study the effects of communications programs on contraceptive use. He did an

excellent job and graduated summa cum laude from UNC-CH this past spring.

It is clear that this partnership between UNC-CH and USAID had been beneficial to both sides. It has provided USAID with rigorous and unbiased evaluations of its population and health programs and has trained many at USAID and at its international partners in proper research method. UNC-CH has received the benefit of a large, stable source of funds that have allowed it to gather important data sets and conduct cutting edge research. We feel confident that the partnership will continue to be productive in the Phase II of the project.

The Entrepreneurship Minor - A New Undergraduate Linkage

Forty six undergraduate students from 13 different majors became the first group of UNC student that will earn a minor in entrepreneurship. The new minor, which is housed in the Economics Department is part of the Carolina Entrepreneurial Initiative. Funded by a five year grant from the Kauffman Foundation, the CEI has resulted in a number of new campus programs including the minor.

The minor, which is open to non-business majors, provides the opportunity for UNC students to explore the context and tools of entrepreneurship and to gain some practical experience. The minor consists of four courses. The gateway course, Econ 80 Introduction to Entrepreneurship was offered for the first time this fall. Taught by Professor John Stewart and UNC Entrepreneur in Residence and Senior Lecturer in Economics Buck Goldstein, the course provides students with the basic tools of business in the context of entrepreneurial endeavors. The course was punctuated with visits from a number of nationally know figures including Wendy Kopp, the founder of Teach for America, Allen Questrom, the former CEO of J.C. Penny, and Michael Cole, founder of Caribou Coffee.

Students will also take a workshop course in either commercial venture creating or social venture creation. The commercial course will be provided by the

Kenan-Flagler School of Business and the social course by the Department of Public Policy. The UNC program is unique in that we treat entrepreneurship as a process that is common to both the creation of new commercial ventures and to new social or nonprofit ventures. Several of our minors have already started their own business or public service organizations and many will participate in the Carolina Challenge, the new



John Wadsworth and Econ major Adam Rubin in Bangkok Thailand

venture plan competition sponsored by the CEI. The Challenge offers total prize money of \$25,000 with winners in both commercial and social entrepreneurship.

Students in the minor will also complete and internship experience as part of the minor. A portion of these internships will be abroad. In a “beta test” of the foreign internship, three of our students spent eight weeks in Thailand this summer. Adam Rubin (Senior, Economics), John Wadsworth (Senior Peace War and Defense), and Charles Gillespie (Senior Political Science) spent their summer working in small entrepreneurial firms in Bangkok. Kenan Institute Asia, helped the department locate placements for our students and provide them with logistics and support services. Next summer, we hope to have roughly a dozen of our student in Asia with summer internships and we are expanding the program to include placements in China. Amon Anderson (UNC class of 2004) has joined our team as director of the internship program and will assist in finding internships for all of the entrepreneurship minors.

This first year of the minor has been an exciting one. Many of our entrepreneurial alumni who read the Carolina Entrepreneurial Initiative story in last year’s newsletter have contacted the department and we look forward to hearing from many more.

Undergraduate Majors

Preparing for Spring 06

The spring semester brings another graduation. Graduating seniors are reminded to check with your Arts & Sciences academic advisor to verify that you have met all College requirements for graduation and to complete the necessary paper work. Students can use the on-line "Degree Audit," available at Student Central on the UNC-CH website, to check their progress. If you have questions about meeting your economics major requirements, stop by the office or send us an email.

Please remember that you must have at least one "advanced" economics course to complete your degree requirements. This spring the offered advanced courses are Econ 142, 162, 170, 180, and 185. For those in the Senior Honors Program, Econ 98 and 99 count as advanced courses; however, participants must have eight economics courses to complete the major. Invitation letters will be sent in the spring to rising seniors whose academic records qualify them for 2006-07 participation. To learn more about the honors program, contact the Director of Undergraduate Studies.

Rising juniors, might want to take a look at the new Entrepreneurship minor that started this past fall. Econ 80 is the gateway course to the minor and permission to enroll forms are now available on the Carolina Entrepreneurial Initiative website. www.unc.edu/cei/minor

Finally, economics majors are encouraged to become active in the Economics Club. It is a great way to get to know your fellow majors and to engage in economic issues outside of the classroom.

