One of the amazing things about being Director of PER is to see the wide variety of research activities being conducted by professors in Columbia’s economics department. In the first six months of this academic year, faculty in the economics department obtained new grants for a total of over a million dollars. The grants are a testament to the dramatic increase in success by Columbia’s economics faculty in attracting research funds.

Professors Yeon-Koo Che, Stephanie Schmitt-Grohé, and Martín Uribe won National Science Foundation grants for work on market design and problems associated with currency pegs. Yeon-Koo has been doing cutting edge research on naked credit-default swaps, and his research has important implications for how we should regulate and structure financial markets in the future. Similarly, Stephanie and Martín have been examining the costs for countries, such as Portugal, Ireland, and Greece, from being members of a fixed exchange rate regime as exemplified by the European Union.

continued on page 3

On November 29, 2010, Columbia’s Program for Economic Research, Columbia University Press and the Committee on Global Thought held the Third Annual Lecture in honor of Kenneth Arrow. José Scheinkman, Theodore A Wells ’29 Professor of Economics at Princeton University, delivered a speech titled “Speculation, Trading and Bubbles,” which was followed by discussions provided by Patrick Bolton, Barbara and David Zalaznick Professor of Business and Professor of Economics at Columbia University, and Sandy Grossman, Chairman and Chief Executive Officer, QFS Asset Management.

The lecture delved into the history of financial bubbles, before providing a fascinating survey of the nature of bubbles, including building on thoughts of Kenneth Arrow and fellow Columbia Economics professor Michael Woodford, among others. He then went on to look at the compensation issues involved in bubbles, especially in the case in which it might be rational for individuals to heighten a bubble even if they are aware of it.

For more photos, see page 13
LETTER FROM THE CHAIR

Our Economics Department benefits from a relatively small endowment account called the Harry G. Friedman Fund. The account throws off a modest amount of income each year that the department uses for important activities that may be difficult to fund from more restricted sources of funds.

I was curious about the origin of the fund, and looked into it. Harry G. Friedman bequeathed to Columbia University the sum of $5000 for the use of the Economics Department. That 1965 gift was larger than might seem at first blush because $5000 was worth more then. A sum of $5000 in 1965 is worth about $33,500 at today’s prices. So Mr. Friedman remembered Columbia Economics generously.

But who was Harry G. Friedman, and why did he make this generous gift to Columbia Economics? A bit of Internet sleuthing turned up the answer. I discovered online a 1907 publication of Columbia University Press by Harry G. Friedman, A.B. entitled “The Taxation of Corporations in Massachusetts”. The book belonged to the Studies in History, Economics, and Public Law series edited by Professor E.R.A. Seligman, a prominent Columbia public finance economist who, among other claims to fame, helped found the American Economic Association. Mr. Friedman's book describes the history of the public finance institutions of Massachusetts, and falls squarely within the “Institutionalist” approach to economics for which Columbia was known at the time. A little more online digging revealed that Harry George Friedman received his Ph.D. degree from Columbia University in 1908, after receiving his A.B. degree from the University of Cincinnati in 1904. Evidently, the book was Dr. Friedman’s Ph.D. dissertation.

As a professional economist Dr. Friedman worked for government agencies including the U.S. Labor Bureau and the U.S. Tariff Board, but eventually changed direction to become a successful investment financier. He also was a renowned Judaica collector, a great benefactor of the Jewish Museum in New York City, and contributed art and artifacts to Columbia University. But for me the simple remarkable fact is that alumnus Harry G. Friedman, more than half a century after receiving his Ph.D., remembered Columbia Economics with a gift that contributes to this day to the culture and missions of the department.

The Harry G. Friedman Fund served various purposes over the years. In 1970, for example, it funded a prize for best doctoral dissertation awarded to Michael Grossman who went on to become a prominent health economist. Today, it supports among other student-related activities a small celebration for our undergraduate honors students. These students are among the best of our economics majors, who undertake to write an honors thesis under the direct supervision of a department faculty member. I’ve had the privilege to supervise several Economics honors students over the years, and count these among my most rewarding experiences at Columbia. Our honors students often go on to top economics Ph.D. programs. My advisee this year is writing on antitrust economics and going to Harvard Law School. Our academic year end celebration recognizes the hard work of our honors students and the faculty who supervise them, and becomes a proud moment for the parents. The event itself is an important part of our culture, and the accomplishments it recognizes an important part of our teaching and research missions.

We thank alumnus Harry G. Friedman for remembering Columbia Economics a half century after his doctorate, and we are pleased to remember him another half century later.

