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Market Focus - Jack Ma and his Unprecedented Alibaba

Lynn Shi

Overnight, it seemed that the Alibaba Group and Jack Ma, founder, became the center of media, market observers, and prospective investors. The attention Alibaba commanded prior to its initial public offering (IPO) in September 2014 was enormous, and many could foresee the IPO of this Chinese e-commerce giant to be the largest US internet IPO of all time. By raising \$25 billion, Alibaba's IPO even surpassed the offering from the Facebook (\$16.0 billion) in

2012. The listing also made Ma China's second richest man and later #30 of the Forbes world's most powerful people. Let us take a closer look at Jack Ma's unexampled life and the tech giant he ventured.

Born in a family that had no background of business, Ma was determined to learn English as a teenager as he realized the significance of speaking English in business opportunities. He would com-

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A Farewell to Professor Yoram Barzel

Nate Coleman

My first class with Professor Yoram Barzel, the Economics of Property Rights, took me to a different world in the universe of economics. The economic analysis of property rights focuses on studying an individual's expected ability to consume a good or service directly or indirectly through trade. This goes beyond the abstract idea of consumption, supply or trade. Rather, it investigates a framework to analyze the nuances of these economic concepts. It is a study for those sharp in mind and keen to observation – characteristics embodied by Barzel that have taken him from Jerusalem, to a PhD in Economics from Chicago, to one of the biggest names in the field of property rights right here at the University of Washington. I had the honor and privilege to speak with Barzel to hear his story.

Barzel was raised in the coastal city of Haifa, Israel with the latter part of his youth defined by dual conflicts in that region: the advance of Nazi forces from North Africa, and rising tensions with Palestinians. During the latter half of his high school career, he was enlisted into Israel's military forces and after completing his

service, was placed in the reserves. By a stroke of luck, the front on the border of Jordan, where Professor Barzel would have had to defend, never opened.

After his time in the military, the natural next step for him was to attend university. He enrolled at Hebrew University in Jerusalem, marking the beginning of his formal study of economics. Barzel attributed his inclination to study economics to his time in the military where he found interest in reading and discussing current news relating to the political economy. This interest led him to taking his first step into a college economics course. As many of us found out ourselves, Barzel noticed that the study of economics at the undergraduate level can be far removed from what we call "the real world". However, this did not bother him and he continued his study of economics, which took him all the way to the bastion of economics at the time – The University of Chicago.

Barzel's arrival at Chicago in 1957 in pursuit of his PhD in economics was not a standard one. A close

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Continued: Jack Ma

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mute from his home to the large hotels where foreigners live to practice speaking English. In return, he volunteered to be their tour guide as they travelled around his hometown, Hangzhou. Owing to the earlier English-learning experience and knowledge regarding international trade, Jack Ma obtained a position as a lecturer in English and International Trade at the Hangzhou Dianzi University.

In 1995, Ma founded China Yellowpages, broadly considered as the first Internet-based company in China, with the help of friends overseas. “The day we got connected to the Web, I invited friends and TV people over to my house,” and on a very slow dial-up connection, “we waited three and a half hours and got half a page... But I was so proud. I proved the Internet existed”, Ma recalled. Four years later, he founded Alibaba, a Chinese e-commerce company which currently serves more than 79 million members from more than 240 countries and areas.

Alibaba is defined as a company that provides consumer-to-consumer, business-to-consumer and business-to-business sales services. But how does Ma conceptualize his own company? Ma stated during the interview with WSJ, “Alibaba is an ecosystem that is changing the commercial behavior and helping small businesses to grow.” He went on to explain that each small business is like a player in sports. The role of Alibaba is to connect all the “players” to work as a team, helping the businesses to sustain in the future.

When asked about the business model, Ma emphasized the significant difference between the online marketplace in China and US, which is a reflection of China’s small scale manufacturing sector. The consumers in the US would search on Amazon for what they want, but the consumers in China would scour the Internet to find different products from a collection of producers. Thus, Alibaba strives to recommend and advertise all sorts of products provided by small businesses utilizing the power of the internet.

