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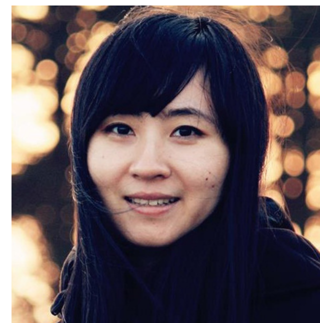
New Faculty Interview: Assistant Professor Xu Tan

Pragya KC

Assistant Professor Xu Tan completed her PhD at Stanford University in 2013 and began her position at the University of Washington last quarter. When she was choosing her first faculty position, Assistant Professor Tan admits to looking at other universities on the East Coast. However, she is enjoying her position at the University of Washington. As an undergraduate, Tan pursued degrees in mathematics and economics, eventually choosing economics for its real-world applicability. She believed that studying economics would help her understand the transformation and development of her native country, China.

As a new faculty member at the University of Washington, Tan enjoys the company of other excellent young faculty members such as Rachel Heath. In fact, Assistant Professor Tan has been collaborating with Assistant Professor Heath in developmental economics research and has a newfound passion for the field. Her specialty, however, lies in game theory, a unique and vital aspect of economics. Shying away from elementary game theory examples like the prisoner's dilemma, she believes that game theory is integral not only to economic theory but also to world issues. Game theory, she says, changes your approach to thinking, challenging you to become more aware of how other parties' decisions affect you and therein affect the choices you make as an individual. One of her papers, "Social Capital and Social Quilts: Network Patterns of Favor Exchange," investigated the role of social cohesion in rural India. The paper was based on the idea that because rural Indian villages lack



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The Federal Reserve Over the Years

Travis James

On December 23rd, 1913, Woodrow Wilson and the 62nd United States Congress brought the Federal Reserve System into existence. After a bank run in 1907 triggered by the failure of a New York trust company, there was a desperate need for measures to enhance financial stability. Not well-versed in financial matters, President Wilson solicited expert advice from Virginia Representative Carter Glass, the soon-to-be chairman of the House Committee on Finance and Banking, and his advisor H. Parker Willis. By the end of 1912, Carter and Willis had a central bank proposal ready for Congress, and after much debate and speculation, the Fed was born. This signing of the central bank proposal stood as a classic example of compromise, offering banks increased access to credit while satisfying the public's desire for macroeconomic stability. By November 16, 1914, 12 cities were chosen as sites for regional Reserve Banks to the Fed's overall operations, and business began just as World War I was heating up in Europe. The Fed's initial role in U.S. monetary policy was rather limited in scope. Its job was to supply an elastic currency, so when banks ran short of cash they could borrow from the Fed's discount window, pledging loans to farms and other businesses as collateral. This type of real bills system marked the beginning of open market operations and the foundations of modern monetary policy. During the 1920s, Glass warned that stock market speculation could lead to significant economic instability. In October 1929 his prediction became reality. The market crashed and nearly 10,000 banks failed, which kicked off the Great Depression. In reaction to the Great Depression, Franklin Roosevelt

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Economics Advising Office's blog : http://uwecon.wordpress.com

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formal banks, villagers had to invest and lend among themselves in order to grow their businesses. The paper examined how large networks of people, who attempt to maximize their own returns, influence other people's behaviors, and how this interaction affects the business environment of the community.

The aforementioned collaboration between Assistant Professors Tan and Heath has allowed Tan to learn more about the applications of game theory to development economics. In their paper "Intrahousehold Bargaining, Female Autonomy, and Labor Supply: Theory and Evidence from India," they showed that women in India began to participate more in the labor force as they earned more. This is unusual--most workers tend to take more leisure time when their earnings increase. She also pointed out some important theories within development economics, such as the idea that investment in non-transferrable skills and opportunities (education, job skills) for women, rather than easily transferable ones (loans and monetary aid), tends to increase the intrahousehold bargaining power of those women.

As a recent graduate student, Professor Tan has a lot of advice for undergraduates who want to pursue an advanced degree in economics. She suggests taking graduate-level economics courses if you can, as PhD-level economics is a large jump from undergraduate studies. In addition, she points out that it is important to manage expectations for the first year of the PhD track, which she says is the most challenging. In addition to technical+ skills, she advises that students begin exploring different subfields within economics. By developing an early interest in an area of focus, students better prepare themselves for future studies.

