

# Economics

## IN ACTION



## DEVELOPMENT AND CONFLICT

### APPROACHING INSURGENCY AND TERRORISM WITH ECONOMIC ANALYSIS

### CHAIR'S CORNER

Welcome to the second electronic issue of *Economics in Action*. There's been a lot going on in the department the last few months ...



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**Brandon Freeman**  
High Energy Philanthropist

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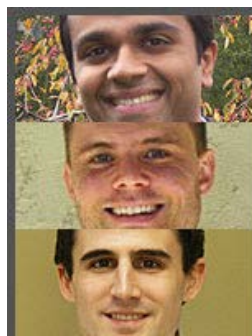
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# Economics

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### FACULTY SPOTLIGHT

## Prashant Bharadwaj

### *Using Labor Economics to Solve Problems*

By Katie Magallanes

**“Economics gives me a tool to analyze human behavior from a rational/utility maximizing perspective.”**

Coming from a family with numerous doctors and engineers, Assistant Professor Prashant Bharadwaj decided to try something different and ended up hooked on research while an undergraduate at the University of Chicago. It seemed that the propensity for academic pursuit was passed on to him, and he earned his Ph.D. from Yale University just last year.



#### Economics in the Real World

Prashant was born and raised in Jamshedpur, a steel town near Calcutta, India. His roots often drive much of his research: “Clearly, growing up in a developing country exposes you to many of the problems there—and economics gives me a tool to analyze human behavior from a rational/utility maximizing perspective, which is nice.” His love of numbers drew him to the field of labor economics “because of the many empirical tools that labor economists use to analyze problems.”

What Prashant enjoys most about economics is that he can “take it with him when he travels.” One of his papers on the link between air pollution and birth outcomes was inspired by a trip to Santiago, Chile, one of the most polluted cities in the world. As he recalls, “Everyone in Santiago told me that the weather is best after it rains, as it scrubs the skies clean of all

the pollution. And I thought, wow, someone should look into this as way to get at the link between health and air pollution.” His current research focuses on interactions between fertility, health, and labor markets.

#### Life in San Diego

We asked Prashant what made him choose a life on the West Coast (as if all those cold winters in Chicago and New Haven, Connecticut, didn’t clue us in), and he said, “Quite simply, I had the best time here during my fly out. I wanted colleagues who were smart and kind at the same time, and I definitely find that to be true here.” Our faculty is also well aware of one benefit of having a university in the heart of La Jolla. Prashant still recalls the setting of his interview: “Jim Rauch interviewed me while walking around the seal beach on a perfect day,” a tactic not lost on him but still a “selling point that clearly worked.”

Besides devoting his life to economic research, Prashant finds the time to have hobbies. Like many residents of San Diego, Prashant enjoys sports; he has participated in the Chicago marathon and has competed in the squash nationals. He is also interested in music. Having been in a band while in graduate school, Prashant enjoys playing drums, “hand drums mainly, though I have transitioned into an electronic drum kit of late. I play music with Garey Ramey about once a week.”

When asked if there was anything else Prashant would like to us to know, he left us with this little nugget that truly summarizes the culmination of all his talents: “I can bend my fingers all the way back till they touch my forearm—it still freaks my wife out.”

Prashant currently teaches development economics at the undergraduate level and is one of the coordinators of the weekly [International and Development Thesis Workshop](#) where graduate students are given a forum to present their work.

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# Economics

## IN ACTION

### FACULTY SPOTLIGHT

## Patrik Guggenberger

### *The Circuitous Path to the Robert F. Engle Endowed Chair*

By Katie Magallanes

**“UC San Diego is world-renowned for its outstanding econometrics faculty with the two 2003 Nobel laureates ... It is a great honor to work in the same department with leaders in the profession.”**



Patrik Guggenberger, who joined the Department of Economics as the inaugural Robert F. Engle Endowed Chair in the fall of 2009, did not always dream of the life of a successful econometrician. He began his life like many, with hopes of becoming a professional athlete: “I grew up in a small village in the South of Germany, literally on the border to Switzerland. Life was simple and safe and after school I would wander the streets with the neighbor kids or play soccer. Throughout my childhood and early adulthood, sports played an important role in my life.” His interest in sports was far from limited: “As a young teenager, I trained Ping Pong almost daily and competed in tournaments during the weekend. I was pretty good but decided to give it up for tennis when Boris Becker won in Wimbledon in 1985. Shortly after finishing high school, I started training Shotokan karate and became seriously devoted to both its physical and spiritual components. However, about the time I made it to black belt, I stopped—following a serious ankle injury. These days, I am

into slower movements, doing at most an occasional yoga workout or, even better, just getting a massage. Maybe the move to San Diego and its great outdoors options will increase my activity level again and maybe get me excited about water sports!”

### A Diverse Foundation of Study

Patrik’s interest in myriad sports is mirrored in his academic life: “My university career unfolded almost as circuitously as my interest in sports varied over time. Mathematics and physics were my favorite subjects during high school, and if after finishing school I could have immediately started university, I would have become a physicist. However, after doing my mandatory civil service in Germany (working as a nurse in a hospital for fifteen months), I decided to study mathematics with a minor in economics. After six years at four different universities, I had obtained a diploma from the University of Bonn with a thesis in pure mathematics about a certain differential equation in unbounded complex domains. I had also finished with a DEA [Diplôme d’Études Approfondies] from Jussieu in Paris with a thesis on a topic in combinatorics. Prior to my time in Bonn and Paris, I studied at a small university in Constance located at the Lake of Constance.”