Undergraduate Research Fund

Funds are available through the Herbert B. Mayo Undergraduate Research Fund. This past year, Rachel Herbold, received funds to purchase a data set for her undergraduate research.

The Mayo Fund is an excellent example of how outside funding contributes to the teaching, learning, and research experience of our majors. The Department and recipient express our appreciation to Dr. Mayo for his continuing support of our undergraduate program.

Carolina Economics Club

The major goal of the Carolina Economics Club is to provide a forum to discuss a wide array of economic issues. We are again succeeding in accomplishing this goal in 2005, with more than 750 members of the UNC community having attended Club meetings, with topics ranging from careers in economics to hot topics and current events. Megan Henthall and Meagan Singer are our co-presidents for the 2005-2006 year.

Rodger Ferguson, Vice-Chairman of the



Federal Reserve System delivered the Club's third annual "Distinguished Lecture" in April to an overflow crowd in the Frank Porter Graham Student Union Great

Hall. An overflow crowd heard Vice Chairman Ferguson's talk, on "What Can You Do With a \$665.9 Billion Trade Deficit? The Current State and Consequences of America's Historic Trade Deficit." Dr. Ferguson presented the results of a simulation indicating that significant demands from foreign interests to acquire dollar-based assets bolstered the pressure

on trade deficits during 2003-2004 exerted by record federal budget deficits. The *Washington Post*, the *News & Observer*, and cable channels that specialize in financial news all covered Dr. Ferguson's lecture.

The Club recently co-sponsored a talk by John Stossel, a self-professed libertarian and author who is currently co-host of ABC's weekly "20-20" program. Other recent meetings, usually scheduled for Tuesday evenings, have addressed such issues as: (1) "The Social Responsibility of Business," (2) "The Trillion Dollar Bet" [a film on the events that caused the 1998 collapse of the world's largest hedge fund], (3) "Bootstrap Banking" [micro-loans to small-scale entrepreneurs in less-developed-countries], (4) "The Economics of True Love" [a talk usually given just before Valentine's Day each year], (5) "The Economics of AIDS" [on World AIDS day], and (6) "Career Opportunities for Economics Majors."

Please contact us if you would consider being a panel member to discuss "What alumni have learned about careers for economics majors after finishing UNC." Future events for the Club will be posted at <http://www.unc.edu/student/orgs/econclub/>. Whenever you're going to be on campus, check our schedule and think about attending one of our scheduled events.

Economist in Training

My graduation in May culminated four years of studies with the UNC Economics Department. During this time, I completed a major in Economics and a minor in Mathematics. My classes in international economics especially piqued my interest, and eventually led to my honor thesis entitled "Exploring National Frontiers: An Examination of Factors Contributing to the Border Effect." As I looked into various career paths, I began focusing on jobs that would provide a great introduction to the business world. This past summer, I began working as an Analyst with McColl Partners, a middle-market investment bank in Charlotte, NC. The analytical skills, work ethic, and economic foundation that I gained as an undergraduate have proven invaluable in the workplace.



As an investment banker, I have found a well-grounded understanding of the national economy to be essential. We work with businesses in a variety of industries, and we have to be constantly monitoring economic news and trends. My responsibilities as an Analyst vary, but include performing industry research, analyzing financial data, and spending a great amount of time interacting with business owners. I also work with McColl Partners' new Financial Institutions Group, which focuses on bank mergers and acquisitions. Working with this group has given me the opportunity to deepen my knowledge of financial markets by examining the factors influencing banks in today's economy.

