



## Economics of Fair Trade

By Cooper Engst and Rod Palmquist

Fair Trade refers to a third party labeling system that provides a service to consumers who are interested in the ethical aspects of a commodity's production. Put differently, a movement has arisen where people are demanding that goods they buy be produced in a way that meets specified labor and environmental standards. Third party labeling organizations, such as TransFair USA (the sole American Fair Trade Certification agency) indicate to consumers what goods meet a set of ethical standards, and ensure that these standards continue to be observed by producers.



Under the Fair Trade agreement, a third party certification entity will offer to pay primary producers above-market prices for their goods, provided that certain production methods are adopted. After ensuring that these methods are met, the certification entity will award producers Fair Trade status, and their goods will receive a distinctive label. Additionally, the certification entity connects farmers who produce raw goods with exporters, importers, and processors, eliminating middle men and lowering the overall costs of trade. The savings from these lower transaction costs, coupled with annual dues paid by primary producers is what enables certification entities to afford to pay farmers above-market prices.

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## What Class Should I Take?

By Carolyn Hsu

When registration times comes around, most of the Econ department's few hundred undergrads probably wonder what classes to take. As a graduating senior who has finally met most of the professors, taken most of the courses and heard most of the stories, let me offer you some tips and advice learned from my own experiences.

First of all, regardless of your specific focus in economics, I would strongly recommend taking **Econ 482: Econometric Methods**. Professors Startz and Ellis are both excellent lecturers. My first day in Econ 482, the professor told us that this would be the course that would help us get a job and he was absolutely right. When economics jobs rolled around later that year, most of the interns hired had taken econometrics and all of them claimed that the class was very applicable to their work. This class is also indispensable to anyone who hopes to do any economic research or really understand the techniques behind *Freakonomics*.

People study economics for different reasons. My main research interest is in development and political economy so I took economics courses that focused mostly on international, macro, or development economics.

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# Joseph W. Gruber – Life at the Fed

By Nat Sahlstrom



Joseph W. Gruber

**Nat:** Tell us about yourself.

**Joseph:** I'm a UW graduate. I graduated in 1996 with degrees in International Studies and Economics. I started out only in the Jackson School of International Studies focusing on International Political Economy, although I found the Economics requirements to be the most interesting part of the curriculum. I applied to a number of Economics Graduate Programs with only my International Studies degree and was uniformly rejected. So I stayed an extra year at the UW, completed the course work for a B.A. in Economics, and reapplied to grad school.

I did my graduate studies at Johns Hopkins University in Baltimore. Hopkins has a great program. It has a relatively small faculty and student body, with the advantage that students interact more with their professors than they might in a larger program. My dissertation was titled "On Habit Formation and Aggregate Consumption". I don't know what the "On" is doing there, but everyone else seemed to be adding it so I did too.

After graduate school, I started work in the International Finance division at the Board of Governors of the Federal Reserve. Initially, I studied economic developments in major U.S. trading partners. More recently, I've been involved in issues regarding international trade.

**Nat:** Why did you choose to work at the Fed as opposed to working in the private sector?

**Joseph:** One of the nice things about working at the Fed is that it offers a somewhat unique opportunity to mix policy work with academic research. The Fed provides an excellent research environment, especially in regard to quality and quantity of your colleagues. Coming out of grad school, I considered a number of faculty positions. However, for the most part, I would have been one of a handful of macroeconomists in the department. At the Fed, there are something like 200 other macroeconomists that I can collaborate with and bounce ideas off.

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**EDITOR/DESIGN:** Nat Shalstrom, Asa Martin

**WRITERS:** Nat Sahlstrom, Carolyn Hsu, Cooper Engst, Rod Palmquist

Questions, Comments, Concerns?

**EMAIL:** [eub@u.washington.edu](mailto:eub@u.washington.edu)

**WEB:** [depts.washington.edu/ecnboard](http://depts.washington.edu/ecnboard)

**Nat:** What undergraduate and graduate courses best prepared you for the work/research that you engage in today?

**Joseph:** I found International Macroeconomics, taught by Theo Eicher, and International Trade, from Haideh Salehi-Esfahani, to be interesting and useful. The material in those two courses basically provided the background for what I do today.

**Nat:** What advice would you give any undergrad who is interested in a career at Fed?

One thing I would consider is the Fed's research assistant program for undergraduate economics majors. The program is great for those thinking about grad school, but not quite ready to start right at it. It's a good opportunity to see economics in action, check out how the Fed operates, and live in DC. ■

## What Class Should I Take?

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One of my favorite courses was **Econ 491: Topics in Economic Development** which I think is one of the best classes to complement anyone who is also completing an International Studies or Political Science degree. In addition, I have heard that **Econ 495: Economic Transformation of Russia and Eastern Europe** is amazing and I know a few people who after having taken Thorton's undergraduate course petitioned to get a spot in her graduate course as well.

