

ECONOMICS AT COLUMBIA

VOL 2/ISSUE 1

FALL 2007

Conference on Russia Held in Honor of Professor Padma Desai

A conference titled "Russia: Soviet Past, Present Performance, and Future Prospects" was held in honor of Professor Padma Desai on April 26 and 27 at Columbia University. The event, which surveyed ten years of an independent Russia, drew such political dignitaries as Yegor Gaidar, former Prime Minister of Russia, Sergey Dubinin, former Finance Minister of Russia, and Jack Matlock, former U.S. ambassador to Russia, as well as academic figures such as Andrei Shleifer of Harvard University, Saul Estrin of the London School of Economics, Andre Sapir of the Université Libre de Bruxelles, and Nobel laureate Robert Mundell of Columbia University among others. Professor Padma Desai is regarded as a leading scholar today on the Soviet Union and Russia, while her writings extend also to the problems of other transition and emerging market economies. She is the Gladys and Roland Harriman Professor of Comparative Economic Systems and Director of the Center for Transition Economics at Columbia University and an elected member of the Council on Foreign

Continued on page 2



Professor Padma Desai

Economics Department Hires Four New Faculty



Massimo Morelli



Emi Nakamura



Jon Steinsson



Serena Ng

The Economics Department made four new additions to its faculty this academic year: senior faculty members Massimo Morelli and Serena Ng and junior faculty members Emi Nakamura and Jón Steinsson. The new hires strengthen both Macroeconomics and Microeconomics.

Massimo Morelli, who joins both the Economics and the Political Science Departments, was Associate Professor of Economics and Political Science specializing in Game Theory and Political Economy at Ohio State University. After receiving his Ph.D. from Harvard in 1996, he spent one year at CORE as a research fellow, two years at Iowa State University as an assistant professor, and one year at the University of Minnesota as a visiting professor. In 2001-02 he became a member of the School of Social Sciences at the Institute for Advanced Study, Princeton. He obtained the joint position in Economics and Political Science at Ohio State in 2004, at the time of tenure. In Economics he has made contributions to the theory of multilateral bargaining, network formation, market games, and the theory of contracts. His main political economy contributions have been on Duverger's Law, party

Continued on page 3

In This Issue

3 Letter From the Chair

NEWS AND FEATURES

4 Interview with George Olive, CC'08

4 Transportation Conference

5 Globalization and Consumer Welfare

6 Graduate Student Awards

RESEARCH NOTES

5 Recent Faculty Publications

7 PER-Sponsored Research

7 Graduate Student Summer Research

8 Recent Discussion Papers

10 Faculty Books; In the News

IN PICTURES

11 Forum with Mark Kingdon

12 Department Events

Professor Jagdish Bhagwati Receives 2007 Thomas C. Schelling Award



Columbia University Professor Jagdish Bhagwati received the Thomas C. Schelling Award from Harvard University's Kennedy School of Government. Given annually to "an individual whose remarkable

intellectual work has had a transformative impact on public policy," the award recognized Bhagwati for "his lifetime of work in the field of international trade. He is considered the most creative international trade theorist of his generation and is a leader in the fight for freer trade." Past recipients of the award have included Judge Richard Posner and Professor Daniel Kahneman.

Desai, Continued from page 1

Relations. She was the U.S. Treasury's Advisor to the Russian Finance Ministry in 1995 and was the President of the Association for Comparative Economic Studies in 2001.

For two days, an extensive program covered such areas as "The Decline and Disintegration of the Soviet Economy" featuring a panel chaired by Guillermo Calvo (Columbia). Panelists Paul Gregory (U. Houston) spoke about lessons from the Soviet archives about disintegration; Andre Sapir (Bruxelles) spoke about Social models; 2007 Nobel Laureate Eric Maskin (Princeton) addressed organizations and hierarchies; and Richard E. Ericson's topic (East Carolina U.) was on the structure and dysfunction of the Soviet economy. Robert Solow, Nobel Laureate and MIT professor chaired a panel titled "Privatization: What Have We Learned?", a topic addressed in presentations by Patrick Bolton (Columbia), Andrei Shleifer (Harvard), Jan Svejnar (U. Michigan), Saul Estrin (LSE) and Katharina Pistor (Columbia Law).

The panel on "Russian Growth: Oil, Dutch Disease, and Reforms" was chaired by Nobel Laureate and Columbia professor Robert Mundell. Presenters included Yegor Gaidar who spoke on "Growth, Oil Prices and Structural Reform." Eric Berglof, the Chief Economist of the European Bank for Reconstruction and Development addressed the question

"Is Russia Growing Because of Oil Prices and/or Because of Reform?" Dr. Mario Nuti (University of Rome La Sapienza) presented "Growth and Exchange Rates"; Daniel Berkowitz (Pittsburgh) presented "A Political Economy of Pipelines: The Case of Russian Oil"; Tim Frye (Columbia) spoke on "Original Sin, Property

Rights and Russian Growth"; and Brigitte Granville (Queen Mary College, London) presented "Technical Change in Transition" with Carol Leonard (St. Anthony's College, Oxford).

