

100 Years of...



The Carolina Newsletter
Fall 2001

Department of Economics
University of North Carolina at Chapel Hill

From the Editor



Welcome to the Centennial Edition of the Economics Department Newsletter. We believe that this, our third annual edition, is of particular importance because we are focusing not only on current Department news and issues, but also

on the institutional heritage that has evolved in the 100 years since the Department was founded in 1901. We have experienced many changes in the nature, location and administration of the Department over those many years. Throughout it all the Department has remained committed to the University mission of teaching, research and service to the state of North Carolina and the nation. As we move into the 21st century, the Department is faced with meeting its goals and objectives in an increasingly global environment and with a changing state economic profile of finance and trade. It is our hope that we can meet the many emerging challenges and contribute to the success of North Carolina's current economic transformation with the same commitment, quality and success as did Department members in the first one-hundred years.

Once again I would like to thank all of you who took time to respond to the request in last year's Newsletter to pass on information about yourself. I have included a number of these personal updates in this edition and hope I will continue to hear from more of you. We take special pride in the contributions you have made to your professions and to the communities in which you live. A special note of thanks to those of you who responded with ideas for celebrating this special anniversary. Unfortunately, due to both scheduling difficulties and current University financial constraints brought on by state budget problems, we have decided to scale back our celebration activities. Consequently, we are now planning to hold a **Department**

open house/reception on Homecoming Saturday, November 10, prior to the beginning of the football game. We hope that all of you who are back at Carolina that day will take the time to stop by Gardner Hall to share some birthday cake, see some of the newly renovated high-tech classrooms and visit with former professors and classmates. If funding permits, we also hope to celebrate more formally sometime during the year by bringing in a nationally known economist to give a lecture on a topic of current interest, perhaps to a University wide audience, with the talk followed by a Centennial-related reception. We believe such a scholarly talk would be in keeping with the spirit of our dedication to teaching, research and public service goals, and would be most appropriate for marking the 100th anniversary of the Economics Department as a scholarly unit. More specific information about these events will be found on the Department of Economics website as it becomes available. We also will contact as many of you as we can on our email Listserv. If we do not have your email address please send it so that we can add you to future information disseminations.

The growth in interest in economics and in demand for our courses continued through the 2000/2001 academic year. Last year we taught over 4500 undergraduate students in economics courses and the number of declared junior-senior majors reached nearly 550. This fall the number of students taking our principles of economics course increased nearly twenty percent to 1250 students, all taught in large sections in Carroll Hall. Fortunately, the recent renovation of the Carroll auditorium incorporating state-of-the-art technology has made this teaching environment more effective.

If increased student demand carries forward into our advanced courses it will place considerable stress on class size and make it difficult simply to teach the needed sections. Although the successful recruitment of three new faculty last year has helped alleviate some of our problems of current increased

demand, we hope to be given permission to hire additional new faculty this year to help meet future student demand.

In spite of the growth in numbers of majors, the quality of our students remains high and we continue to have an impressive number who are initiated into Phi Beta Kappa, who complete the Senior Honors program in Economics and who graduate with University academic distinction. This past year we also had a number of our majors initiated into the economics honorary, Omicron Delta Epsilon, which was revitalized in the Department last year with the help of several graduate students and faculty members.

At a more general level, Department members continue to be successful in publishing in high quality journals and obtaining research grants. We also remain committed to high quality undergraduate teaching, to improving the undergraduate curriculum and to focusing the direction and areas of specialization of our graduate program. More immediate objectives for this year include expanding outside funding, hiring several new faculty and celebrating our 100th birthday.

In closing, let me again encourage you to stop by Gardner Hall on Homecoming weekend if you are in Chapel Hill. However, you need not restrict yourself to that weekend. We hope you will stop by and see us anytime you happen to be on campus. Please continue to keep in touch with us regarding any personal news you would like to share with former classmates. Also, please send us any information about internships which might be available to our undergraduates. Your comments, questions and personal items are welcome either by surface mail or by reaching me directly through email at afield@email.unc.edu. For additional information about the Department, the staff, course offerings and activities, check our website at <http://www.unc.edu/depts/econ>. I hope that you have all had an outstanding year and look forward to hearing from you and/or seeing you at our centennial activities.

Al Field

Research at Carolina

Research carried on at Carolina continues to be an integral and critical activity in the Department. As we did in the Newsletter last year, we are going to focus on the research of several professors in three different areas to continue to give you a more in-depth picture of the research work and the policy implications of this on-going activity. In this issue we are highlighting the health-development work on China of John Akin, David Blau's work on child care, and some of the financial-econometric work being pursued by Professors Ron Gallant and Eric Ghysels. The research efforts of faculty, graduate students and undergraduate econ majors benefit greatly from grants and endowments from various prestigious funding sources along side contributions to the Department's Trust Fund through the College of Arts and Sciences. We again express our thanks to all of you whose contributions to the Department Trust Fund have contributed to our research accomplishments at all three levels.

Development of the Health Care System in China

This February John Akin, Professor and Chair of the Department and Fellow of the Carolina Population Center, was awarded a four year grant by the National Institute of Health's Institute of Child Health and Human Development. His collaborating investigator on the project, entitled "Economic Transition: The Effects on Health Care in China," is Will Dow, Assistant Professor in the UNC School of Public Health's Department of Health Policy and Administration, who also is a Fellow of the Carolina Population Center.

The aim of the research is to examine the forces causing the health transition in modern China and, by extension, other contemporary developing societies. Related work will focus on changes in the demand for goods and services that affect people's health. Data for the project are from the China Health and Nutrition Survey (CHNS), an ongoing longitudinal survey of households and surrounding communities in 8 provinces of China. The CHNS sur-



RESEARCH IN WASHINGTON, DC

A Glimpse at a Year in the IMF

During the 2000/2001 academic year I was on University leave working with the International Monetary Fund in Washington, D.C., where I served as a Senior Policy Advisor in the IMF Institute. The Institute runs courses for participants from all member countries, principally the developing and transition economies. I was the Research Advisor for a staff of about 40 economists who teach these courses and do research, much as we have in an academic department. In that capacity I ran a biweekly seminar and read and commented on numerous papers by my colleagues at the Institute. In addition I gave a lecture on Black Market Exchange Rates in two of their courses, and, together with two colleagues, designed and presented a course on Exchange Rate Policy at the Singapore Training Institute. I also, with two colleagues, presented a course at the Joint Vienna Institute on Macroeconomic Issues catering to participants from transition economies.

My own research led to the appearance of an IMF Working Paper on "Obstacles to Faster Growth in Transition Economies: the Mongolian Case" and a forthcoming working paper on "Convertibility Risk: the Precautionary Demand for Foreign Currency in a Crisis," joint with two colleagues at the Fund. The latter paper was also presented at the Bank of Indonesia, the Federal Reserve Board, and the IMF. I also presented the Alex G. McKenna Lecture at Saint Vincent College, Latrobe Pa. "From Wirtschaftswunder to Kaltstart: Germany's Economy and Economics 1950-2000" on Jan. 24, 2001.

Stanley Black

vey itself is a collaborative data gathering effort between the Carolina Population Center and the Chinese Academy of Preventive Medicine. Prof. Akin has been involved with this survey since its inception.

The project focuses on the causes of health improvement in developing nations. There is longstanding controversy with respect to the appropriate policies which should be pursued to improve health in poorer societies. One body of research, based on the experience of Western nations and a few developing countries, has stressed the importance of economic development in improving health (typically measured by mortality). In this work it has been noted that most of the mortality decline in Europe predated the development of modern medical technology.

More recent declines in mortality in developing countries have been widely understood to be a departure from this earlier trend. Many researchers have in recent years decided that the large and rapid declines in mortality rates since WWII cannot have been the result of a slow accumu-

lation of changes related to economic development, but have rather been due to improvements in medical technology and health services. In the late 1970s, however, reductions in mortality began to slacken, and even reverse in some nations, prompting a third line of belief concerning the health transition. These researchers have re-emphasized the ultimate importance of general economic development of the sort that drove health change in the West. A final group has suggested that the two factors, economic development and medical technology, might significantly interact to reduce mortality and improve other, more subtle, dimensions of health. For instance, many of the changes associated with general development may influence health through their impact on people's use of health services. The matter is far from resolved, leaving considerable uncertainty concerning the efficacy of the "health services approach."