Yours truly,

Michael H. Riordan

SUPPORT COLUMBIA ECONOMICS

Your tax-deductible donation can directly provide crucial support for students and faculty through the Economics Department’s Program for Economic Research. To donate, please use the link on the departmental homepage: http://giving.columbia.edu/giveonline/?schoolstyle=306

You may also 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.

THE POLITICAL ECONOMY OF UNIVERSITIES

On October 25, 2010, the Department sponsored a lecture on “The Political Economy of Universities,” delivered by Professor Anton Muscatelli, Principal of and formerly Daniel Jack Professor of Economics at the University of Glasgow. The talk had specific relevance to the proposals for reform of the United Kingdom’s system of educational funding, and Muscatelli took time to focus on the implications of those changes at length.
News from the Program for Economic Research continued from page 1

Michael Woodford and I recently received grants from the newly created Institute for New Economic Thinking for work on macroeconomics and finance. Mike’s new work focuses on how to develop robust policy analysis when agents’ expectations deviate from particular models. Similarly, I have been working with Mary Amiti at the Federal Reserve Bank of New York on empirically estimating the financial accelerator and systemic risk.

Faculty in economics were also enormously successful this year in obtaining funding for sponsored research in areas outside of macroeconomics and finance. Wojciech Kopczuk is working on tax avoidance and ownership structure, while Bentley MacLeod and Miguel Urquiola have started an exciting new project on education in Africa.

These grants have helped contribute to the 36 percent increase in grants under PER’s management. The funds generated by these grants along with the generous support from the Economics Advisory Council have enabled PER to provide vital services to the economics department. This month marks the inauguration of a new high-performance computing cluster. PER and the Economics Department led an interdisciplinary effort to fund a major expansion in Columbia’s capacity to do high-level computing in the social sciences, which will dramatically improve computing for faculty and students.

PER has also been able to start a number of exciting new programs. First, we now have in place a seed grant program in which faculty can obtain early funding for new projects. Second, we tripled our undergraduate summer research budget, which fosters joint projects between Columbia undergraduates and faculty. Finally we have expanded our support of conferences and events. We kicked off this semester with a conference entitled “Heterogeneous Expectations and Economic Stability,” organized by Michael Woodford and Ricardo Reis. This was then followed by three major public events. Former U.S. Treasury Secretary Henry Paulson came to talk to a packed Low Library audience. The disastrous earthquake, tsunami, and nuclear crisis prompted us to hold an event on the “Economic, Health, and Political Consequences of Japan’s Earthquake.” Last, we were excited to host Sir Partha Dasgupta to give a lecture on “Persons and Time in the Welfare Economics of Climate Change.”

As these projects make clear, Columbia Economics is an exciting place! It’s no wonder that economics is the most popular major in the university.

David E. Weinstein is the Executive Director of the Program for Economic Research and the Carl S. Shoup Professor of the Japanese Economy.

CONFERENCE ON HETEROGENEOUS EXPECTATIONS AND ECONOMIC STABILITY

On February 11, 2011, Columbia University’s Program for Economic Research, in conjunction with Columbia’s Economics Department and Columbia Business School, sponsored a conference organized by Professors Michael Woodford and Ricardo Reis, focusing on the issue of heterogeneous expectations and economic stability. The purpose of the conference was to consider departures from rational expectations models and evaluate alternative models of how agents form expectations over variables which determine their actions.

As discussed in Michael Woodford’s introduction to the conference, agents in rational expectations models do not make mistakes, and all act in a homogenous manner – that is, they do not react differently to the same set of information. Woodford pointed out that modeling events like the current crisis and large changes in assets prices associated with the boom and bust in the housing market is very difficult in a rational expectations framework. Woodford then asserted that models that can match the magnitude and persistence of movements in asset prices are critical, in order for the field of economics to more appropriately describe the boom and bust dynamics that have taken place recently in the world economy. Participants in the conference brought together several alternative approaches to evaluate the potential benefits and drawbacks to each approach. In organizing this conference, Woodford and Reis sought to bring together proponents of a variety of approaches, who may not frequently engage one another, in the hope of reaching conclusions about which directions are most promising at this time.
The role of naked credit default swaps (or naked CDSs) in the global crisis is an ongoing source of controversy. This column seeks to add some formal analysis to the debate. Its model finds that speculative side bets can have significant effects on economic fundamentals, including the terms of financing, the likelihood of default, and the scale and composition of investment expenditures.

There is arguably no class of financial transactions that has attracted more impassioned commentary over the past couple of years than naked CDSs. A range of people have made strong arguments both in favor and against them. Robert Waldmann has equated such contracts with financial arson, but John Carney believes that any attempt to prohibit such contracts would crush credit markets.

