The Economics Department is pleased to announce nine new faculty members in 2008.

Professor Jushan Bai joins our department from New York University. Bai previously taught Economics at Princeton University, the University of Pennsylvania, MIT, and Boston College. He serves as co-editor for Annals of Economics and Finance, and associate editor for Economics Letters, Studies of Nonlinear Dynamics and Econometrics, Econometrica, and Foundations and Trends in Econometrics. He recently published Large Dimensional Factor Analysis, with Professor Serena Ng.

Associate Professor Navin Kartik joins us from the University of California, San Diego. He earned his Ph.D. from Stanford University. In addition to teaching at UCSD, Kartik was also a member of the Institute for Advanced Study at Princeton, and an Associate Editor for the B.E. Journals in Theoretical Economics. His recent publications include "Information Aggregation in Standing and Ad Hoc Committees", (with S. Naseeb Ali, Jacob K. Goeree, and Thomas R. Palfrey) in the American Economic Review, and “Selecting Cheap-Talk Equilibria”, (with Ying Chen and Joel Sobel) in Econometrica. His recent research includes Microeconomic Theory, Game Theory, Political Economy, and Experimental Economics. This fall, Kartik will teach a graduate course in Advanced Microeconomics.

Professor Marcelo Moreira joins us from Harvard University. He has also taught at Yale University and at the Escola de Pós-Graduação em Economia in Brazil, where he gave courses in Applied Econometrics, Microeconometrics, and Probability and Statistics. He is also an Associate Editor for the Econometrics Journal, and a Research Fellow for the National Bureau of Economic Research.

Professor Anna Caterina Musatti joins us as Lecturer in Discipline from New York University, where she earned her Ph.D. Her recent research includes: "Is Art a Good Investment? An Application of the Hansen-Jagannathan Bounds", and “Towards a New Measure of Inequality”.

Professor Javier Sala-i-Martin (left) was named the Jerome H. and Matthew S. Grossman Professor of Development Economics in October. Matthew Grossman, CC'98, donated the chair in honor of his father Jerome Grossman, a CC'61 alumnus. Professor Sala-i-Martin is widely recognized both for his work in development economics and for his teaching at Columbia (featured in Spring 2007 newsletter online).

Jeff Shrader CC'08 (left) is one of many Columbia graduates to gain work experience at the Federal Reserve Bank of New York. See page 8 to read about his and other students' experiences.
New Faculty, continued from page 1

Assistant Professor Jaromír Nosal joins our department after recently completing his Ph.D. in Economics from the University of Minnesota. While earning his Ph.D., Nosal taught courses on Microeconomics, and worked as a Research Analyst for the Federal Reserve Bank of Minneapolis. Nosal also serves as a Referee for the Journal of International Economics. His current research includes Macroeconomics and International Macroeconomics.

Professor Ricardo Reis joins our department from Princeton University. He received his Ph.D. from Harvard University, Reis is currently a Faculty Research Fellow at the National Bureau of Economic Research, and a Research Affiliate at the Centre for Economic Policy Research. His recent publications include “The Brevity and Violence of Contractions and Expansions”, (with Alisdair McKay) in the Journal of Monetary Economics. This fall, Reis will be teaching courses in Macroeconomics and Macroeconomic Analysis.

Professor Stephanie Schmitt-Grohé joins our department from Duke University. Schmitt-Grohé earned her Ph.D. in Economics from the University of Chicago. She has served as an Economist for the Board of Governors of the Federal Reserve System, as a Research Fellow at the Centre for Economic Policy Research, and a Research Associate at the National Bureau of Economic Research. Schmitt-Grohé has also received numerous honors and awards, including the Bernacer Prize, an Alfred P. Sloan Doctoral Dissertation Fellowship, and a Fulbright Fellowship.

Professor Martin Uribe joins our department from Duke University. Uribe earned his Ph.D. from the University of Chicago. He has served as an Economist for the International Finance Division of the Board of Governors of the Federal Reserve System, and he is currently a Research Associate at the National Bureau of Economic Research. Uribe and Schmitt-Grohé have worked on many publications together, including the recent articles “Optimal, Simple, and Implementable Monetary and Fiscal Rules”, in the Journal of Monetary Economics, and “Pricing To Habits and the Law of One Price”, (with Morten Ravn) in the American Economic Review.

