

# ECONOMICS

in  
*Action*

 department of economics  
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## The Nobel Adventures of Clive Granger and Robert Engle

By, Professor Mark Machina

**S**tockholm, December 11, 2003. The city is beautiful, but freezing this time of year. The Nobel Prize is always formally awarded December 10, the day of Alfred Nobel's death. I'm gonna write the Committee and insist that the next time two San Diegans win the prize, they must move the ceremonies, either to June or to La Jolla, California. The sun here rises shortly before lunch, and sets in the middle of dessert.

It was great to see Rob again after a couple years. Although my hair is now the same gray color as his, he hasn't aged a bit. Though he's formally listed as being from NYU, all the talk has been about "San Diego's contributions to Econometrics." Indeed, with Rob, Clive, Hal White, and honorary San Diegans David Hendry, Tim Bollerslev, Timo Teräsvirta, Svend Hylleberg, Tony Hall and Eilev Jansen all running around, the place seems just like UCSD on a Tuesday afternoon (only colder).

Clive and his wife Pat, and Rob and his wife Marianne, have full time personal valets, who see to their every need while they're here. They travel to the various functions in limousines, while everyone else gets shuffled about on buses. The whole operation runs with impressive Scandinavian efficiency. It has been awesome seeing Clive and Rob in this context – both are every inch a Laureate.

Before Sweden, the Engles had dinner at the White House (the Grangers were not invited since Clive is not a U.S. citizen). Marianne and the President bonded because of their common Texas background, and upon leaving, Marianne leaned over, held his arm, and told him that her sister used to see him jogging in Austin, and always thought he looked very sexy without a shirt. Rob maintains that when saying this she called him "Mr. President," but Marianne insists that she called him "George."

The week has been full of receptions, dinners, press conferences, television sessions, and a private meeting with

the King (Laureates and spouses only). The turning point in the week was the formal Prize Lecture Ceremony, given at Stockholm University. Though Clive and Rob appeared somewhat nervous up to that point, both have been immensely relaxed and happy since.

The prize lectures were both masterpieces. Rob, who showed clear signs of recent practice teaching MBA's, announced that he was going to make his talk very accessible, so that even his family would finally get an answer to their perennial question "What exactly is it that you do, anyway?" It was a perfect mix of finance, econometrics, humor, and for those who could tell, rigor.

Clive took a very different approach. Seated, and without any slides, he gave a talk that someone later described as an FDR-style "fireside chat". He introduced a beautiful expository device for describing time series, developed during his recent stay in New Zealand: "Say

you had a loose string of pearls, and tossed them onto a table. Think of the result as an econometric time series - each pearl is subject to its own influences, but each is also somehow related to the ones next to it."

He used this analogy throughout the talk, explaining cointegration by tossing two strings of pearls, etc. Everyone understood it perfectly - and he wasn't just casting his pearls before Swedes...



L to R: Professor Hal White, Nobel Laureate Clive Granger, Nobel Laureate Robert Engle, and Professor Mark Machina in Stockholm

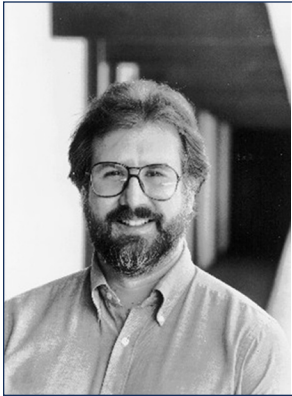
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## Chair's Corner

### Commentary on the San Diego Fires



Richard Carson, Chair  
UCSD Economics Department

**T**he big excitement this fall in San Diego was the enormous fire that swept through Scripps Ranch and many other parts of the county. This was particularly salient for me as a Scripps Ranch resident who quickly evacuated and then watched the fire on TV get closer and closer to our house over the course of the day. When we

were able to return three days later, the three houses on one side of us were completely burnt down, as were several other houses on our street and the one behind us. Our house received smoke damage as well as fire damage to our deck and the loss of many trees.