The conference concluded with a talk given under the auspices of the World Leaders Forum, a yearlong series of events hosted by the President of Columbia University, Lee Bollinger. The question "Where is Russia Headed?" was the topic of discussion moderated by Chrystia Freedland, the U.S. Editor of the *Financial Times*. The panelists consisted of authors of celebrated books on Russia: economist and politician Yegor Gaidar; former Bank of Russia chairman Sergey Dubinin; Sergey Rogov, Director of the Institute for USA and Canada Studies, Russian Academy of Sciences; former Ambassador Jack Matlock; and Padma Desai herself.

Through her extensive career, Professor Desai has known many of Russia's and the Soviet Union's key political players, including the late Yeltsin. With the publication of numerous papers and books, she has undertaken a close study of the collapse of the Soviet system and has, over the years, distinguished herself as a keen observer of its transition phase and analyst of its outcomes. Her familiarity with the field and its many actors that gave rise to her book, *Conversations on Russia: Reform From Yeltsin to Putin* (Oxford University Press, 2006), a compilation of her discussions with key Russian policy makers about their reading of events to give new insights into the country's tumultuous economic history of the last fifteen years. The book was selected by the *Financial Times* as a Best

Book of the Year in 2006.

Her main books with leading publishers include the edited volume *Marxism, Central Planning and the Soviet Economy* (MIT, 1983) followed by *The Soviet Economy: Problems and Prospects* (Blackwell, 1987) which Holland Hunter described in *The Annals of the American Academy of Political and Social Science* as "combin[ing] theoretical elegance, econometric sophistication and precise handling of econometric evidence" and going on to add that "Many general economists will enjoy Desai's sophisticated and rigorous appraisal of the Soviet system. Policymakers will quote from her conclusions. "Abram Bergson called the book "a masterly volume" and noted that "Amongst students of the Soviet Economy, Padma Desai is noted not only for her Russian expertise but for her technical rigor."

In 1989 she published *Perestroika in Perspective: The Design and Dilemmas of Soviet Reform* (Princeton University Press, 1989) which was described by John Barber of the *London Review of Books* as "a model of lucidity" and a "healthy antidote to the tendency to discuss economic reform in the USSR out of its social and political context." This was followed by *Going Global: Transition from Plan to Market in the World Economy* (ed) (The MIT Press, 1997); and (jointly with Todd Idson) *Work Without Wages: Russia's Nonpayment Crisis* (The MIT Press, 2000). Her *Financial Crisis, Contagion, and Containment: From Asia to Argentina* (Princeton University Press, 2003) was described by Paul Krugman as the "best book yet on financial crises."

For more information and a copy of the conference program visit: www.columbia.edu/cu/economics/about/docs/desai.pdf



Padma Desai is a prolific scholar of the Soviet economy.

Hires, Continued from page 1

formation, electoral systems, legislative bargaining, international organizations, politicians' incentives in institutional reforms and constitutional design. His most recent research projects include conflict and legislative bargaining experiments. He has a recent paper in the *American Economic Review* titled "Political Bias and War" and another paper titled "Entrepreneurial Talent, Occupational Choice, and Trickle Up Policies," in the *Journal of Political Economy*.

Serena Ng joins the department from the University of Michigan, where her research in econometrics included analysis of time series and large dimensional panel data. Her research in macroeconomics included open economy macro and intergenerational issues and empirical methods in macroeconomics and finance. She received her Ph.D. from Princeton University in 1993, after which she joined the University of Montreal as Assistant Professor from 1993 to 1996. She was Associate Professor at Boston College from 1996 to 2001 and at Johns Hopkins University from 2001 to 2003 before joining the University of Michigan. Among her recent publications is "The Empirical Risk-Return Relation: A Factor Analysis Approach" (with S. Ludvigson) in the *Journal of Financial Economics* and "Determining the Number of Primitive Shocks in Factor Models" (with J. Bai) in the *Journal of Business and Economic Statistics*.

Emi Nakamura and Jón Steinsson will both join the department as Assistant Professors in January of 2008 after completing their term as Economists at the Federal Reserve Bank of New York in December. They both obtained their Ph.D.s from Harvard earlier this year and together have co-authored a series of working papers, including "Five Facts about Prices: A Reevaluation of Menu Cost Models," "Monetary Non-Neutrality in a Multi-Sector Menu Cost Model," and "Price Setting in Forward-Looking Customer Markets." In addition, Jón Steinsson spent the year 2000-2001 as Economist at the Central Bank of Iceland and published several papers in Icelandic. His forthcoming paper in the *American Economic Review* is titled "The Dynamic Behavior of the Real Exchange Rate in Sticky Price Models."

For more information or to access faculty members' publications, please visit our website at www.columbia.edu/cu/economics/faculty

Letter From the Chair



We are delighted to be able to announce the generous gift of Mr. Sami Mnaymneh, Managing Partner of HIG Capital Management Inc. Mr. Mnaymneh has donated a chair in Economics, which will help to underwrite the expansion of the faculty to meet the growing demand for economics education at Columbia.