Working his way through various universities remains a positive experience, as Patrik explains: “Ex post, studying first at a small institution was a wise decision, as it allowed for closer interaction with the faculty. The last year of my mathematics studies I spent at the State University of New York (SUNY) Albany, where I wrote a thesis under the supervision of Professor Michael Range. At that time, I had already developed a more profound interest in economics after taking several interesting classes on game [theory] and general equilibrium theory with Reinhard Selten and Werner Hildebrand at the University of Bonn. My goal became to use my mathematical tools to model and explain real-life problems, and I consequently applied to graduate programs in the U.S. for a Ph.D. in economics. I entered Yale to become a game theorist—but I graduated with a thesis in econometrics, developing statistical tools that allow applied researchers to test hypothesis in a controlled way in situations where the available data potentially violates some of the textbook assumptions. The change of mind came when I took a class with **Donald Andrews** who would become my supervisor. His impact on my academic career can hardly be overestimated. In my opinion, he is the most outstanding scholar, and I am truly blessed for having had

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the opportunity to do research with him on a number of different topics.”

## Coming to UC San Diego

Having such diverse interests in various fields continues into Patrik’s economic research: “My research has covered different areas in econometrics with applications in labor economics, industrial organization, and macroeconomics. One recurrent theme, however, that links most of my work is the development of testing procedures that properly control the probability of rejecting a true null hypothesis or analogously, a confidence region that covers a true parameter vector with the desired probability. If an applied researcher uses classical inference approaches then in certain situations, her confidence regions may severely undercover the true parameter and therefore lead to wrong conclusions. My research aims at improving the inference done by applied researchers. In 2009, I won the Alfred P. Sloan Foundation Fellowship for these contributions. More importantly, in the same year, I obtained a tenured position at the outstanding UC San Diego Department of Economics becoming the inaugural holder of the Robert Engle endowed chair. UC San Diego is world-renowned for its outstanding econometrics faculty with the two 2003 Nobel laureates: Robert Engle and Clive Granger. It is a great honor to work in the same department with leaders in the profession like Hal White.”

Patrik continues, “After several years on the faculty of UCLA, I am very excited to move to San Diego with my wife and my newborn son, Dylan. Dylan is crawling so fast already; I will soon have to start working out again to keep up with him!”

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# Economics

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## Paul Niehaus

### *The Makings of a Development Economist*

By Nan Daugherty

### FACULTY SPOTLIGHT

**"There are still inordinate amounts of poverty in the world and a first priority for social scientists has to be finding ways to reduce it."**

A native of the Boston area, Assistant Professor Paul Niehaus is definitely enjoying sunny San Diego this winter. ("Native of Boston" is a bit misleading. Paul was actually born in Liverpool, England. He says he doesn't have the Scouser accent, but he does root for Liverpool FC and likes the Beatles.) His wife, Lauren, grew up in Los Angeles and most of her family still lives there. Paul and Lauren are able to see her family a few times a month, which Paul says makes his wife "really happy"—and when she's happy, he's happy.



#### Solving Social Problems

When we asked Paul what led him to become an economist, he replied, "I've just about always wanted to work on pressing social problems, maybe the result of having parents who left the right books lying around the house ... who knows?" His mother's advice to do as much math in school as he could possibly handle was a contributing factor: "Given those two criteria, economics was irresistible." Still, all was not so clear as he pursued his higher education. Paul seriously considered stopping his economics training after college, but he was persuaded by key interactions with some of his professors (notably [Ashok Rai](#) and [Markus Möbius](#)) that he might be destined for a career in research. His advanced studies at Harvard University led to a doctoral degree in 2009, and Paul now considers research as his route to better understanding and,

potentially, improving the world: "There are still inordinate amounts of poverty in the world and a first priority for social scientists has to be finding ways to reduce it."

Paul gained valuable firsthand experience working in a developing country when he left college to help run a farm in Jamaica. He did everything from managing payroll to helping brand and neuter herds of cattle for half a year. He says, "Socially I also got to move back and forth between the very richest and poorest strata of Jamaican society, which was an enlightening experience."

As a development economist, Paul does look at real-world situations but often finds that he needs to create new theoretical structures in order to better understand the issues or data he examines. He says that he is happiest moving between theory and data, using each to sharpen his understanding of the other, experiencing the entire scientific method within a single project. Obviously a career in research was a wise choice.

#### Research Areas at UC San Diego

Paul currently works in two broadly defined areas of development economics. The first is the study of foreign aid and social programs and the ways in which corruption and political biases limit their effectiveness. This work has a particular focus in India. He has studied corruption in India's two flagship rural welfare schemes and is currently working on methods of reducing leakage. Paul's second area of research is learning processes, such as how individuals learn about their own abilities or how knowledge diffuses through a large economy in series of local interactions. Both individual and social learning are key features of the process of economic growth.

We know that something more substantial than benign winter weather led Paul to join the faculty at UCSD, so we asked him what he found most appealing about the Department of Economics. "The

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number one draw was, of course, the outstanding colleagues I get to interact with here: brilliant theorists and a young, growing group of people doing exciting applied research. I felt that UCSD offered me a great opportunity to continue learning and growing in areas that I hadn't seen as much of as a grad student. I was also excited about joining two guys (Karthik Muralidharan and Prashant Bharadwaj) who also work in India so that we can collaborate and share war stories.”

Paul is teaching microeconomics at the undergraduate level and macroeconomics at the graduate level as he settles into his first year in the department.

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### STUDENT RESEARCH

## Crafting an Academic

### My UCSD Undergraduate Research Experience

By Kelly Leong '10

#### The Beginning: First Paper

My first research paper, "Parental Influence on a Child's Education," examined parental influence on a child's performance in economics classes. I first designed an instrument to survey students who were taking their third class in an economics core sequence. I ensured that the respondents had already taken two economics classes and would be able to provide grades as a measurement of their success in economics. In addition, I looked at a core class with lots of students to gather many data points. I later organized and arranged the data, and then tested the hypothesis. The paper not only taught me about the research process, but also I found the process of using econometrics to test a hypothesis intriguing. But when all of the independent variables showed to be insignificant, my heart dropped to the pit of my stomach. Had I really done all that work for nothing?