For me, meeting and speaking with Assistant Professor Tan was extremely helpful. She has lots of advice for young students and is an example of how learning never stops, even after you're a faculty member. Her passion for economics is clearly visible when talking to her, and it's a pleasure having her here in our department!

Continued: The Fed Continues to Evolve

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helped pass the Banking Act of 1933, also known as the Glass-Steagall Act. This marked the first expansion in the Fed's greater macroeconomic responsibilities, with more open market operations under its control, established the Federal Deposit Insurance Corporation, and required bank holding companies to be examined by the central bank. Commercial and investment banks were also separated, and the new Federal Open Market Committee was charged with influencing "the general credit situation of the country." These new banking regulations and increased responsibility for the Federal Reserve proved effective in maintaining economic stability during the 50s and 60s. The only real limitation was a lack of inflationary targets, as rates reached double digits in the 1970s. In response, Congress instilled a larger agenda for the Fed that included stabilizing prices and monitoring employment levels. In 1979, Paul Volcker took office and curbed inflation, paving the way for 25 years of infrequent, mild recessions and what is known today as the Great Moderation. This leaves us with the current state of the economy and the Fed. After the Great Recession of 2008, stock markets have recovered, unemployment is tapering off and inflation has been subdued. When traditional central bank interest rate targets proved ineffective at spurring growth, more exotic measures were undertaken in hopes to increase spending and keep

the economy afloat. Quantitative Easing, or QE, is the process of printing off money in order to purchase financial assets from commercial banks and lowering yields on those assets in order to increase the monetary base. While the effectiveness of such techniques is currently under debate, one thing is certain: as history has proven time and again, the Federal Reserve System is one of perpetual adaptation, and is willing to venture into uncharted territory to serve its role as a governing body of economic stability.

Evaluating Minimum Wage Policies

Bianca Zlavog

In recent months, talk of raising the minimum wage has been at the forefront of national, state, and local political discourse. Washington State currently has the highest minimum wage in the country: $9.32 per hour. Many people, however, are pushing to raise this figure even more. Last November, residents of SeaTac voted to approve Proposition 1, which would increase the minimum wage for airport workers in the hospitality and transportation industries to $15 per hour and give workers paid sick leave. Despite some complications, Proposition 1 went into effect at the beginning of 2014 and currently impacts around 1600 employees. Meanwhile, Seattle Mayor Ed Murray has issued an executive order that raises wages of Seattle city workers to a minimum of $15 an hour. Perhaps as a result of all this support for higher wages, the state legislature is considering several bills, including HB 2672 and HB 2608, which will gradually raise minimum wages statewide. Other states are taking similar action, and President Obama has voiced support for a federal minimum wage increase from the current $7.25 an hour.

As economics students, how can we evaluate the potential outcomes of these policies? We can come to several conclusions by applying the basic principles taught in our introductory economics classes.

Proponents of minimum wage increases make several arguments in their favor. Since the lowest-paid workers are most affected, wage increases target those workers who stand to benefit the most from increased wealth. Low-income workers are more likely to rely on public support programs, so higher wages may result in less reliance on government funds. As workers spend their higher wages, the economy will benefit through increased consumption, and new jobs could be created as a result. The money that is not spent by the employees could be saved in a bank or contributed to a pension fund, which will benefit the worker later and provide capital for investments that will support economic growth, or it could be invested in higher education. In addition, higher wages would raise the opportunity cost of an employee leaving their job, which would reduce worker turnover, a costly problem for companies employing minimum wage workers. Some behavioral economists argue that higher salaries could lead to more productive and motivated employees. Lastly, we observe that while the nominal federal minimum wage has risen over the years, the cost of living-adjusted nominal wage has fallen to a level well below its peak in 1968 of over $10 per hour, meaning that workers today have less purchasing power than in the past.

