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Honors Students Share Their Research Experiences

Pragya KC

The capstone of the Department of Economics' Honors Program is the undergraduate thesis. Students participating in the program spend approximately one year writing a research proposal, conducting original research, and writing a thesis paper. This year, students chose an array of topics that piqued their interest as budding economists. Three students, Travis James, Anja Elizabeth Speckhardt, and Nate Coleman, shared their experiences.

Travis' research focused on the profitability of microfinance institutions (MFIs) as loan recipients become more reliable. Over time, loan recipients tend to gain improved access to capital, income, education, health, and other human development factors. These factors make loan recipients less likely to default--in a sense, they become a better investment from the perspective of MFIs. Travis questioned if loan recipients began to default less over time due to positive impacts from preceding loans, causing the profits of MFIs to increase. Travis naturally expected the profitability of the institutions to increase but was shocked when the effects were actually negative. According to his research, improvements in small businesses decreased because as improvements took place, microfinance no longer became the only option for poor entrepreneurs, thus reducing profits. Mentored by Assistant Professor Rachel Heath, he ultimately attributed his research success to her strong knowledge of development economics and extensive research experience. Like many other students, Travis sought to complete the honors program in order to gain exposure to independent academic research. Completing an honors program is among the most prestigious achievements of any undergraduate career and will surely help Travis pursue

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Alternative Tuition Models

Rachel Frank

As average student debt continues to increase, several alternative methods of paying for college have been floated through legislatures, college administrations, and student committees. This article summarizes the current alternative tuition model Washington State employs and describes a model that is not yet used by any university. One primary issue with tuition is that schools are not responsible for receiving payment from students. Through the support of the federal government and student loans, colleges and universities are almost free from any negative repercussions of awarding too many college degrees. An alternative model would attempt to increase the connection between colleges receiving funding and their graduates succeeding with a degree.

Through Guaranteed Education Tuition (GET) credits, Washington State already enjoys one alternative tuition model. GET allows parents to pre-pay tuition for the University of Washington or Washington State University. 100 GET units is equivalent to one year's in-state undergraduate tuition and fees at whichever state university is more expensive. GET credits "lock-in" the price—if a student owns fifty units, then she has already paid for half a year's tuition at either UW or WSU, regardless of tuition increases. If the child does not go to UW or WSU, she can receive the monetary value of the credits back. The current price per unit is $172. Unfortunately, GET units do not escape a primary issue with tuition pricing. Currently, schools do not assume any of the risk, which is uncommon for beneficiaries of credit-based endeavors. Consider the example of the consumer credit market. When

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

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future academic and professional goals.

Anja's research focused on the availability of social services and its effect on fertility decisions among American women. Her research was motivated by her personal interest in how women's fertility decisions were affected by factors such as healthcare costs, childcare costs, and the opportunity cost women face professionally. Her research results reaffirmed her belief that fertility decisions are made based on the availability of social services (childcare, healthcare, etc) and, furthermore, that women would be more likely to realize their fertility intentions if such resources were made more available. Anja was mentored by Melissa Knox, who helped her develop her research models, work through data issues, and prepare for her presentation at the Undergraduate Research Symposium. Anja says that as a working mother herself, Dr. Knox was able to provide a personal perspective on her research.

Nate's research evaluated the effects of specific types of natural disaster relief in less developed countries (LDCs). His research was centered on comparing the recovery between firms owned by men and those owned by women. He wanted to focus on the gender dimension of the research because literature today indicated that male-owned firms fare much better, in terms of returns to capital inputs, than their female-owned counterparts. To conduct his research, he obtained data from regions in Sri Lanka that were affected by the 2004 tsunami. Contrary to the results established in the existing published literature, Nate found that recovery aid in Sri Lanka did not impact men and women differently, although it did help quicken the recovery process for both genders. A year-long process, Nate describes his honors thesis as a project "full of roadblocks", but he says enjoyed the experience as it helped him gain a better understanding of whether or not to pursue a PhD in economics in the future. Mentored by Professor Judy Thornton, Nate attributes his success to her guidance and encouragement.

Continued: Shortcomings of GET

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a consumer does not pay her credit card bill the supplier loses money. Colleges and universities do not incur this risk when accepting student loans. Pay-it-forward plans actually decrease the risk, because colleges and universities have already received the payment at the time that they supply their sevices.