#### The End: Honors Thesis

Fortunately, I chose to continue with a more extensive research project. Last year, I completed my honors thesis, "An Analysis of the Causes of the 2008 Credit Crisis." First, my studies reviewed the public comments made by economics and business school faculty that identified different potential causes of the crisis. After gathering some information, I found the economic theories that were the basis behind each of the proposed causes. For example, one was the lack of confidence in the banking system, which led to bank runs. I used the Diamond-Dybvig model to explain the reasons for a loss of confidence in the banking system and bank runs. In the end, the paper tested the possible correlation between each proposed cause and the faculty's association with a particular school or department as well as the point in time the comment was made.

To create the data set, I studied each public comment and treated each cause (C1, C2, ..., C9) as a dependent binary variable and ran nine regressions. Each dependent variable ( $C_i$ ,  $i = 1, 2, \dots, 9$ ) was given a one if the cause was mentioned in a specific comment, and a zero otherwise. The potential correlations such as the faculty's association with a particular school or the time the comment was made acted as the independent variables. Each of the nine regressions was tested for statistical significance. While writing this paper, I learned a great deal about the financial system and the economic incentives behind financial instruments. It made me realize that I wished to further study the use of financial econometrics to understand institutional finance and its products.

#### Internships and Honors Program

I did not always have this passion to conduct research. Growing up, I loved puzzles, logic games, and numbers, and math was my favorite subject. As I matured intellectually, I took a natural interest in physics, chemistry, economics, and other quantitatively based subjects. I was particularly curious to learn how financial systems worked from the national level to banks and to private corporations. Economics, and more specifically management science, became the obvious choice for my major.

When I entered UC San Diego, I aspired to work in corporate America and to climb the corporate ladder. As a freshman, I was determined to secure a business internship and start exploring the business world firsthand. I was fortunate enough to obtain three unique internships over the course of my UC San Diego tenure, and I learned a great deal about industry from each experience. Moreover, these internships

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sparked my interest in performing economic research.

In my first internship as a business analyst, I realized that I enjoyed the challenge of examining unexplored topics more than performing routine tasks for corporate America. My treasury internship helped focus my research interests to financial markets and banking. Last summer's financial consulting internship reaffirmed my interest in finding underlying economic reasons for financial market behaviors. These experiences have helped develop my interest in finance research.

After my first internship, a professor recommended the UC San Diego economics honors program, and I enrolled. The program is composed of honors sections that are taken concurrently with core economics classes, such as econometrics and microeconomics. The final portion of the program consists of a two quarter-long research class in which I wrote my honors thesis. While completing my honors classes, I learned to use econometric techniques to analyze original data and interpret the STATA output.

My internship and research experiences have led to my interest in measuring financial systems risk and studying financial instruments, and prompted my curiosity to further examine the 2008 credit crisis for my honors thesis and to investigate the credit structures that led to its demise. Researching and proposing new theories that have the potential to change the fabrics of finance fascinate me. I hope to eventually obtain a Ph.D. in finance and to work as an academic at a top research university.

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### STUDENT RESEARCH

## Who Benefits from Federal Student Aid?

By Nick Turner

Federal student aid helps ensure that college is affordable for millions of students. Traditional federal student aid programs, such as Pell Grants and campus-based aid, targeted lower-income students and families. Tax-based federal student aid, which includes the Hope credit, the Lifetime Learning credit, and tuition deduction, expands the scope of federal student aid by focusing on middle-income students and families. These programs, like traditional student aid, are designed to lower the cost of postsecondary education. But students will not fully realize the intended savings of any student aid program if college and university administrators respond by increasing costs.

The idea that the price of college might increase in response to federal student aid is not new. In 1987, then secretary of education William Bennett accused colleges and universities of increasing tuition in order to benefit from increases in federal student aid. Yet the existing research largely fails to support Bennett's claim.

In recent work, I consider the possibility that instead of increasing tuition, school administrators adjust the net amount they receive by strategically lowering school grant aid. In particular, I explore if administrators reduce school grant aid for students who benefit from tax-based federal student aid. I find strong evidence that colleges and universities act in this manner. The results suggest that school grant aid is reduced dollar-for-dollar with tax-based aid so that the intended cost reduction from tax-based aid is entirely offset.

### How do students cope with aid declines?

Unlike traditional student aid that is received when education costs are paid, tax-based aid is likely to be received after education costs are paid, when students and families receive their tax returns. As a result, students who receive less school grant aid face a temporary increase in unmet need in the period between the payment of education costs and arrival of the federal tax return. I find that students increase student loan amounts to finance this temporary increase in unmet need.

### How do colleges and universities spend captured resources?

Perhaps schools redistribute the aid to students who do not benefit from tax-based aid, or spend these resources on other items such as student services, faculty or staff salaries, or capital improvements. Unfortunately results for these possibilities are imprecise, so it is unclear how colleges and universities utilize the captured student aid.

### Who really gains from tax-based federal student aid?

Without knowing how colleges and universities spend the school grant aid that would have been awarded, it is unclear who gains from tax-based aid. For example, colleges and university administrators may spend these resources on improving school quality, increasing research support, or offering better student services. In these cases, students may still benefit from tax-based aid, although it is unlikely that students value these services as much as direct cost reductions.

What is clear is that students and their families who claim tax-based aid do not benefit from these programs in the manner intended by policy makers. Increased student loan amounts suggest that the student-loan industry benefits from the substitution of tax-based aid for school grant aid. The results also



*Nick Turner has accepted a position as a financial economist at the U.S. Department of the Treasury.*

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suggest that additional tax-based federal student aid programs, such as the recently enacted American Opportunity credit, are unlikely to lower costs for students and their families.