Jared Sokolsky "05"

Undergraduate Awards

In the 04/05 academic year 181 students received undergraduate degrees in economics. We currently have more than 600 declared first and second majors. In the last academic year, 19 of our majors were initiated into Phi Beta Kappa, a continuing reflection of the high quality of our students. New members include Brian C. Bunker, Sulemon G. Chaudhy, Kelsy E. Clark, Emily E. Cupito, Heidi S. Fisher, Rachel L. Herbold, Vanessa E. Holder, Adrian M. Johnston, Alan B. Keesee, Gregory S. Knudsen, Luis M. Lluberas-Oliver, Satish, K. Misra, Thomas J. O'Keefe, Sarah E. Pickle, Mariam R. Qureshi, Julie A. Robinson, Michael D. Scherger, Michael P. Stella, and Ryan M. Zimmerman. In addition, a large number of our majors were inducted into the economics honorary, Omicron Delta Epsilon. Special Department recognition was given to Justin M. Rao who was awarded the Undergraduate Prize in Economics, awarded annually to the top economics major, and to Jared D. Sokolsky who received the Undergraduate Honors Prize in Economics for the best senior honors thesis.

Omicron Delta Epsilon

ODE was lead this past year by President Hamilton Fout and faculty advisor, Professor Al Field. The annual induction was held on April 19, 2005, and well attended by both inductees, family members and friends. Membership is open to outstanding junior and senior economics majors and economics graduate students. Only top students are invited into membership and this past year less than 10% of eligible majors were invited to join. The new student inductees included Philip Algieri, Andrew Blinder, Charles Braymen, Brian Bunker, Henry Colton, Emily Cupito, Heidi Fisher, Divya Gopal, Noriko Hayakawa, Rachel Herbold, Jordan Hicks, Janaka Lagoo, Matthew Liles, Elizabeth Makrides, Devin Markell, Thomas O'Keefe, Luis Lluberas-Oliver, Alxandra Samet, Eliane Shin, John Taber, Robert Steel and Blair Shwedo, Jr.

For the second year in a row, Professor Ralph Byrns received the annual ODE Outstanding Economics Professor Award. Byrns was cited not only for his outstanding classroom teaching, but also for his many contributions to the undergraduate program. He is a popular senior honors thesis advisor, a sought after mentor to many students and an engaged and effective advisor to the Economics Club. Byrns was the featured speaker for the induction and gave a brief talk on the relevance of economics in real life that was both insightful and entertaining.

Economist in Training

For the past two years I have worked at the Federal Reserve Board of Governors as a research assistant in the Advanced Foreign Economies section of the International Finance Division. I am in charge of following Australia, New Zealand, and Cyprus, which includes forecasting GDP, CPI, and CA for Australia and New Zealand and



writing country notes to provide background information for the governors. I have had the privilege to attend several meetings between Australian and New Zealand officials and Chairman Greenspan and several Pre-FOMC briefings for which I produced the charts. I also provide support for the economists that cover Japan. Along with country coverage and helping the economists with their research, a large portion of my job involves computer programming.

I highly recommend this position to anyone that is interested in pursuing economics after undergrad. It exposes you to several different aspects of economics and provides a wonderful background for entering into a PhD program in economics or any graduate program. There are two other research divisions at the Board, Monetary Affairs and Research and Statistics, and many sections within each of these three divisions each focusing on different topics of economics. Besides the fantastic opportunities to learn more about the field of economics, this position allows you to work with top economists and other research assistants. The Board employs around 100 research assistants. I cannot imagine a better job for me right after completing my undergraduate degree in economics at Carolina.

Elizabeth.S.Thomasson "03"

2004 Senior Honors Thesis

Twelve of our most outstanding economics majors successfully completed the Senior Honors Program in 2005. The program consists of completing two required seminar courses, Econ 98 and 99, designing and completing an honors thesis under the direction of a faculty advisor, and passing an oral defense of the research. This past year, the senior honors program was directed by Professor Stanley Black. Six of the participants graduated with "Highest Honors" and six received their degrees with "Honors." The award for the best honors thesis was presented to Jared Sokolsky who worked under the supervision of Professor Alfred J. Field. The Class of 2005 Honors students and the subject of their research are:

HIGHEST HONORS GRADUATES

Alan B. Kieesee, "Time Preference and Self-Control as Determinants of Adolescent Sexuality."

Gregory Knudsen, "The 1986 Tax Reform and Housing Demand: An Observable Effect as Seen Through Housing Price Fluctuations."

Justin M. Rao, "Discounting, Morality and the State of the World."