If we are to increase the risk colleges undertake, we must also increase the reward. One method, mentioned by UW President Michael Young during his first Senate forum, is to not charge tuition, or charge a very low tuition, and then charge graduates a portion of their future income. Often called a "higher education tax," this method achieves two things: first, it ties payment to employment, and second, it allows colleges to earn back more than they would have by simply charging tuition.

The first consequence of a higher education tax means that schools have more incentive to secure their students employment, and more incentive to ensure that their students have continuous employment—it would lead to increased opportunities for alumni of that school. The second consequence would mean that schools have the potential to earn significantly more than they earned by charging the same, blanket tuition.

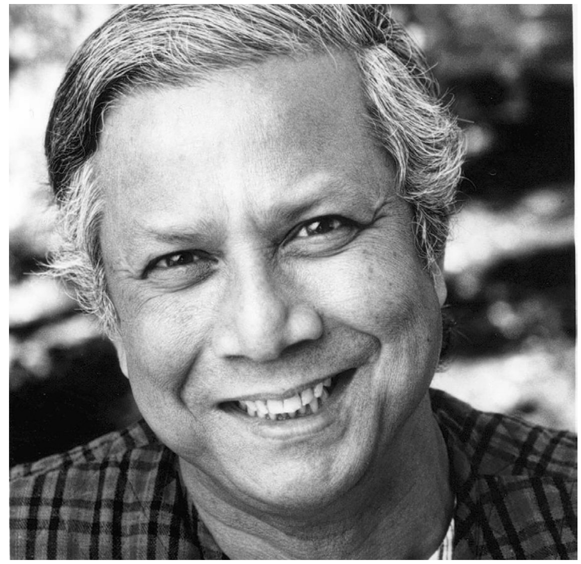
However, this method is not without drawbacks. Currently, the tuition for non-lab liberal arts degrees, such as mathematics or English, is greater than the cost of teaching. The difference is used to subsidize the more expensive degrees, such as engineering. Higher education taxes would alter this dynamic. Engineering graduates would have the most stable employment, and according to the Wall Street Journal, earn the most following graduation—these degrees would be the most lucrative to a university. However, that money would not be used to subsidize other degrees, because the cost of producing an engineering degree is too high. Instead, it would be individuals subsidizing degree programs, such as doctors paying more for biology than teachers pay for English—the unused money would then move from the biology department to the English department.

The burden would be equally shared among students and colleges; just like students receive a return on investment for their education, colleges would receive a return on investment for their students. The relationship between a college and student wouldn't end on graduation. They would be motivated to ensure that that student achieves her highest potential, in order to maximize returns. Overall, while radical in scope, a higher education tax would lead to a more equitable paying strategy for students and potentially higher returns for colleges.

The Miracle and Mirage of Microfinance

Travis James

It is difficult for most people attending the UW to envision a world where living on less than two dollars a day is the norm. For all the amenities and comforts that the U.S. and the entire developed world enjoy, it is easy to forget about the billions of people that live under the global poverty line. Many countries in the developing world suffer from contaminated drinking water, starvation, faulty democracy, and a lack of access to credit to improve their bleak fortunes. Fortunately there are many governmental and non-profit organizations that focus their time and efforts towards eradicating such abysmal living standards and allowing the poor of the world a chance to get ahead in life. From the G20 summits and the developed world's focus on poverty alleviation, to redistribution efforts within countries themselves, efforts have been constant and ambitious. Nevertheless, results have been underwhelming and even disheartening at times. However, a new tool has been gaining momentum recently and is being touted as the most instrumental piece in the poverty eradication puzzle.



Nobel Peace Prize recipient Muhammad Yunus is one of pioneers of microfinance

Microfinance is a poverty alleviation tool formally established by Nobel Laureate Muhammad Yunus in the 1970s to promote social and economic development for the world's poor. The phenomenon of focusing on poverty from the perspective of the poor, and really understanding how they think, save, and interact, has gained considerable momentum in recent decades. The actual operations of microfinance institutions are diverse, from financial literacy classes to peer support groups. In addition, microcredit provides a contingent lending scheme where entrepreneurs are provided with loans that must be repaid at a certain interest rate at a specified date. These incentive-based loans hope to promote intelligent investments in existing businesses in order to spur a virtuous cycle of growth and development. The interest rates also help avoid what is referred to as a "moral hazard", or erratic spending on temptation or frivolous goods. The logic is that the responsibility of repayment will hold loan recipients accountable for their wealth, and cause them to make the best decisions for their businesses, and in turn their futures.