Assistant Professor Jonathan Vogel joins our department from the University of California, Los Angeles. He earned his B.A. in Economics and Mathematics (magna cum laude) from Columbia University, and his Ph.D. in Economics from Princeton University. His recent publications include “Institutions and moral hazard in open economies”, in the Journal of International Economics, and “Spatial competition with heterogeneous firms”, in the Journal of Political Economy. Vogel’s current research includes International Trade, Applied Theory, and Industrial Organization.

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

Recent Faculty Publications


“Transfers in Cash and In-Kind: Theory Meets the Data”, by Janet Currie and Firouz Gahvari, Journal of Economic Literature, June 2008


Recent Working Papers

“After Midnight: A Regression Discontinuity Design in Length of Postpartum Hospital Stays”, by Douglas Almond and Joseph J. Doyle, Jr. NBER #13877 (CH, HC, HE, LS)

“Strategic Judgment Proofing”, by Yeon-Koo Che and Kathryn E. Spier. NBER #14183 (LE)

“Air Pollution and Infant Health: Lessons from New Jersey ”, by Janet Currie, Matthew J. Neidell, and Johannes Schmieder. NBER #14196 (CH, EEE, HE, PE)

“Trade, Firms, and Wages: Theory and Evidence”, by Mary Amiti and Donald Davis. NBER #14183 (LE)

“Contracting in the Shadow of the Law”, by Surajeet Chakravarty and W. Bentley MacLeod. NBER #13960 (LE, LS)

“Monetary Non-Neutrality in a Multi-Sector Menu Cost Mode” by Emi Nakamura and Jón Steinsson. NBER #14106 (ITI)

“What’s News in Business Cycles”, by Stephanie Schmitt-Grohé and Martin Uribe. NBER #14215 (EPG)

“Understanding International Price Differences Using Barcode Data”, by Christian Broda and David Weinstein. NBER #14017 (IFM, ITI)
As this newsletter shows, 2007-08 was an extremely successful year for recruiting new faculty to Columbia Economics. We enthusiastically welcome Jushan Bai, Stephanie Schmitt-Grohé, Navin Kartik, Marcelo Moreira, Catarina Musatti, Jaromír Nosal, Ricardo Reis, Martín Uribe, and Jonathan Vogel. This brings the number of professors recruited since 2004-05 to 22! We now have 40 “full-time equivalent” faculty, which has made a tremendous difference to students. For the first time, virtually all undergraduate macro courses are taught by long-term faculty and new advanced courses in both macro and econometrics have been added. At the graduate level, the fields of Macroeconomics and Econometrics have been revitalized and perhaps revolutionized! Our recruiting success has created a good deal of excitement and attracted notice both inside and outside academia.

But we cannot rest on our laurels. The market for economists is very competitive; we lost 10 people over the same time period. We remain understaffed relative to demand for our services, and relative to competing departments. The ratio of students taking our courses to faculty members is 104:1; by far the highest in Arts and Sciences (the next highest ratio is Political Science at 79:1). To bring our ratio to Poli Sci’s would require 48-50 faculty members, rather than 40. Such a size would be more similar to competing institutions such as Princeton, Harvard and Yale. Size is a definite advantage in the ratings and reputation sweepstakes, and greater size would enable us to greatly enrich our programs.

Much has been written lately about the need to increase financial aid for undergraduate students. But in this letter, I would like to highlight another important challenge. We are in some danger of falling behind our competitors in terms of financial aid for graduate students. Graduate students are in many ways the “glue” that holds research departments together. They play an important role as teachers and teaching assistants. Our department recognizes this role by offering teaching awards for excellence in undergraduate instruction. Students also play an important role in facilitating faculty research. Much research is conducted with graduate students who are in an apprenticeship-like relationship with faculty, or, for more advanced graduate students, jointly with faculty. Finally, the success of our graduate students helps to make or break our academic reputation since they are the academics, and often the policy makers, of the future. We need to be able to offer summer support to our students, and to offer higher stipends to star recruits.

We are also working on building support for our Program in Economic Research (the publisher of this newsletter). Since its founding in 2003-04, PER has been spectacularly successful in fulfilling its mission of enriching the intellectual life of both the Economics Department and of Columbia University. Some of PER’s notable accomplishments include:

- Sponsoring 91 week-long visits by eminent researchers across every field within the discipline.
- Bringing in nearly $3 million in sponsored research funding. Over $1.6 million in pledged research funding was attracted to Columbia in the 2007-08 academic year alone.
- Awarding 14 early-stage research grants to junior faculty members.
- Sponsoring 36 summer stipend awards for graduate student research projects. Graduate students work alongside a faculty mentor on a project and write their own papers on a related topic during the summer.
- Working with the Director of Undergraduate Studies to foster the student-founded Columbia Economic Forum, an undergraduate discussion society.
- Supporting the creation of the Department’s research computing cluster.
- Arranging major conferences on campus, planning a PhD alumni reunion, and co-sponsoring public lectures with visiting researchers, as well as several alumni events, including (in the last year) fora on alumnus Milton Friedman and on the sub-prime mortgage crisis.

