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Economics Undergraduate Board

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## Dean Robert Stacey's take on liberal arts education

By Scott Walters

The Visiting Committee (VC) of the Economics Department is an ensemble of UW economics alumni and industry experts that helps the Department through fundraising and services like the mentorship program. Each spring quarter, the department puts on an event for the committee highlighting accolades, student admissions and faculty recruitment. The Economics Undergraduate Board also presents at the meeting, offering its opinion on department matters based on an annual student survey conducted in March.

This year, prior to the EUB presentation, Dean of Arts and Sciences Robert Stacey gave an opening address to the VC. Dean Stacey's speech described the shifts in student enrollment across departments over the past four years, leading into a discussion of student demand for majors. Listening to and interpreting his speech was an exercise in using knowledge accumulated as

an economics undergraduate. He reminded us that choosing a degree is a one-shot game for almost all students, where the payout to this choice can be a victim of perceptions and information.

Dean Stacey presented an oft-misrepresented dichotomy of the choice between a liberal arts education and a STEM (science, technology, engineering, mathematics) major. Looking at enrollment numbers from the last four years, he said that students are moving out of 'the arts' and into the STEM disciplines. He then discussed the contention that arts graduates not only have a harder time finding their first job, but also earn less over the course of their careers than will business, engineering, or natural sciences majors.

Is this true? If so, then it assumes that society has placed itself in a state that is extremely difficult to deviate from. A sub-optimal Nash equilibrium, if you

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## Economics consulting: interview with alumni

By Audrey Lam

Economic consulting firms apply micro- and macroeconomics to help solve business and policy issues. Analysts in these firms interact with a variety of topics ranging from energy, IP, antitrust, business strategy, and more depending on the consulting firm's area of expertise. Wondering what it is like to work in this industry? The EUB had the opportunity to interview Johnny Chen ('11) and William Ray ('12), both UW economics graduates who joined Analysis Group after receiving their bachelor's degrees, to get some insights about the industry.

*What are some projects that you have worked on?*

**Johnny:** I've built several budget impact models for pharmaceutical companies. These models utilize cost-benefit analysis to examine effects of new drugs entering the market, from consumers' perspective. I've also worked on pricing studies that uses conjoint analysis to figure out the optimal price for a new drug. On the litigation side, I have worked on several cases that assess

damages of alleged price fixing, patent infringement, or nondisclosure of material information to investors.

**William:** I've mostly been working on mortgage-backed securities litigation. We provide assistance to expert witnesses who testify in these cases by preparing reports and estimating damages due to fraud. Another large part of our job is critiquing the methodologies used by the other side.

*What are your roles in those projects?*

**Johnny:** I do everything from cleaning the data to building and specifying the model in Excel or R. I especially have a lot of input when working on healthcare models as the team is often structured with just a managing principal, a manager, and then me.

**William:** Analysts usually don't come up with high-level methodologies for economic valuation; our

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# Continued: alumni talk consulting

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internal Ph.Ds and expert witnesses do. However, we do have some leeway in interpreting and implementing the models that the economists ask us to produce. My role is mostly to take the raw data, clean it, and write code in Excel or SAS that output results which can be made into exhibits for answering clients’ questions in a succinct way. Apart from handling the data, sometimes we get more interesting tasks such as coming up with ways to efficiently discount future cashflows or estimate the internal cost of capital for a bank.

*What do you enjoy the most about your work?*

**Johnny:** The work is intellectually challenging most of the time and the people are incredibly smart. I have also found the company tremendously supportive of pursuing a graduate degree. For example, I had managing principals and managers writing targeted recommendation letters and also had several recent PhD graduates helping me with my application. I am likely to attend Kellogg for a PhD in Managerial Economics & Strategy.

**William:** It’s nice that I have to learn new things in order to keep up with the work. Last week I had to read up on the different types of LIBOR rates so that I could choose the appropriate one to use as a proxy for the risk-free cost of capital. I also like that most

of my co-workers are either econ bachelors or PhDs since getting a doctorate is what I ultimately want to do.

*Any tips for current undergraduate students who would like to work in this industry?*

**Johnny:** In terms of coursework, econometrics is by far the most important course. Following that, it is coursework in industrial organization. Taking one or two basic programming courses would be helpful too. Lastly, significant research experience can be even more useful than prior work/internship experience.