My prior work as natural resource economist on natural disasters such as floods and oil spills gave me an interesting perspective on the fire. Clearly the fire was predictable in both the long term and short term. Most frightening was that the pattern and sequence of fires in Southern California were similar to what would have been expected from a terrorist attack designed to maximize damage, and there was no substantial Federal response to the fire in its initial days.

Most of the damage from the fire was preventable. A successful prevention effort, however, had to operate on several different time scales. From a long run perspective, the standing policy of suppressing small fires creates accumulated build up of brush that in turn creates the later opportunity for very large fires. (Small fires in the backcountry in Mexico are not suppressed and very large fires are much less common.) From a medium term perspective, the failure to create large fire breaks by removing brush on strategic approaches to the city and the nature of fire fighting resource sharing agreements, including military assets, comes into play.

On the evening the fire started until the morning it struck Scripps Ranch, the path of the fire in the direction of high Santa Ana winds had been accurately plotted, but the response by State and Federal firefighters was inadequate. All the firefighting resources inside the State of California had already been allocated to other ongoing fires. The City of San Diego was also late in responding. We got a call from Mark Machina almost an hour before the police came by to evacuate us. I figured Professor Machina was just being overly "risk averse" and did nothing. More time to evacuate would have clearly allowed more time to gather up treasured possessions. We escaped only with our cat, Fred.

When the fire hit Scripps Ranch, it essentially vaporized whole streets of houses. These houses served as the fire break. After that, fire fighters did a valiant

job slowing the fire's progress on a house to house basis.

Luck prevailed the next day. The fire had breached Interstate 15 and Highway 52, but the high Santa Ana wind forecast did not materialize to drive it much deeper into San Diego. Eventually, the fire was contained when the wind reversed and it went over area that had been previously burned.

In the course of several days, I appeared as an expert in or on ABC news, the Boston Globe, Channel 9 news and the Paul Bloom show, Channel 10 news, CNN, the Jim Leherer show, KPBS radio and TV, the Los Angeles Times, the North County Times, NPR, the O'Reilly

***"Most frightening was that the pattern and sequence of fires in Southern California was similar to what would have been expected from a terrorist attack...and there was no substantial Federal response to the fire in its initial days."***

Factor, Reuters, the San Diego Union Tribune, the UCSD Guardian, and USA Today. It was an interesting experience, but only time will tell whether the policy changes needed to prevent widespread damage from the inevitable next big one will be put in place.

## The UCSD Economics Roundtable

*The purpose of the Roundtable is to provide top business professionals and community leaders in the San Diego region with the opportunity to share the views and opinions of renowned experts in the fields of economics, finance, business and public policy. Members of the Roundtable will share insights with their counterparts in the business community and with members of the UCSD faculty.*

### UPCOMING SPEAKER

**Dr. Anne Krueger**

**First Deputy Managing Director, International Monetary Fund**

**"Promoting International Financial Stability, the IMF at 60"**

**June 3, 2004**

**7:30 - 9:00 AM**

**UCSD Faculty Club**

Further information on Dr. Krueger, as well as Fall events, can be found at: <http://econ.ucsd.edu/roundtable>.

For additional information and registration, please contact Edie Munk, Coordinator of the UCSD Economics Roundtable:

Phone: (858) 822-0510

Email: [emunk@ucsd.edu](mailto:emunk@ucsd.edu)

The cost to attend each Roundtable is \$50 per person.

*The UCSD Economics Roundtable is organized by the UCSD Department of Economics in coordination with UCSD Extended Studies and Public Programs.*

## Eli Berman: A Perspective on Economic and Social Change

By Barry Jagoda,  
UCSD Communications



Eli Berman, Associate Professor  
UCSD Economics Department

Associate Professor Eli Berman teaches econometrics, labor economics, and economics of the Middle East.

Eli is in his first full year at UCSD, having come to La Jolla after eight years, and a tenured position, at Boston University, followed by two years at Rice. The decision to join came, as Eli put it, “when I realized that this is a terrific department, full of extremely talented colleagues with broad interests, and opportunities to add more.” Eli and Linda, his nurse-practitioner wife, and their two kids are also enjoying the climate, the beaches and the hiking.