The continuing turmoil in the financial markets makes it clear that economic research is more important than ever, and that we need to protect, maintain, and expand the capacity to do this research.

Sincerely,
Janet Currie

Visitors to the Program for Economic Research

Each week, researchers and scholars visit the Columbia Economics Department under the auspices of the Program for Economic Research (PER). Interactions in workshops and seminars advance the body of knowledge and encourage collaboration between economists at Columbia and throughout the world.

Spring 2008
Edward Glaeser (Harvard)
Enrico Moretti (UC Berkeley)
Daniel Trefler (U of Toronto)
Olivier Compte (ENPC)
Shachar Kariv (UC Berkeley)
John Vickers (Oxford)
Martin Browning (Oxford)
prices for macroeconomic issues such as monetary non-neutrality do
rigidity than consumer prices including sales. She also found that price rigidity arises, to a large extent, at the level of the
manufacturers: producer prices exhibit a comparable degree of rigidity
and promotions play an important role in explaining these existing
fluctuations in costs associated with green bean coffee prices. In many
ways, her empirical results for the coffee industry mirror her broad-based
findings on prices for the U.S. economy. Nakamura found that prices respond sluggishly and incompletely to changes in costs. Most of the
delayed response of prices to costs in the coffee prices is associated with
wholesale rather than retail price adjustment; a structural model of
manufacturer pricing in the coffee industry she has developed find that it explains many of the features of wholesale price adjustment.

In joint work with Jón Steinsson, Nakamura’s “Five Facts about Prices: A Re-evaluation of Menu Cost Models” uses a new data set
constructed from the price microdata underlying the U.S. consumer price index to document new facts about price adjustment in the U.S.
This data set contains over 10 million observations on prices for products spanning the entire range of U.S. consumer products. These
data allow for a much richer understanding of U.S. pricing behavior than was previously possible, covering the prices of everything from
haircuts to air conditioners over the past two decades. They also
constructed a new data set on producer prices based on the raw
microdata underlying the U.S. producer price index. Like the data on
consumer prices, this data set includes more than 10 million observations on the manufacturer prices of a wide variety of products
from airplane fuel to chairs.

Nakamura began by documenting basic facts on the size and frequency
of price adjustment. She found that the median duration of consumer
prices excluding sales (temporary price cuts) is 8-11 months, depending on how one adjusts for sales, while the median duration of
finished goods producer prices is 8.7 months. Earlier studies that did not distinguish between “regular” and “sale” price changes found
much higher frequencies of price change. She showed that retail sales and promotions play an important role in explaining these existing
findings in the literature, accounting for more than half of the observed price changes in industries such as food and clothing. She
also found that price rigidity arises, to a large extent, at the level of the
manufacturers: producer prices exhibit a comparable degree of rigidity
to consumer prices excluding sales and substantially more price rigidity than consumer prices including sales.

Most of the existing models that explore the implications of rigid
prices for macroeconomic issues such as monetary non-neutrality do
so in a framework with identical firms and make use of some type of
summary statistic—such as the mean or median frequency of price change—to calibrate the model. Yet, the enormous amount of dispersion across
products in the nature of price adjustment suggests that heterogeneity may be of first-order importance in understanding the macroeconomic
implications of price rigidity. In “Monetary Non-Neutrality in a Multi-
Sector Menu Cost Model”, Jón Steinsson and Nakamura develop a multi-sector menu cost model and calibrate it to their new evidence on the
cross-sectional distribution of the frequency and size of price changes in the
U.S. economy. The multi-sector model substantially amplifies the aggregate effects of monetary shocks relative to a one-sector model.