Prof. Akin's project addresses these questions. The richness of the CHNS data set will be exploited to implement a full model of all relationships involved in health improvement. This model should allow

isolation of the relative contributions of various causes of health improvement including those associated with specific policy-tractable health inputs, such as outpatient medical care or public health infrastructure, as well as others which are more likely driven by broader social and economic changes associated with development.

The research findings should help guide the construction of policies to promote further health progress in China and elsewhere. China represents an ideal subject for study because it exhibits a wide range of development levels representing nearly every circumstance found in the contemporary developing world. However, China is also somewhat atypical in terms of health, since by many measures the healthiness of her population exceeds that of those in many much wealthier nations. Many have suggested that this is the result of Chinese public policies specifically tailored to achieve high levels of health, even in the face of low income levels. The CHNS is sufficiently rich to examine the impact of some of the interventions believed to have been effective, such as subsidies to improve access to health.

The project involves extensive work to construct variables and organize the data set for use in the statistical analysis. To meet the extraordinary data requirements associated with implementing a full model of health determination, Profs. Akin and Dow have, along with their colleague Dr. Jin Shuigao of the Chinese Academy of Preventive Medicine, initiated a new data collection effort in CHNS communities.

The analysis will initially focus on estimation of less complex models which contain important causal factors but do not try to sort out all the avenues through which the factors affect health. In a departure from the focus on mortality which characterizes the existing literature, the measures of health considered in this project will also include more subtle indicators such as chronic and acute illness, guided by appropriate considerations of factors such as age, gender, etc. The final phase will be estimation and analysis of the full behavioral model of factors leading to health improvement. This will entail joint estimation of health production along with the determinants of health outcomes. A statistical approach will be utilized which will allow the researchers to determine whether unmeasured factors may be simultaneously affecting both health and the many variables that lead to health improvement. For more information about this work, contact John Akin (john_akin@unc.edu).

The Economics of Child-Care



David Blau has been studying the U.S. child care market for many years. He has published papers in economic journals on the impact of child care costs on employment of mothers, the demand for child care, the supply of child care, and the effects of child care on child development. Over the years he found that many non-economists were very receptive to his economic analysis of the child-care market. He decided to take the next logical step and write a book on child care addressed to an audience of non-economists as well as economists. The result, *The Child Care Problem: An Economic Analysis*, is to be published by The Russell Sage Foundation in October 2001. By presenting an economic analysis of child care in a straightforward and non-technical manner, Blau hopes to inform people about the child care problem and present alternative solutions to it.

The child-care “problem” in the United States is the focus of hundreds of newspaper and magazine articles, reports by think-tanks and government agencies, and conferences. Depending on who you ask, the child care problem endangers the well-being of children, causes financial hardship and stress for families, makes it next-to-impossible for low-income families to work their way off welfare, causes substantial productivity losses to employers, and prevents many mothers from maintaining productive careers in the labor force. The book attempts to provide a clear analysis of the nature of the child care problem, why it exists, what is being done to solve the problem, and what more can and should be done about it.

The main thesis of Blau’s book is that the child care market functions much better than is commonly believed. Shortages are uncommon, and when they do exist they are often caused by government policy and are limited to small segments of the market. Blau argues that the main problem in the child care market is low quality. Child care quality is low on average because the market responds to the demands of consumers, and the average consumer is unwilling to pay enough for high-quality care to cover the cost of providing it. Child care workers have low wages because they are willing to work for low wages.

If low-quality child care harms child development, and if the consequences of sub-optimal child development are felt by

society at large and not just by the parents who are unwilling to pay for high quality care, then there is a market failure. Similarly, if parents lack the information needed to recognize high-quality child care when they see it or to understand its benefits, there is a market failure. The failure is caused by an *externality*: market participants, in this case parents, either do not bear all of the costs of their child care decisions; or they make these decisions without understanding their consequences; or both. Blau’s proposal for reform of government child care policy is based on his view that society should care about the quality of child care.

A recurring theme in Blau’s book is the tension between two alternative objectives of child care: facilitating employment of parents and enhancing the development and well-being of children. Child care of mediocre quality may serve the former objective quite well and fail at the latter. The converse is true for child care of high quality. For example, high-quality preschools and Head Start programs often provide only part-day care and require active parental participation. A tradeoff exists because higher-quality child care is more costly, either in monetary terms or in the time required of parents. A given amount of money to be spent on child care will buy more hours of care if the care is of low quality than if the care is of high quality, resulting in a quality-quantity tradeoff. This tension between employment and child development also appears in U.S. child care policy, in a particularly stark form, in the case of child care subsidies targeted to low-income families. The central goal of the major welfare reform of 1996 is moving low-income families off cash assistance welfare programs and into the work force. This obviously requires child care, and welfare reform revamped child care subsidy programs for the poor while increasing funding for them. It is notable that the reformed child care subsidy program, the Child Care and Development Fund, is almost exclusively employment-related, in line with the major goal of welfare reform. There are few restrictions on the quality of child care that can be purchased with these subsidies, and there is no emphasis on improving the development of low-income children. Other government programs that provide child care for low-income children, such as Head Start, are explicitly development-oriented. There is a very real sense in which every dollar devoted to an employment-related child care subsidy program is a dollar that is not available for a development-related child care subsidy. Thus, Blau argues that employ-

ment-related child care subsidies are a misguided approach to child care policy. The remedy for sub-optimal quality in the child care market is a policy that deals directly with this problem. Since the problem is not employment, the solution is not an employment-related policy.

Blau continues to study child care issues in the United States, including the impact of child care regulations and subsidies on the child care market, and the responsiveness of day care centers to incentives to raise quality. For more information about this work, check with the Russell Sage Foundation, (www.rsage.org), or contact Blau at david_blau@unc.edu.

Financial Econometrics: The Department's Newest Specialty

The explosion of information technology over the past two decades has profoundly changed modern finance. Wall Street and other financial markets today are faced with a massive information overload, new asset securities the pricing of which is not obvious, and a global communications network that allows virtually instantaneous acquisition and dissemination of information. Enter a new specialization in UNC's graduate program: financial econometrics.

Under the direction of A. Ronald Gallant, Latané Distinguished Professor of Economics and Eric Ghysels, Bernstein Distinguished Professor of Economics, UNC now offers its Ph.D. students the opportunity to concentrate in an emerging discipline that requires wide-ranging interests and the ability to synthesize knowledge from a variety of fields. Financial econometricians need a strong background in probability and statistical theory -- particularly in the area of time series analysis--, mathematics through partial differential equations, knowledge of asset pricing theory, as well as an understanding of the financial institutions that determine how information is acquired and incorporated into financial markets. Ghysels points out that, for example, stock prices incorporate information from a variety of sources -- news about possible mergers, predictions about quarterly earnings, etc. -- and that information affects trades that take place in a variety of settings -- floor trading, screen trading, and so on. It is important to understand how information affects, or does not affect, prices in those various settings.

Graduate students might acquire their basic statistical, econometric and economic

theory in the Economics Department, while heading to the Statistics Department for courses in measure theory and to the Kenan-Flagler Business School for courses in asset pricing. Newly minted Ph.D.s in financial econometrics find their way into university research positions or into the financial sector where they inhabit the research departments of securities firms.

Given the mathematical and statistical background required, one does not find economics undergraduates coming out of college with skills in financial econometrics; however, many UNC economics majors do find themselves on Wall Street or in the financial sector, and some might want to come back to graduate school to become financial econometricians. Gallant recommends two background books by Chung as being well suited for self-study prior to graduate school: Kai Lai Chung, *A Course in Probability Theory*, 3rd ed. San Diego: Academic Press, 2001 and Kai Lai Chung,

Lectures from Markov Processes to Brownian Motion. New York : Springer-Verlag, c1982.

Other suggested references give the prospective student an idea of what typical first year material looks like. These books are not really suitable for self-study, so browse them for the flavor of subject matter and style of treatment: John H. Cochrane, *Asset Pricing*. Princeton: Princeton Univ. Press 200; Darrell Duffie, *Dynamic Asset Pricing Theory, 3rd edition* Princeton: Princeton Univ. Pr. (November 1, 2001) [The first five chapters give a good review using discrete time series.] and John Y. Campbell, Andrew W. Lo, Archie Craig MacKinlay, *The Econometrics of Financial Markets*, Princeton: Princeton Univ. Pr., 1996.