Eli left his home town of Ottawa, Canada to begin college at Hebrew University in Jerusalem. After two years of college, he volunteered for citizenship and interrupted his education to serve in the Israeli army. After infantry duty he returned to Hebrew University to complete his undergraduate degree in economics and computer science, with a minor in statistics.

“I had been interested in economics since high school. It seemed to combine math and statistics with potential policy applications. You could not only think about, say, unemployment, but you could think about doing something about it,” says the scholar whose policy-oriented research has resulted in much comment and controversy.

Pursuing a master’s degree in economics, also at Hebrew University, Berman’s first work was on high tech workers in Israel. “At that time entire cohorts of graduates in science and engineering were being hired into defense industries, but those projects were clearly going to hit budget constraints and be shut down, and I wondered how the market would deal with a glut of young graduates.” This led to an interest in skill-based technological change in the civilian economy, the tendency of new technologies to favor more educated workers.

About this time, the late, and distinguished, American economist Zvi Griliches became a mentor. “Zvi was interested in technological change and productivity, but his influence was much broader than that. He taught us all respect for data and stressed taking care in inference.” In 1989 Eli and Linda moved to Boston and four short years later, Dr. Berman was a Harvard-trained economist.

There were several papers in the dissertation work. A “job market” paper showed how vacant jobs are matched to unemployed workers, using a unique Israeli dataset which covered the vast majority of Israeli hiring. That paper showed that fluctuations in unemployment were mostly due to demand, and that the labor market cleared quite quickly for most

**3** workers.

The second paper (with John Bound and

Zvi Griliches) explored why the earnings premium for those with a college degree jumped so substantially in the 1980s. It looked at U.S. manufacturing, showing that technological change was the most likely culprit.

In the wake of the work of University of Chicago economist Gary Becker, who vastly expanded the scope of labor economics, Berman’s research began to look at sociology and demography. “Most of us work using theories of rational choice. I have been trying to extend this approach to religious sects and organizations of one sort or another who produce tangible services for members though cooperative production. That production requires deep commitments from members to

avoid “free-rider” problems. I had studied ultra-orthodox Jews and how these groups were able to demand sacrifice and loyalty. More recently I’ve been looking at radical Islamist groups and how many of the essentials of life have been provided

to adherents by the group. The vast majority of activity in these communities is benign and noble, alleviating poverty in neglected communities. Yet the solidarity in these groups also enables them to engage in violence and even terrorism, if they chose to do so. These studies have been extremely controversial, particularly in the Middle East.”

A recent issue of the Economist magazine devoted several pages to Eli’s study of militant Islamic groups in which it is contended that rational choice modeling explains destructive behavior among the Taliban, Hamas and other religious militias. Berman proposes a “club good” framework that suggests that these groups (“clubs”) are providers of food, shelter, jobs and other local public goods that governments do not deliver. The analysis argues that these religious radicals provide extremely effective militias and terrorist squads because their social service provision background allows them to select members who have poor outside options, making them unlikely to defect.

The September 11 terrorist attacks on the U.S. helped motivate his interest in understanding violent religious sects: “I realized that I had a unique combination of personal experience and skills. I had some understanding of counter-terrorism from the military, was a trained economist, had done work on radical religious groups in the context of Jews and I suspected that this approach might explain radical Islamists as well—and subsequent research showed that to be true—and I have a burning interest in the future of the Middle East. There seemed to be a real need, a real lack of understanding of the driving forces behind terrorism this is coming from religious groups. If this approach is correct, it would mean that governments can undermine violent organizations by competing to provide the social services that these organizations provide to members.”

Here one can see what Eli meant when he observed, many years ago, that economics could analyze policy and develop implications for social change.