Alibaba has broken several records in and outside of China. By creating 14 million jobs in China, Alibaba has gained tremendous support from the young “netizens” in particular. On November 11th 2014, the highest individual gross sales day of the year, total sales for Alibaba’s Shopping Festival soared to \$9.3 billion.

While the critics speak highly of Alibaba’s record-breaking growth, challenges remain as Alibaba continues to struggle with counterfeit items. They are taking a tougher line against counterfeit items exhibited on its online marketplaces as the company regards the possibility of related lawsuits or scrutiny as one of their biggest concerns, despite the fact that pirated or counterfeit goods are popular among consumers due to the acceptable price and unbelievably decent quality. “Although we have adopted measures to verify the authenticity of products sold on our marketplaces and minimize potential infringement of third-party intellectual property rights through our intellectual property infringement complaint and take-down procedures, these measures may not always be successful,” the company admitted.

Alibaba’s toughest challenge may come from battling against the Chinese State. On January 23rd, the State Administration for Industry and Commerce (SAIC) announced that in a sampling inspection, 63% of the products sold on Alibaba’s online marketplace, Taobao, were discovered to be “unauthentic” – those products could be fake, discredited, or coming from unjustified sources. As a response to the announcement, Taobao quickly questioned the fairness of the inspection, claiming that the small sample size could not reflect the quality of products sold at the online marketplace.

Soon the SAIC released a White Paper listing 19 issues with Alibaba’s business format, of which included preponderance of counterfeit products and commercial bribery. Spectators believed that the released date for the White Paper was held back purposefully so that Alibaba would not be affected by potential lawsuits prior to the IPO in the U.S. in September 2014. The dispute cooled down as the SAIC removed the White Paper from its website, yet Alibaba shares had already plunged significantly. In the latest survey, many investors have shown concerns towards Alibaba shares due to stagnating growth, political considerations, and potential lawsuits with counterfeit good consumers.

“Opportunity lies in the place where the complaints are”, said Ma during an interview. With all of the growing complaints, Ma should have a lot more opportunities on the horizon.

Continued: Professor Yoram Barzel

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friend of his that he had met in the service was pursuing a PhD in economics at Chicago. Barzel described this friend as very talented, ambitious and appreciative of the value of high grades in everything – the latter a quality that Barzel admits he did not possess. Being admitted to Chicago, but without a fellowship, his hopes of attending the University of Chicago were gone. Barzel then planned to pursue his PhD at Johns Hopkins University. Upon arriving in the United States, he contacted his friend at Chicago to see how his dissertation was coming along. His friend had been writing on a subject similar to what Barzel was hoping to study, a subject we know today as econometrics. Impressed by Barzel's skill-set in empirical work, his friend approached an advisor at Chicago, again regarding a fellowship for Barzel. Fortune turned on a dime and was once again on Barzel's side. He was notified that additional funds had become available for a fellowship. With that, he found himself at the University of Chicago.

Being at the University of Chicago at a time when eminent Economists such as Milton Friedman and George Stigler were faculty, I had to ask if he had any stories about these men we read about in our textbooks. He did have a few words about Friedman. One of Barzel's colleagues in graduate school, John Cunningham, who possessed an electrical engineering background, was approached by Friedman to help him develop a theory based on spectral analysis. Interested in Cunningham's work, Friedman would come to the seminars where Cunningham presented. In one of Cunningham's presentations Friedman asked a question. Cunningham was able to field the question with ease. Friedman posed another question, to which Cunningham was a little less certain in answering. Then came a third – Cunningham could not satiate Friedman's curiosity. By the fourth question Friedman had stood up and proceeded to develop his theory regarding analysis right there, as Barzel and the rest of the class watched in awe.

After completing his dissertation, Barzel was offered positions from four schools: North Carolina State, City University of New York, University of Chicago Business School, and the University of Washington. Ready for a new phase in his life, Barzel decided to keep moving west and accepted the position at UW.

Originally Barzel's research interests were in empirical microeconomics. However in 1969 when



Professor Yoram Barzel

Steven Cheung, one of the most prominent names in the field of property rights and transaction costs came to our department, Barzel's research began to shift in the direction of Cheung's. Cheung was not only an influence on Barzel professionally, but was a source of some of his best memories in the department.