For further information access the program's web site at <http://www.unc.edu/depts/econ/finecon.html>.

Senior Honors Theses of the Class of 2001

During the 2000/2001 academic year, a number of our most outstanding undergraduate majors participated in the Senior Honors Program in Economics which involved participating in the two honors seminar courses and writing an undergraduate honors thesis. Nine (9) students completed the year-long program with four (4) participants receiving their BA degree in economics with Highest Honors" and five (5) received their economics degree with "Honors." Rajeev Soni received the Economics Department's Best Honors Thesis Award this year. The names of the successful participants, along with the title of their honors thesis, are presented below.

DANIEL CONRAD (Highest Honors), "Trade and Democracy: An Empirical Study"

W. TATE HELMS (Highest Honors), "The Determinants of Economic Growth: An Empirical Investigation of North Carolina's Counties"

TODD PUGATCH (Highest Honors), "The Impact of the Living Wage on the Apparel Industry of El Salvador"

RAJEEV SONI (Highest Honors), "Why Do People Share on Napster?"

MICHAEL BUCY (Honors), "A Cost-Benefit Analysis of the Extension of Broadband in County Monaghan, Ireland"

FORAY KALLON (Honors), "The Effect of Managed Care on Hospital Length of Stay: The Case of Medicare Patients"

ROBERT NOELL (Honors), "An Economic Analysis of Marital Dissolution"

DAIRUI SONG (Honors), "Asymmetric Behavior of S&P 500 and NASDAQ"

BRET SOUTHWORTH (Honors), "An Empirical Analysis of Official Development Assistance Given to the Central American Common Market from 1970 to 1988"

Undergraduates Receive Research Awards

During the past year, two of our senior majors received University support for their research projects. Brett Hanlon received an Honors Undergraduate Research Award from the Johnston Center. In addition, both he and Tate Helms received undergraduate research awards from Herbert Brown Mayo's endowed fund in the Economics Department for undergraduate research in Financial Economics/Financial

Markets. These are excellent examples of how outside funding contributes to Department teaching, learning and research objectives. Both the recipients and the Department express our appreciation to the Johnston Center and to Dr. Mayo for his generosity.

If you are interested in supporting the Department, please contact the Arts and Sciences Foundation, (919-962-0108), or contact John Akin, Economics Chair, at 919-966-2385 or john_akin@unc.edu.

Faculty and Staff Notes

Recent Department Personnel Activity

Thomas Geraghty joined the Department on July 1, 2001, as an Assistant Professor. He did his undergraduate work at the Univ. of Pennsylvania, where he also completed a Master's Degree. He did his Ph.D. work at Northwestern University. His area of expertise is Economic History.

Sergio Parreiras, a micro-theorist, joined the Department on July 1, 2001. He did his undergraduate work at The Federal University at Rio de Janeiro, Brazil, and completed a Master's Degree in from the Institute of Pure and Applied Math in Brazil. He is currently completing his Ph.D. dissertation at the Univ. of Pennsylvania.

Chao Wei joined the Department on July 1, 2001 as an Assistant Professor. She did her undergraduate work at Fudan University, PRC, and completed a Master's Degree at Columbia University. She received her Ph.D. degree from Stanford University. Her field is macro-theory.

Professor **James Friedman** retired, effective June 30, 2001. He plans to continue working on his research and spending time with his colleagues in the Department.

Professor **Donna Gilleskie** was promoted to Associate Professor, effective July 1, 2001.

Professor **Koleman Strumpf** was promoted to Associate Professor, effective July 1, 2001. He also was appointed as a John M. Olin Visiting Associate Professor at the George J. Stigler Center for the Study of the Economy and the State at the Univ. of Chicago for the 2001/2002 academic year.

Dr. **Ralph Byrnes** has an appointment this year as a Visiting Professor. He is well known because of his successful principles of economics text and is teaching financial markets (Econ 185), Principles of Economics and a new first-year seminar course for the Department.

Dr. **Brad Schwartz** is a lecturer in the Department this year. Brad received his Ph.D. from the Department and is a private consultant in the health and development area who resides in Chapel Hill. He is teaching intermediate micro, public finance and principles of economics.

Professor **Gary Biglaiser** received a University W. N. Reynolds Research Leave for Spring 2002.

Professor **William (Sandy) Darity, Jr.** was awarded a three-year grant from the Spencer Foundation for support of a study entitled "Effective Schools and Effective Students." He also has been appointed Director of the UNC Institute of African American Research, effective July 1, 2001.

Professor Eric Ghysels was named a Fellow of the American Statistical Association.

Professor **Michael Salemi** was selected by the National Association of Economic Educators, in association with the National Council on Economic Education, to receive the 2001 Henry H. Villard Research Award. The award will be presented at the Annual conference of the Council and Association Awards Dinner on October 12, 2001.

Faculty receiving Department Research Leaves include Professors **Ron Gallant, David Guilkey, Eric Ghysels,** and **Xiaodong Wu.**

Awesome Instruction

A number of our faculty and students were again honored with teaching awards this past year.

Professor Patrick Conway received the 2001 William C. Friday/Class of 1986 Award for excellence in Teaching.

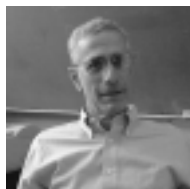
Professor **Boone Turchi** won the Department of Economics Excellence in Undergraduate Teaching Award.

Professor **Claudio Mezzetti** won the Department of Economics Excellence in Graduate Teaching Award.

Among the graduate students, **Bill Grant** won the Department Best Teaching Assistant Award, and **Monifa Green** won the Vijay Bhagavan Award for Best Econ 10 Teaching Assistant.

Finally, **Travis Raines** received a University 2001 Tanner Teaching Assistant Award for Excellence in Undergraduate Teaching.

Life After Retirement



When Jim Friedman announced his retirement, the Department lost a prestigious chaired professor and scholar in microeconomic theory. Jim received his Ph.D. from Yale University in 1963. His first appointment was at Yale University in the Cowles Foundation – at the time one of the leading economic-research centers in the world. From there, he went to the University of Rochester where for 15 years he helped make Rochester a top research department. Jim then spent a couple of years at Virginia Tech before joining the UNC faculty as a Kenan Professor in Economics in 1985, where he remained until July of this year. During his career he also served as a visiting professor in numerous universities throughout the world and as a member of various editorial boards. In 1977, he was named a fellow of the Econometric Society, the most prestigious society in economics.

Jim made fundamental contributions in many areas in economic theory. His thesis was one of the first experimental studies in economics. His most celebrated paper, published in 1971, is about how to sustain cooperation in repeated (non-cooperative) games - the so-called Folk Theorem. This study is cited as one of the main contributions in game theory - the study of strategic interaction among economic agents. Jim's books on Oligopoly theory in the 1970s have been instrumental in applying game theory to Industrial Organization and led to a revolution in how economists study markets and firms. Jim has also made important contributions on bounded rationality and intermediation.

Besides his own research, Jim has taught and advised many students and has been a tremendous mentor to many young scholars in the profession. Even though Jim is now retired, all expect him to continue to do important research in economics along with enjoying spending time with his wife Marcia and their four grandchildren.

Gary Biglaiser

100 Years of Econo

Looking back on 100 years of economics at UNC, the Department can reflect on many vicissitudes and accomplishments. We can salute the wisdom and foresight of President Venable's decision to appoint Charles Lee Raper in 1901, at a time when the University had only 64 faculty members and 575 students, to provide for the teaching of a discipline intimately linked to the growing industrialization of the state of North Carolina. We can applaud the performance of Professor Raper in making the new field a vital part of the University, his deanship of the Graduate School, and the awarding of 30 masters' degrees in economics under his tutelage.