One reason for the continuing controversy is that it has been expressed informally, without a common analytical framework to examine the economic consequences. Since naked CDSs have a long and a short side and the payoff nets to zero, it is not immediately apparent why they have any effect at all on the availability and terms of financing or the likelihood of default. Even if such effects do exist, it is not clear what form and direction they take, or the implications they have for the allocation of a society's productive resources.

In a recent paper (Che and Sethi 2010), we have attempted to develop a framework within which such questions can be addressed and to provide some preliminary answers.

Heterogeneous Beliefs and Side Bets

A fundamental assumption underlying our analysis is that the heterogeneity of investor beliefs about the future revenues of a borrower is not only due to differences in information, but also to differences in the interpretation of information. Individuals receiving the same information can come to different judgments about the meaning of the data. They can therefore agree to disagree about the likelihood of default. This allows us to speak of a range of optimism among investors, where the most optimistic do not interpret the pessimism of others as being particularly informative. We believe that this kind of disagreement is a fundamental driver of speculation in the real world.

When credit default swaps are unavailable, the investors with the most optimistic beliefs about the future revenues of a borrower are natural lenders: they will part with their funds on terms most favorable to the borrower. The interest rate then depends on the beliefs of the threshold investor, who in turn is determined by the size of the borrowing requirement. The larger the borrowing requirement, the more pessimistic this threshold investor will be (since more investors are needed for the borrowing requirement to be met). Those more optimistic than this investor will lend, while the rest find other uses for their cash.
Consider the effects of allowing for naked CDSs. Those who are most pessimistic about the future prospects of the borrower will be inclined to buy naked protection, while those most optimistic will be willing to sell it. However, pessimists also need to worry about counterparty risk. Hence, the optimists have to support their positions with collateral, which they do by diverting funds that would have gone to borrowers in the absence of derivatives. The borrowing requirement must then be met by appealing to those who are neither so optimistic that they wish to sell protection, nor so pessimistic that they wish to buy it. The threshold investor is now clearly more pessimistic than in the absence of derivatives, and the terms of financing are shifted against the borrower. As a result, for any given borrowing requirement, the bond issue is larger and the price of bonds accordingly lower when investors are permitted to purchase naked CDSs. It can be shown that allowing for only “covered” credit default swaps has much the opposite effect: it leads to higher bond prices, a smaller issue size for any given borrowing requirement, and a lower likelihood of eventual default. While optimists take a long position in the debt by selling such contracts, they facilitate the purchase of bonds by more pessimistic investors by absorbing credit risk. In contrast with the case of naked CDSs, the terms of lending are shifted in favor of the borrower.

Naked CDSs and Self-Fulfilling Pessimism

To address the possibility of self-fulfilling bear raids, it is necessary to allow for a mismatch between the maturity of debt and the life of the borrower. This raises the possibility that a borrower who is unable to meet contractual obligations because of a revenue shortfall can roll over the residual debt, deferring payment into the future.

If investors are confident that debt can be rolled over, they will accept lower rates of interest on current lending, which implies reduced future obligations and allows debt to be rolled over with greater ease. But if investors suspect that refinancing may be unavailable in certain states, they demand greater interest rates on current debt, resulting in larger future obligations and an inability to refinance if the revenue shortfall is large.

A key question then is the following: how does the availability of naked CDSs affect the range of borrowing requirements for which pessimistic paths (with significant rollover risk) exist? And, conditional on the selection of such a path, how are the terms of borrowing affected by the presence of these credit derivatives?

For reasons clear from the baseline model, we find that pessimistic paths involve more punitive terms for the borrower when naked CDSs are present than when they are not. Moreover, we find that there is a range of borrowing requirements for which a pessimistic self-fulfilling path exists if and only if such contracts are allowed. It is in this precise sense that the possibility of self-fulfilling bear raids can arise when the use of such derivatives is unrestricted.

The finding that borrowers can more easily raise funds and obtain better terms when the use of credit derivatives is restricted does not imply that restrictions are desirable. A shift in terms against borrowers will generally reduce the number of projects that are funded, but some of these should not have been funded in the first place. Hence the efficiency effects are ambiguous. However, a shift in terms against borrowers can also tilt managerial incentives towards the selection of riskier projects with lower expected returns. This happens because a larger debt obligation makes projects with greater upside potential more attractive to the firm, as more of the downside risk is absorbed by creditors.