**William:** Having been on a few recruiting committees, I can say with some certainty what we’re looking for. Our ideal candidate has very high grades, lots of coursework in economics, mathematics, and statistics, and some projects or research experiences that show that s/he is capable of the work. Knowing how to code, or having previous consulting experience is a plus. Also, some of the current analysts were previously interns, so being an intern gives you a much higher chance of receiving a job offer. Finally, I went to the Analysis Group recruiting event at UW and learned a lot about the company, so I definitely recommend going to career fairs.

*Visit [www.vault.com](http://www.vault.com) for a list of major economic consulting firms.*

**Economics Advising Office blog :** <http://uwecon.wordpress.com>

## Honors students share their thesis experiences

*This year’s Economics Honors class submitted their theses earlier this month. Students in this year-long program first developed a thesis proposal in the fall and then extended their thesis in subsequent quarters. Here’s what some of them have to say about their papers and the experiences of writing them. All four students presented their research at the Undergraduate Research Symposium on May 17.*

**Adibah Abdulhadi:**

I studied the effect of the distribution of bargaining power within household on the families’ allocation of housework. Observing the amount of housework married women did before and after the law amendment on division of martial property, which redistributed bargaining power in favor of women, I examined whether the law had resulted in a decrease in women’s burden of housework. Although statistical results were not strong, I learned a lot through this process, such as formulating a feasible thesis question, articulating ideas effectively and extending what I learned in class (particularly ECON 448) into something more practical in the form of research.

**Jung Bae:**

The genesis of my thesis was an ECON 464 lecture, where I was first exposed to the idea that labor migration can have a short-term destabilizing influence on regional economies. That idea eventually became an empirical study on the relationship between labor in-migration and housing boom characteristics across U.S. metropolitan areas. My thesis brought together several fields of literature - ranging from urban economics to investment accelerator theory to migration studies - so I learned a great deal about how to approach, frame, and test economic questions in these fields.

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# The problem of thrift

By Regina Widjaya

For years, European policy-makers have advocated the use of fiscal austerity and structural reforms as remedies to the malaise surrounding their economies. However, as unemployment in the Euro area reached a record high in March, an editorial piece by the New York Times (NYT) offered a fitting analogy: “the bitter medicine is killing the patient.” This recession restarts the colossal macroeconomic debate between thrift and spending.

Fiscal austerity and structural reforms were imposed on troubled countries such as Greece, Spain, Portugal, and Italy as conditions to the bailout packages given in the last two years. The goal was to reduce budget deficits in the hope of creating a consolidated and more responsible structure for the debt-ridden economies. A recent report by Eurostat reflected this objective: Greece has improved its budget deficit from 15.6% in 2009 to 10%, while Italy, Spain, Portugal, Ireland, and France, amongst others, have also shown significant improvement.

Unfortunately, the same measures also plunged these countries deeper into recession by steadily increasing unemployment rate, decreasing GDP and, by extension, increasing

debt-to-GDP ratio. In March, overall Eurozone jobless rate was a record 12.1%; Spain had an unemployment rate of 26.7%, while for Ireland it was 14.1%. At the epicenter, Greece, the unemployment rate was 27.2% in January and is now estimated to exceed 30%.

In Portugal, on top of fierce spending cuts and rising taxes, structural reforms were made to phase out rent control for tenants and to make laying off workers easier for companies. The country’s unemployment rate shot up to nearly 18% from 12.7% in 2011, while the debt-to-GDP ratio increased from 108.3% at the end of 2011 to 123.6% at the end of 2012. The NYT predicted that Portugal would have a higher fiscal deficit this year than what it had agreed to in exchange of loans from the other European countries and the IMF.

Recent developments have only been worse for austerity defenders. Since April, there has been a steep increase in public opposition against this unpopular remedy, forcing leaders of nations such as Spain, Italy, and Portugal to rule out the idea of further cuts and deficit reducing. The principal academic justification for austerity, a study by Carmen Reinhart and Kenneth Rogoff, has also recently been

discredited after confirmation of faulty data analysis. Even the most iconic voice for austerity, German Chancellor Angela Merkel, has had to avoid the use of ‘austerity’ in favor of ‘fiscal consolidation’ when referring to the same spending cut and tax hikes, fearing that the usage of such lexicon will potentially lead to an undesirable political backlash nearing the German election in September.

From the opposing side, deficit spending advocates see these mishaps as justifications of the famous Keynesian saying that “the boom, not the slump, is the right time for austerity...” Paul Krugman, at the helm of the contemporary Keynesian army, has been writing extensively about the faulty advertisement of the austerity policies and the importance of more government spending in combating recession.