He has also become the first person to contribute to the endowment of PER, our Program in Economic Research. PER is vital to the intellectual life of our department. It underwrites visiting lectures by cutting edge researchers, small grants programs for students and faculty, and special events such as the exchange last spring between Trustee Mark Kingdon and members of our two undergraduate student societies. PER also underwrites research computing and facilitates and encourages grant writing in the department, which brings in additional funds to support research. This gift will truly keep on giving in future years as we fill the chair, and continue to support research through PER.

This gift caps an extraordinary year, beginning with the announcement of Edmund Phelps's Nobel Prize (the fourth in a decade for Columbia Economics) last October; and continuing with Michael Woodford's winning of the prestigious Deutsche Bank Prize in Financial Economics; Xavier Sala-i-Martin's receipt of the Lenfest Distinguished Faculty Award; a PER-sponsored Festschrift for Padma Desai that was attended by international figures such as former Russian Prime Minister Yegor Gaidar; and the award of the 2007 Schelling Prize, for work that has had a transformative impact on public policy, to Jagdish Bhagwati. More information about these events is available on our website.

While celebrating these accomplishments, we continue the quieter and continuous work of building the department by working to recruit and retain the best faculty and graduate students. At the tenured level, we were able to attract Serena Ng, a noted econometrician, and Massimo Morelli, who studies political economy (his appointment is joint with the Political Science Department). At the junior level, we were pleased to hire Jon Steinsson and Emi Nakamura (joint with the Business School), to strengthen our offerings in macroeconomics, which remains one of our most popular fields. These new colleagues are important hires. But we cannot rest on our laurels. We remain smaller than Economics departments in comparable schools, and very small relative to the huge demand for the teaching of Economics. Hence, building the department will continue to be a main focus of our activities in coming years.

Interview with George Olive, CC '08



George Olive (CC '08) is the President of the Columbia Economic Forum (CEF), an undergraduate society devoted to discussion of topics within the various fields of economics research.

Q: What is the history of CEF, and what are the aims of the society?

A: The Columbia Economic Forum was founded in early 2006 by Shuky Ehrenberg (GS '06) with the help of several other students. Shuky approached Professor Susan Elmes, the Director of Undergraduate Studies, to ask for help establishing an undergraduate society for students who were interested in discussing economic topics and research. She immediately agreed, and the Forum has been holding weekly discussions and hosting special events with the support of the department ever since. The primary aims of our society are two-fold: to provide undergraduates with a forum in which to meet and exchange ideas, and to educate undergraduates about non-finance-related career opportunities, both in and outside of academia. There is another, older student organization called the Columbia Economics Society whose mission is to help students find career opportunities in the fields of banking, finance, and consulting. They are quite successful at this, but the founders of CEF felt that there was an opportunity to further serve the undergraduate community by establishing a more discussion-centered group about economics and economists.

Q: What are some of the topics you've discussed recently in your Wednesday evening meetings?

A: The administrators of CEF select topics and readings for each week. We send them out to members of our mailing list a few days ahead of time to allow people a chance to form opinions before getting together. This year, our meetings have included a fun week discussing Milton Friedman's landmark essay "The Methodology of Positive Economics," as well another spent analyzing the arguments presented in a speech given by Professor Edmund Phelps entitled "The Good Life and the Good Economy: The View from Aristotle to Bergson and Rawls." Our discussions are far from rigid, and we ended up spending one entire meeting discussing the visit of President Ahmadinejad. Last semester's discussions included presentations of our members' thesis research on topics like the Argentine financial crisis, as well as a discussion of the "Freakonomics" trend in the economic research community and its potential implications. One topic on our to-do list is the Cambridge Capital Controversy. In general, presentation duties rotate among members and we encourage a wide range of topics over the course of a semester.

Q: What is it like to study economics at Columbia as an undergraduate?

A: It has been a wonderful experience. The department does a great job handling such an overwhelming number of students. I have always found my professors in the Economics department to be remarkably approachable, willing, and devoted to their students. I have, on more than one occasion, visited a professor during office hours only to emerge more than a hour later with a stack of books, some of which I was intended to keep. I'm reading one such book now: the Isaiah Berlin biography of Karl Marx, given to me by Professor Ronald Findlay.

Pierre-André Chiappori Hosts Conference on Transportation

Professor Pierre-André Chiappori hosted a conference on "The Economic Applications of the Mathematics of Mass Transportation" at Columbia on June 25, 2007. The conference, which was supported by a grant from the National Science Foundation (SES-05-32398), was attended by economists such as Guillaume Carlier from the Paris Dauphine, Victor Chernozhukov from MIT, and Ivar Ekeland from the University of British Columbia, among others.

Since Gaspard Monge formulated the problem of finding an optimal transportation plan for piles of soil in his 1781 *Mémoire sur la théorie des déblais et des remblais*, the problem of transporting a given distribution of mass from one location to another distribution of mass in a different location, while minimizing a certain cost of transportation, has become a major field of study in mathematics and operations research. That it also provides a powerful and versatile tool for a wide range of economic applications is now becoming apparent. Mass transportation duality is useful in formulating the problem of existence, uniqueness and purity of equilibrium in hedonic models. It lies at the heart of improvements of estimates of monotone functions (such as cumulative distribution and quantile functions), and of the problem of testing economic model specification, to name only a few applications.