Nakamura also analyzed the response of prices to costs in greater detail in
the coffee industry, in her paper “Accounting for Incomplete Pass-
Through”. The advantage of this type of industry-specific study is that it is possible to obtain a more detailed picture of firms’ competitive
environment as well as their costs. In the coffee industry, firms face large
fluctuations in costs associated with green bean coffee prices. In many
ways, her empirical results for the coffee industry mirror her broad-based
findings on prices for the U.S. economy. Nakamura found that prices respond sluggishly and incompletely to changes in costs. Most of the
delayed response of prices to costs in the coffee prices is associated with
wholesale rather than retail price adjustment; a structural model of
manufacturer pricing in the coffee industry she has developed find that it explains many of the features of wholesale price adjustment.

A deeper theoretical question is Nakamura is why firms are reluctant to
adjust their prices. While the menu cost framework seems to provide a
useful empirical model of when firms adjust their prices, it is not clear
what these costs represent. One of the most common responses when
firms are asked about their reasons for not adjusting their prices is that they have implicit or explicit contracts with their consumers. But why do firms enter into such contracts and why are they binding?

In “Price Setting in Forward-Looking Customer Markets,” joint with Jón
Steinsson, Nakamura developed a theory for why firms might not adjust
their prices continually despite continually adjusting demand and supply
conditions. The authors show that if consumers become “locked-in” to
buying particular products, then firms have an incentive to price gouge.
Consumers may become locked-in to purchasing particular products for a
variety of reasons: compatibility with products they have already bought,
such as a razor that only works with one type of blade; set-up costs, such as
the annoyance of switching to a new hair-stylist or cleaning person; and
uncertainty about the quality of competing products. Consumers
recognize that buying certain products eventually leads to lock-in, and also
recognize the incentives this provides for firms to price gouge. This motivates consumers to buy products from firms that commit to not
raising their prices. In this model, unlike the standard model without lock-
in, price rigidity is an equilibrium outcome because it helps firms commit
to not price gouge. If consumers have incomplete information about
firms’ desired prices, Nakamura and Steinsson show that the firm-preferred equilibrium has the firm price at or below a “price cap”. This model explains the simultaneous existence of rigid regular prices and frequent sales. When the firm’s desired prices exceed the price cap, the model generates price rigidity.

Finally, in “Pass-Through in Retail and Wholesale”, Nakamura used a large dataset on prices from retail stores across the United States to study how prices co-move across products, firms, and locations to understand what drives these large price movements. These prices vary enormously over short time periods; within a year, the price of a typical grocery product can vary by 20-30 percent. These movements are large relative to the factors that economists usually think of as driving prices, such as wages and firm productivity. However, she found that only 16 percent of price variation is common across all stores selling an identical product, while 65 percent of price variation is common to stores within a particular retail chain (but not across chains), and 17 percent of variation is completely idiosyncratic to the individual store and product. In other words, when the price drops on Diet Coke at the discount supermarket, chances are that the price will not drop at the gourmet grocery down the street. These patterns suggest that retail prices vary largely as a consequence of dynamic pricing strategies on the part of retailers or manufacturers, rather than current demand and supply conditions.

The large amount of idiosyncratic movement in prices implies that average price series for a particular UPC – that is, averaged across retailers – behave very differently from the underlying store-specific prices. Following an individual product over time week by week, Nakamura found that prices are highly variable, with frequent price movements on the order of 10-15 percent, and also highly transitory, so that a low price one week says little about whether prices will be low the next week. But, taking the same data for a given UPC and averaging over stores and within months leads to a price series that is far smoother—the variability of prices drops by two-thirds and far more persistent. While individual price series seem dizzyingly complex, the lower volatility and greater persistence of the nationwide averages seems to leave greater scope for a link to standard economic factors such as wages, productivity, and exchange rates.

**Graduate Student News**

**Guru Sethupathy** was awarded the Federal Reserve Board’s Dissertation Fellowship for the summer of 2008. He spent 12 weeks at the Fed in Washington, D.C., working on his paper “Impact of Offshoring on Home Country Wages: The Role of Productivity and Rent-Sharing”. Sethupathy’s paper proposes a new mechanism through which globalization affects wages in a model with heterogeneous firms and wages determined by bargaining and rent-sharing. Offshoring to southern affiliates reduces costs and increases the productivity (profits-per-worker) of U.S. multinational corporations (MNCs). The increased profits-per-worker are shared with the workers under a wage bargaining interaction. Simultaneously all workers in the sector are faced with a loss in their outside option. Due to firm heterogeneity, the positive effect dominates the negative effect for workers at the most productive MNCs, causing their wages to rise.