***“I had some understanding of counter-terrorism from the military, was a trained economist, had done work on radical religious groups...and I have a burning interest in the future of the Middle East.”***



## Silke Januszewski Takes on Students and the Airline Industry

By Barry Jagoda,  
UCSD Communications



Silke Januszewski, Assistant Professor  
UCSD Economics Department

**J**ust a few years ago, when Assistant Professor Silke Januszewski (pronounced yanew shev ski) was an undergraduate at Mannheim University in her native Germany, she discovered an interest in business management and in policy issues. "I was a business administration major for two years and then I realized that I really liked all the economics classes I was taking so I switched and decided to be an economist," she explained. Now, it

has all come together. As an industrial organization economist, a sub-field of microeconomics, she studies the airline industry and is passing on her interest in research to the next generation of students.

Asked about her classroom experience as young professor, she says, "I enjoy it a lot. It is a nice challenge to do the teaching as a young person and it is good for the students to have a teacher who is really not that much different than they are, a few years further along and in a position to teach them something. They can see that if you work hard you can get into a position where pretty quickly you have a huge knowledge you can share with them."

Of course in the case of Silke the matter of knowledge base is no exaggeration. Beginning as a teenager she has dipped in and out of American and British culture, spending some high school time in the U.K. and a year as a visiting undergraduate at Berkeley. Then, for graduate school, she chose MIT "because it is number one in the United States along with Harvard and Stanford."

Typical of a European student, as an undergraduate she attained a master's level degree at Mannheim and then decided that the American graduate system would yield more attention from professors and would provide a deeper grounding in theory and method because, as she says, "the coursework tends to be longer here since you really must do two years in American graduate schools while in Europe you get from 0 to one year and they leave you alone for your dissertation. I prefer the American system for graduate school."

After a time in Boston Silke knew that she wanted to study business firms. Reading a newspaper article that mentioned a study of quality and service among airlines set off a light bulb because she figured there was bound to be a usable database associated with the study. Eventually she went on to produce three papers for her dissertation, including one on the effect of air traffic delays on prices; another on the relationship between airline customer expectations and complaints and a third on small airlines and how they set-up their routes differently than the major carriers.

For the flight delay research she studied New York's LaGuardia Airport where there was a legislative change in the year 2000 that, because of forced take-off and landing

restrictions, caused significant slowdowns. It turned out that every additional minute of delay caused prices to go down about \$1.16 on average and the delays were very significant.

Reviewing the study, Silke said, "Economic theory tells us that in general if the quality of a product or service gets worse, here the measure being on time arrivals, prices will fall because consumers are willing to fly with you only if you offer lower prices. That turned out to be the case here, as there was plenty of choice and consumers went to different products, that is to say to competing airlines and different airports, or the prices got lower and consumers stayed with the reduced service at the lower prices."

In the other airline work, Silke showed that customers who expect higher quality are more likely to complain if they don't get higher quality. And she produced a final dissertation paper showing the parameters that determine which routes are likely to be served by small airlines.

***"It is a nice challenge to do the teaching as a young person... [students] can see that if you work hard you can get into a position where pretty quickly you have a huge knowledge you can share with them."***

After the Ph.D she thought about going home but applied broadly in the United States and Europe. In the end, she chose among a job in Berlin, some jobs on the East Coast and UCSD. Silke figured it out analytically, "I decided to stay in the United States because it was a better place for being an academic economist. The two systems are really not that compatible and the Ph.D in the United States means more than in Europe but you can only get that benefit if you work here for a period of time."

Silke is delighted with her colleagues at UCSD Economics, "This is a very interesting, very diverse group and we have expanded enormously. We have people here from all over the world." Ever the learner she appreciates living in a foreign country where one can "absorb another culture." Living in Del Mar when she has time she enjoys the appropriate hobbies of hiking and walking on the beach, saying, "I'm kind of an outdoors person."

As a young faculty member Professor Januszewski stays very busy delving into research questions that have been on her mind from graduate school and earlier: "The nice thing about this work is that you have an opportunity to follow your own agenda and to keep learning. This is one reason that people choose academia over business. In graduate study you see so many things that you would like to know more about but have not had time. Now it is my job to explore these questions."