The conference brought together researchers at the forefront of developments of these economic applications. Its main goals were to increase their awareness of each other's work, to identify the most important unexplored problems and pave the way for collaborations. It is also intended to become the first of a long series of annual meetings in rotating venues.

Globalization, Variety and Consumer Welfare



Christian Broda



David Weinstein

Lower prices on domestic goods has long been considered one of the main benefits of free trade, but recent studies have focused on gains made through the introduction of a variety of new, imported goods. Columbia professor David Weinstein, along with his co-author, Christian Broda of the University of Chicago Graduate School of Business, set out to measure the gains consumers make through this increased variety in their paper “Globalization and the Gains from Variety” featured in the May 2006 issue of the *Quarterly Journal of Economics* and in a feature story titled “Are We Underestimating the Gains from Globalization for the United States?” in the Federal Reserve Bank of New York’s publication *Current Issues in Economics and Finance*.

They calculate that the variety of imported international goods available to U.S. consumers has more than tripled from 1972 to 2001, and estimate the change in import prices for that period in the light of this growth in variety. Their results show that consumers would be willing to pay almost three percent of GDP for international goods in 2001, indicating that a growth in the variety of goods is a significant gain for consumer welfare.

Consumers seem to value the growth in variety and not just cheaper prices or higher quality. This fact was stressed by David Weinstein in an article in the *New York Times* by Virginia Postrel (“Economic Scene: Variety, the spice of life, has measurable value. But it’s not easy to determine” June 17, 2004) when he said “When you compare two types of coffee, you may not think one is necessarily better. But sometimes you’d like to drink a certain type of coffee and other times you’d like to drink another type of coffee.”

Weinstein and Broda contend, however, that gains from variety do not come from all types of imported goods. Consumers seem to value variety in particular types of goods such as wine and beer that are not considered substitutable the way crude oil might be. They “place a higher value on access to varieties regarded as superior,” preferring the opportunity to buy French red wine rather than Japanese red wine. They also place a higher value on variety in products such as automobiles that command a higher share of spending.

Recent Faculty Publications

“Reputations, Relationships and Contract Enforcement” by W. Bentley MacLeod, *Journal of Economic Literature*, September 2007

“Political Bias and War” by Matthew O. Jackson and Massimo Morelli, *American Economic Review*, September 2007

“Remedying Education: Evidence from Two Randomized Experiments in India” by Abhijit V. Banerjee, Shwan Cole, Esther Duflo, Leigh Linden and co-authors, *Quarterly Journal of Economics*, August 2007

“Macroeconomics for a Modern Economy” by Edmund S. Phelps, *American Economic Review*, June 2007

“Can Contract Theory Explain Social Preferences?” by W. Bentley MacLeod, *American Economic Review*, May 2007

“Dummy Endogenous Variables in Weakly Separable Models” by Edward Vytlačil, *Econometrica*, May 2007

Recent Working Papers

“Class Size and Sorting in Market Equilibrium: Theory and Evidence” by Miguel Urquiola and Eric Verhoogen, NBER #13303 (ED)

Incomplete Markets, Heterogeneity and Macroeconomic Dynamics” by Bruce Preston and Mauro Roca, NBER #13260 (EFG)

“Central Bank Communication and Expectations Stabilization” by Stefano Eusepi and Bruce Preston, NBER #13259 (EFG, ME)

“Defining Price Stability in Japan: A View from America” by Christian Broda and David Weinstein, NBER #13255 (ME)

“Does Pollution Increase School Absences?” by Janet Currie, Eric Hanushek, E. Megan Kahn, Matthew Neidell, Steven Rivkin, NBER #13255 (ME)

“Net Worth, Exchange Rates, and Monetary Policy: The Effects of a Devaluation in a Financially Fragile Environment” by Domenico Delli Gatti, Mauro Gallegati, Bruce C. Greenwald, Joseph E. Stiglitz, NBER #13244 (IFM)

“Performance Pay and Wage Inequality” by Thomas Lemieux, W. Bentley MacLeod, Daniel Parent, NBER #13128 (LS)

Graduate Student Awards

The following graduate students were the winners and runners-up of the 2007 Wueller Teaching awards:

Best Principles TA: Ben North

Runners up: Ulf Nielsson and Can Tan

Best TA in a 3000 Level Core Course

(micro, macro, econometrics): Alexis Antoniadis

Runners up: Cyntia Azevedo and Camelia Minoiu

Best Undergraduate Elective TA: Justin Svec

Runners up: Enrico Manlapig and Matt Wai-Poi

Best First Year Graduate TA: Raicho Bojilov

Runners up: Cecilia Machado and Anton Korinek



Guru Sethupathy

Guru Sethupathy won the Vickrey Prize for the best third year paper. Guru's paper investigates the presence of productivity spillovers due to exporting. In particular, it examines whether productivity gains from exporting spill over upstream (to suppliers), downstream (to customers) or horizontally (to competitors). Using plant-level data on Indonesian manufacturing sectors, he finds productivity gains to downstream firms of approximately 2.5-3.5% during the period 1990-1996. He does not find the presence of spillovers upstream or horizontally. The prize carries a research stipend and a semester's relief from teaching. Joshua Goodman, Yinghua He and Ulf Nielsson were runners-up, and each received a research stipend.