Jared Sokolsky, "Exploring National Frontiers: An Examination of Factors Contributing to the Border Effect."

Alexandra Samet, "Economic Reasoning and the Academic Majors of UNC Students: A Look into the Role of Academic Experience and *Homo Economicus*."

Joel Segal, "Substance Abuse Parity Laws: A Cross-State Analysis."

HONORS GRADUATES

Brian C. Bunker, "Income Inequality and Crime: A Cross-Sectional Time Series Analysis of the United States Between 1900 and 2000."

Mark Engelen, "A Study of the Markup for Gasoline in the United States."

Divya Gopal, "Foreign Migration and the Unemployment Rates of German Länder in the aftermath of Reunification."

Matthew E. Hurst, "An Insight in the Market of Sports Gambling."

Alexa N. Kleysteuber, "Fuel Efficiency and the Composition of Sales of Passenger Vehicles."

Perry Lusk, "Senate Election Outcomes and Economic Variables."

Life After Carolina

Morehead Scholar Melodie Potts (2001) participated in many different activities while at Carolina including varsity sports, charity volunteering, and various campus organizations including several in the Economics Department. Melodie reinvigorated the Carolina Economics Club and served as its President for 2000-01. She also assisted with the revitalization of the local chapter of Omicron Delta Epsilon of which she is a member. She writes from Australia, where she is living and working for the Cape York Institute, a think tank focused on Aboriginal social policy.



I graduated from UNC in 2001 with a BA in Economics and Public Policy. I chose to double major because I valued the conceptual and quantitative nature of economics and its practical application in public policy.

Interested in development, I used my Morehead summers at UNC to gain different perspectives on this. I travelled abroad, first to Ecuador where I worked with local farmers, and then to Africa where I spent time investigating the economic impact of the ivory trade ban on local economies and elephant populations. I then spent a summer on Wall Street with Sanford C. Bernstein, Inc., another summer with the Charleston Chamber of Commerce, and a semester in Washington, DC, with USAID. All these experiences shaped my interest in development and pointed me towards a career in public policy. Above all, I realized that I was most interested in a career that would allow me to apply concepts and rigor to influence systemic changes.

To that end, upon graduation, I joined the Boston Consulting Group (Atlanta office). I was attracted by the strategic work BCG does with clients and the firm's focus on corporate social responsibility and pro-bono work. My time at BCG was a unique opportunity for me to advance my conceptual and analytical skills in a business environment. Most of my experiences dealt with the intersection of business and government, allowing me to apply quantitative business rigor to policy issues. My work ranged from assisting in international trade negotiations, to developing equitable water/sewer funding options for major infrastructure upgrades, to proposing a new aviation infrastructure funding framework, to developing a strategic plan for an urban school system. My economics studies gave me a strong base for this work, and I appreciated the analytic rigor that I was able to apply to public issues.

In early 2004, while still at BCG, I decided to pursue a Master's in Public Policy. I applied and was admitted to the Kennedy School of Government at Harvard University. Around the same time, I learned through the BCG grapevine of some unique pro-bono work being done by BCG-Australia. BCG-Australia has for many years been working with the Aboriginal leadership of Cape York Peninsula (located in the northeast of Australia and home to 16 Aboriginal communities totalling approximately 15,000 people) to overcome the economic and social development challenges their communities face. It so happened that the Cape York Aboriginal leadership was

looking to launch a think tank to seek innovative but pragmatic public policy ideas and had asked BCG to help set it up. The Institute was in need of a Think Tank Coordinator, and I saw an opportunity to merge my academic and professional background and interests. I graciously received an enrollment deferral from the Kennedy School, and so in July 2004, I left BCG Atlanta and moved to Cairns, Australia, for the launch of the new Cape York Institute for Policy and Leadership.

The Cape York Institute (www.cyi.org.au) is a unique policy organization in Australia and is focused on driving practical reform in Aboriginal affairs. Funded by federal and state government in a joint venture with a leading Australian university, the Institute was established to shape national Indigenous policy, and to develop innovative projects aimed at reducing welfare passivity and increasing economic participation.