The Impact of Speculative Side Bets

The central message of our work is that the existence of zero-sum side bets on default has major economic repercussions. These contracts induce investors who are optimistic about the future revenues of borrowers, and would therefore be natural purchasers of debt, to sell credit protection instead. This diverts their capital away from potential borrowers and channels it into collateral to support speculative positions. As a consequence, the marginal bond buyer is less optimistic about the borrower’s prospects, and demands a higher interest rate in order to lend. This can result in an increased likelihood of default, and the emergence of self-fulfilling paths in which firms are unable to rollover their debt, even when such trajectories would not arise in the absence of credit derivatives. And it can influence the project choices of firms, leading not only to lower levels of investment overall but also in some cases to the selection of riskier ventures with lower expected returns.

James Tobin (1984) once observed that the advantages of greater “liquidity and negotiability of financial instruments” come at the cost of facilitating speculation, and that greater market completeness under such conditions could reduce the functional efficiency of the financial system, namely its ability to facilitate “the mobilisation of saving for investments in physical and human capital... and the allocation of saving to their more socially productive uses.” Based on our analysis, one could make the case that naked CDSs are a case in point.

This conclusion, however, is subject to the caveat that there exist conditions under which the presence of such contracts can prevent the funding of inefficient projects. Furthermore, an outright ban may be infeasible in practice due to the emergence of close substitutes through financial engineering. Even so, it is important to recognise that the proliferation of speculative side bets can have significant effects on economic fundamentals such as the terms of financing, the patterns of project selection, and the incidence of corporate and sovereign default.

Yeon-Koo Che is the Kelvin J. Lancaster Professor of Economic Theory.
in the Eurozone is that currency pegs hinder the efficient adjustment of trade or hikes in the country interest-rate premium. Such shocks produce a contraction in domestic aggregate demand. To maintain full employment, the relative price of nontradables must fall, that is, the domestic currency trade or hikes in the country interest-rate premium. Such shocks produce a contraction in domestic aggregate demand. To maintain full employment, the relative price of nontradables must fall, that is, the domestic currency

The Effects of Maternity Leave on Children’s Birth and Infant Health Outcomes in the United States, 1011-01
—Maya Rossin
This paper evaluates the impacts of unpaid maternity leave provisions of the 1993 Family and Medical Leave Act (FMLA) on children’s birth and infant health outcomes in the United States. My identification strategy uses variation in pre-FMLA maternity leave policies across states and variation in which firms are covered by FMLA provisions. Using Vital Statistics data and difference-in-difference-in-difference methodology, I find that maternity leave led to small increases in birth weight, decreases in the likelihood of a premature birth, and substantial decreases in infant mortality for children of college-educated and married mothers, who were most able to take advantage of unpaid leave. My results are robust to the inclusion of numerous controls for maternal, child, and county characteristics, state and year fixed effects, and state-year interactions, as well as across several different specifications.

Cupid’s Invisible Hand: Social Surplus and Identification in Matching Models, 1011-03
—Alfred Galichon and Bernard Salanié
We investigate a matching game with transferable utility when some of the characteristics of the players are unobservable to the analyst. We allow for a wide class of distributions of unobserved heterogeneity, subject only to a separability assumption that generalizes Choo and Siow (2006). We first show that the stable matching maximizes a social gain function that trades of two terms. The first term is simply the average surplus due to the observable characteristics; and the second one can be interpreted as a generalized entropy function that reflects the impact of the unobserved characteristics. We use this result to derive simple closed-form formulae that identify the joint surplus in every possible match and the equilibrium utilities of all participants, given any known distribution of unobserved heterogeneity. Moreover, we show that if transfers are observed, then the pre-transfer utilities of both partners are also identified. We conclude by discussing some empirical approaches suggested by these results for the study of marriage markets, hedonic prices, and the market for CEOs.

Profitability of Product Bundling, 1011-02
—Yongmin Chen and Michael Riordan
Using copulas to model the stochastic dependence of values, this paper establishes new general conditions on the profitability of product bundling. A multiproduct monopolist generally achieves higher profit from mixed bundling than from separate selling if consumer values for two products are negatively dependent, independent, or have limited positive dependence. With more than two goods, the same conditions are sufficient for an optimal monopoly selling scheme to include a bundle of at least two products. The profitability of monopoly bundling also extends to situations where a multiproduct firm competes with a single-product rival.

Partner Choice and the Marital College Premium, 1011-04
—Pierre-André Chiappori, Bernard Salanié and Yoram Weiss
Several theoretical contributions have argued that the returns to schooling within marriage play a crucial role for human capital investments. Our paper quantifies the evolution of these returns over the last decades. We consider a frictionless matching framework à la Becker-Shapley-Shubik, in which the gain generated by a match between two individuals is the sum of a systematic effect that only depends on the spouses’ education classes and a match-specific term that we treat as random; following Choo and Siow (2006), we assume the latter component has an additively separable structure. We derive a complete, theoretical characterization of the model. We show that if the supermodularity of the surplus function is invariant over time and errors have extreme value distributions with time-invariant but education-dependent variances, the model is overidentified. We apply our method to US data on individuals born between 1943 and 1972. Our model fits the data very closely; moreover, we find that the deterministic part of the surplus is indeed supermodular and that, in line with theoretical predictions, the “marital college premium” has increased for women but not for men over the period.