Conversely, at less productive MNCs, the loss in the outside option dominates and wages fall. Finally, wages fall the most at purely domestic firms who do not offshore. This mechanism could help explain increasing within-group wage inequality, especially at the upper-tail of wages, which has been documented. Using the Mexican FDI Law of 1993 (combined with NAFTA) and the peso crisis in 1994 as sources of exogenous shocks, Sethupathy found that offshoring, profits-per-worker, and average wages increased for treatment firms relative to control firms. These empirical findings support the hypothesis offered above.

**Joshua Goodman**’s paper “Skills, Schools and Credit Constraints: Evidence from Massachusetts”, was accepted for publication in *Education Finance and Policy*. His paper shows that, though academic skill is a more important determinant of college enrollment than income, low-income students nonetheless are less likely to enroll in college than higher income students of the same skill and from the same school district. State governments could use the methods employed in the paper to identify credit-constrained student populations in order to target financial aid more efficiently. Goodman also presented his job market paper, “The Division and Multiplication of Labor: Returns to Compulsory Mathematics Coursework”, at the Second International Conference on Education Economics, held at the University of Athens on August 27-30. His paper shows that increasing state high school graduation requirements compelled students to take more mathematics courses in high school, and that this additional coursework had significant labor market returns for those with low mathematics skills.
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.

Fetal Exposures to Toxic Releases and Infant Health
– Janet Currie and Johannes F. Schmidt

Every year, millions of pounds of toxic chemicals thought to be linked to developmental problems in fetuses and young children are released into the air. In this paper we estimate the effect of these releases on the health of newborns. Using data from the Toxics Release Inventory Program and Vital Statistics Natality and Mortality files, we find significant negative effects of prenatal exposure to toxicants on gestation and birth weight. We also find that several developmental chemicals increase the probability of infant death. The effect is quite sizeable: the reported reductions in cadmium, toluene, and epichlorohydrin releases during the 90s could account for about 3.9 percent of the overall decrease in infant mortality. Our results are robust to several specification checks, such as comparing developmental to non-developmental chemicals, and fugitive air releases to stack air releases.

This study uses data from the EPA’s Toxics Release Inventory (TRI) matched to data from national Vital Statistics Natality and Mortality files to examine the effects of fetal exposure on health at birth and subsequent infant mortality. Exposure to toxic chemicals may be linked to many other characteristics of families and neighborhoods, and to swings in economic activity. Therefore, in an effort to identify the effect of toxic exposures, we compare the estimated effects of chemicals that are thought to be developmental toxicants to those which are not known to have developmental effects. We also compare the effects of “fugitive” air releases to the effects of “stack” air releases. Emissions that go up a smoke stack are more likely to be treated in some fashion (e.g. with scrubbers), and travel further than those that do not. Hence, they should be less likely to affect those in the immediate vicinity of the plant than fugitive air releases. Finally, we look at several of the most common known developmental toxicants separately.

Skills, Schools and Credit Constraints: Evidence from Massachusetts
– Joshua Goodman

Low college enrollment rates among low income students may stem from credit constraints, low academic skill, low quality schools, or some combination of these. Recent Massachusetts data allow the first use of school district fixed effects in the analysis of credit constraints, leading to four primary findings. First, Massachusetts’ low income students have lower intended college enrollment rates than higher income students but also have dramatically lower skills and attend lower quality school districts. Second, inclusion of skill controls greatly reduces but does not eliminate the intended enrollment gap, with low income students seven percentage points less likely to intend enrollment than similarly skilled higher income students. Third, in districts where higher income students are plausibly unconstrained, inclusion of school district fixed effects does little to reduce intended enrollment gaps, with low income students nine percentage points less likely to intend enrollment than similarly skilled higher income students from the same school district. Fourth, low income students in the middle and upper parts of the skill distribution appear the most constrained, particularly with respect to four-year public colleges. State governments could use the methods employed here to identify credit constrained student populations in order to target financial aid more efficiently.

Sales and Price Spikes: a Comment on Price Filter Specification
– Ryan Chahrour

Microeconomic pricing data display a prevalent pattern: short term prices vary frequently and in large amounts around repeatedly observed, more stable levels. In response to this observation, authors have proposed various procedures for extracting hypothetical “reference” or “non-sale” price series. In this paper, I treat these filters as procedures for decomposing prices into a slow-moving “attractor price” component and a series of quickly-reversed temporary price shocks. I argue that sale and reference price filters each place implausible restrictions on one of these components. As a result, sale filters fail to exclude many small, temporary price “spikes” while the formulation of reference prices creates spurious price spikes and sales. I propose a new price filter and show that, while many commonly cited pricing facts are robust to filter specification, implications for price duration depend heavily on the choice of filter.