Certainly the expansion and strengthening of the economics faculty under the deanship of Dudley Dewitt Carroll from 1920-50 was critical to eventually establishing a strong economics department. Indeed, the *Credo* of the School of Commerce bears repeating: "...eliminating waste, releasing new energies, and organizing more effectively in our economic life, will reduce the burden of humanity, raise the standards of well-being, lay the basis for finer and more abounding cultural agencies, and bring the race within reach of enlarged and enriched opportunity." The important role of the department within the school is reflected in Carroll's words, again worth repeating, "a well-manned department of economics is an absolute *sine qua non* for a school of, commerce." During the next twenty years, Carroll was as good as his word in his building of the Department. The names of Woosley, Murchison, Spruill, Heath, Heer, Wolf, Cowden, Zimmermann, Schwenning, and Bernstein liberally sprinkle the pages of this history with their accomplishments, including among their number world-renowned experts on natural resources, taxation, monetary economics, and arbitration, as well as dean of the General College and dean

of the faculty, two presidents of the Southern Economics Association, and the twenty-seven year editor of the *Southern Economic Journal*. Four were named to prestigious Kenan professorships: Zimmermann (1934), Woosley (1941), Heer (1945), and Dean Carroll (1955). In 1961, Corydon Spruill was named alumni distinguished professor in recognition of his contributions to the University. In the sixteen years between 1927 and the serious onset of World War II in 1942, twenty-seven Ph.D. degrees in economics were awarded. Undergraduate enrollments climbed as well. When 15 of the 28 faculty went into government or military service during the war, heavy burdens remained with those who stayed in Chapel Hill.

After the war, growth resumed under the leadership of John Woosley as chairman, from 1946 to 1950. The Department and the renamed School of Business moved into the new Carroll-Hanes-Gardner quadrangle in 1953. Following the retirement in 1950 of Dudley Carroll as dean, Thomas H. Carroll was appointed dean of the School. As this history makes clear, this was a time of testing for the Department. Dean Carroll introduced the M.B.A. degree and sought a four-year undergraduate business degree, bypassing the General College. He also began to exercise strong control over budgetary and personnel decisions in the Department. These moves were successfully resisted by the Department and the College of Arts and Sciences under the leadership of Corydon Spruill, dean of the General College and later dean of the faculty. During this period the number of majors fell from 175 in 1947 to 38 in 1953.

Following the departure of Dean Thomas Carroll, economist Maurice Lee became the Dean of the School of Business Administration in 1956. The postwar generation of faculty now had the opportunity to build up the depart-

ment. Among this group were Paul Guthrie, Ralph Pfouts, James Ingram, Clarence Philbrook, Olin Mouzon, J.C.D. Blaine, Rashi Fein, William Parker, James Blackman, and David Lapkin. New faculty recruited during the 1960s included Arthur Benavie, Robert Gallman, Henry Latané, David McFarland, James Murphy, Vincent Tarascio, Roger Waud, Dennis Appleyard, Alfred Field, Thomas Orsagh and James Wilde. One outstanding economist who had a strong association with the Department even though his appointment was elsewhere, was Kenan Professor Harold Hotelling, named the first distinguished fellow of the American Economic Association in 1965. Prof. Hotelling was a faculty member of the Dept. of Statistics from 1946 until his retirement in 1965.

This generation soon made its mark, both within the University and in the profession. Among them are included four presidents of the Southern Economic Association (Pfouts, Ingram, Blackman, and Gallman), a dean of the Graduate School (Ingram), and numerous distinguished scholars. Clifford Kreps was named as Wachovia Professor of Banking in 1955, Latané as Meade Willis Professor in 1969, Dean Lee as Cary Boshamer Professor in 1976, and Robert Gallman as Kenan Professor in 1980. After a drought of only seven Ph.D. recipients produced from 1943 to 1950, came a flood of 31 from 1951-60 and 58 from 1961-70. Undergraduate majors also increased from 65 in 1960 to 111 in 1972.

The 1970s brought new growth and new faculty as the University expanded from 8,000 to 22,000 students, and it also brought controversy to the Department. There were deep divisions over the Chancellor's decision to remove the Department from the School of Business, of which it had been the core founding component. Nevertheless, the move was made in 1974. The gain in budgetary indepen-

omics at Carolina*

dence came at the expense of the loss of financial support from the Business Foundation, worth \$11 million in 1990, and the loss of vital contact with the business community of North Carolina through the School. As chairman from 1968 to 1975, David McFarland led the Department through this valley of difficulties. Current faculty joining the Department during this time included John Akin, Richard Froyen, Steven Rosefielde and Boone Turchi.

In a new location in Gardner Hall, under a new chairman, James Murphy, the Department embarked upon its new relationship with the College of Arts and Sciences in 1975. During 1975-85 the number of majors rose from 130 to 436. Faculty added during this period included John Stewart, Michael Salemi, David Guilkey, Helen Tauchen, Rachel Willis, Patrick Conway, David Blau, William Darity, Jr., Stanley Black as Georges Lurcy Professor, and James Friedman as Kenan Professor. From 1971 to 1980, the number of Ph.D. degrees granted rose to 104.

During 1985-90, the Department continued to grow under the chairmanship of Stanley Black as the number of undergraduate majors grew to over 600, the number of graduate students in residence to over 90 and the number of faculty reached 35. New hires who are currently on the faculty include Gary Biglaiser, Thomas Mroz, William Parke and Paul Rhode. Michael Salemi was named Bowman and Gordon Gray Professor for 1987-90. In addition, a series of Public Policy Conferences was established in 1988, a rotating series of Southeast Economic Theory and International Economics Conferences began in 1989 and numerous other conferences were held on campus. Eighty-seven Ph.D. degrees were granted from 1981-1990.

Professor Robert Gallman took on the Chairmanship of the Department in 1990. An endowed chair in the name of Henry Latané was filled by Ronald A.

Gallant, a distinguished econometrician, and William A. Darity was awarded a Cary Boshamer endowed chair. New hires who are currently on the faculty include Claudio Mezzetti, Donna Gilleskie and Koleman Strumpf. Prof. James Murphy continued in University administration and became Dean of the Summer School, a role in which he continues. During this period a new Department computer network was installed in Gardner Hall and linked to the University system.

David Guilkey succeeded Gallman as Department Chair in July 1995, serving for the final five year period of this century. During that time a number of faculty offices and all Gardner Hall classrooms were renovated. The classrooms were modernized through incorporation of audio, visual and computer-enhanced technology, lighting and wiring, making them some of the most advanced on campus. New assistant professors hired during this period included Alexander Kovalenkov, Evan Anderson and Xiaodong Wu. Also joining the Department were H. Wilbert Van der Klaauw as an Associate Professor, and Eric Ghysels as the Bernstein Distinguished Chair in Economics. Rebounding from a decline in the early 1990s, the number of undergraduate economics majors steadily increased during this time. Ninety-seven Ph.D. degrees were granted during the 1990-2000 period and, in addition, faculty research grants reached an all-time high.

At the threshold of the twenty-first century the Department of Economics is an active, vital, thriving Department in the College of Arts and Sciences. Its undergraduate major enrollment, currently over 600, ranks among the largest in the college, as does its graduate enrollment. The faculty participates actively in campus and professional life, publishing some 70 or more scholarly pieces per year, participating in numerous academic conferences

around the globe, and regularly winning teaching prizes on campus. Last year faculty members served as principal investigators on multi-year research grants which were awarded well over fifty million dollars. It must be noted that the work of the Department has been enhanced in recent years by the generosity of our alumni and friends. Major endowment funds provided by the Corydon Spruill Estate, Herbert Mayo, the family of Henry Latané, Ralph C. Hahn, Alan T. Dickson, John and Elizabeth Ryan, the Elizabeth and Harry Brainard Estate, Joseph Crews, The Georges Lurcy Foundation and the Edward M. Bernstein Family, and the generous annual contributions of many of our alumni have been of great importance to the Department. These monies not only support important endowed professorships, but also supplement our University budget and enable the Department to acquire new technological tools for both teaching and research, carry out more effective faculty recruiting, support faculty attendance at professional meetings, support undergraduate research and provide the flexibility to provide an outstanding learning environment for both our undergraduate majors and graduate students.

As John Akin begins the second year of his chairmanship and we move forward into our second 100 years, the Department of Economics is well grounded to expand upon our past accomplishments and our service to the University and the State. It will meet the many new challenges of this century from a position of confidence and academic strength, supported by its faculty, students, alumni, and the people of North Carolina.

*This history is largely based on Chapter 5, "Retrospect and Prospect," *History of the Department of Economics, University of North Carolina at Chapel Hill, 1901-1990*, Carolina Academic Press, Durham, N.C., 1991.