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

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currency union) rules out a devaluation. Thus, the only way the necessary real depreciation can occur is through a decline in the nominal price of nontradables. However, if nominal prices, especially factor prices, are downwardly rigid, the real depreciation will take place only slowly, causing recession and unemployment along the way. We refer to this phenomenon as the Achilles’ heel of currency pegs.

The aim of this project is (a) to build a model of the Achilles’ heel of currency pegs. This part of the project plans to deliver a substantial methodological contribution by laying out the foundations of a dynamic stochastic disequilibrium model with downwardly rigid nominal wages. The model will feature a nontrivial interplay between exchange-rate policy and involuntary unemployment; (b) to characterize optimal monetary policy in economies that suffer from the Achilles’ heel of currency pegs. This part of the project has the potential to deliver a theory of positive inflation targets (or structural inflation) of the size observed in actual economies, a result that is missing from the existing literature; (c) to study the role of fiscal policy in ameliorating the costs of currency pegs. This issue is particularly important because for many Eurozone members there may exist significant costs of abandoning the peg unrelated to stabilization policy, thereby placing countercyclical fiscal policy at center stage; and (d) to investigate the role of international capital market structure for the fragility of currency pegs. In this regard, we propose to analyze the effect of currency pegs on the probability of default, on the size of the country premium, and on the amount of debt a country can support. The dynamic stochastic disequilibrium model put forth in this proposal has the potential to rationalize the stylized fact, established in Reinhart and Rogoff (2010), that historically sovereign default and devaluations go hand in hand in emerging economies.

By shedding light on the consequences of currency pegs for unemployment, fiscal policy, and sovereign default, our project aims to enhance the economic analysis conducted in private and public institutions concerned with the design of monetary and fiscal policy.

**Yeon-Koo Che – Two Projects On Market Design (National Science Foundation, SES-1023818)**

My research will focus on two areas of market design: assignment of indivisible objects and Internet search auctions. The first project, joint with Eric Budish, Fuhito Kojima, and Paul Milgrom, generalizes the theorem for implementing random assignments so as to accommodate a broad set of circumstances and various constraints of practical importance. Our research identifies a condition on the constraint structure that is sufficient for implementation, and develops a computable algorithm for implementation. We also establish the condition to be maximally sufficient in two-sided matching. We apply our theory to improve ex post fairness of assignment mechanisms, to adapt existing mechanisms to be more broadly applicable, and to develop new mechanisms. We then establish their welfare, fairness, and incentive properties.

The second project, joint with Syngjoo Choi and Jinwoo Kim, studies Internet search auctions, particularly the generalized second price auction (GSP) which has emerged as the industry standard. While real-life search auctions involve rich, dynamic interactions among bidders, the standard theory of GSP largely abstracts from them, focusing instead on a static full-information model. We employ a lab experiment to investigate how advertisers respond behaviorally to salient features of real-life search auctions and how well the stylized model of GSP approximates the behavior. We then compare the GSP with alternative auction formats based on per-impression bids and explore a broader class of auction mechanisms that include the per-impression bid option, two-part tariff and general “scoring rule” auctions.

The generalized implementation theory we develop in the first project enables random assignment mechanisms to accommodate many real world features and constraints, thus expanding the scope of applications for existing random assignment mechanisms and encouraging the development of new mechanisms, some of which we propose. Our maximal domain result also provides a useful guide for future development of market design based on the random assignment approach. My research will advance the scholarship on search auctions through a better understanding of how they operate and how they can be improved.

Random assignment of indivisible goods comprises an important class of real-world problems such as assigning public school seats, low-income housing, offices, tasks, and queuing for services. The theory of implementing random assignments and the computable algorithm we develop enhance the real-world applicability of mechanisms such as the probabilistic serial mechanism, which is known to have a desirable efficiency and fairness property but has never been applied to any resource allocation problems. Our second project is also expected to have a broad impact. Enhanced understanding of how search auctions operate and can be improved will help the both academics and practitioners to bring new innovations into allocating advertising spaces.