Many undergrads choose economics as their major because of the wide job prospects the degree gives them in the business world. For anyone hoping to go into business, I would recommend taking as many of the financial economics classes as possible. I tried to get into Hadjimichalakis's **Econ 421: Money, Credit and the Economy**, but due to the popularity of the course, was not able to secure a spot. I still wish I could have taken it. **Econ 422: Investment, Capital, and Finance** is very popular and the new **Econ 424: Computational Finance and Financial Econometrics** is also very good from what I have heard.

For those pursuing graduate study in economics, there are a few courses that you should take. In addition to **Econ 400: Advanced Topics in Microeconomics** and **Econ 401: Advanced Topics in Macroeconomics**, I would recommend **Econ 485: Game Theory**. It is definitely challenging, but important to any well rounded economics education. The two professors who usually teach Econ 485, Professors Khalil and Lawarree, are also teaching **Econ 404: Industrial Organization** next year and many students may find taking Econ 404 to be very helpful before taking Game Theory.

If you are a junior and find that some of those 400 level classes are already full, you should consider taking **Econ 402: Microeconomic Methods and Applications** or a seminar class. One of the best things about the undergraduate curriculum is that it gives you the option to explore the many diverse aspects of economics. One of my favorite courses, History of Economics (which unfortunately is not being offered next year), was one that I didn't think I would take but registered at the last minute. Well, this course is what got me to like and understand economics and the professor later became my thesis advisor. So, I advise that you take something that looks fun – you never know what other interests that class may spark. ■

You are cordially invited to attend the  
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**Stanley D. Savage**

BA Economics 1967 – UW  
MBA 1972 – USC

Chairman, President and CEO  
The Commerce Bank of Washington

Wednesday, June 7, 2006 4:00 – 6:00 pm  
HUB Ballroom – University of Washington

# Fair Trade

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To become Fair Trade Certified in the coffee industry, there are two main sets of requirements that farmers must meet. To achieve basic Fair Trade status farmers must adopt labor standards which are consistent with the International Labor Organization (ILO), and must organize themselves into democratically-run cooperatives, or large-scale farming units made up of several families. ILO standards act to safeguard workers' rights, such as the freedom to organize, and prohibit all forms of forced labor. In return for meeting this requirement, farmers are granted non-organic Fair Trade status and their cooperatives receive \$1.26 per pound of coffee produced.

To be certified Fair Trade Organic coffee, farmers must also adhere to environmental standards. Specifically, farmers are prohibited from using agrochemicals and pesticides, and are encouraged to adopt shade-grown techniques. In return for abiding by these standards, farmers are certified as Fair Trade Organic and their receive \$1.41 per pound of coffee produced.

The Fair Trade movement has been criticized from many angles. For one, it is said to artificially tamper with market mechanisms by guaranteeing farmers a minimum price, which could potentially lead to overproduction and inefficiency. On top of this, many people believe that in rewarding certain methods of production, the quality of Fair Trade goods does not necessarily correspond with to the final price level, thus supplying consumers with both expensive and inferior goods. Finally, many companies argue that similar environmental and labor standards are met with coffee that is not Fair Trade Certified, and that this labeling method hurts the reputation of essentially similar goods, and acts to give consumers a skewed picture of reality.

It is important to note that Fair Trade is consumer-driven. It is the consumers who are choosing to purchase a good at a higher price, and in many ways this indicates dissatisfaction with conventional pricing systems. Regarding overproduction, Fair Trade does not currently suffer from this problem as demand is outstripping supply. Fair Trade occupies a specialty niche in the overall coffee market (under 4%), although it is the fastest growing sector. Even if this were not the case, farmers are limited to the size of their cooperatives in the quantity of coffee/goods that they can produce. This, along with the fact that certification entities teach farmers how to use their land in a sustainable way, reduces the likelihood of overproduction. Similarly, as stated before, it can be argued that conventional trading systems do not accurately price goods in terms of social values, and that by giving farmers more money for adherence to labor and environmental standards, Fair Trade Certification is actually acting to increase efficiency. The overall price of Fair Trade products to consumers is equal to, or marginally more expensive (\$0.05-\$0.10) than conventionally traded coffee, and in terms of quality, there is evidence that Fair Trade Practices might actually be responsible for creating better quality coffees.

As for the claims that there are conventional coffees with similar standards to Fair Trade Certification, the importance of a third-party label cannot be overstressed. The whole point of labeling is to provide consumers with a recognizable and trustworthy sign that represents exactly what they want to buy. Even if certain conventional coffee did have comparable standards, there is no way of proving this short of the authority of the seller, or a trip to visit the producer.

The Fair Trade movement serves to remind consumers and citizens that underlying all economic choices and decision making are social and political factors. Alternative Trade Organizations can serve as good examples of socially responsible economic models that are also practical.

For more information on this subject, please visit:

UW Fair Trade Coffee Coalition, <http://students.washington.edu/ftcc>  
TransFair USA, <http://www.transfairusa.org/>

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