While renowned economists such as Esther Duflo and Abhijit Banerjee of the Massachusetts Institute of Technology claim that microfinance could be a major turning point in poverty economics, there are still certain doubts. Research conducted by economists and PhD students has shown substantial positive results in certain areas (Bolivia, Tanzania), while other studies demonstrate no real growth in startups, income shares, or living standards. This suggests that microfinance isn't a one size fits all mechanism, and further research must be conducted in order to see what other tools should be coupled with it. Furthermore, there is a concern over the intergenerational tradeoffs of employing children in the affected areas. As businesses grow, there is a larger demand for labor, and hiring family members reduces costs associated with such a process. This causes loan recipients to pull their children from school in order to work, depriving them of an education. There is a worry that this could have direct and tangential effects in the future, and the consequences could be devastating to long term growth.

Even though the zealots and skeptics of microfinance have conflicting viewpoints, one thing is clear: increasing access to credit for the poor and giving them the incentive to not only invest, but also to think about the future in a different light is an endeavor that benefits those who need help the most. Through its triumphs and pitfalls, at the basis of microfinance is an ideology of helping the poor help themselves. Although the current implementation of microfinance schemes may be flawed, the theory is sound and further research and refinement could produce substantial results. Perhaps, then, there will be a day when no one in the world has to live on less than two dollars a day.

UW Students Participate In Federal Reserve Symposium

Reid Johnsen

Every year the Federal Reserve of San Francisco organizes the Pacific Northwest Regional Economic Conference, which brings together academics, professionals, students, and policy makers to discuss the state of the economy and various regional economic issues. This year's conference was held in Portland, Oregon and included a great opportunity for economics students in the area: an undergraduate symposium in which students from universities around the Pacific Northwest were given an opportunity to participate in the conference, not only as attendees, but also as speakers.

This year a team from the University of Washington was invited to attend the symposium, and three students from the Economics Department participated: Nate Coleman, Walker Higgins, and Matt Hill. The team was given the opportunity to participate in a mock Federal Reserve Open Market Committee (FOMC) meeting in which they prepared, practiced, and presented a short talk on the state of the economy, as well as providing their own monetary policy recommendations. In this mock FOMC meeting, the students were able to not only put on the shoes of a policy maker, but we were also able to listen to the opinions of other economics undergraduate students from the area. Represented at the meeting were Portland State University, Western Washington University, the University of Washington, Eastern Washington University, and Pacific Lutheran University. Each university brought a team of economics students who presented unique interpretations of domestic macroeconomic indicators and creative monetary policy ideas.

The University of Washington team presented a hawkish stance on monetary policy that highlighted concerns over bubbles in financial markets, inflation, and the current tactics that the Fed employs. "Our team assembled financial data and looked at global macroeconomic conditions to which we could apply general economic theory," said Matt Hill. "Given the state of financial markets, especially the bond market and the interest rate risk, we emphasized that destabilized markets are a potential threat and the Fed is out of tools. Thus, a change in monetary policy is needed."

Our team had a great time at the Undergraduate Symposium, and enjoyed networking with other economics students from the area. Students also had a chance to meet Gary Zimmerman, a Senior Economist at the Federal Reserve of San Francisco. "Zimmerman gave a face and real connection to the monetary policy ideas we've learned between the covers of Mankiw or Blanchard macroeconomics textbooks," said Nate Coleman. "In all honesty, before preparing for this conference I was not well-versed in the current monetary policy tools, however this conference taught me how the Federal Reserve's monetary instruments are implemented, and the effects that these instruments can have on the aggregate economy. Now when my dad asks me about the effects of the recent tapering of QE3 on interests rates, I can finally give him a straight answer."

The students agreed that the experience was truly beneficial, and that they gained insights into the considerations and nuances of federal monetary policy. Furthermore, they were able to attend presentations by renowned economists on the state of the economy, which gave them some new insights into the impact of the great recession and its subsequent recovery.

Next year's conference and undergraduate symposium will take place in Bellingham, Washington. If we are invited to participate again, we will undoubtedly be looking to send another team of bright students.

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