**Wojciech Kopczuk – Tax Avoidance And Ownership Structure: Evidence From Norway (Research Council of Norway, UOSLO 210/7528)**

The Shareholder income tax was introduced in 2006, but until now there has been little empirical evaluation of the effect of this in theory neutral tax on the behaviour of owners and firms. We provide an evaluation of the effects of the Shareholder income tax in two particular dimensions: the effects on ownership composition of existing corporations and the effects on the use of holding companies as tax shelters. This information can be used directly in the Norwegian evaluation of the recent tax reform, and as input in the design of future reforms. In identifying and analyzing specific determinants of pursuing tax avoidance strategies, we are interested in exploring the extent to which social networks and families influence tax avoidance decisions. And do these decisions affect the outcome, such as survival and profit of the firm, and income of the owner from the corporate sector and other income? We will provide evidence for the potential explanation for why otherwise similar taxpayers make different tax compliance decisions. We contribute to the international literature on behavioural responses to taxation by opening the black box of behavioural responses by firms, their interaction with individual taxation, and heterogeneity due to individual characteristics of owners.
RECENT FACULTY BOOKS

From Financial Crisis to Global Recovery
Padma Desai (Columbia University Press, May 2011)
Desai’s book begins with a systematic breakdown of the factors leading to America’s recent recession, describing the monetary policy, tax practices, subprime mortgage scandals, and lax regulation that contributed to crisis. She discusses the Treasury-Fed rescue deals that saved several financial institutions and the involvement of Congress in passing restorative policies. The distinguished scholar follows with an analysis of stress tests and other economic measures and investigates whether the U.S. economy is truly on the mend. Widening her view, she considers the prospects for recovery in North America as a whole, as well as Europe, Asia, and South America, and the extent and value of U.S. and E.U. regulatory proposals. Refocusing on American financial practices, Desai evaluates hedge funds and derivatives, credit default swaps, and rating agencies and discusses whether the dollar can remain a reserve currency. The book has quickly received broad praise from leading economists, described by Nobel Laureate George Akerlof as “what we need to understand the crisis,” and praised by Yale Professor Robert Shiller as being “[i]nsightful, far-reaching and complete.”

After The Crisis: The Way Ahead
Jean-Paul Fitoussi (Editor), Edmund S. Phelps (Editor), Christopher Pissarides (Editor) (Luiss University Press, October 2010)
This report by a group of economists points the way out of the global economic crisis. Its primary focus is on the developed countries, mainly Europe and the United States. It develops its solutions in part by an in-depth analysis of the causes of the crisis. The gathering together of a small group of economists of different countries, different experiences, and even different doctrinal orientation, allows the authors to offer both a coherent analysis and a set of recommendations and the qualifications and depth provided by the diversity of views. The report focuses primarily on four points: the causes of the crisis, its anatomy across the world, the policies apt to combat its effects and to revive growth, and last with the particular problems of the Italian economy.

Japan’s Bubble, Deflation, and Long-term Stagnation
Koichi Hamada (Editor), Anil K Kashyap (Editor), David E. Weinstein (Editor), Kazumasa Iwata (Foreword) (MIT Press, January 2011)
The essays in this book generate new facts and new findings about Japan’s lost decade. As much of the research shows, the slowdown can be broken down into two phases: a typical recession, followed by a breakdown in the economy likely due to insufficient restructuring, which is not well described by conventional models. The contributors offer forceful arguments showing that Japan’s experience, and the unconventional—sometimes unsuccessful—measures adopted by Japan’s government and central bank, offer valuable lessons for our post-boom world.

RECENT FACULTY ARTICLES

“Climate Trends and Global Crop Production Since 1980,”
by David B. Lobell, Wolfram Schlenker, and Justin Costa-Roberts. Science, May 2011

“The Long Term Effects of Early Life Development – Evidence from the 1959 to 1961 China Famine,”
by Douglas Almond. Book chapter in Consequences of Demographic Change in East Asia by Takatoshi Ito and Andrew K. Rose

“Capital Growth in a Global Warming Model: Will China and India Sign a Climate Treaty?,”
by Prajit K. Dutta and Roy Radner. Economic Theory, November 2010

“The Effect of Massachusetts’ Health Reform on Employer-Sponsored Insurance Premiums,”
by John F. Cogan, R. Glenn Hubbard, and Daniel Kessler. Forum for Health Economics & Policy: Vol. 13: Iss. 2 (Health Care Reform), Article 5, 2010

“Price Dynamics, Retail Chains and Inflation Measurement,”

“Mobile Phone Technologies Improve Adherence to Antiretroviral Treatment in a Resource-Limited Setting: a Randomized Controlled Trial of Text Message Reminders,”

“Evaluating the Sample Likelihood of Linearized DSGE Models Without the Use of the Kalman Filter,”
by Stephanie Schmitt-Grohé, Martín Uribe. Economic Letters, October 2010

