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## Los Angeles 2024: Do we really need it?

Eddie Li

With the Rio 2016 Summer Olympics approaching, the world's attention has shifted from Brazil's successful bidding on what is arguably the world's largest athletic event, to the unfinished arenas, drastic increase in budget, the sudden recession in Brazil, and the unexpected spread of the Zika Virus. All these factors will likely cause event organizers to dramatically lower their predictions on revenues from the event.

Meanwhile, the Los Angeles 2024 Olympic bid committee has just revealed the official logo and slogan, aiming to beat Paris, Rome, and Budapest

to bring back the Olympics to LA for the third time. With the fears of incurring huge debts for temporary glory along with spinoff problems such as increased traffic, why did Los Angeles decide to place its bid?

These days, the Olympics have become more of a national showcase for the world's largest developing nations. However, for these well-developed counties, losing the bid might be actually be winning in the long run; the once profitable aspect of the Olympics has disappeared as host cities often find themselves with overrun budgets. Instead, the Olympics have become

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## Book Review: A Random Walk Down Wall Street

Aneela Seraj

What is risk? Why do we care about risk or what role does it play? Risk can be simply thought of as the likelihood that the returns from an investment will actually result in loss. It is one of the most important topics in finance and is addressed heavily in *A Random Walk Down Wall Street* by Burton Malkiel, which is a must-read for those interested in financial economics.

What I found most interesting in the book was Modern Portfolio Theory (MPT) and the Capital-Asset Pricing Model (CAPM). In these models, risk is extremely important because it is the only way one can measure how much the actual return will differ from the expected return, which in turn helps decide how an investment in a particular stock should be valued compared to the investment value in the entire stock market. As indicated by trends like the one documented in this book, higher risk tends to give higher return.

It turns out that there is a way by which an

investor can reduce risk and enjoy high return, and this is where MPT comes into play. MPT supports diversification, which basically means investing in different sectors of the stock market to reduce risk. It is not difficult to see why it is risky for an investor to invest all of his or her wealth in one sector of the market. What MPT emphasizes is the idea of covariance between two sectors of a market. When two stocks or two sectors of the stock market have low covariance, meaning their conditions do not tend to be exactly the same at a point in time, a loss from the investment in one sector can be covered by a gain from the other sector. A perfectly diversified portfolio would be one where two stocks are negatively correlated. Similarly, the benefit from diversification diminishes if two stocks have high covariance. Malkiel also goes on to describe how a portfolio that consists of securities from different parts of the world is considered less risky because different economies of different parts of

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# Continued: Los Angeles

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huge burdens on governments and taxpayers. The gains, around \$5-6 billion dollars, are much lower today compared to the past and almost half goes to the International Olympic Committee. The Sochi 2014 Winter Games operated on a jaw-dropping \$51 billion dollars, with an original budget of \$12 billion dollars. Similarly, the total cost for Beijing in 2008 was \$44 billion dollars. London 2012 diverged from its plan for a low-cost, high efficiency Olympic games, and instead quadrupled its overall budget to \$15 billion dollars. The fact is, actual reported numbers for hosting the Olympics have always turned out to be much higher than the initial budget. Despite this, there is a positive element in hosting for cities such as Beijing and Sochi. Although the short-run economic effects in terms of revenue and profits may not be optimistic, the huge investments in industries such as telecommunications, power, and public transportation benefit the cities and their regions substantially for future development and growth. Even though the Rio 2016 Games have mostly appeared the press for undesirable reasons, the preparation that the city is undergoing has significantly benefit its residents. The winning bid put Rio on the world's center stage and has also allowed

for more foreign investment interests. However, Los Angeles doesn't need these any of these things. Responding to criticism on the likely overrun budget, committee officials suggested that the city of Los Angeles would not need to build more stadiums. Instead, they would be able to utilize already existing sporting venues and infrastructure. However, other unexpected costs could still raise the total costs, as was the case in London. In terms of economic factors, city infrastructure, and cultural environment, Los Angeles is somewhat similar to London, and the 2012 Olympics did not bring London as much as officials had expected. According to a BBC survey conducted roughly a year after the games ended, 56% of those surveyed that the sports facilities had no impact on the local area. Furthermore, 67% of people thought that there was no obvious impact on the local economy. The statistics for the measured impact on public services were similar. This begs the question: does Los Angeles, a developed, global city really need to risk bearing huge debts and other consequential issues to host the Olympics there for the third time? Beyond issues of national pride and other emotional arguments, the answer is clearly no - there is little to no evidence that the Olympics will yield net benefit to the city.