Learning at Carolina

Economics in Action: UNC and the Issue of the Living Wage



You're no doubt aware of Carolina's prowess in intercollegiate sports. Did you know that merchandise bearing the Carolina logo was the top-seller among colleges throughout the country? This is quite a feat, and the royalties from this contribute to scholarships for students. However, it also makes Carolina the university with the largest contracts for apparel production in developing countries.

Carolina does not enter contracts directly with the manufacturer. We contract with apparel firms (such as Nike) to supply the apparel, and Nike turns to its list of subcontractors to find a manufacturer to supply the goods. Many of these subcontractors are based in developing countries. This has been a source of great contention on the UNC campus in recent years. A student-led organization called United Students Against Sweatshops (USAS) has protested the working conditions in the manufacturing plants of these subcontractors, and has called upon the university to create a code of conduct to be followed by those firms manufacturing Carolina apparel. One of the most controversial clauses proposed for that code of conduct was that the workers in these plants should receive a living wage.

Representatives from Carolina have been among national leaders in investigating these complaints and addressing concerns of worker exploitation. Our university is a member of the Fair Trade Association and the Workers' Rights Consortium, two organizations with goals of improving working conditions in these plants. However, it became clear during the debate over the role of these manufacturing plants in developing countries that we as a university had too little fundamental information about the status of workers at these plants and the economic impact of imposing a living wage. For the past two academic years, Professor Patrick Conway of the Economics Department has chaired a joint faculty-

student study group on the implications of living-wage initiatives for workers in developing countries. The group has included faculty and staff from the spectrum of the university community, including members from the Medical School, the School of Public Health, and social science departments within the School of Arts and Sciences.

The debates within the group were quite enlightening. "There was no disagreement among our participants that we'd like to see developing-country workers made better off", said Conway. "The real concern of those opposed to the living-wage initiatives was that these would have unintended consequences in forcing plant closures, layoffs and work stoppages due to the higher costs of plant operation." The study of the research group continues, and continues to benefit the university. Last year, an undergraduate Economics major wrote an honors thesis on the proposal for a living wage in apparel manufacturing plants in Honduras. Conway has collaborated with faculty in Sociology, Anthropology and Public Health to send a funding proposal to the MacArthur and Ford Foundations, asking for support in further living-wage research. Each year, the group meets with the University Licensing Committee (charged with supervising those firms using the Carolina logo) to discuss possible options for implementing and improving the University's code of conduct.

"This has been an excellent learning opportunity", said Conway. "We have many students who are quite passionate about sweatshop issues, and they find that approaching the question from an economic perspective leads to much greater clarity. As an instructor in international economics, I couldn't ask for a better example of the arguments for and against free trade."

Grade Inflation: A Market Failure



Economists like to think that economic theory has the potential for wide application, even in areas not normally connected with it. A case in point is the recent University-wide dis-

cussion of "grade inflation," the general and persistent rise in undergraduate grades at UNC-CH over the past three decades. The University's Faculty Council recently approved a series of resolutions designed to monitor grading practices and to keep the issue before the faculty. The resolutions were sparked by a report delivered to the Faculty Council in February, 2000 by the faculty's Educational Policy Committee, then chaired by Professor Boone Turchi.

That report documented the rise in average grades that began in the late 1960s and continues today. These were two periods of rapid inflation: 1967-76 and 1987-99. The first inflationary period coincided with the war in Vietnam, while the second inflationary period began (coincidentally?) just as the University mandated student evaluations of all faculty.

The report emphasizes that, while the rise in average grades was a concern, the change in grade distributions was even more troubling. Between 1987 and 1999 the proportion of As and Bs rose from 66.4 percent to 77.2 percent of all permanent grades. Even more striking is the variation in grading between the highest and lowest grading departments. In 1999 the top quartile of departments (44 departments) awarded As or Bs 91 percent of the time. By contrast, the lowest grading departments (bottom quartile) awarded As and Bs 61 percent of the time. (Departmental alumni may be pleased to learn that the Economics Department GPA changed hardly at all between 1987 and 1999. Current majors may not be so pleased.)

The Educational Policy Committee went on to suggest that the rise in average grades and the compression of the grading scale posed a serious threat to the use of grades as a measure of the quality of student performance. Just as a debased currency ceases to have value in exchange, a debased grading system ceases to convey information that others find useful.

So, why the rise in grades? The report cites numerous suggested causes such as a higher quality student body or students working harder; however, these sorts of reasons beg the question. Faculty grading standards should change to meet the rising quality of students; if the students really are getting better, then they should be

challenged more so that outstanding achievement can be distinguished from the merely adequate. More likely is the possibility that the University is experiencing a particular form of market failure. Market failures occur when the costs and benefits accruing to actors in a market do not correspond to the costs and benefits accruing to the market as a whole. The University requires a grading system that accurately reflects differences in mastery; however, individual instructors may use the grading system for different purposes. For example, the Educational Policy Committee determined that student approval of faculty performance was directly related to how easily they graded. Instructors whose grades average about 2.7 suffer an approval rating about 32 percentile points below those instructors whose grades average 3.6. Since the University now uses student evaluation scores as part of the promotion, tenure and pay decisions, instructors have every incentive to grade generously. Moreover, high grades can substitute for teaching rigor; an instructor who would rather

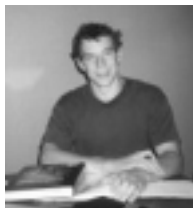
not put in the effort to challenge students can, effectively, buy them off by awarding high grades. Instructors who award high grades never have to justify them to students, while those who grade rigorously must be ready to defend their grading distinctions. To do that, they must challenge the students sufficiently to justify the grades that they award. That's hard work, something that can be avoided by awarding lots of As and Bs.

Correction of market failure involves forcing the actors in a market to bear the social cost of their actions. The Educational Policy Committee report makes a number of suggestions as to how that might be done, ranging from widespread publication of grade distributions, purging teaching evaluations of bias stemming from high grades, to financial penalties for departments that persist in misusing the grading system.

If you are interested in reading the entire report look for the link on the Department's home page: <http://www.unc.edu/depts/econ/>

Economist in Training: Interning at a U.S. Embassy

Brett Southworth



There is one billion dollars worth of trade between Canada and the United States every day, a quantity that dwarfs all other U.S. trade partners. Canada is also a close political ally of the United States. Ensuring the continuance and betterment of this relationship is the responsibility of the U.S. Embassy to Canada. Working as an intern in the Economic Section of the American Embassy I was able to see first-hand diplomacy in action. Work included meeting with top-level officials of the Canadian government to solicit their position on issues, later conveying the message to Washington; convincing Canadian officials both elected and non-elected to support U.S. initiatives; reporting on economic and political developments that could or do effect the United State; briefing the ambassador and helping rite speeches; and, in general, promoting U.S. interests abroad.

During my eight-week tenure in Canada, I wrote cables about everything from increasing foreign assistance to trade in uranium. Research for these reports was perhaps the most interesting part of the summer – it allowed me to interview officials and visit sites. For example, a small group from the embassy was taken on a tour of a nuclear power research facility (originally created for research for the first atomic bombs) where we stood on top of an active nuclear reactor and drove scanning electron microscopes. During lunch we discussed the future of nuclear power an its importance to Canada and the United States – Canada is the largest producer of uranium and the United States looks to extend operating licenses on nuclear power plants.

Working with diplomats whose careers had taken them all over the word and required them to be versed on all issues international, was in itself rewarding. Numerous mentors were eager to talk about issues and careers. They also helped hone writing skills thoughtful analysis of issues.

After spending eight weeks in Canada, I came away with an introductory understanding of both diplomacy and policy making, especially as it pertains to economics. I would highly recommend the internship to other UNC students, graduates and undergraduates alike. Information about the internship program can be found online at www.state.gov. The deadline for applications to the internship program is November 1, 2001.