Barzel described Cheung with admiration, noting his many facets of talent, including being a UCLA Ping-Pong champion and an extraordinarily talented photographer. "He (Cheung) was extremely energetic, extremely full of himself, extremely talented, and an extremely good friend". Aside from the relationships with Cheung and other faculty in the department, Barzel stayed at Washington for 54 years because of the great students, the energy of Seattle and his ability to readily enjoy skiing, one of his favorite hobbies.

Professor Barzel has had a long, successful career, making himself one of the prominent names in the field of property rights by using his natural ability to see problems from angles others would not – a special talent I had the privilege to see taking his course on Property Rights.

Professor Yoram Barzel is one of the great faculty members we've had the pleasure and privilege of having in our department. On behalf of the students of the economics department, I want to thank him for his service and wish him the best in retirement.

Reflections on the AEA Annual Meeting

Joshua Kim

Joshua Kim, a UW senior and EUB member, attended the American Economic Association's Annual Meeting on January 3rd, where thousands of economists gathered to discuss recent developments in the field. Held this year in Boston, the AEA meeting consisted of presentations and sessions hosted by some of the most famous economists in the world. Below is Kim's account of some of the most interesting presentations of this year's AEA meeting.

Beginning with behavioral economics, there were a number of interesting papers that addressed such topics as what drives extremism in political ideology, why and how do people fall into bankruptcy, and how can we improve how much people save. One particularly outstanding paper was by Pietro Ortoleva and Erik Snowberg, both of the California Institute of Technology, titled "Overconfidence in Political Behavior". Ortoleva and Snowberg study how overconfidence results in ideological extremism and empirically test their theoretical predictions using a unique survey dataset of people's political beliefs.

Raj Chetty, Harvard economist of educational reform fame, gave an amazing talk titled "Behavioral Economics and Public Policy". The highlight of his lecture was his research on how behavioral nudges can often be more effective than monetary incentives. In particular, Chetty uses a rich dataset from Denmark to look at the savings rates of Danish citizens, examining how retirement account savings change when monetary incentives are introduced as opposed to implementing a simple policy change. Chetty found that most people do not pay attention to monetary incentives for retirement savings, and thus, programs such as employee matching often have very little effect on actual behavior. In addition, the people who do change their behavior are often not the main target of the policy change – namely poorer families who are less responsive to changes in tax law than richer families. As a result, introducing monetary incentives to save for retirement oftentimes has no effect except using government

funds to pay for the more responsive, richer savers.

However, economists can exploit this non-responsiveness to improve savings contributions, increasing social welfare by changing the default contribution amount. For most companies, the default contribution rate is 0%: you choose how much you want to put into a retirement account. However, if companies change the default contribution to something else, such as 3%, while still giving employees the ability to change their contribution back to 0%, then savings contributions increase while still giving employees the same agency to choose their contribution rates. Since most people are not responsive to changes in retirement savings, most people will stick with the default, in this case the now 3% savings rate. As a result, retirement savings increase, especially among the less responsive, poorer individuals.

If you are interested in viewing some of the remarkable sessions at this year's AEA conference, a number of presentations were videotaped and are available online. Some of the sessions available online are: Greg Mankiw, Thomas Piketty, and others discussing Piketty's "Capital in the 21st Century", Olivier Blanchard talking about "Reassessing Macroeconomics after the Crisis", Chetty's talk on "Behavioral Economics and Public Policy", Stromberg talking about the "Empirical Analysis of Asset Prices", Colin Camerer talking about Neuroeconomics and measuring cognitive processes, and William Nordhuas discussing how to enact international carbon regulations.

To view some of these videos, go to: <https://www.aeaweb.org/webcasts/2015/index.php>

Editor's Note: Joshua Kim authored a paper with Camerer titled "Do NFL Players with Short-Lived Income Spikes Smooth Consumption?" The EUB congratulates Kim for having his joint work presented at the AEA Annual Meeting.

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