*Barry Jagoda, UCSD Director of Communications for Social Sciences, Arts and Humanities and International Relations, is a reporter and writer with many years of experience in journalism and public affairs.*

### ALUMNI

Please send us your name, year of graduation/major, address, email, current employer, other degrees you hold (year and institution), and your news item for inclusion in the next newsletter. [econnews@econ.ucsd.edu](mailto:econnews@econ.ucsd.edu)

## Staff News & Updates

By Devaney A. Kerr,  
Director, Economics Department Student Affairs

### **Deb Bailey, Management Services Officer Retires After 27 Years at UCSD**



Deb Bailey, MSO  
UCSD Economics Department

On June 25, 2004, the Economics Department will say goodbye to one of its hardest working and most dedicated staff members, **Deb Bailey**. For nearly 23 years, Deb has remained a permanent presence among the staff, rising through the ranks from Student Services Coordinator in 1981, to Administrative Analyst in 1985, to Management Services Officer (the highest academic department staff position)

in 1988. After 27 total years of service to UCSD, she has announced her retirement.

“The Department of Economics has been ‘my home away from home’ since September 1981. It’s almost impossible to imagine not being a part of this dynamic group of people on a daily basis,” Deb remarks. “For the past twenty plus years I have been privileged to work with a fantastic staff, a very distinguished list of faculty, and a most impressive group of graduate students.”

Deb’s journey to the Economics Department began in 1972 when, upon graduation from the Los Angeles Business College with a B.A. in Business Administration, she obtained a job as a Financial Aid Officer at MiraCosta College. Finding her way to UCSD four years later, Deb completed short terms as a Program Assistant with the School of Medicine, Undergraduate Coordinator with the Communications Program, and Assistant to the Chair and MSO in the Department of Biology, before landing the Student Services Coordinator job in Economics.

Professor Ross Starr, former Chairman, calls his hiring of Deb as MSO the “proudest and most enduring result” of his chairmanship from 1987-90: “It’s Deb who has kept us sane and functioning through disastrous budget cuts and vigorous expansions, the births of our children and deaths of colleagues. Deb is intelligent, energetic, decisive, and devoted. Organizing an academic institution is like herding cats. She succeeds, keeping us focused, reliable, and on track.”

Looking back on when he agreed to serve as Chair from 1994-1997, Professor Vince Crawford admits that he was “apprehensive about my ability to keep track of it all. I had known Deb since she came to the department, but I simply had no idea how, and how well, she did the MSO job...all the while Deb was in the background making it work smoothly.”

**Deb Bailey** *continued on page 6*

### **Beverly Applequist, Executive Assistant Retires After 10 Years at UCSD**

**Beverly Applequist**, another long-term and committed member of the staff, will be leaving the department this year. She has served as the Executive Assistant to the Chair and MSO of the Department since 1994, and she will retire on June 30.

Prior to joining the department, Beverly had been employed as the Secretary to the Chairman of the Valuation Research Corporation of Milwaukee, Wisconsin for 16 years. Originally from upstate New York, Beverly has lived throughout the Midwest and worked in the fields of insurance and personnel.

Beverly, who has spent all of her 10 years at UCSD in the Economics Department, has enjoyed the challenges of working with five different Chairmen (Professors Robert Engle, Vince Crawford, Joel Sobel, James Hamilton, and Richard Carson). She is looking very forward to enjoying more free time upon her retirement, which will include visits to family in New Hampshire, and friends in the Midwest.

An avid art lover, Beverly is a member of the San Diego Museum of Art, as well as the San Diego Historical Society, and the House of Pacific Relations in Balboa Park. She also frequents the Old Globe Theater, and the many other attractions that Balboa Park has to offer.

### **New Faces to the Department**

Prior to coming to the department as the Graduate Advisor in July 2003, **Margie Frazee** spent 10 years at UC Davis working with undergraduates, as well as directing the evening MBA program. Margie has extensive Student Services experience from USC, Harvard, and the University of Hawaii. Before settling into career positions, she traveled and lived in Brazil, Nigeria, Ireland, and Hawaii. Margie and her husband, Dan, enjoy good wine, music, friends, and lots of sunshine.

**Molly Love** joined the department in July 2003 as the Business Officer, responsible for managing the Academic Personnel, Fiscal, and Human Resources aspects of the department. She came from the UCSD Computer Science and Engineering Department where she held a similar position for nine years.