Undergraduate Academic Awards

This past academic year 180 students received an undergraduate degree from Carolina with a first or second degree in economics. We now have over 550 juniors and seniors declaring economics as a first or second major, exceeding that of recent years. Not surprisingly, the quality of our majors remains strong and 20 were initiated into Phi Beta Kappa last year. The new members include:

Valerie E. Alter
 Michael R. Bucy
 Alison M Carollo
 Elton Click
 Emily J. Cunningham
 Nicholas Detmer
 Maria L. Elliot
 Priya Gupta
 Bret Hanlon
 William Helms
 Kristen E. Johnson
 Elisabeth E. League
 Robert D. Noell
 Melodie Potts
 Amanda N. Price
 Matthew P. Ritchie
 Kristina Simonetti
 Jennifer I. Stark
 Rajeev Soni
 William R. Tadors
 Winifred P. Wu

In addition, majors who received Department recognition this past year included :

Bret Hanlon
 2000/2001 Undergraduate
 Prize in Economics

Rajeev Soni
 2000/2001 Undergraduate
 Honors Prize in Economics

Omicron Delta Epsilon at UNC

This year saw the resurgence of the Delta Chapter of the economics honor society, Omicron Delta Epsilon, at UNC. Delta Chapter was established in 1969 but has not been active in recent years. ODE was founded in 1915 and is one of the oldest and most prestigious honor societies currently having over 560 chapters at selected universities in North America, Europe, Australia, and Asia. Omicron Delta Epsilon sponsors paper competitions, seminars and publishes *The American Economist*, a professional economic journal.

On May 1st, the economics honor society held an induction ceremony at the Carolina Inn. The ceremony was presided over by the president of Delta Chapter, Michael Quinn. Attending the ceremony were Tom Mroz, who serves as faculty advisor to ODE, and John Akin, Department Chair. The ceremony would not have been possible without the support of the Department and the hard work of the Department's secretary Sandra Thomas. The society inducted fifty-five undergraduates from among the Department's 550 economics majors, seven graduate students and one faculty member. Dr. Alfred Field, Jr. was honored with a membership to Omicron Delta Epsilon for his many years of hard work on behalf of the department and undergraduate economics majors.

The seven graduate students inducted into Omicron Delta Epsilon were John Csellak, Kenneth Hightower, Peter Lance, Jae-Young Lim, Chung Ping Loh, C. Dylan McGee and Hisashi Sawaki. The undergraduate inductees included Valerie E. Alter, Robin J. Anderson, Samuel L. Boyd, Alison M. Carollo, Michael T. Carson, Daniel H. Conrad, Emily Cunningham, Nicholas O. Detmer, Maria L. Elliot, Anne G. Forsyth, Richard A. Goldman II, Priya Gupta, W. Tate Helms, Alexander Holderness, W. Michael Hyatt, Eric J. Hyman, R. Andrew Ierardi, Andrea Jarosch, Joshua W. Kucera, William G. Laxton Jr, Elisabeth E. League, Emily H. Margolis, David E. Miller III, Melodie J. Potts, Amanda Price, Todd M. Pugatch, Emma Zoe L. Richardson, Holly E. Rosa, Lindsey A. Schaeffer, David J. Sette, Alicia D. Shade, Yao Song, Rajeev K. Soni, Laura R. Stone, Ennicia D. Sykes, William R. Tadros, Alexis V. Tessier, Kristin E. Wilson, Winfred P. Wu and Thomas C. Younger.

Mike Quinn

Socks! Still made in the United States



In recent issues of the Newsletter we noted the research being done on the hosiery industry by Prof. Rachel Willis, funded by the Upjohn Institute for Employment Research and the Russell Sage and Rockefeller Foundations. A number of Carolina students have worked on summer internships with her on this project. The study has provided an interesting insight into this industry. Some of the work by Prof. Willis was the focus of a front page article in the May 3, 2001, *Wall*

Street Journal entitled, "Socks Are Odd: Made in America." In an increasingly global economy where the United States imports much of its electronics, two-thirds of its apparel, and nearly 25% of its automobiles, it is interesting to note that approximately 90% of its socks are still manufactured in the U.S. In many ways, the industry appears to be becoming more competitive, providing an interesting case study on adapting to technological change in an increasingly global business environment. The results of Willis' research on the industry and why it has remained competitive is the focus of a book she is currently completing tentatively titled, *Knitting the Social Fabric*. For more information on her research, visit her website at www.sockhelp.org.



The Robert E. Gallman Fund

As you already know the Department has established a Robert E. Gallman Fund to honor the memory of a man who devoted his life to his discipline as teacher, mentor and researcher. The purpose of this fund is to support a graduate fellowship. Once this fund is fully endowed, it will become part of the Royster Society of Fellows, a program modeled on the Morehead Scholars program for undergraduates.



Many have continued to contribute to this important endeavor this past year, and we thank you. However, the funding goal has not yet been reached and we encourage you to think about contributing to this fund if you are considering a gift to the University of North Carolina. To attract the best graduate students in the nation, we must be able to offer competitive awards. The Robert E. Gallman Graduate Student Fellowship would help the Department to do just that.

Terrorist Attacks: Some Economic Implications

In the aftermath of the September 11th terrorist attacks on the World Trade Center and the Pentagon, we asked some faculty members to speculate on the potential consequences. Professor Pat Conway (International Economics and Development) suggests:

“While the losses of life in the attacks on the World Trade Center and the Pentagon have been horrible, I anticipate that the direct economic aftereffects of the attacks will be slight. The buildings in New York and Virginia must be rebuilt, and the infrastructure of downtown Manhattan reconstituted, but these dislocations are minor relative to the size of the US economy. The attacks may have long-term direct effects in one specific area -- air travel. The airlines will undoubtedly suffer through an extended period in which travelers at the margin choose other modes of transportation, and this will lead to business failures as we observed in the Midway Airlines case.

“The long-term effects that I believe will be most important will be those triggered by the government’s response to the attacks. Most obviously, deficit spending by the Federal government on military operations and security investments will be a positive stimulus to an economy teetering on the brink of recession. However, decisions to use economic sanctions and to restrict immigration would have large negative effects as well. Decisions to create economic blockades of terrorist countries will hurt those countries, but will do so by hurting US consumers as well. Decisions to tighten restrictions on foreign visitors to the US will have negative effects on those businesses (like agricultural operations in North Carolina) that rely upon migrant labor to remain profitable. It seems reasonable in this time of uncertainty to pull our borders a bit farther closed, but in fact this can have large economic costs.”

Professor Stanley Black (International Economics) writes:

“The terrorist strikes on New York and Washington on September 11 have done more than destroy or damage prominent symbols of American economic and military might. By exposing the weakness of

our air safety precautions, they have frightened many Americans out of their customary nonchalance about the dangers of living in a complex and hazardous world. As a result our economy appears headed for a serious slowdown that shows every sign of snowballing into a global recession. Consumer confidence was already headed down prior to the attack. Corporate profits and business investment have been falling for the last year. With the negative shock to the travel industry costing tens of billions in lost sales and thousands of lost jobs, the economy is almost certainly headed into recession.

“The Japanese and European economies were already trending downward. The spillover from the US recession is likely to push them further downward. Oil prices are falling because of the recessionary outlook. Developing countries whose prospects depend on sales to industrial country markets are facing a bleaker future. Our sales to them will surely fall.

“War fever in the United States is only likely to worsen these trends, as consumers will further rein in personal spending, especially for travel, in a time of national distress. It is doubtful that either monetary or fiscal policy will be able to do much to offset these trends. The best approach in my view would be to stop beating the war drums, beef up airport security, and use whatever means are necessary to apprehend and bring to trial the perpetrators of these heinous acts. The media should reduce their nonstop coverage, which plays an enabling role in the process of scaring Americans out of their normal behavior.”

In a conversation Professor Wilbert van der Klaauw (Labor) also noted some potential macroeconomic and microeconomic effects: A drop in consumer confidence could lead to a decline in consumption spending and a general decline in aggregate demand. As we are currently seeing in the airline industry, the fall in demand could lead to more layoffs and a rise in the general unemployment rate, which is already higher than it has been in the last few years. At the same time upward pressure on prices might develop as transportation costs rise (more expensive security, airlines

reducing capacity), as insurance premiums are raised to help recover from the post-attack flood of claims, and -- if a general war in the Middle East breaks out -- as petroleum prices rise.

The labor force might also be affected as stricter immigration laws reduce the inflow of foreign labor while some immigrant workers (e.g., from India and Pakistan) return home in response to a rise in anti-foreigner sentiment. “As the U.S. economy generally benefits from immigration, this could have a long-term negative impact.” Van der Klaauw also does not believe that the multiplier effect from increased military spending will necessarily be very large, except, perhaps insofar as increased military spending might serve to increase exports of defense goods. In terms of long term economic growth, van der Klaauw does not see military spending as being very productive, especially when compared to public investments in education, which are likely to be reduced if the government turns to a war economy.