# North Korea Desperate for Economic Reform

Moni Pal

Western perceptions of North Korea run the whole gamut, from a serious nuclear threat to a travesty made popular by conspiracy theorists and the media. The limited information that we do have access to provides us with conflicting views of the small northeast Asian country that is home to a population of 25 million. While these notions are not unfounded, they are exaggerated in many cases. What is absolutely true however, is that after years of experiencing food shortages, policies that are detrimental to social welfare, and an isolationist approach to international affairs, North Korea's economy is on the brink of collapse. To prevent this imminent collapse, North Korea must tackle the problem of their unsustainable economy from both a domestic and international standpoint and embark on comprehensive reforms. But they will only be able to do so if their internal politics allow it. The 1960s were a prosperous time in North Korea. Life expectancy, the quality of secondary education,

and healthcare were relatively high. Then came a gradual economic slowdown in the 1970s, which resulted in them becoming incredibly reliant on foreign aid from China and the Soviet Union. In the 1990s, the volume of trade and flow of aid between North Korea, China, and Russia was disrupted, corruption in the government exploded, and failure in the inefficient agricultural industry resulted in a devastating famine. The clear signs of an economic decline are a fall in output, both in the agricultural and industrial sectors, a continued reliance on foreign aid, and a low level of social welfare. The country has been in a "crisis" mode since the 1990s. North Korean administrators must step away from the state-owned economy and towards a free market. Market liberalization will encourage privatization and stronger institutions. Allowing state enterprises and private enterprises to transact with one another will increase efficiency in the market as well. There are already instances of this

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# Buying Happiness (And Other Things): A Profile of Angus Deaton

Irena Chen

As we all should know, the 2015 Nobel Prize in Economics went to Princeton University Professor Angus Deaton. The Prize committee noted three of Deaton's achievements in particular: the "Almost Perfect Demand System" developed along with John Muellbauer, his work on the relationship between income and consumption, and the tools he developed to measure poverty and living standards in developing countries. Deaton's name is practically a household one for those involved in microeconomics and development economics, as his contributions to both theory and application transformed the way these fields are studied. Deaton received both undergraduate and graduate degrees from the University of Cambridge in economics. According to Deaton himself, he "drifted" into economics after initially studying and later losing interest in mathematics. According to Deaton, "the mathematics [at Cambridge] was appallingly taught, in huge classes by ancients in mildewed gowns whose sinecures depended only on their never publishing their yellowed notes." He soon found economics more suited to his tastes and after completing his bachelor's, went to work at the Bank of England. He later returned to Cambridge, becoming involved as a research assistant with the Cambridge Growth Project, where he worked on consumption and demand inputs. After completing his Ph.D., he accepted a professorship at the University of Bristol before finally moving to Princeton, where he is currently the Dwight D. Eisenhower Professor of Economics and International Affairs at the Woodrow Wilson School of Public and International Affairs and the Economics Department. Deaton's main area of interest lies in studying consumption and in particular, how individuals consume goods on a household and micro-level. His work broke away from measuring consumption and people in an aggregate sense and helped pioneer a different way of looking at microeconomics. Deaton argued that reducing consumer choices to a single "aggregate representative" could not fully explain economic behavior. He developed what became known as the "Deaton Paradox", in which he showed that large shocks to income did not tend to result in equally large shocks to consumption. This