The most recent addition to the staff is **Christopher Newman**, who holds the position of Graduate Admissions, Outreach & Placement Coordinator. Chris received his B.A. in Sociology from UC Santa Barbara and plans to complete his M.A. in Leadership Studies with a specialization in Organizational Diversity, from the University of San Diego in May 2004. Chris is a motion picture enthusiast; his favorite movies are the original Star Wars Trilogy, The Big Lebowski, and Enemy at the Gates.

**Meghann Rubino** was hired as an Undergraduate Advisor in January 2004. She holds bachelors degrees in Communication and Sociology from UC Santa Barbara, where she was also employed in the Department of Communication as an Undergraduate Advisor for two years prior to relocating to San Diego.

**Nobel Adventures** *continued from page 1*

In a dinner discussion as to whether Clive would now become knighted by Queen Elizabeth, Pat confessed as to how she had always wanted to be “Lady Patricia”. When David Hendry informed her that her official title would actually be “Lady Clive Granger,” she vetoed the whole idea.

Everyone’s been fascinated by the whole Nobel Prize process, and in particular, how they make sure they can find and notify the winners directly, before the news spreads around the world. One Swede claimed that the Nobel Committee makes its decisions months in advance, then assigns someone to continuously monitor each winner’s whereabouts from that point on. Rob said that when he asked the Committee about this, they said no: they simply call the winner, and if no one is home they try again in 15 minutes, and if this fails, they just give it to someone else. When Rob looked horrified upon hearing this, they smiled and told him no, this was just the standard joke they tell new Laureates.

The formal award ceremony was 100% pomp, circumstance and style. Some speeches were in Swedish and some in English. In between the various awards – Literature, Medicine, Chemistry, Physics and Economics – the Stockholm Philharmonic (and soloists) played (and sang) Handel, Mozart, Beethoven and Poulenc. Each Laureate received trumpet fanfares. Clive sat patiently through it all, but looked like he was just itching to get back to work and prove some new result.

The banquet was European splendor at its finest – 1,300 guests, over 110 waiters (by my count), musicians, several processions, and speeches by Laureates. Everyone was in white tie and tails: Clive and Rob looked absolutely regal, but geeks like Bollerslev and me looked like penguins. Since the King proposed several toasts, 1,300 glasses got filled and refilled with Dom Perignon. Rob spent much of the time chatting with tablemate Al Gore. After the banquet, everyone went upstairs for dancing. I overheard talk of several parties that were scheduled to start at midnight.

The whole experience has been memorable from start to finish.

**Economics in Action**

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**Deb Bailey** *continued from page 5*

The crowning achievement of Deb’s career occurred in 1998 when she was the recipient of the Betsy Faught Award, an honor recognizing excellence in academic program management. In his remarks at the award presentation, Professor Joel Sobel, then-department Chairman (1997-99), described her impact on the department. “Her value stems from her unerring ability to figure out what needs to be done to meet the department’s goals and her absolute reliability in making sure it gets done. Bailey has vast knowledge about how the campus works. If there is a person to see, she knows the extension. If there is a rule to follow, she knows what it is. When there are deadlines, Bailey works late. When there is a disaster, Bailey is calm.”

Deb and her husband, Carl, will enjoy their retirement in a tranquil, tree-laden piece of heaven near Shelbyville, Tennessee, where they recently purchased 10 acres of property and are having a home built. What does Deb think of embarking on this new chapter in life? She answers, “I will miss everyone very much, but now it is time to move to another exciting time of life. My husband and I are looking forward to new and interesting challenges as employment-free Tennesseans. We hope that all of our friends will feel they have a place to come, relax and visit for a few days whenever they are in the Nashville area.”

While Deb will be gone, her contributions to the department, Division of Social Sciences, and the University at large, will most certainly not be forgotten. Former Chairman (1999-02) Professor James Hamilton echoes these sentiments, “Deb Bailey has been an invaluable asset for every department chair she has served. Her vast institutional memory and willingness to get in and fix problems will be sorely missed.”

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