On the other hand, arguments against raising the minimum wage can seem equally attractive. Higher

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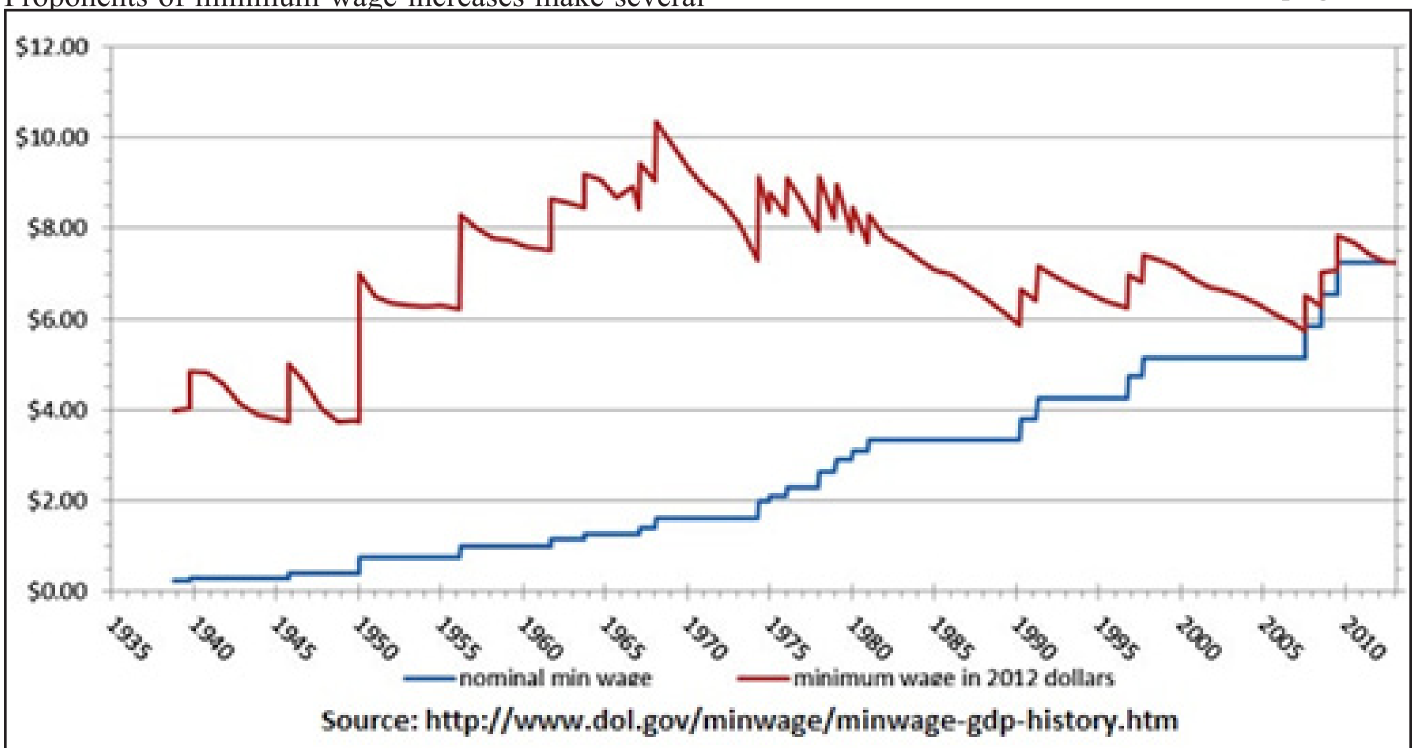