paradox led many to reconsider the "permanent income hypothesis" developed by Milton Friedman. Deaton, along with John Muellbauer, produced an alternative to these classical models of consumption: the "Almost Ideal Demand System", a consumer demand model that describes how households allocate consumption. Deaton also emphasized careful and meticulous analysis of individual level data, such as household surveys. Deaton and his work are especially well known in the area of development economics, where much of the research now involves gathering individual and micro-level data on poverty, inequality, and economic growth. If you want to study the impact of microfinance in Uganda or the relationship between female education and fertility rates in India, you would likely use tools developed by Deaton to collect data for analysis. But Deaton also realized that data is subject to imperfections, and problems arising from missing or flawed data must be dealt with accordingly. "It's sort of a statistical problem from hell," said Deaton to the Financial Times, referring to his attempts to measure poverty. Along with data measuring tools, Deaton also designed ways to measure variables for which data may be unavailable or hard to obtain. One of Deaton's more recent works is his study on emotional well-being, evaluation of life, and income. Data from daily Gallup polls is used to measure how Americans' happiness levels change when income is varied. They find that emotional well-being, measured by experience of day-to-day feelings or moods, levels off at around \$75,000. After that, higher income is not associated with more or less emotional well-being. Life satisfaction, which is measured by how satisfied the respondent is overall with their life, does not however have a similar drop off point. Low income is associated with low life satisfaction and emotional well being. It appears that one can buy life satisfaction, but perhaps not happiness. The Great Escape, published in 2013, is another one of Deaton's works that highlights his dedication to the issue of poverty, but also his ultimately optimistic outlook for the future. As Deaton himself said after being presented with the Nobel award, "My measurements tend to show that things are getting better, but there is a lot of work still to be done."

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the world are more likely to have low covariance.

Malkiel also argues that an investor should consider taking risk. The total risk can be broken into two parts: systematic and unsystematic. Systematic risk, which is also known as market risk, is a company's variance relative to the entire market. Unsystematic risk, on the other hand, is the risk characteristic of that individual company. Unsystematic risk is the one that can be reduced by diversification as MPT suggests. Systematic risk cannot disappear with prudent diversification. Beta, is a measure of a company's systematic risk and it tells an investor how movements in market are going to affect a particular stock or company. This leads us to the discussion of the Capital-Asset Pricing Model (CAPM). According to CAPM, this unavoidable systematic risk is something that convinces an investor to take on a risk with expectation of a higher return. Differing betas help

distinguish between extra returns from securities for taking risks. If a security has a high beta, it indicates there is high risk involved high return offered. Similarly, low beta means low risk and low return. So, CAPM basically suggests that if an investor wants to increase their returns, they should simply consider having more high-beta securities in their portfolios while removing all unsystematic risks through diversification. However, Malkiel talks about other variables like interest rate, rate of inflation and a nation's income that should be taken into account while measuring systematic risk, and that beta alone is not enough to get the full image of systematic risk.

This book covers a wide range of investment and financial concepts starting right from the discussion of the 'random walk,' or the unpredictability of short-run stock market changes. This book is substantial, yet also easy to read. It is a great option for those interested in learning more about financial economics.

## Continued: North Korea

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kind of capitalistic change in present-day North Korea due to a booming informal economy and a rise in women entrepreneurs. Men are still required to be employed by a state enterprise so they show up to "work," even though there is little to be done, because they do not want to receive punishment. On the other hand, the restaurant sector has been growing rapidly and businesswomen are moving from retail to wholesale trade. Although a significant amount of national income is generated in this way, owning a private business in North Korea is still illegal. Owners have to provide state regulators with kickbacks so that they do not face state interference. Because there are barriers to entry, firms are not incentivized to enter the market and increase competition.

Change is inevitable and necessary but because North Korea has such stringent policies, a radical approach to change might greatly

agitate the residents and government officials and cause irreversible damage. Anything from a mass migration to deadly unrest in the government may occur. A gradual approach would reduce the most risk. If North Korea wants to see economic growth in the near future, it needs to move towards a free market and lift state control over industry. North Korea has a high level of educational attainment in its population and is natural resource rich. But a large amounts of political propaganda and massive levels of surveillance and greatly affect how society functions in North Korea. It is important to remember that economic transition cannot occur alone; it goes hand-in-hand with political and societal transition. A willingness to change policies and institutions, especially legal infrastructure, more access to information, and the abolishment of prison camps are also factors that would positively affect increase welfare as a whole in North Korea.

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