“The Financial Accelerator in an Evolving Credit Network,”
by Domenico Delli Gatti, Mauro Gallegati, Bruce Greenwald, Alberto Russo, and Joseph E. Stiglitz. Journal of Economic Dynamics and Control, September 2010
MISMEASURING OUR LIVES: WHY GDP DOESN’T ADD UP

On December 7, 2010, the Program for Economic Research and the Committee on Global Thought hosted a launch event for *Mismeasuring Our Lives*, a book published by New Press and authored by Joseph Stiglitz, Amartya Sen, and Jean-Paul Fitoussi, with an introduction by French President Nicolas Sarkozy. In place of GDP, *Mismeasuring Our Lives* introduces a bold new array of concepts, from sustainable measures of economic welfare, to measures of savings and wealth, to a “green GDP.” The event was co-sponsored by Demos and the New Press, and was set up as a panel discussion with Alan B. Krueger of Princeton, Glenn-Marie Lange of the World Bank, Juliet Schor of Boston College and Joseph Stiglitz of Columbia.

Panelists left to right: Alan B. Krueger, Juliet Schor, Joseph Stiglitz and Glenn-Marie Lange

Krueger, a leading economist and former Chief Economist at the U.S. Department of Labor, lent his insight to the problems with use of GDP.

Joseph Stiglitz introduced the discussion and moderated the panel

Alan Krueger and Juliet Schor

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On March 22, in response to the horrific events in Japan, the Program for Economic Research, the Center on Japanese Economy and Business, the Weatherhead East Asian Institute, and the Center for Japanese Legal Studies of Columbia Law School organized an event that leveraged the unique expertise of Columbia’s Japan specialists and medical faculty to understand the consequences of the crisis. With the extensive media coverage being given on the issue, discussion by experts on various aspects of this issue – politically, economically and in terms of the issue of radiation – was surprisingly lacking. The information provided by the speakers in this event went a great deal toward filling that need.
PAULSON AT COLUMBIA

Henry Paulson, former Secretary of the Treasury of the United States, sat down with Columbia Business School’s Sanford C. Bernstein & Co. Center for Leadership and Ethics Dean Glenn Hubbard to discuss a range of topics in front of a packed room of students, faculty, and staff members on February 24 at Low Library. The event, titled “A Conversation with Secretary Henry Paulson,” was sponsored by Columbia Business School and Columbia University’s Program for Economic Research. Paulson, who served under President George W. Bush from 2006 through 2009, answered questions about actions taken by the Treasury Department during the global financial crisis and China’s growth, among many other international economic issues, and even speaking on career advice to the students in the audience.

Paulson discusses the details of why Lehman Brothers was not bailed out by federal government agencies

Paulson’s talk was wide ranging, from the financial crisis to China to advice for students on work-life balance

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Paulson took time to speak with Columbia College undergraduates after the event.

Paulson with Glenn Hubbard and David E. Weinstein, who introduced the speakers.

Glenn Hubbard, Dean of Columbia Business School, moderated the discussion.

Paulson speaks with Columbia Nobel Laureates Joseph Stiglitz (left) and Edmund Phelps (right).
José Scheinkman presented a brief history of financial bubbles.

Nobel Laureate Kenneth Arrow (Ph.D. ’51), namesake of the lecture series, shared his insights with the audience.

Panel discussants left to right: José Scheinkman, Joseph Stiglitz, Sandy Grossman and Patrick Bolton.

Questions from the audience provided an opportunity to amplify on the details of the models and ideas discussed.
On Wednesday, December 1, 2010, the Program for Economic Research, along with its co-sponsors the Maison Française and the Chazen Institute of Columbia Business School, hosted Jacques de Larosière, former Governor of the Banque de France and a leading thinker on financial architecture, to lecture in Low Library on monetary policy. He is the lead author of the de Larosière Report, which was issued last year and just this autumn been passed by EU bodies. He presented a talk entitled “In the Aftermath of the Financial Crisis: Towards a New Framework for Monetary Policy.”

De Larosière’s speech delved into the extraordinary role central banks were now playing in the aftermath of the financial crisis.

A vigorous question-and-answer session was held, with many illuminating answers provided by de Larosière.

At the reception, individuals asked de Larosière for an autograph for a book to which he contributed.
NEWS FROM THE GRADUATE PROGRAM

Ben Marx has been awarded a Nonprofit Dissertation Fellowship from the National Bureau of Economic Research. He is studying donations to charitable foundations and the effects of legislative efforts to ensure that foundations and their money are used for charitable purposes. The fellowship includes tuition, a stipend, and funding for research.