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*Nick Tuner will earn his Ph.D. from the Department of Economics this year. He is very thankful for all the support and suggestions from Julie Cullen, Nora Gordon, Roger Gordon, and Gordon Dahl.*

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### STUDENT RESEARCH

## What Makes the Decision to Become an Entrepreneur Rational?

By Sarada

### Why should we care about entrepreneurship?

Policy makers in recent years have designated substantial resources for the promotion of entrepreneurial activity, particularly in small-business formation. Entrepreneurial activity is believed to create wealth, employment, and innovation that spurs economic growth. It enables the realization of unprecedented ideas, which in turn drives technological change and furthers economic growth.

Entrepreneurs assume the role of risk-bearing agents. They are willing to sacrifice the certainty of wage employment and instead take a chance in implementing new ideas in the hope of reaping high returns. This internalization of risk on the part of the entrepreneur can provide many positive externalities once favorable returns are realized. There is little disagreement, if any, on the benefits of "good" entrepreneurial activity, yet it is not clear that we have a sufficiently sophisticated understanding of what types of individual and venture characteristics lead to "good" outcomes. It is therefore of great interest to both economists and policy makers to understand who becomes an entrepreneur and how he or she decides to do so.

My research is concerned with trying to better understand the characteristics of entrepreneurs and the reasons they enter into entrepreneurship in order to identify attributes that result in successful outcomes.

### The empirical puzzle

My current research is primarily motivated by the intriguing observation that the self-employed (whom I refer to as entrepreneurs for the purposes of my work) earn significantly less than the wage-employed. Specifically, Barton Hamilton, the Robert Brooking Smith Distinguished Professor of Entrepreneurship, finds that the median individual in self-employment can expect to earn about 35 percent less than his or her contemporaries in wage employment. This curious observation leads to the obvious question: What factors, if not financial returns, motivate individuals to switch to self-employment?

My work, supervised by Professor Roger Gordon, attempts to rationalize this observation by proposing and testing various hypotheses, new and old. I have received generous support from the Kauffman Foundation for this work through a 2010 [Kauffman Dissertation Fellowship](#).

A couple of fairly intuitive explanations for this observation are, first, that individuals get nonincome returns from being self-employed. For example, people may be willing to incur a significant pay cut to be their own boss. Second, it is feasible that individuals overestimate the returns from owning their own business and therefore enter into self-employment as a result of (misguided?) expectations. Both of these explanations, while intuitive, are not immediately testable since neither factor has a straightforward observable measure. In my work, I propose possible mechanisms to estimate these factors. Furthermore, I go beyond the explanations outlined above (which prevail in the existing research) by proposing and testing a few alternative hypotheses that would also lead to the puzzling observation that individuals in self-employment earn significantly less.

I make a case for the possibility of income underreporting by looking at the discrepancy between reported income and consumption, and how this differs between the wage-employed and the self-employed. Individuals who own their own businesses have far more discretion in deciding where and how to declare earned income. As such, comparing reported income alone across employment types might not be the



Sarada is currently a fifth-year Ph.D. candidate in the Department of Economics.

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best way to make comparisons.

I also distinguish between individuals who move into self-employment from wage-employment voluntarily versus involuntarily (i.e., quit versus fired). It is clear that the incentives faced by the former differ significantly from those of the latter.

Lastly, I evaluate the possibility that the financial returns to wage-employment and self-employment differ in the amount of time invested. For example, total returns to wage-employment tend to simply be the product of the wage rate and the number of hours worked; however, this is not necessarily the case when working for oneself. It is possible to imagine that business owners get incrementally higher gains with every hour they input. Therefore, a simple one-to-one comparison of wage rates between employment types may not be representative of the true returns to either form of employment.

My work (currently in progress) individually tests each of the hypotheses outlined above. (To get the full findings, contact me in six months.) In addition to understanding entrepreneurial choice and success, I also have a keen interest in understanding different forms of governance and institutions, and the role they play in determining economic development.

## Experience at UC San Diego

In my five years here at UCSD, I have developed many intellectual and personal relationships with both colleagues and faculty members. The open and warm environment fostered by the Department of Economics facilitates unprecedented levels of faculty-student interactions.

My colleagues, particularly those in my cohort, have also been a tremendous source of intellectual support. In my batch alone, we have representation from more than twelve countries, and all continents are represented in the department. My colleagues are also from a variety of academic backgrounds, ranging from political science and linguistics to computer science and theoretical physics. Because of the diversity of cultures and skills, I have access to a vast array of thoughts and opinions on practically any issue of interest to me.

On the whole, the UCSD Department of Economics has provided a fertile ground for both my personal and intellectual development.

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# Economics

## IN ACTION

## What Happens When We Ban Affirmative Action?

### *The Consequences of Proposition 209*

By *Kate Antonovics, Ph.D.*

In 1996 a majority of California voters voted in favor of **Proposition 209**, which amended California's constitution and prohibited public institutions in the state from giving preferential treatment on the basis of race, sex, or ethnicity. For the University of California, this meant an end to the use of affirmative action in admissions, recruitment, financial aid, and all other UC-sponsored programs and activities, starting with the freshman class of 1998.

The effects of Proposition 209 were immediate and dramatic. In 1997, the year before Proposition 209 took effect, 71 percent of African-American applicants were admitted to UC San Diego as freshmen. A year later this number fell to 37 percent. Naturally the racial composition of the student body also changed. From 1997 to 1998, for example, the fraction of fall freshman enrollees at UCSD who were African American decreased by 21 percent.



*Kate Antonovics*

More than a fifth of college-age Americans now live in states whose public universities have some type of ban on the use of racial preferences. Despite this, few empirical studies have examined how these bans affect student outcomes, and little is known beyond the simple fact that these bans reduce the fraction of African Americans, Hispanics, and Native Americans at highly selective universities.

Understanding the effects of bans on the use of racial preferences is crucial to understanding the pros and cons of affirmative action in higher education. Working with a team of interdisciplinary researchers from across the United States, my current research aims to shed light on the affirmative action debate by examining the effects of Proposition 209 on high school performance, college choice, college performance, and choice of major.