Tumer Kapan

Tumer Kapan, Sergei Koulayev, and Emilia Simeonova won the Wueller Summer Research Award for the best summer research proposal by a current fourth or fifth year student. Tumer's fields of specialization are applied micro theory and applied econometrics. His research interests are intertemporal models of household bargaining and marriage markets, and he uses models that have testable implications. Currently, he is analyzing the effects of legislative changes on marriage contracts and matching

behavior in marriage markets. This summer he presented his paper, "Collective households, 'unitary' households, and the role of outside options: Evidence from Turkey" at the Canadian Economic Association's 41st Annual Meeting in Halifax in June and at the European Economic Association 22nd Congress in Budapest, Hungary in August. Using survey data from Turkey, the paper tests two alternative theories of household behavior, the collective model and the unitary model. The unitary model is rejected in favor of the collective model for a large proportion of the households analyzed. However, in contrast to existing research, Tumer documents the existence of 'unitary households' in rural Eastern Turkey. He identifies the fundamental characteristics that separate this subsample from collective households and finds that these characteristics are strongly tied to women's outside options.



Sergei Koulayev

Sergei Koulayev's field of specialization is industrial organization. The goal of his summer project is structural estimation of a microeconomic search model. Using a unique dataset of search histories of people looking for hotels online, he estimates parameters of search cost distribution and beliefs. The quantitative assessment of the importance of search frictions in estimating demand is provided.



Emilia Simeonova

Emilia Simeonova is specializing in health economics and labor economics. She has been researching disparities in health care in the U.S. and the effects of health care reform on individuals using domestic and international sources of data. She is interested in the social, cultural and economic determinants of health and their interactions with the policy framework.



Justin Svec

Justin Svec was a finalist for Outstanding Teaching by a Graduate Student at Columbia University. Justin was selected as a finalist based on student evaluations and faculty recommendations for his work as instructor and teaching assistant in classes ranging from intermediate macro to game theory.

PER-Sponsored Faculty and Student Research

The Program for Economic Research (PER) provides seed grants and financial support to faculty and students to advance their research and publish papers. PER sponsored the following research projects in part over the past year.

Trade, Quality Upgrading and Wage Inequality in the Mexican Manufacturing Sector

– Eric Verhoogen

This paper proposes a new mechanism linking trade and wage inequality in developing countries – the quality-upgrading mechanism – and investigates its empirical implications in panel data on Mexican manufacturing plants. In a model with heterogeneous plants and quality-differentiated goods, only the most productive plants in a country like Mexico enter the export market, they produce higher-quality goods to appeal to richer Northern consumers, and they pay high wages to attract and motivate a high-quality workforce. An exchange-rate devaluation leads initially more-productive, higher-wage plants to increase exports, upgrade quality, and raise wages relative to initially less-productive, lower-wage plants within each industry. Using the late-1994 peso crisis as a source of variation and a variety of proxies for plant productivity, I find that initially more-productive plants increased the export share of sales, white-collar wages, blue-collar wages, the relative wage of white-collar workers, and ISO 9000 certification more than initially less-productive plants during the peso crisis period, and that these differential changes were greater than in periods without devaluations before and after the crisis period. A factor-analytic strategy that relies more heavily on the theoretical structure and avoids the need to construct proxies finds similar results. These findings support the hypothesis that differential quality upgrading induced by the exchange rate shock tended to increase within-industry wage inequality.

The Effect of Judicial Institutions on Local Governance and Corruption

– Stefan Litschig, Yves Zamboni

This paper estimates the effect of judicial institutions on governance and corruption in local governments. Our estimation strategy exploits a unique institutional feature of state judiciary branches in Brazil which assigns prosecutors and judges to the most populous among contiguous counties forming a judiciary district. As a result of this assignment mechanism there are counties with nearly identical populations, some with and some without local judicial presence, which we exploit to impute

counterfactual outcomes. Conditional on observable county characteristics, offenses per civil servant are about 35% lower in counties that have a local seat of the state judiciary. The lower incidence of infractions stems mostly from fewer violations of financial management regulations by local administrators, fewer instances of problems in project execution and project management, fewer cases of non-existent or ineffective civil society oversight and fewer cases of improper handling of remittances to local residents.

Graduate Student Summer Research



In June, **Takakazu Honryo** presented at the 2007 North American Summer Meetings of the Econometric Society a paper titled "Trade Imbalances and Competition Policy Games."

The paper, co-authored with Makoto Yano of Keio University, shows that although recent studies have shown competition policy to serve

as a substitute for tariff policy, competition policy does not trigger a tariff-war-like conflict. That is, in a dynamic model in which two countries can borrow and lend freely, a game of competition policies tends to result in the state in which a capital-poor country suppresses competition while a capital-rich country maintains perfect competition.