Gender-Specific Labor Market Conditions and Family Formation
– Ayako Kondo

When labor market conditions for women are bad relative to those of men, young women can increase their marriage probability by either putting in more search effort or lowering their reservation match quality. Using data from both the SIPP and the PSID, combined with state-level male and female unemployment rates, I show evidence consistent with adjustment through search effort: First, gender-specific unemployment rates at marriage are not systematically correlated with the probability of divorce, suggesting that they do not affect young women’s reservation match quality; second, the change in marriage incidence is a timing effect among young women who would eventually marry without such labor market shocks, since the effects on the fraction who have ever married at the cohort level fade away as these women age. Furthermore, except for
– Emilia Simeonova

Disparities in health outcomes between white and minority Americans are a significant and well documented challenge in improving equity in healthcare. Two frequently cited explanations are discrimination in treatment – doctors treating minority patients differently, and unequal access to care – patients being trapped in facilities of inferior quality. I use a new dataset from the Department of Veterans Affairs and employ a novel estimation strategy to investigate the sources of the racial gap in mortality for chronic heart disease, the most expensive chronic condition in the elderly. I find that racial differences in mortality persist even when the quality of clinics and doctors is controlled for.

Investigating the doctor-patient interaction, I show that doctor quality significantly influences patient outcomes. While minority patients visit slightly less competent doctors, this does not explain the large gap in survival. Individual doctors are found to treat their patients similarly regardless of race. On the patient side, I demonstrate that variation in compliance triggers a racial mortality gap. Differences in patient response to treatment significantly alter survival probabilities. Considerable reductions in medical costs could be achieved by convincing patients of the importance of strictly following the therapy regimen. I estimate that targeting compliance patterns could reduce the black-white mortality gap by at least two-thirds.

Protecting Minorities in Binary Elections: A Test of Storable Votes Using Field Data, 0708-14
– Alessandra Casella, Shuly Ehrenberg, Andrew Gelman and Jie Shen

Between 2000 and 2006, the murder rate in Newark doubled while the national rate remained essentially constant. Newark now has eight times as many murders per capita than the nation as a whole. Furthermore, the increase in murders came about through an increase in lethality: total gun discharges rose much more slowly than the likelihood of death per shooting. In order to explain these trends we develop a theoretical model of murder in which preemptive killing and weapon choice play a central role. Strategic complementarity amplifies changes in fundamentals, so areas with high murder rates (war zones) respond much more strongly to changes in fundamentals than those with low murder rates (peaceable kingdoms). In Newark, the changes in fundamentals that set off the spiral were a collapsing arrest rate (and probably a falling conviction rate), a reduction in prisoners, and a shrinking police force.

A Model of Job Matching, Search, and Learning-by-doing with Endogenous Labor Supply
– Raicho Bojilov

This paper presents a model that introduces a trade-off between leisure and consumption in a standard model of job-matching, search, and learning-by-doing. The main result is a set of testable implications that allow for the identification of this optimal control problem with an unknown parameter, even when the optimal policy and state variables are unobservable to the econometrician. Crucial for this result is Proposition 4, which establishes that under more or less standard assumptions in the related literature leisure supply is parametrically monotonic in beliefs about the unknown productivity parameter. The paper shows that the proposed model has both theoretical and empirical implications. Endogenizing labor supply as a function of past output signals and current pay regime clarifies the nature of the longstanding problem of identifying learning about match quality from learning-by-doing. Moreover, the introduction of consumption-leisure trade-off leads to heterogeneity in observed output, income, speed of Bayesian learning, and the stock of knowledge that may not necessarily reflect objective differences across individuals.

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/

– Emilia Simeonova

Disparities in health outcomes between white and minority Americans are a significant and well documented challenge in improving equity in healthcare. Two frequently cited explanations are discrimination in treatment – doctors treating minority patients differently, and unequal access to care – patients being trapped in facilities of inferior quality. I use a new dataset from the Department of Veterans Affairs and employ a novel estimation strategy to investigate the sources of the racial gap in mortality for chronic heart disease, the most expensive chronic condition in the elderly. I find that racial differences in mortality persist even when the quality of clinics and doctors is controlled for.

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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.
Every year, a number of students from the Economics Department at Columbia receive the opportunity to work at the Federal Reserve.