### What the Data Says

Our preliminary work focuses on how Proposition 209 changed the yield rate (the probability of enrolling conditional on being accepted) of underrepresented minorities relative to other groups. Interestingly, our findings suggest that the yield rate for underrepresented minorities *increased* relative to that of non-underrepresented minorities in the years immediately following the implementation of Proposition 209. The graph below, for example, shows a slight increase in the relative yield rate of underrepresented minorities at UC Berkeley, UCLA, UC San Diego, and UC Riverside immediately after Proposition 209 took effect. This finding holds even after we account for changes in the characteristics of admitted students and changes in the set of schools to which students were admitted. Our results are surprising in light of the fact that Proposition 209 limited the ability of the UC system to use financial aid and scholarships to help recruit underrepresented minorities, and run contrary to popular perceptions about the effects of Proposition 209.

One possible explanation for our findings is that underrepresented minorities valued the opportunity to attend schools where their professors, fellow students, and future employers would know that race placed no role in admissions. Another possibility is that there was a massive increase in non-university sponsored recruiting efforts immediately following the implementation of Proposition 209. In the year Proposition 209 took effect, for example, the UCLA Black Alumni Association is reported to have held a gala event for admitted students to encourage



[Click graph to enlarge.](#)

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them to enroll. Whatever the explanation, the dramatic fall in the number of underrepresented minorities enrolled in the UC system immediately following the implementation of Proposition 209 does not appear to be because Proposition 209 lessened underrepresented minorities' interest in attending UC schools. Rather, it appears to have arisen because Proposition 209 decreased underrepresented minorities chances of being admitted.

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# Economics

## IN ACTION

## Bright Futures in Sight

### ***UIS Hosts Its Fifth Annual Financial Horizons Conference***

*By Michael Willoughby, Ph.D.*

**UC San Diego's Undergraduate Investment Society (UIS) hosted the Fifth Annual Financial Horizons Conference on February 27, 2010.** Despite a downpour, the conference attracted more than 350 students, plus two dozen financial professionals from Southern California. This conference is the largest financial event held at UC San Diego.

The half-day conference featured prominent executives, hands-on workshops, and networking sessions with financial professionals and UC San Diego alumni. Speakers represented Brandes Investment Partners and the Brandes Institute, Ten Asset Management, Dodge & Cox Funds, Frontier Market Asset Management, Coastwise Capital Group, and Wells Fargo Private Banking. Attendees listened to sessions on a wide range of finance-related topics, including the financial crisis, private banking, and portfolio management. Students also had the opportunity to mingle with CEOs, CPAs, CFAs, lawyers, bankers, and portfolio managers. The highlight of the conference, according to attendees, was the insight shared by these professionals on how to break into the world of finance and investing.

### **Professionals Shared Some Sage Advice**

Harold Buchanan, the former COO of Enron North America and currently the CEO at CE2 Capital Partners, was the morning keynote speaker. Mr. Buchanan led a provocative discussion on the business ethics of Enron and furthered students' understanding of the Enron scandal. His discussion challenged students to question the procedure and handling of the Enron executives' trial, especially in light of ambiguous accounting guidelines and the uncertainty of business success in highly competitive markets.

The afternoon began with keynote speaker Mike Alfred, cofounder and CEO of BrightScope, which is a 401(k) plan-rating agency. Mr. Alfred inspired listeners with his enthusiastic

entrepreneurial spirit by presenting the timeline of his successful career, modeling a step-by-step methodology in his presentation. His charm and character inspired everyone to take charge of their lives and to allow nothing to prevent the pursuit of dreams and happiness. He commented on the heinous acts of some of the more popular rating agencies and the on the future characteristics of Wall Street.

### **Professional Networking through Workshops**

During workshops, students learned about obtaining the Chartered Financial Analyst (CFA) credential (the gold standard for investment managers), the unique features of hedge funds, steps in starting a career in finance, and the behavioral and psychological aspects of investing. Perhaps the most popular event was the alumni panel featuring four recent UC San Diego graduates who discussed their jobs.

Success of this conference was largely supported by Intuit, the UC San Diego Department of Economics, GEICO, Stalla, and the UCLA Master of Financial Engineering program. Individuals who planned and supervised the conference included UIS faculty advisor Professor Michael Willoughby, a group of dedicated current UIS officers—especially copresidents Michael Tam and Sneha Somasekar—and UIS alumni, including former UIS presidents Carrie Gan (2007–08) and Michael Chan (2008–09).

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This annual conference provides a unique opportunity for UC San Diego undergraduates to expand their financial knowledge and to explore their career opportunities. It draws attention to the growing number of UCSD students who are serious about a career in finance and also allows professionals to connect with like-minded individuals as well as with the next generation of financial leaders. In the past, the UIS Annual Conference has featured Professor Harry Markowitz and Ken Fisher, CEO of Fisher Investments (and author of five best-selling books). Next year's conference is planned for the last Saturday in February.

## About UIS

The Undergraduate Investment Society is the largest student leadership organization on the UC San Diego campus. Ann Ko founded the organization in 2003 because she wanted to help undergraduates understand how to start careers in finance. In just seven years, it has surpassed Ms. Ko's expectations. Today, it is a diverse organization committed to empowering our alumni with financial literacy. We provide career-oriented education through financial seminars, networking events, and luncheons with financial executives from local companies. UIS facilitates internships and promotes long-term relationships with potential employers by bringing professionals to UC San Diego as mentors and advisors. UIS meetings are held on alternate Wednesday evenings and are announced on the organization's Web page.

In addition to providing services for students, UIS also gives students an opportunity to gain leadership skills. UIS officers plan, organize, and manage UIS meetings and events, especially the annual conference. There is no substitute for hands-on experience, and UIS is managed exclusively by students who make all UIS decisions and who are responsible and accountable for UIS activities.