The indigenous people of Cape York (indeed, across Australia) face incredible disadvantage: average life expectancy is less than 50 years, housing is severely overcrowded, literacy is on the decline, unemployment runs as high as 70% in some communities, and high rates of alcoholism, diabetes, and heart disease exists everywhere. Most communities in Cape York are small and very remote, lack scale, have almost no access to financial institutions, and struggle with governance and social order. Colonization, dispossession, and oppression are the historical causes of this disadvantage, but more recently substance abuse, alcoholism, and welfare dependency have become causes in their own right. The Institute's director, Noel Pearson, a nationally-renowned Aboriginal leader from Cape York, is a staunch advocate that Aborigines must take responsibility for their future by rejecting passive welfare and becoming part of the real economy. Noel has set an ambitious agenda for the Institute: to work with government and communities to develop rigorous ideas that yield practical initiatives for communities to dispel passivity and seize opportunity.

As Think Tank Coordinator of a new organization with such an agenda, my role has broadly encompassed two areas: management/operations and substantive work. The experience of setting-up a new organization was incredibly challenging and rewarding. The Institute needed a robust business model with key financial metrics. It needed staff and clear operations. It needed a facility and a quality IT platform. Most of all, it needed to develop links to community, other policy organizations, and government. I spent a majority of my first year addressing these needs and mov-

ing the Institute from an implementation phase to operations.

The substantive work includes coordinating two "themes": Engagement and Articulation. I actively engage community, government, academia, and the private sector to foster debate and generate innovative ideas. This is done in a variety of formal ways, including seminars, workshops, and community leader's retreats, as well as informal ways. Articulation takes a number of forms as well. Much of the work that we do has both regional and national importance, so it is imperative that the Institute contribute to the national debate by disseminating our findings through publications as well as regular engagement.

Perhaps the most important articulation work the Institute has done to date is to insert a new conceptual framework, based on the work of Nobel economist Amartya Sen. It focuses on the primary causes of Indigenous disadvantage (e.g. lack of good institutions, poor incentives to be educated and healthy, poor infrastructure, etc) and offers a path forward to economic and social development (e.g. realign incentives, invest in capabilities). To paraphrase Sen, the Cape York development agenda is "to ensure that people have the capabilities to choose a life they value."

During the Institute's 16 months of operations, a number of political opportunities have arisen that have catapulted the Institute to a national level of prominence. One opportunity comes from the federal government's abolition of the old system of Aboriginal relations and policy due to poor results. The government is looking to the Institute for guidance on what a new system and set of policies should look like. In particular, the federal government is embarking on mainstream welfare reforms and is concerned about how to reform welfare in indigenous communities given the level of dependency and dysfunction.

As a result of this favourable political environment, the next couple of years hold a rare opportunity to be part of a historical policy shift in Australia. It is truly an amazing time, and I am thankful that my undergraduate economic studies and professional consulting experience equipped me with the skills and confidence to help shape an organization, I am confident that the Institute is on solid footing for the future and will influence systemic change for the betterment of Indigenous Australians.

I will remain at the Institute through the first half of 2006, after which I look forward to my enrollment at the Kennedy School and beginning another chapter of *Life after Carolina*.

Faculty and Staff News

New Faculty

Oksana M. Leukhina is a macroeconomist who joined the Department this past summer. She did her undergraduate work at The College of Charleston, and received her Ph.D. from the University of Minnesota in 2005. Her dissertation research focused on population, labor force participation and long-run growth.



Neville Francis is a macroeconomist who joined the Department this past summer. He did his undergraduate work at The University of the West Indies where he also received a Masters degree in Economics. He was awarded his Ph.D. degree from the University of California-San Diego in 2001, and served as an Assistant Professor at Lehigh University from 2001 to June of 2005.

Recent Activity

Professor **Paul Rhode** was appointed Zachary Taylor Smith Distinguished Term Professor, effective July 1, 2005.

Professor **Michael Salemi** was appointed Bowman and Gordon Gray Distinguished Term Professor effective July 1, 2005. In addition, *Discussing Economics* (co-authored by Salemi and Lee Hansen) has recently come out, and Michael is one of the organizers of the *Teaching Innovations Program* for economics faculty sponsored by the American Economics Association Committee on Economic Education. He also is an instructor in the workshops being offered to economics faculty on interactive teaching in undergraduate economics in 2006.