Boone A. Turchi

In Remembrance

The Department was saddened to hear that one of our former majors, **Karleton Fyfe** (1992) of Boston, MA, was a passenger on American Airlines Flight 11 on September 11, 2001. The Department expresses its deepest sympathy to his wife Haven Conley Fyfe (1994) and family. It is always difficult to lose a member of the Carolina family, but losses of the kind experienced in our country on September 11 are especially hard to bear.

News for Current Undergraduate Majors

Preparing for Spring 2002

Seniors graduating in Spring 2002 should take the time to check with the College of Arts and Sciences advisors in Steel to make certain that you will have met all the College requirements by the end of Spring semester. They can also fill you in on the proper times to apply for graduation, etc. You can, of course, make a first pass at this by going to "Degree Audit" at Student Central on the World Wide Web. I strongly suggest, however, that you take the time to verify your situation with an Arts and Sciences advisor at Steel. I again remind you that your PIN number is sent to you in the mail and is no longer available in the Department. You also can find your PIN at Student Central. The list of "advanced

courses" being offered in Economics this spring includes Econ 142, Econ 162, Econ 170 and Econ 185. Finally, the Carolina Economics Club is in the process of planning a number of interesting activities for the year. Take time to check it out. It can be a interesting and fun way to learn more about both the economics profession and fellow econ majors.

Undergraduate Research Funds

As was mentioned earlier, an endowment fund has been set up through the UNC-Chapel Hill Arts and Sciences Foundation by Herbert B. Mayo. These funds

are used to support undergraduate research activity to help defer costs such as data acquisition, critical travel related to undergraduate research, etc. Funds were awarded to two of our honors students last year to facilitate research on their honors thesis. Students currently in need of financial assistance to carry out economics research projects are encouraged to apply for Mayo funds. These applications should be turned into the Department Chair, John Akin.

In addition to support of undergraduate research projects, there are also funds available to provide support for two undergraduate research internships working with Department faculty. One of these will be available in the Spring and the second in the Summer. Students having an interest in either of these internships should speak with the Chair or Associate Chair.

Carolina Economics Club

The UNC Economics Club enjoyed a successful year. Under the leadership of Melodie Potts, the Economics Club began the process of building a strong foundation of undergraduate support and department participation. Some of the club's events included Networking Nights with economics alumni, a faculty debate over the economic impacts of a Gore or Bush administration, and a speaker from the Central Intelligence Agency.

Heath Wolfe and Daniel Hicks have taken over the club leadership for the new year and are planning a wide range of events. The club plans to expand the Networking Night, contacting alumni to schedule events of interest to both undergraduates and alumni. Other events being planned are to continue bringing in speakers, a website and economic competitions. The website will highlight the successes of alumni and be a place for undergraduates to get information about opportunities in economics and business. The economic competitions include a "mock Federal Open Market Committee" and an investment club that will have competitions within the club and eventually against other groups and schools. We are also excited to be planning a soccer match pitting club members against faculty and graduate students, an event that promises to be fun for all involved. The club will also continue its role in facilitating the department's teaching awards by improving the voting process, encouraging involvement of students, and selecting the winners.

As we move forward, we ask for your assistance and support as we expand the club and build a proud tradition. We are open to any and all suggestions from our alumni and current students. Our goal is to make the club something that is both fun and useful for students. We also hope that alumni who get involved in Networking Nights or in other club events enjoy their experience with the club as well. If you have suggestions, or would like to be involved as a guest speaker or participant in a Networking Night, please contact Heath Wolfe at heathwolfe1@hotmail.com.

Heath Wolfe
Econ Club President

Alumni News

Thanks to all of you who took the time to respond to your request for information about what you are currently doing and what has transpired since you left Chapel Hill. As usual, it has been fun to learn about all the many and varied things that you have accomplished. We have included a summary of many of your personal communications below. It is our hope many more of you will keep those "cards and letters coming" (either by mail or email) and provide interesting tidbits for our next Newsletter. Again, thanks for getting back to us!

Brian Bailey (1988) recently returned to Charlotte, NC, taking a position with Carousel Capital. Since leaving Carolina Brian has worked for several financial organizations, completed an MBA from Stanford University and held several positions with the US Government, working with Erskine Bowles. Prior to his new position, he worked at Forstmann Little & Co. in New York.

George A. Kahn (1978) went on to complete a Ph.D. from Northwestern University and is currently employed at the Federal Reserve Bank of Kansas City where he serves as Vice President and Head of the Economic Research Department.

Mark T. Watson II (1996) went to work for Pritchett, Ball and Wise, Inc., a commercial real estate appraisal firm in Atlanta, GA. He recently completed an MBA degree at the University of South Carolina and moved to a new job at Price WaterhouseCoopers in their Tax and Legal Services Practice in the Atlanta office. Mark also is the owner of Watson Appraisals, a real estate appraisal subcontracting company. He is married to Sue Watson (UNC BS Math 1997) and they have two young sons.

John Altschuler (1985) writes that he is now the Co-Executive Producer of the TV show "King of the Hill." He and his wife Leah (1990) just had their first child, Calvin Harris, who weighed 9 lb 12 oz.

Doug O'Neill (1998) entered the Peace Corps upon graduation and lived for 27 months in a small rural village in Uzbekistan. Upon completion of his Peace Corps duties, he traveled throughout Southeast Asia for two months before returning to the United States. He is currently residing in Washington, D.C.

Hillery H. Rink III (1986) is currently Director of Market Research for Rich FX, an internet software company focusing on the compression streaming and playback of computer generated video over the Internet. Prior to this he worked at the Research Triangle Institute, received an MBA from Emory University, and worked as a marketing and research consultant at the M/A/R/C Group. He lives in Atlanta with Sean Rindge (UNC BA Geography 1988).

Michelle (Scroggs) McClure (1995) joined NationsBank (now Bank of America) in Charlotte, NC, immediately upon graduation. She is now a Vice-President and Relationship Manager in the Corporate Real Estate Group. She is married and has a "behaviorally challenged" poodle.

Also located in Charlotte, NC, is **Gregory H Cobb** (1983), a partner at Sovereign Advisers, a privately owned investment management firm which specializes in fixed-income portfolio management.

W. Christopher Fonville (1976) is principal of CONTRAK, LLC, a market research and consulting firm in the commercial furnishing industry, and lives in Clayton, NC. He is currently completing a M.A. degree in Liberal Studies at NCSU, focusing on consumer behavior and the cultural aspects of American Consumerism.

William S. McLean (1957) is a retired attorney living in Lumberton, NC. He has a son in the UNC medical class of 2003 and a daughter in the class of 2002 at Duke.

Currently residing in Lemoyne, PA, is **Douglas L. Miller** (1995). He is a Financial Consultant at Merrill Lynch and was recently married on April 28, 2001.

Jason Sanders (1995) is a Document Solutions Practice Leader with Empire Solutions and lives in Gastonia, NC. He is married to Katherine Edwards (1993).

Upon graduation, **Robert L. Emanuel** (1948) went on to complete a law degree. He is a senior partner in Emanuel and Dunn, Attorneys and Counselors at Law, and lives in Raleigh, NC. In his interesting letter he reflected on the many successes of his former roommate at Carolina, **W. Allen Spivey** (1948) who received three degrees from UNC-Chapel Hill and went on to become the C.E. Griffin Distinguished Professor of Business Administration and Professor of Statistics at the University of Michigan, Ann Arbor. He is widely published in economics journals and has written six books. He has also served as a consultant to a number of major corporations and as a principal lecturer in numerous Business Executive Programs.

Bruce S. Tanous (1977) is currently living in Washington, D.C., where he heads up the D.C. office of the investment management firm, Neuberger-Berman. After leaving Carolina, he received a MA degree from the John Hopkins SAIS program and an MBA from the Wharton School. He and his wife Lori have four children.

John C. Merson (1969) currently resides in New York. He founded College Pilot which provides online test preparation for high-school and college students as well as for those in the work force who need to prepare for professional and licensing exams. They now have the Test Prep for the SAT

online at collegepilot.com.

J. Stewart Butler III (1979), a partner in the law firm Anderson Johnson Lawrence Butler and Bock, lives in Fay, NC.

Winston-Salem, NC, is home to **Vance L. Horner II** (1992) and his wife, Shaida (Jarrah) Horner (1993). Vance works as a financial analyst with the Putnam Financial Group in Winston-Salem and Shaida is an associate with Carruthers Roth PA in Greensboro, NC. They had a baby girl, Yasmin, on December 7, 2000.