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# Economics

## IN ACTION

## Graduate Student Placement Record Set

### *Despite a Tough Economy, UCSD Ph.D.s Fared Better Than Ever*

*By the Department of Economics*

At the outset of the economics graduate job season last fall, there was bad news all around. Both public and private universities announced hiring freezes. The national job market looked extremely competitive. And the Department of Economics had twice as many graduate students applying for jobs as in years past. We all looked ahead six months and envisioned a train wreck.

The students diligently polished their papers and practiced their presentations. Their mentors continued to prepare them to put their best effort forward. Now, as the job market season comes to a close, we see that the wreck was avoided, and that the Department of Economics at UC San Diego had perhaps the best placement year on record.

**Despite the limited number of open positions at universities nationwide, several students found themselves ushered into the rank and file of academia:**

Ben Gillen, an econometrician and behavioral economist had two great options, and after being courted by the University of Chicago-Booth School of Business, he accepted a position at CalTech. Michael Ewens, an expert in entrepreneurship, took a position at Carnegie Mellon's Tepper School of Business. Econometricians Hiroaki Kaido and Soyong Song will be heading off to Boston University and University of Wisconsin-Milwaukee, respectively. Jacob LaRiviere, a resource economist, will be at University of Tennessee.

**We also had first-rate placements at international universities:**

Juanjuan Meng, a behavioral economist, was courted by all the top institutions in China and accepted a position at the best university in the country, Peking University in Beijing. Xun Lu, an econometrician, is joining the best university in Hong Kong, the Hong Kong University of Science and Technology. After a fifteen-month postdoctoral positional at the World Bank, Lian Choon Wang is moving down under to one of Australia's premier institutions, Monash University. Li Zhou, international trade, is heading north to the University of Alberta.

**And we had more placements in government and private sector jobs than ever before:**

Two public finance economists, Patricia Tong and Nicholas Turner, will be working at the U.S. Department of the Treasury in the Office of Tax Analysis. Jaime Thomas, a labor economist, is joining Mathematica Policy Research, while Aren Megerdichian is taking a consulting post at Compass-Lexicon. Michael Bauer, a macroeconomist, is excited to be joining the Federal Reserve Bank of San Francisco, and Justin Rao, a behavioral economist, will be joining Yahoo! Research. Two other students are still considering offers, and both have excellent opportunities in hand.

All in all, seventeen UC San Diego economics Ph.D. students found outstanding jobs this year. Happily, most of the candidates got the kind of jobs they desired. We give all the credit to the students and the dedicated faculty who worked with them through this stressful process. Their substantial efforts resulted in a superior product: the UC San Diego Ph.D. in economics. And when you have a great product to sell, it practically sells itself!

### Job Market Advice from This Year's Candidates

***Mein Hosenstall ist offen!*** (Always check to make sure your fly is zipped.)

—Michael Bauer, Monetary Economics & Applied Microeconomics

**Double-check and make sure it's your paper that is passed out for your talk ... or learn a few words of Spanish.**

—Justin Rao, Behavioral/Experimental Economics & Public Finance

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**Remember your tie or be prepared to barter with the hotel manager.**

**When in a pinch and you need to relax, use extra CVs to open a nice cool beer.**

—Ben Gillen, Econometrics, Financial Economics & Industrial Organization

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*The Department of Economics would like to give special thanks to our two graduate placement liaisons, **Rebecca Franco** and **Professor Jim Andreoni**.*

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## IN ACTION

### ALUMNI SPOTLIGHT

## Brandon Freeman

### High Energy Philanthropist

By Sarah Alaoui '12

**Brandon Freeman '04 got his first computer when he was only five years old** and has been captivated by technology ever since. So, it makes sense that he planned to major in electrical engineering, with a minor in economics.



During Freeman's sophomore year, however, fate led him to an internship at Qualcomm, where he quickly realized his passion was for the business side of a company rather than the technology. "I decided that a good mix would be to either start a company or work in operations for a company in the engineering industry," Freeman says.

Following his internship, he made the move to the Department of Economics to study management science, with an additional focus in electrical engineering. When he graduated in 2004, Freeman had already received many accolades from campus leadership for his involvement with Alpha Phi Omega, the National Society of Black Engineers, the Emerging Leaders Program, and Associated Students.

#### Professional Opportunities

Shortly after graduation, Freeman obtained a position at the California Institute for Telecommunications and Information Technology (Calit2) at UC San Diego with the hopes of gaining experience in project management. In 2007 he joined CommNexus San Diego as the director of operations. "It's all about networking," Freeman says. "After making contacts at that job [Calit2], I was offered a position following an interaction with a CommNexus board member."

Because CommNexus is a small operation, Freeman manages various aspects of the company, such as cash investments; corporate finances; and accounting, which includes budgeting, forecasting, accounts receivable, and accounts payable processes. He also oversees business operations, maximizing revenues and minimizing expenses while ensuring the company maintains a projected level of growth. Freeman can still indulge his interest in technology through his involvement with the design and development of Web properties and interactive and print media.

#### Giving Back

And if all that wasn't enough, Freeman makes time to give back to his alma mater through his relationship with the UCSD Alumni Association. As a student, he led the Student Foundation and implemented the I Pledge campaign, UCSD's largest student-initiated gift giving endeavor. Upon graduating, he became one of the founding members of the Young Alumni Council and now sits in an ex officio role on the Alumni Association's board of directors.

Freeman also supports local community organizations, including the New Leaders Council and the La Jolla Music Society's Allegro Society. "I think your community is what builds you and makes you into the person that you are," he says. "I think that it's important to give back and provide those opportunities for the next generation." In honor of Black History Month in February 2010, Brandon was recognized by the San Diego News Network (SDNN) as one of eight great young African-American community leaders in San Diego. Nominations were submitted by local politicians and SDNN readers.