Professor **John Akin** was reappointed Department Chair, effective July 1, 2005.

Professor **Alfred J. Field** was appointed Acting Department Chair effective July 1, 2005 - December 31, 2005, while John Akin is on a Kenan leave. He also was recently appointed to the Chancellor's Committee on Scholarships, Awards and Student Aid.

Professor **William Parke** was appointed Director of Graduate Studies for the 2005-06 academic year.

Professor **John Stewart** was appointed Associate Chair and Director of the Undergraduate Program for the 2005-06 academic year.

Professor **Stanley Black** retired, effective July 1, 2005. He is continuing to teach in the Department under a university phased retirement arrangement.

Professor **David Guilkey** was appointed to a five year term on the Grant Proposal Review Board of the National Institute of Health.

Professor **Donna Gilleskie** was appointed for a second term to the Administrative Board of the General College.

In an unusual coincidence, in August both Professor **Sandy Darity** and Professor Emeritus **Jim Friedman** underwent open-heart surgery, Sandy at Duke University Hospital and Jim at Yale University Hospital. Fortunately both are recovering in record time. In fact, Jim claims to have taken five minutes off his walk to campus as a result of the surgery.

Faculty Leaves

Professors **Patrick Conway**, **Paul Rhode**, **Sandra Campo**, **Donna Gilleskie** and **John Stewart** each received a one-semester research-and-study leave during the 2004-05 academic year.

Professor **John Akin** was awarded a W.R. Kenan, Jr. leave for Fall 2005.

Professors **Alfred Field**, **Helen Tauchen**, **Eric Renault** and **Wilbert van der Klaauw** each received a one-semester research-and-study leave during the 2005-06 academic year. van der Klaauw is spending the year as a visiting scholar at the Federal Reserve Bank of New York.

Awesome Instruction!

We are proud of the high quality of Department teaching at both the graduate and undergraduate levels. This year was notable in that we had two graduate students who received university-wide teaching awards in addition to the five Department teaching awards awarded to professors and graduate students for outstanding performance in the classroom.

University-Wide Teaching Awards



David Buehler received the Senior Class of 2005 Graduate Teaching Assistant award.



Matt Woolley received a Tanner Teaching Assistant Award for Excellence in Undergraduate Teaching.

Department Teaching Awards

Department teaching awards were presented to two faculty and two graduate students selected by voting processes carried out by the Undergraduate Economics Club and the Economics Graduate Students Association. The presentations were made at the annual Department spring reception at the end of the school year.



Mike Aguilar won the Vijay Bhagavan Award for the best Econ 10 teaching assistant. He also received the Economics Graduate Student Association Award for Best TA in a Graduate Level Course.

Professors **John Stewart** and **Brad Schwartz** received Department of Economics Excellence in Undergraduate Teaching Awards.

Professor **Patrick Conway** received the Department's Jae-Yeong Song and Chunuk Park Award for Graduate Teaching.

Hamilton Fout received the Department of Economics Award for Best Teaching Assistant awarded to an instructor teaching their own independent section.



Greetings Friends and Alumni

A Letter from the Chair

I am happy to again greet friends and alumni of the Economics Department at this the beginning of my 6th year as Department Chair. As you will probably infer from that statement I have agreed to serve a second five-year term as



Chair. As one of the rewards for accepting the new term I was allowed to take the **Kenan Research Leave** I had already applied for and been awarded in anticipation of ending my Chairmanship. During the present semester Professor Al Field (the editor of this newsletter) is Acting Chair. I will return to my administrative duties in January.

Unfortunately, taking an academic leave does not mean I can take a leave from work, only that I can devote more of my time to research and other professional activities (work!). I am still coming to work every day, mostly focusing on research related to my National Institutes of Health (NIH) project relating to health and health care in China. I still seem to have a lot of meetings.