Evan Borkum and **Fang He** spent part of their summer in Bangalore, India, where they worked with a local non-governmental organization to evaluate the impact of school libraries on the educational outcomes of primary school children. The project involves introducing physical libraries in several 'hub' schools,

which will then also serve attached 'spoke' schools via a mobile librarian. The impact of libraries in both hubs and spokes will be identified via a two-year longitudinal randomized evaluation which is taking place under the guidance of Professor Leigh Linden and with funding from the Dell Foundation.



Ken Teshima spent May and June in Aguascalientes, Mexico, where he analyzed plant-level data on innovation. Ken has been working under the guidance of Professor Eric Verhoogen, and was funded by a seed grant from PER and a pre-dissertation summer

research grant from the Institute of Latin American Studies of Columbia University.

Recent Discussion Papers

The department sponsors a discussion paper series for faculty, co-authors, and visitors. Download the full text of these papers at <http://www.columbia.edu/cu/economics/>.

Good Jobs, Bad Jobs, and Trade Liberalization, 0607-07

– Donald R. Davis, James Harrigan

Globalization threatens “good jobs at good wages”, according to overwhelming public sentiment. Yet professional discussion often rules out such concerns a priori. We instead offer a framework to interpret and address these concerns. We develop a model in which monopolistically competitive firms pay efficiency wages, and these firms differ in both their technical capability and their monitoring ability. Heterogeneity in the ability of firms to monitor effort leads to different wages for identical workers – good jobs and bad jobs – as well as equilibrium unemployment. Wage heterogeneity combines with differences in technical capability to generate an equilibrium size distribution of firms. As in Melitz (2003), trade liberalization increases aggregate efficiency through a firm selection effect. This efficiency-enhancing selection effect, however, puts pressure on many “good jobs”, in the sense that the high-wage jobs at any level of technical capability are the least likely to survive trade liberalization. In a central case, trade raises the average real wage but leads to a loss of many “good jobs” and to a steady-state increase in unemployment.

Remedies in the WTO: An Economic Perspective, 0607-09

– Kyle Bagwell

The WTO dispute settlement system represents a major achievement of the Uruguay Round. By most accounts, this system has worked very well. In the ongoing dispute settlement understanding (DSU) review, WTO Members are considering proposals that might lead to further improvements in the functioning of the dispute settlement system. Many of these proposals concern different kinds of remedies that might be used in response to a violation. An evaluation of proposals for remedy reform requires a perspective as to the purpose of the WTO. In this essay, I describe and then apply the terms-of-trade theory of trade agreements. I argue that this theory offers a coherent interpretation of the purpose and design of the WTO. The theory also offers novel insights with respect to proposed reforms of the WTO remedy system. In Section 2, I argue that the terms-of-trade theory provides a rationale for trade agreements and an interpretation of key GATT/WTO design features. Next, in Section 3, I apply this theory and consider the extent to which

WTO remedies facilitate efficient breach. I conclude that a theoretical argument can be made in favor of a modified dispute settlement system that allows for disproportionate retaliation, particularly in response to serious violations. At a practical level, however, I argue that important measurement problems would significantly limit the feasibility of such an approach. The current system, which is based on commensurate retaliation (i.e., the suspension of equivalent concessions), may sometimes allow for inefficient breach but arguably works well in an overall sense. I suggest as well that rule changes that encourage greater use of monetary compensation may be attractive.

Gender Roles and Technological Progress, 0607-12

– Stefania Albanesi and Claudia Olivetti

Until the early decades of the 20th century, women spent more than 60% of their prime-age years either pregnant or nursing. Since then, the introduction of infant formula reduced women's comparative advantage in infant care, by providing an effective breast milk substitute. In addition, improved medical knowledge and obstetric practices reduced the time cost associated with women's reproductive role. We explore the hypothesis that these developments enabled married women to increase their participation in the labor force, thus providing the incentive to invest in market skills, which in turn reduced their earnings differential with respect to men. We document these changes and develop a quantitative model that aims to capture their impact. Our results suggest that progress in medical technologies related to motherhood was essential to generate a significant rise in the participation of married women between 1920 and 1950, in particular those with young children.

Who Merits Financial Aid? Massachusetts' Adams Scholarship, 0607-13

– Joshua Goodman

The majority of states in the U.S. now fund merit-based financial aid programs, the effects of which depend on how strongly students react to changes in college costs. I estimate such reactions using quasi-experimental aspects of a recent Massachusetts merit scholarship program intended to attract talented students to the state's public colleges. This paper is the first to document heterogeneity in price sensitivity among students of varying academic abilities. My primary result is that, in spite of its small monetary value, the scholarship induced 6% of winners to choose four-year public colleges over four-year private colleges, the average of a large effect on the lowest ability winners and no effect on the highest ability winners. The bulk of funds nonetheless flowed to students who would have attended public colleges anyway, and the scholarship had no effect on the overall college attendance rate, which for winners was already above 90%. These findings have implications for the design of future government-sponsored financial aid programs.