What's next for Brandon? He has a patent pending in wireless communications systems and is the author of an upcoming physics book on high energy and particle (HEP) theory entitled *Grand Symphony*. He is also the chair-designate of Chancellor's Associates Young Alumni, an organization of young UCSD

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alumni who are engaged with the university through philanthropic support at annual leadership gift levels.

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# Economics

## IN ACTION

## Busy Months for the Department of Economics

Welcome to the second issue of our revamped online newsletter.

### Graduate Program Admissions and Placement

This has been a busy time for the Department of Economics. Over the past two months, the graduate admissions committee chaired by Professor Richard Carson carefully read a record number of applications for our graduate program. He and his committee, consisting of Drs. Yixiao Sun, David Miller, and Davide Debortoli, assessed 649 applications for approximately 20 to 24 spots in our graduate program. We expect to have another great incoming class this fall.

Professor James Andreoni chaired graduate placement, and you will find a report of this year's efforts in this issue. In short, our graduate students fared very well in the job market in spite of a serious recession.

### Undergraduate Program

Our three undergraduate major programs (economics, management science, and mathematics and economics) continue to thrive. Roughly one in ten undergraduates at UC San Diego chooses to major in one of our three programs. We are proud of the work that our faculty, lecturers, staff, and graduate students do to provide a high-quality education to this burgeoning group of undergraduate students.

I encourage you to read the story by Dr. Michael Willoughby about his work with the Undergraduate Investment Society and the Fifth Annual Financial Horizons Conference, both of which are providing valuable real-life experience in finance for many of our undergraduates.

### Alumni Reception at American Economic Association Meeting

We enjoyed seeing many alumni at the Department of Economics reception at the annual American Economic Association meeting in Atlanta in early January. For many of us, one of the highlights of the meeting was a memorial session in honor of Clive Granger, who, as many of you know, passed away last year. The session, organized by UCSD alumni Norm Swanson (Rutgers) and Xiaohong Chen (Yale), included overviews of Clive's contributions to diverse areas of econometrics, plus some personal reminiscence. Speakers included Hal White (UCSD), Mark Watson (Princeton), James Stock (Harvard), and Norm Swanson (Rutgers). For more information on the conference, including some working papers and videos of talks, visit the annual conference [Web page](#).

### Celebrating Clive Granger

The University of Nottingham, in conjunction with UCSD, is hosting a conference in celebration of Clive Granger in May 2010. We are delighted that Nottingham has initiated this conference, and several UCSD professors plan to take part. Please see the University of Nottingham's [Granger Centre Web site](#) for conference details.

### Alumni and Events

In addition to this newsletter, we continue to look for ways to get in touch with our thousands of alumni. One component of this effort is talks to alumni groups. Most recently, Professor Valerie Ramey traveled to Los Angeles, where she spoke to alumni about her recent research on the government multiplier effect—a most timely topic in the midst of a large increase in federal government spending during the recession. The host of the alumni event was Brad Burstin '93, senior vice president of Comerica Bank in Los

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Angeles. We would like to thank him, as well as Armin Afsahi, assistant vice chancellor of the Alumni Association, and the UCSD Alumni Association staff for organizing the event.

The [Economics Roundtable](#) Lecture Series organized by Professor James Hamilton continue to draw crowds locally. A recent talk by [Hal Varian](#) about how he and other economists are contributing to Google attracted a large and diverse audience.

Closer to home, we thank Professor Ross Starr and department staff for organizing the [NSF/NBER/CEME Conference on General Equilibrium Theory and Mathematical Economics](#) in the fall of 2009, which was held here at UCSD.

This winter, the Department of Economics benefited from visits by two distinguished speakers, Professors [Jeff Ely](#) from Northwestern University and [Eric Renault](#) from the University of North Carolina. We recently expanded this part of our seminar series to increase the possibilities for extended interactions between our faculty and students and leading economists from other universities during visits of as long as a week.

## Your Support

We are all grateful to the many of you who have given charitable donations to the Department of Economics. The department will soon post a list of initial donors for the Clive Granger Memorial Fund, which we recently established in memory of Clive to support the activities of the Department of Economics. We would especially like to thank Mrs. Pat Granger for a generous contribution. We hope to obtain permission to list the names of many other donors in a future issue of *Economics in Action*. Separately, Ms. Diemut Heller has contributed to the Walter Heller Memorial Fund, which underwrites the much-prized award in Walt Heller's name for the best third-year original paper.

As you may be aware, funding for the UC system continues to decline and affects the department's ability to maintain our high standards of student education. Now is a key time for alumni support to maintain the department's world-class educational experience. If you would like to help, please visit our [Giving Back page](#), or contact Doug Kurtz at (858) 822-0805 or [dpkurtz@ucsd.edu](mailto:dpkurtz@ucsd.edu).

To all of our friends who have donated to the Department of Economics, including the many others whom I have not had space to include here, my profound thanks for your continued support.

As you can see from this list of activities and the many newsworthy items elsewhere in this issue, the Department of Economics continues to be a vibrant intellectual community. We hope you enjoy reading this issue. As always, we would love to hear your [comments](#) on the new format for *Economics in Action*, as well as your ideas for future stories.

Sincerely,



Julian Betts, Chair



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# DEVELOPMENT AND CONFLICT

## APPROACHING INSURGENCY AND TERRORISM WITH ECONOMIC ANALYSIS

By *Eli Berman, Ph.D.*

**“We want to show people that we can deliver police, and services, and development,”** stated Lieutenant General Mohammed Karimi, deputy chief of staff of the Afghan army in February, while describing his plans for the town of Marja after it was cleared of insurgents. “We want to convince the Afghans that the government is for them.” (*The New York Times*, February 12, 2010). It was once unusual to hear generals become passionate about economic and political development, but it has recently become the norm in Afghanistan and Iraq.