Nicholas Klagge (CC’07), who wrote his thesis on mechanism design, was given the opportunity to work in financial economics research, first in the Financial Markets section in the International Finance division at the Board of Governors, and now in the Capital Markets function at the New York Fed. He also co-authored several memos, including one for the Treasury Department on the potential effects on the yield curve if a foreign central bank such as China drastically reduced its holdings of U.S. Treasury securities.

Jeff Shrader (CC’08) works for the Money and Payments Studies function at the Fed. Shrader’s research is generally concerned with the large-value payment systems that handle bank and international currency transactions. Recently, he has been looking at the health of currency swap markets and the impact of Term Auction Facility (TAF) auctions on bank liquidity.

Noah Schwartz (CC’08), a "Poli Sci guy" who later switched to the Economics Department, will soon be an RA in a Microeconomic & Regional Studies function sub-group of the Research Group, assisting economists who study the regional New York economy and related public policy issues, such as infrastructure and education policy. Schwartz feels that working at the Fed is a great opportunity for students who are considering whether or not to pursue a career in economics: “The experience of conducting research alongside top-notch economists provides RAs with rigorous training that prepares them for graduate work in economics (or other quantitative social sciences), while allowing them to figure out whether they truly enjoy doing research at the graduate/professional level.”

The students also described the experience of working at the Fed during a time of great economic instability. For Klagge, the pressures brought about by the financial turmoil did not directly affect his job, but the relevance of his work to current events was always apparent. According to Klagge: "It makes things a little more exciting, knowing that you have a front-seat view of a financial crisis that economists will be studying and trying to understand for decades in the future.”

Shrader admitted that most of his pressure lately comes from people asking him to fix a particular aspect of the economy. "One person even asked me to help her evade taxes," Shrader recalled, "which I thought was pretty odd to ask a quasi-government employee."

Maxim Pinkovskiy recently won the International Atlantic Economic Society’s 4th Annual Best Undergraduate Paper Competition. His paper will be published in the Atlantic Economic Journal. Pinkovskiy will be attending MIT as an NSF Fellow; after receiving his Ph.D., he intends to apply for a university research position.

Q: What did you study at Columbia?
A: I took the first-year graduate economics sequence – micro and econometrics as a junior and (the first semester of) macro as a senior. All three classes were beautifully taught and invaluable in giving me the tools and training for future research, and (hopefully) will allow me to proceed immediately to field courses at MIT. I also took a graduate analysis and probability sequence that was by far my most challenging class at Columbia. The mathematical maturity I gained that year allowed me to benefit from an independent study in convex analysis that my advisor, Professor Susan Elmes, was gracious to suggest to me.

Q: How did your work prepare you for graduate study?
A: Besides my coursework at Columbia, a necessary component of both my preparation and motivation for graduate school was my research experience with Professor Sala-i-Martin (on the world distribution of income) and Professor Woodford (on rational inattention). Professor Sala-i-Martin introduced me to the practical details of research that draw upon all of one’s skills as a mathematician, statistician, programmer and economist in order to express a hypothesis in mathematical language and use data to accept or reject it. As Professor Woodford’s RA, I learned about the concept of rational inattention, and later when writing my thesis, I linked this concept to the existing literature on expected utility theory violation, and tested the resulting model using data from existing experiments. Both research experiences gave me an understanding of how to pose a question correctly, and then figure out the right way to integrate theory, statistics, and an understanding of the field to arrive at a new result.

Q: Do you have any advice for prospective graduate students?
A: Take math courses early; econometrics is the prerequisite for research.
Try to start research by mid-junior year so that you have some experience by senior year.
Knowledge of statistical software is crucial.
When applying for grad school, also apply for the NSF Fellowship – it will dramatically enhance your stipend if you win, and it will help you in the application process to schools.
After you take real analysis, try to take the first year grad economics classes. These will give you a taste of grad school, and provide a very different approach to economics than what you have encountered.
**Recent Faculty Books**


This study by Nobel Prize winner Joseph Stiglitz and Harvard professor Linda Bilmes casts a spotlight on expense items that have been hidden from the U.S. taxpayer. With the chilling precision of an actuary, it measures what the U.S. taxpayer’s money would have produced if instead it had been invested in the further growth of the U.S. economy. Shifting to a global focus, the authors also investigate the cost in lives and economic damage within Iraq and the region.