Class Size and Sorting in Market Equilibrium: Theory and Evidence, 0607-14

– Miguel Urquiola, Eric A. Verhoogen

This paper examines how schools choose class size and how households sort in response to those choices. Focusing on the highly liberalized Chilean education market, we develop a model in which schools are heterogeneous in an underlying productivity parameter, class size is a component of school quality, households are heterogeneous in income and hence willingness to pay for school quality, and schools are subject to a class-size cap. The model offers an explanation for two distinct empirical patterns observed among private schools that accept government vouchers: (i) There is an inverted-U relationship between class size and household income in equilibrium, which will tend to bias cross-sectional estimates of the effect of class size on student performance. (ii) Some schools at the class size cap adjust prices (or enrollments) to avoid adding another classroom, which produces stacking at enrollments that are multiples of the class size cap. This generates discontinuities in the relationship between enrollment and household characteristics at those points, violating the assumptions underlying regression-discontinuity (RD) research designs. This result suggests that caution is warranted in applying the RD approach in settings in which parents have substantial school choice and schools are free to set prices and influence their enrollments.

Globalization and Monetary Control, 0607-17

– Michael Woodford

It has recently become popular to argue that globalization has had or will soon have dramatic consequences for the nature of the monetary transmission mechanism, and it is sometimes suggested that this could threaten the ability of national central banks to control inflation within their borders, at least in the absence of coordination of policy with other central banks. In this paper, I consider three possible mechanisms through which it might be feared that globalization can undermine the ability of monetary policy to control inflation: by making liquidity premia a function of "global liquidity" rather than the supply of liquidity by a national central bank alone; by making real interest rates dependent on the global balance between saving and investment rather than the balance in one country alone; or by making inflationary pressure a function of "global slack" rather than a domestic output gap alone. These three fears relate to potential changes in the form of the three structural equations of a basic model of the monetary transmission mechanism: the LM equation, the IS equation, and the AS equation respectively. I review the consequences of global integration of financial markets, final goods markets, and factor markets for the form of each of these parts of the monetary transmission mechanism, and find that globalization, even of a much more thorough sort than has yet occurred, is unlikely to

weaken the ability of national central banks to control the dynamics of inflation.

Exploiting Plaintiffs Through Settlement: Divide and Conquer, 0607-18

– Yeon-Koo Che, Kathryn E. Spier

This paper considers settlement negotiations between a single defendant and N plaintiffs when there are fixed costs of litigation. When making simultaneous take-it-or-leave-it offers to the plaintiffs, the defendant adopts a divide and conquer strategy. Plaintiffs settle their claims for less than they are jointly worth. The problem is worse when N is larger, the offers are sequential, and the plaintiffs make offers instead. Although divide and conquer strategies dilute the defendant's incentives, they increase the settlement rate and reduce litigation spending. Plaintiffs can raise their joint payoff through transfer payments, voting rules, and covenants not to accept discriminatory offers.

Chernobyl's Subclinical Legacy: Prenatal Exposure to Radioactive Fallout and School Outcomes in Sweden, 0607-19

– Douglas Almond, Lena Edlund, Märten Palme

Japanese atomic bomb survivors irradiated 8-25 weeks after ovulation subsequently suffered reduced IQ [Otake and Schull, 1998]. Whether these findings generalize to low doses (less than 10 mGy) has not been established. This paper exploits the natural experiment generated by the Chernobyl nuclear accident in April 1986, which caused a spike in radiation levels in Sweden. In a comprehensive data set of 562,637 Swedes born 1983-1988, we find the cohort in utero during the Chernobyl accident had worse school outcomes than adjacent birth cohorts, and this deterioration was largest for those exposed approximately 8-25 weeks post conception. Moreover, we find larger damage among students born in regions that received more fallout: students from the eight most affected municipalities were 3.6 percentage points less likely to qualify to high school as a result of the fallout. Our findings suggest that fetal exposure to ionizing radiation damages cognitive ability at radiation levels previously considered safe.

Support the Program for Economic Research

Your tax-deductible donation can provide crucial support for students and faculty through the Economic Department's Program for Economic Research. To donate, please contact PER Co-Director Donald Davis at drdavis@columbia.edu or write to us at Program for Economic Research, Department of Economics, Columbia University, 1022 International Affairs Building, 420 W. 118th Street, New York, NY 10027.

CU Economics In the News

Professor Robert Mundell joined eight other Nobel laureates and five world-renowned scientists in Beijing from September 11 to 14 for an international forum on energy and environmental protection.

Presidential candidate Mitt Romney unveiled his healthcare advisers in August, a six-member group that involved Professor of Economics and Dean of the Business School at Columbia University, **R. Glenn Hubbard**.

Professor Douglas Almond was selected as a Russell Sage Foundation Visiting Scholar for 2007-2008. He will investigate the long-term and intergenerational effects of the food stamps program and hospital desegregation on the health of African-Americans.

In June and July the *New York Times* and *Business Week* featured a working paper authored by Professor Bentley MacLeod that examined the relationship between performance pay and income inequality (Lemieux, MacLeod and Parent, "Performance Pay and Wage Inequality", NBER 13128).