Julie (Nelson) Pittman (1985) is back home in Rocky Mount, NC. After graduation, she returned to work in the family automobile business, founded by her grandfather in 1929. She is retired for now and is enjoying being a stay-at-home mom.

Also working in the investment business is **Eddie Bean** (1986). He is a correspondent sales manager for Wells Fargo Funding and is engaged in buying mortgages from banks and independent mortgage bankers. He notes that he has met Dr. Sung Won Sohn, the Chief Economist for Wells Fargo, on several occasions.

Elroy Black (1994) is a Captain in the United States Marine Corps and serves as a financial management officer in the Programs and Resources Department, Marine Corps Headquarters, Washington, D.C. He completed a Master's Degree in Political Science from California State University at San Bernardino, and now resides in Alexandria, Va.

Emily Lawson (1993) is living in New York where she is working as an associate at New Mountain Capital, a private equity firm. She received a graduate degree from Harvard Business School and the Kennedy School of Government in 1999.

Chris Davis (1977) writes that on April 1, 2001, he celebrated 20 years as a Retail Financial Advisor with the same company in Charlotte, NC. He is currently Managing Director of the Davis Investment Group of First Union Securities.

Reena R. Patel (1998) is currently working as a financial representative with the Northwestern Mutual Financial Network and lives in Durham, NC. She is also college unit director and is in charge of internship opportunities for UNC.

Sean Partrick (1990) completed a degree in law and is now employed with Barber and Wilson, P.A. in Greenville, NC. Shawn mentioned that he had the pleasure of working with Prof. Boone Turchi last year and renewing connections with the Department. He also urged us to consider increasing the training given our undergraduates in econometrics. It is his impression that many employers are increasingly looking for individuals with stronger statistical backgrounds.

The Carolina Forecast

A Letter from the Chair



Since I wrote you last year, as my first year as Chair of the UNC Economics Department was beginning, much has happened. The Department not only survived a year with me making administrative decisions, but, in spite of my blunders and almost flat learning curve, actually managed to have a quite productive and rewarding year. We did see some of you alums during the past year, but hope that this year, while we celebrate 100 years of the Department, many more of you will come back for visits. If you have not been in the Department or in Chapel Hill recently you will probably be surprised at the changes. Chapel Hill has struggled with growing into a much larger urban area, but remains the “best place on earth to live.” New faculty have come, and some have retired. David Guilkey survived his first year away from the joys of the Chairmanship and seems to be almost back to his lovable and calm prechair state. Perhaps the University and Departmental leaves have helped! To paraphrase my statement of this time last year, “I welcome this chance, (still relatively) early on, to communicate with all of you. Many of you I know already, that is one of the positive things about being old enough to have been at UNC over 25 years. I hope to get to know many of the rest of you over the next four years. You and your accomplishments obviously are an important component of the department’s contribution to society. A number of you also help us to acquire needed teaching and research resources through your financial generosity. Many of us in the Department try to keep up with you and your lives and careers, but it is difficult not to miss things. Please keep us informed about yourselves and your families when you can.”

This should be another exciting and active year in the life of the department. It is a landmark academic year in that 2001 marks the **100th Anniversary of the Department**. We continue to plan a set of activities to meaningfully commemorate this milestone although, given the budget situation of the State, and as a result of the University, we have scaled back some of the more costly plans. We especially hope you will choose to come back to Chapel Hill for **HOME COMING WEEKEND**, see the University and Chapel Hill again, perhaps take in the football game, but most importantly come to the **Department’s 100th Anniversary Reception** to meet faculty and staff and to renew old acquaintances.

As I mentioned in my letter last year, Eric Ghysels, a highly respected financial econometrician, joined the Department to fill the Edward M. Bernstein Distinguished Chair in Economics. Eric has now spent a year in the Department, and along with our other renowned financial econometrician, Ron Gallant, has developed and begun to teach the courses in a new field in **Financial Econometrics**. We believe we now can offer (in an alliance with the Kenan-Flagler Business School) if not the best, without doubt some of the world’s best training in this field.

Our enrollments and number of majors have continued to be very large relative to our faculty size, and we expect to be allowed by the Dean’s office to **hire multiple new faculty** in the coming year. Given the recently adopted State budget, however, we can anticipate but not be certain of these hiring actions. Because Jim Friedman, Kenan Distinguished Chair in Microeconomic Theory, has retired as of July, we are requesting to have one of our allotted slots be a distinguished chaired professorship. We also will continue to pursue outside funding for additional distinguished professorships in the Department.

During the past year our search for new faculty members was successful beyond our most positive expectations. We hired three **new Assistant Professors**, all of whom have arrived in Chapel Hill and are in the process of settling-in as I write. The new additions are: Thomas Geraghty, Sergio Parreiras, and Chao Wei. The Department also **promoted two** of our Assistant Professors to Associates with tenure. Since July 1, Donna Gilleskie (Health) and Koleman Strumpf (Public Finance) have been tenured faculty members. I am sure they are relieved to have the tenure hurdle cleared. Koleman did not stay around very long to share his joy with us, however. He is spending the academic year on leave at the University of Chicago. And during the promotion process Donna gave birth to her second child, Drew, who after some health problems is now on the road to full recovery. Donna will teach a reduced schedule this year in order to have time to manage Drew’s recovery and medical appointments.

There are **other events** of the past year, such as teaching awards, grants successfully competed for, and placements of students to be proud of, but to lessen the risk of going on too long I will leave those happy announcements for other sections of this newsletter. One thing I will mention is that both our undergraduate student association and Economics honorary society, Omicron Delta Epsilon (ODE), returned to active status during the past year. Much effort from students and faculty was involved in these revivals.

I suppose you all recognize the new emphasis on **fund-raising** in academic departments. State funds alone simply are not sufficient to allow for the pursuit of excellence. I find myself asking for support from those who value the department, and especially those who believe the department and the training they received in the Department have importantly contributed to their lives and happiness. I hope most of you belong in both categories. So as I did last year, I urge you to consider contributing to the Department and especially to its endowment fund. Any gifts to UNC can be directed to “the Department of Economics” or to a specific purpose in the department. If you are interested in the specific needs of the Department please drop me an email or letter. Al Field and I have put together a statement of the resources needed to take the department to the next level of excellence, and will be happy to send it along. I have mentioned above the strength of our Financial Econometrics Statistics area; we are planning to raise the funds to develop comparable stature in each of our major areas.

I close with something I said in this newsletter last year, “It is not difficult to ask people for money if you truly believe in the objective.” I still truly believe that gifts to the UNC Economics Department pay for something that is beyond the value of the dollars themselves. They protect an excellence that has taken a century to nurture, and that can quickly be lost. Present and past students, the state of North Carolina, the nation and the world benefit immeasurably from the **excellence that is here and is being built upon**. Keeping and improving a world class Economics Department at UNC Chapel Hill will bring great benefits to all of us connected to the Carolina family. We have a chance for leadership in ways not yet imagined. I hope those of you who can afford to will help with the funding of these dreams. Even small gifts, especially ones that are flexible, help us greatly as we attempt to fulfill the Department’s roles of teaching, community service and research.

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

John S. Akin

If you have any news you would like to share, we'd like to hear from you -- and so would your classmates!

Name_____

Year graduated_____

Address_____

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

Please mail to:

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CELEBRATE WITH US AT HOMECOMING

To celebrate our 100th birthday the Department will hold an open house on Homecoming, Saturday, November 10 in Gardner Hall. We hope that all of you who are returning for that weekend and the Wake Forest football game will have time to stop by and visit us before the game. It will give you the opportunity to see all the changes in the Gardner Hall classrooms, acquaint yourself with many of your professors, encounter former classmates and share a piece of birthday cake with us. We hope to see many of you there. In order to facilitate our planning, we would appreciate a quick note or email from you if you plan to be in Chapel Hill that weekend and can stop by. The reception will be held in the three hour period before the game and the exact hours will be determined by the yet-to-be-determined game time. For more specific information on the hours of the open house, contact us by email [afield@email.unc.edu], phone [919-966-2383] or check the Department website [www.unc.edu/depts/econ].