Until only a few years ago, the Afghan military, like most allies of the United States, saw counterinsurgency as an exercise in targeting: locating the enemy and then either capturing or killing them. Critics dubbed this sort of targeting as “mowing the grass” because troops would clear an area of insurgents only to see them reappear, forcing the effort to begin again. With the “surge” in Iraq, the strategy changed, and political and economic development is now considered to be a key component of U.S. counterinsurgency strategy.

Yet the new development-based doctrine has its critics as well. In Afghanistan, Iraq, and other conflict and postconflict zones, the United States, our allies, and aid organizations provide tens of billions of dollars annually in aid designed to stabilize countries plagued by internal conflicts. This is development economics of a different nature than what we teach: Welfare maximization is not an end in itself but an instrument to reduce violence, or sometimes a means to improve the ability of a local ally to govern. It raises two questions. First, why should development lead to political stability? Second, from the donor’s point of view, does it work?

### Evaluating “Hearts and Minds”

Economic and political development as a counterinsurgency approach is usually called “winning hearts and minds,” though the underlying logic is less prosaic. The idea is that insurgents cannot operate without sharing critical information about their location and identities with noncombatants. Imagine a rebel setting up a roadside bomb one night in a populated area. That would be hard to do without making some noise, which a noncombatant could hear and report to the authorities. Now, that noncombatant has a choice. He could undermine the insurgency by sharing information with the government (or with its allies), or he could say nothing and allow the patrol to be attacked in the morning.



*Reviews of Professor Berman's recent book are collected [here](#). For more on UCSD research on development and conflict, see [this page](#).*

### Events

[FULL CALENDAR](#)

**Apr 23** [Economics Roundtable: Elisse Walter, SEC Commissioner](#)

**Apr 24** [Organic Farm Tour](#)

**May 14** [Sun God: The Alumni Experience](#)

**June 3** [UC San Diego Alumni Weekend, June 3–6](#)

**June 4** [End of the Year Celebration](#)

**July 20** [Economics Roundtable: Takeo Hoshi, Acting Dean of Pacific Economic Cooperation](#)

In most conflicts the government has the capacity to capture or kill insurgents if it knows their identity and location; this is particularly true for U.S. allies. So, the more effective the government is at providing services that noncombatants desire, the more that population will prefer the government over the insurgents, and the more likely that tactically useful information will flow to the government. That implication is testable: Check if service provision predicts lower levels of violence.



*This graph uses data gathered from Iraq on violent incidents against coalition and Iraqi forces (vertical axis), and expenditures on reconstruction (horizontal axis); each data point represents a half-year period in one of the 104 Iraqi districts from 2004–2008. Click graph to enlarge.*

The graph to the left shows how we tested this theory. Reconstruction spending reported here is localized spending by Iraqi contractors, which is administered by U.S. forces under the Commanders Emergency Response Program (CERP). These results were drawn from a collaborative effort in the National Bureau of Economic Research (NBER) [working paper #14606](#). The far left plot shows that the raw correlation between violence and CERP spending is positive. That's not because CERP spending increases violence, but rather—recalling your econometrics training at UC San Diego—that CERP administration is subject to selection: The most violent places attract the most spending. Once we control for proclivity toward violence (by plotting changes in violent incidents against changes in spending) the rightmost plot illustrates that in the postsurge period, from 2007 on, CERP spending reduced violence, and was quite cost-effective at that.

So, a “hearts and minds” approach works, but not everywhere and always. In the presurge period, it did not, as illustrated in the middle plot, which shows no violence-reducing effect of CERP spending. In fact, CERP spending has been historically less than ten percent of reconstruction spending in Iraq. The rest, including large projects and projects carried out by foreign contractors, appears to have had no violence-reducing effect. When does it work? Apparently when territory is

fairly well controlled, troops have a good working relationship with noncombatants, reconstruction spending is chosen in consultation with local officials, and programs have an Iraqi face. Do those insights transfer to Afghanistan? That's one of our current research questions.

## Job Creation as Counterinsurgency?

Why is so much reconstruction spending wasted? The underlying theory of governance and economic development in conflict spaces is not well researched. Despite our massive expenditures, there is no formal evaluation process in place (and very weak oversight). For example, much of our aid is premised on an argument that labor economists—such as myself—are predisposed to like: that increasing employment opportunities for potential fighters will reduce terrorism and insurgent violence. So, the U.S. military spends a lot of money on creating low-skill jobs for the unemployed. Yet the assumptions underpinning this argument invite skepticism: Is insurgency really a full-time job? Is it a low-skill occupation? Is the insurgency constrained by labor supply? These assumptions have gone largely untested.

A new study we recently completed casts serious doubt on the entire argument that U.S. and coalition operations have been based upon. In the insurgencies in Iraq and the southern Philippines, the correlation between employment rates and violence is weakly positive and certainly not negative (for details see [NBER WP #15547](#)). If only one of the assumptions above did not hold, no correlation would be easy to explain. But why do we see a positive correlation? Perhaps the means by which government forces in both conflicts control insurgent violence also suppresses the economy and destroys residents' employment possibilities. If so, there is a need to develop ways to control insurgency while minimally damaging the fragile local economies and managing to keep in mind the “hearts and minds” mechanism outlined above.

## Terrorism and Development

The conventional wisdom on economic development and terrorism is that development reduces the grievances that motivate terrorists. Yet careful studies have repeatedly shown that members of terrorist organizations are not motivated by particular grievances and that their leaders and key operatives are not disproportionately poor. Some, in fact, are quite well educated (see the work of Ariel Merari of Tel Aviv University, Alan Krueger of Princeton University, and Claude Berrebi of the RAND Corporation, for example). That's consistent with a strong finding from the civil war literature: The correlation across countries between measured grievances and insurgencies is zero.

What about the “hearts and minds” logic, which ties development to stability? Well, in contrast to insurgents, terrorists can use tactics that do not share information with noncombatants—such as suicide attacks—so that the logic of the snitching noncombatant outlined above does not apply. In fact, many