Professor Richard Clarida appeared on CNBC on October 26 with former Treasury Secretary John Snow to discuss the future of the dollar, following Clarida's editorial in the *Wall Street Journal* on the subject of the dollar's decline.

Professor Janet Currie authored a *Financial Times* opinion piece in July that argued for the importance of the safety net provided by the State Children's Health Insurance Program.

A paper by Professors Lena Edlund and Douglas Almond which found that women in the United States who are better-off are more likely to have sons than daughters was featured in the *Daily Telegraph* in August.

The Spencer Foundation has awarded a grant to Professor Leigh Linden and Dana Burde of Columbia's Saltzman Institute of War and Peace Studies to assess the humanitarian education programs provided by Catholic Relief Services in Afghanistan.

Recent Faculty Books



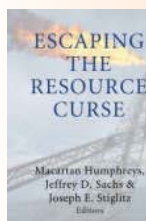
NBER Macroeconomics annual 2006 (NBER Macroeconomics Annual) by Professor Michael Woodford and co-editors (The MIT Press, July 2007)

This 21st edition of the NBER Macroeconomics Annual treats many questions at the cutting edge of macroeconomics that are central to current policy debates. The first four papers and discussions focus on such current macroeconomic issues as how structural-vector-autoregressions help identify sources of business cycle fluctuations and the evolution of U.S. macroeconomic policies. The last two papers analyze theoretical developments in optimal taxation policy and equilibrium yield curves.



G7 Current account Imbalances: Sustainability and Adjustment (NBER Conference Report) edited by Professor Richard Clarida (University of Chicago Press, May 2007)

The current account deficit of the United States is more than six percent of its gross domestic product—an all-time high. And the rest of the world, including other G7 countries such as Japan and Germany, must collectively run current account surpluses to finance this deficit. How long can such unevenness between imports and exports be sustained, and what form might their eventual reconciliation take? Putting forth scenarios ranging from a gradual correction to a crash landing for the dollar, *G7 Current Account Imbalances* brings together economists from around the globe to consider the origins, status, and future of those disparities.



Escaping the Resource Curse edited by Macartan Humphreys, Professors Jeffrey D. Sachs, and Joseph E. Stiglitz (MIT Press, May 2006)

"This book offers practical policy solutions to the resource curse—a problem affecting the lives of millions and millions of people. It represents an extraordinary contribution and will become a reference for scholars and policy makers seeking to tackle this devastating issue."—George Soros, Chairman and Founder of the Open Society Group

"This is a timely and important contribution to the debate on the so-called resource curse and how to avoid it—especially important in a time of concern about energy security and sustainable economic development. As someone who witnesses first hand the struggle for more transparency and good governance in the global energy business, I welcome the fresh, thought-provoking, and always illuminating insights offered in this collection of essays."

—Lord Browne, Group Chief Executive, BP

In Pictures: Forum with Mark Kingdon

The Columbia Economics Forum and the Columbia Economics Society hosted a forum and discussion about the role of hedge funds in the economy with Columbia trustee Mark Kingdon (CC '71) for current undergraduate students and young Economics Department alumni on April 18 in Low Library.



Trustee Mark Kingdon (CC '71)



Professor Bentley MacLeod, moderator Ori Sosnik (CC'09), and Mark Kingdon (CC '71)



Professor Bentley MacLeod welcomed students and alumni



The audience of undergraduates and Economics alumni



Questions from Adam Sacarny (CC '07) and Katharynn Lee (SEAS '08)



Mark Kingdon speaks with young alumni



Kingdon fielded student questions informally after the talk

Continued on next page

In Pictures: Fall Department Events

Graduate students and faculty members packed the Arnold Coltery Seminar Room for the annual Chair's Welcome Party, where they had a chance to catch up after a busy summer of research around the globe. And in September, emeritus professor C. Lowell Harriss was honored on his 95th birthday with a reception in the department.



Graduate Students pose together at the Welcome Party



(from left) Graduate students David De Remer, Walker Hanlon, and Ozge Akinci



Professor Miguel Urquiola (l) chats with Professor Till von Wachter (r)



(from left) Graduate students Joshua Goodman, Sarena Goodman, and Todd Kumler



Professor Lowell Harriss at his 95th birthday celebration with the current C. Lowell Harriss Professor, Richard Clarida



(from left) Professors Bruce Preston, Jon Steinsson, and Michael Woodford toast Professor Harriss

News from the Economic Department

Economics at Columbia, the newsletter for the Economics Department, is now in its second issue. Our audience includes members of the Columbia community as well as alumni, friends, and fellow economists elsewhere.

Economics at Columbia appears once per semester. Submissions from faculty, students and alumni are welcome; news or other items, including photographs or brief descriptions of current research, should be sent via email to econ-news@columbia.edu.

We welcome your feedback.

[HTTP://WWW.COLUMBIA.EDU/CU/ECONOMICS](http://www.columbia.edu/cu/economics)



Columbia University Department of Economics

1022 International Affairs
420 West 118th Street
New York, NY 10027
Phone: (212) 854-3680
Fax: (212) 854-8059
<http://www.columbia.edu/cu/economics>