In his one of many Op-Ed contributions to the NYT on this topic (“The Story of Our Time”), Krugman stated that austerity measures failed to acknowledge the basic macroeconomic concept in which “my spending is your income, and your spending is my income.” He argued that above-normal government spending was crucial to counterbalance the frugal mindset of the private sector in recession; it is meant to keep a

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**Megan Mao:**

In housing markets that are prone to natural disasters, amenities are positively correlated with risk. Hedonic analyses have been used to quantify the effect of natural-disaster risk on the housing market and reveal homeowners’ risk information about susceptibility to natural disasters. However, hedonic analyses assume relationships are stationary across space. To illustrate the consequences of non-stationary hedonic coefficients, I use a geographically-weighted regression to quantify the effect of wildfire risk on the housing market in Colorado Springs. I find spatial stationarity conceals policy-relevant information about the impact of the evaluation across homeowners.

**Wit Wannakrairoj:**

I examine the effect of education and experience on wages of workers in Thailand in 2012, especially the differences in urban and rural labor markets. I propose that both education and experience significantly impact wages. The estimates are based on the Mincerian wage equation with a large cross-section data of Thai individuals. The results suggest that education and experience are positively correlated with the wages of labor in both urban and rural labor markets. This relationship is significant and evident across all the estimation.

## Continued: Dean Stacey's case for the liberal arts

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will, of too many liberal arts majors. Or perhaps the media and the populace undervalue the benefits and positive externalities enjoyed by analytical, adaptive liberal arts graduates. Dean Stacey reminded us: "For the Athenians, for the Romans, for the thinkers of the Italian Renaissance, and for America's founders, the liberal arts thus constituted the body of knowledge that free people needed to possess in order to govern themselves in a democracy." In developmental economics, we learn that developing nations benefit from investing in education because it improves institutions and the efficacy of democracy. This idea is no less powerful for students in the United States studying majors that discuss society and the democratic process. If the perception that the liberal arts receive from the media is not true, then we should be concerned that the liberal arts, including economics, are being undervalued.

Dean Stacey argued that the popular perception is misleading. He cited an Economic Policy Institute study, which found that only 50% of U.S. STEM graduates are hired into STEM fields and that wages in the IT sector have been flat since the 1990s. "Liberal arts are disproportionately successful in almost every

field they enter," he pointed out, citing a Forbes study.

Dean Stacey emphasized that he was not arguing that fewer students should study natural sciences and mathematics. Rather, he was concerned that too many students "are being misled into thinking that they are wasting their time if they study any subjects other than math and science", and thus choosing not to take courses in philosophy, history, economics, and literature – courses that are "critical to their own futures and to the future of the country in which we live".

Some of the things we presented correlated with what the Dean said. In our survey we learned that many undergrads were asking for more quantitative and statistical software-oriented economics courses, and not so much for courses on topics that make economics part of the liberal arts. With Dean Stacey's address in mind, even with an increased demand on the quantitative side of economics, it is important to balance the department with studies that associate our discipline with the liberal arts. This is what makes studying Economics so valuable and unique; a combination of both quantitative and qualitative studies that makes its students not only prepared for the work force but also for being part of grander things.

## Continued: European thrift

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sustainable unemployment rate and cushion the fall in demand, keeping the economy from a downward spiral. Krugman stated that restructuring and deficit cuts are necessary, but it should be done after crisis passes.

Looking at the damages done by the austerity policy, the idea of increasing fiscal spending and economic growth must be truly appealing. However, we must not forget the inherent problem of deficit spending: the risk of over-indebtedness and debt overhang. Empirically, lessons can be learned from the case of Obama's massive stimulus packages and its limited success in prompting growth in the US. When applied to the debt and monetary constraint of the Eurozone, deficit spending might be a dangerous and counter-productive move if credit obligations ever increase at a faster rate

than the growth it produces.

The good news: former hard-liners are now concentrating on softening their approach and fostering growth by making room for possible demand, promising a "differentiated, growth-friendly fiscal consolidation" that is already slowly apparent in some of the troubled economies. As of the end of April, Portugal and Ireland have received seven-year extensions to pay their bailout loan, while Spain, France, and the Netherlands are likely to receive some lenience in their mandatory deficit cut.

Despite the uncertain future of the thrift approach, it is clear that a softer version of austerity will replace the old straightjacket ones. Perhaps we could expect some significant changes to happen in the wake of upcoming German election next quarter.

The Economizer is a quarterly newsletter published by the Economics Undergraduate Board. The articles herein do not necessarily reflect the views of the department or its faculty.

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