The research funding I received as part of my leave package did help me to pay the expenses of attending two professional conferences, one in Spain and the other in France, during the summer. I and my coauthors made presentations on smoking in China and Russia, and on health and health care for an aging population. My wife has made me promise that the next time I am awarded a research leave I will use it to do research in residence at some exciting place, such as Beijing or Paris or London! We will see how that works out, if and when it happens.

Probably the most exciting non-professional thing to happen to me last year was going with my family to the Final Four in St. Louis. We stayed in a hotel right across the street from the Heels and were there in their hotel lobby with thousands of others to welcome them back after their victory. For a lifelong sports fan like me being there when my team won the national title was

very exciting. I suppose being a Braves fan all my life has left me believing that actually winning the championship is next to impossible. I sense that Roy Williams will change that belief over the coming years.

The **state's budget woes** have continued for yet another year. Perhaps the new lottery will help to ease the pressures on funds for all levels of education. In spite of the budget constraints, the **Department again had a very productive year**. Much of the credit for the Department's holding its level of excellence through another lean state budget year goes to you alumni and friends who have so kindly supported us financially. If the state does eventually see its way to increase UNC's support, that along with the continued support of loyal contributors, including many of you who are reading this, should put us in a strong position to improve dramatically. Thank you.

Our enrollments and number of majors have continued to be very large relative to our faculty size. In the past academic year we were able to recruit two new Assistant Professors, both of whom joined the Department in July. The two new members are Dr. Neville Francis, who received his Ph. D. from the University of California at San Diego, and Dr. Oksana Leukhina, with her Ph. D. degree from the University of Minnesota. Both are Macroeconomists, and are introduced more fully elsewhere in this newsletter. We have received permission from the Dean to recruit two new faculty members again this year.

We continue to pursue outside funding for faculty and student support and for the endowment of additional distinguished professorships in the Department. State funds cannot be the full answer to our quest for excellence. We have been much protected as a Department of excellence by having three permanently funded (endowed) Distinguished Professorships in Economics paid for by gifts from supporters. These three distinguished professorships provide a solid base of three exceptionally talented scholars, irrespective of the vagaries of state funding, who always assume a solid foundation. If you are interested in discussing the possibility of a major gift (or a smaller one) please call me [(919)843-9452] or con-

tact Brooke Alexander at the Arts and Sciences Foundation [(919)843-3920]. I should remind you that any gifts to the University, including those to annual giving or the **CAROLINA FIRST CAMPAIGN**, can be designated to "**The Department of Economics**".

Before I end this letter, I want to talk a bit about what I think is one of the most exciting things ever to happen at UNC and in the Department, the new **Minor in Entrepreneurship**. I announced this undertaking in last year's Newsletter and several pages were devoted to describing the objectives and content of this new program. This year I can announce that the Minor is up and operating, with 46 excited, motivated and intelligent students in the first group. You can read about the minor at <http://www.kenaninstitute.unc.edu/centers/cei> under "Programs."

Buck Goldstein, the University's Entrepreneur in Residence, has joined the Department as a Senior Lecturer, and he and John Stewart, Director of the Entrepreneurship Minor, are team teaching the basic entrepreneurial methods course this semester. One of the most interesting things about the minor is that it will focus not just on profit-seeking enterprises but also on social and political entrepreneurship. We are already offering courses on the development of work plans for both business and social enterprises, and are rapidly developing two courses focusing on entrepreneurship in the arts and the natural sciences. We are excited about the spirit of entrepreneurship that is growing at Carolina and the prospect of many Arts and Sciences majors going out into the world with an Economics Department Entrepreneurship Minor. We are proud to be a part of this effort to inspire students to turn dreams into productive and self-sustaining social and business enterprises. I am sure that many of you will share my excitement and that some will designate gifts to help make this program financially viable after the five year Kaufman Foundation support ends.

I hope you all have a good year and that I get to see many of you during the year.

Sincerely,
John S. Akin

Let Us Hear From You

Name _____

Year graduated _____

Address _____

Degree _____

Current employment, family status, and other interesting information to pass on to classmates in our next newsletter.

Please mail to: Professor Al Field, Department of Economics, CB# 3305 Gardner Hall, UNC-CH, Chapel Hill, NC 27599-3305; or fax to: 919-966-4986