Source: http://www.dol.gov/minwage/minwage-gdp-history.htm

Continued: Minimum Wage Policies

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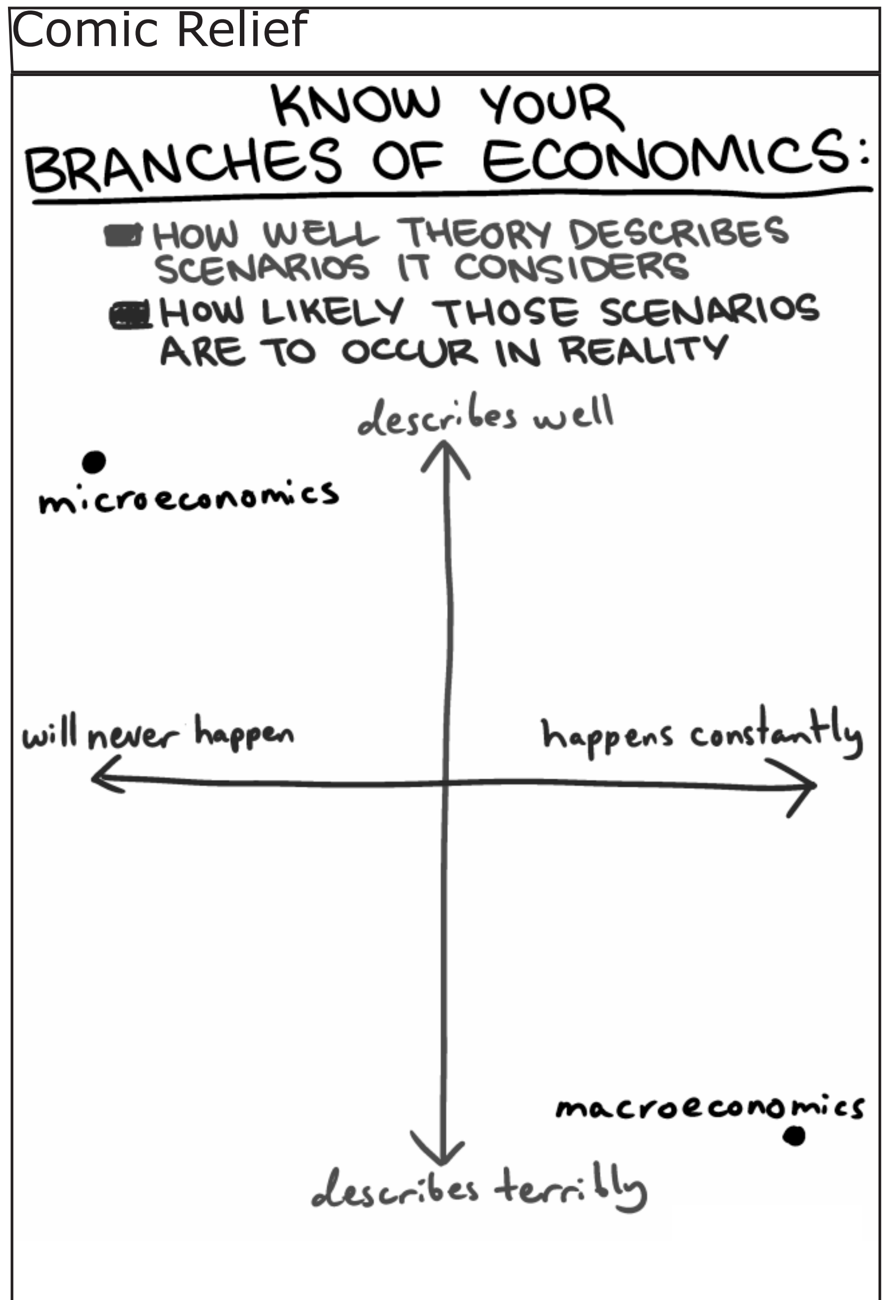
wages would mean higher costs for businesses, which firms might mitigate by laying off workers or increasing prices for their goods. This inflation would cause the cost of living to increase, countering the benefits that the higher wages aimed to provide. Additionally, higher prices would make US goods less competitive in the global market. The layoffs and fewer jobs would also hurt the workers that the policy intended to help in the first place. For teens in school, a higher minimum wage would raise the opportunity cost of staying in school, thus providing an increased incentive to drop out of school and earn wages. Unskilled workers may have a harder time finding jobs as people from different places and possibly with more experience seek out these jobs. Finally, according to classical economic models, a minimum wage acts like a price floor above the equilibrium price of labor, which causes the quantity of workers supplied to exceed the quantity of workers demanded, contributing to structural unemployment.

It remains to be seen what effects these new policies will produce. The empirical data often show mixed results, and there is a lack of broad consensus on any of these points. This just serves to show that the economy in reality is much more complex than the apparently straightforward theory would imply. For us students and economists, the discourse around minimum wage increases will stimulate critical thinking about how economic concepts apply to the real world.

Comic Relief



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