In this sobering but optimistic manifesto, development economist Jeffrey Sachs argues that the crises facing humanity are daunting—but solutions to them are readily at hand. Sachs focuses on four challenges for the coming decades: heading off global warming and environmental destruction; stabilizing the world’s population; ending extreme poverty; and breaking the political logjams that hinder global cooperation on these issues. Combining trenchant analysis with a resounding call to arms, Sachs’s book is an important contribution to the debate over the world’s future.

*Large Dimensional Factor Analysis, by Jushan Bai and Serena Ng (Now Publishers Inc, June 2008)*

Jushan Bai and Serena Ng provide a survey of the main theoretical results for large dimensional factor models, emphasizing results that have implications for empirical work. The authors focus on the development of the static factor models and on the use of estimated factors in subsequent estimation and inference.


Internationally renowned economist Jagdish Bhagwati shines a critical light on preferential trade agreements (PTAs), revealing how the rapid spread of PTAs endangers the world trading system. Bhagwati documents how PTAs have undermined the prospects for multilateral freeing of trade, serving as stumbling blocks instead of building blocks, for the objective of reaching multilateral free trade.

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**Graduate Conferences**


*Ayako Kondo* presented her paper "Gender-specific labor market conditions and family formation" at the Econometric Society North American Summer Meeting, which was held on June 19-22 in Pittsburgh, PA. During the summer, Kondo also presented this paper at the Japanese Economic Association Spring Meeting, the Western Economic Association, and the Econometric Society European Meeting.

*Mai Dao* presented her paper on "International Spillover of Labor Market Reforms" at two conferences this summer: the 15th World Congress of the International Economic Association in Istanbul, Turkey, on June 25, and the European Workshop in Macroeconomics in Glasgow, UK, on June 27. Her paper deals with the role of labor market frictions in determining the spillover effects in open economies arising from national supply side reforms.

*Sergei Koulayev* presented his paper “Vertical integration and endogenous bargaining” at the Sixth Annual International Industrial Organization Conference, May 16-18, in Arlington, VA. He will also present this paper at the 35th Conference of the European Association for Research in Industrial Economics, September 4-6, in Toulouse, France. His current research, “Search for hotels: structural estimation” has received a grant from PER (Columbia) and NET institute (NYU). Koulayev’s article "History of Russian VAT" was also accepted for publication in the IPD’s volume “Tax Reform in Developing Countries” published by Columbia University Press.
On May 9 and 10, a record 342 economists gathered at Columbia in Uris Hall for the Thirteenth Annual Meetings of the Society of Labor Economists (SOLE). Many members of the Department, including faculty, graduate students, and Ph.D. alumni, participated in the proceedings.

Robert Willis (University of Michigan), President of the Society of Labor Economists

Nobel Laureate James Heckman (University of Chicago) delivered the Al Rees Lecture, “Understanding the GED”.

Professor Bentley MacLeod chaired the invited session on “Advances in Experimental Labor Economics”.

Professor Bernard Salanié chaired a session on contracts.

Dominique Demougin of the European Business School

Professor Janet Currie chaired a session on health economics.

Professors Bentley MacLeod, Professor Joseph Altonji (Yale University) and James Heckman
Edward Lazear, Chair of the Council of Economic Advisers, Orley Ashenfelter (Princeton), and Yoram Weiss presented David Autor (MIT, center) with the Rosen Award for outstanding contributions by a young researcher to labor economics.

Robert Willis and Chris Taber (Northwestern, Editor of the Journal of Labor Economics) presented Fabian Lange (Yale, center) with the Lewis Prize for best paper in the Society journal in the past two years.

Ernest Fehr of the University of Zurich and Espen Moen of the Norwegian School of Management presented Reuben Gronau (Ph.D. ’67, Emeritus of the Hebrew University of Jerusalem), Flora Mincer (with photograph of late husband Jacob Mincer), and John Pencavel with the Mincer Prize for lifetime contributions to labor economics, which he shared with Reuben Gronau (Ph.D. ’67).

Professor Yoram Weiss (Tel-Aviv) gave the Presidential Address, entitled “Work and Leisure: A History of Ideas.”

Audience members listen to the Presidential Address at the Friday afternoon session.

Alan Krueger (Princeton) and Robert Willis presented David Autor (MIT, center) with the Rosen Award for outstanding contributions by a young researcher to labor economics.
Economics at Columbia, the newsletter for the Economics Department, is now in its third year. 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.

To read back issues of the newsletter, visit: http://www.columbia.edu/cu/economics/about/s2_4.html.

We welcome your feedback.