Maya Rossin’s paper “The Effects of Maternity Leave on Children’s Birth and Infant Health Outcomes in the United States” has been accepted for publication at the Journal of Health Economics. The paper compares outcomes using data from before and after the 1993 Family and Medical Leave Act (FMLA). The data show that there were small increases in birth weight, decreases in the likelihood of a premature birth, and substantial decreases in infant mortality among women best able to take advantage of maternity leave. She has also presented this paper last November at the Association for Public Policy Analysis & Management (APPAM) meeting, and will be presenting it at the Population Association of America (PAA) meeting on April 2nd.

Lesley Turner (left) and Sarena Goodman (right) saw their paper “Teacher Incentive Pay and Educational Outcomes: Evidence from the New York City Bonus Program” (Columbia Discussion Paper 0910-05) cited heavily in recent months. Particularly, their findings were condensed in an excellent article they co-wrote in Education Next this Spring. Their article details the particular importance of the structure of payments in improving educational outcomes.

This semester, the Economics Department was proud to count so many new recipients of National Science Foundation Graduate Research Fellowships among its graduate students. Ph.D. candidates Mike Mueller, Kyle Jurado, Corinne Low, Zach Brown, Katherine Meckel, Naihobe Gonzalez and Elliot Ash were all recently announced recipients of the highly competitive honor.

UNDERGRADUATES LAUNCH COLUMBIA ECONOMICS REVIEW

With support from the Program for Economic Research, undergraduates in the Economics Department spearheaded an initiative to produce the first issue of the Columbia Economics Review (CER). CER aims to promote discourse and research at the intersection of economics, business, politics, and society by publishing a rigorous selection of student essays, opinions, and research papers. The Columbia Economics Review takes student economic knowledge and applies it across the world and across disciplines. The inaugural issue is packed with thoughtful analysis, featuring an interview with author Guucharan Das, a review of the Chilean neoliberal development model, and an explanation of flash sales in business. Visit the review on the web at http://www.columbiaeconreview.com/index.html.

PHI BETA KAPPA INDUCTS FIVE UNDERGRADUATES

Five undergraduate economics majors at Columbia received the distinction of early induction into Phi Beta Kappa: Michael Mirochnik, Samuel Frank, Abraham (Avi) Allison, Gregory Cox and Dasha Wise. The group boasts a diverse array of curricular and extracurricular activities. Gregory Cox, whose thesis topic focused on measuring efficiency gains of multiple estimation approaches under the guidance of Professor Serena Ng, also held an Intervarsity Christian Fellowship and was in The Veritas Forum. He will pursue a Ph.D. at Yale University next year. Abraham Allison played the upright bass in university jazz ensembles, played with the Columbia Club Tennis team and served as a member of the editorial board of Consilience: The Journal of Sustainable Development. For his senior thesis, he investigated the efficacy of the Yasuni-ITT Initiative, a project through which governments and organizations of the developed world are to pay the government of Ecuador to forgo oil extraction in the fragile and extremely biodiverse Ecuadorian Amazon. Michael Mirochnik was president of the Columbia University Pre-Law Society, publisher of the Columbia Undergraduate Law Review and co-founded the Columbia Economics Review, which provides a forum for undergraduates to showcase their economics research and engage in discussion and debate related to current topics in economics. He will be attending Harvard Law School, with a particular interest in working on mergers and acquisitions and corporate governance issues once his law degree is finished.
FEBRUARY 11
Conference on Heterogeneous Expectations and Economic Stability
Co-sponsored by Columbia Business School

FEBRUARY 24
A Conversation with Secretary Henry Paulson
With R. Glenn Hubbard, Dean, Columbia Business School
Co-sponsored by The Sanford C. Bernstein & Co. Center for Leadership and Ethics at Columbia Business School

MARCH 22
The Economic, Health, and Political Consequences of Japan’s Earthquake
Featuring David J. Brenner, Higgins Professor of Radiation Biophysics, Professor and Director of the Center for Radiological Research, Gerald L. Curtis, Burgess Professor of Political Science, and David E. Weinstein, Carl S. Shoup Professor of the Japanese Economy
Co-sponsored by the Center on Japanese Economy and Business

APRIL 12
The Fourth Annual Kenneth Arrow Lecture: “Persons and Time in the Welfare Economics of Climate Change”
Sir Partha Dasgupta (University of Cambridge)
with discussants
Kenneth J. Arrow (Stanford University)
Scott Barrett (SIPA and the Earth Institute, Columbia University)
Geoffrey Heal (Columbia Business School)
Joseph E. Stiglitz (Columbia University)
Co-sponsored by Columbia University Press and the Committee on Global Thought

APRIL 15-17
Lectures on Integrating Psychology into Economic Theory
Matthew Rabin (University of California, Berkeley)