

Message from the Director



By Marc D. Weidenmier, Director, Lowe Professor of Economics

I would like to bring you up to date with the events of the Lowe Institute over the past year. In the fall, the Lowe and Rose Institutes hosted the 6th Annual CMC-UCLA Economic Forecast Conference at the Citizens Business Bank in Ontario, California. More than 500 people attended the event. Lowe research assistants and CMC economics faculty put the forecast books together for the event.



In the spring, the Lowe Institute, in conjunction with the Financial Economics Institute, sponsored Randy Kroszner's Athenaeum talk. Kroszner is a Professor of Economics at the Business School at the University of Chicago. He served on the Council of Economic Advisors under the Bush Administration and was a member of the Federal Reserve Open Market Committee. Kroszner spoke to a full house at the Athenaeum on regulation reform after the 2008 financial crises.

Also in the spring, the Institute held the Southern California Conference in Applied Microeconomics. Nearly 100 faculty from various college and universities in southern California attended the event at CMC. The lunch talk was given by Professor of Economics Emmanuel Saez of the University of California at Berkeley who talked about economic inequality. Professor Saez has recently been named one of the top 25 economists in the world under the age of 45 by Forbes magazine. Students and faculty attended the lunch talk.

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The mission of the Lowe Institute of Political Economy is to support undergraduate education in economics, public policy, and political economy. The Lowe Institute sponsors a variety of programs including faculty-student research projects, a public lecture series, and academic conferences. We invite all students with an interest in economics, public policy, and political economy to participate in the activities of the Lowe Institute.



Photo: 2015 SoCCAM participants in Freeberg Forum

Southern California Conference in Applied Microeconomics

By David Bjerk, Associate Professor of Economics

The Lowe Institute recently held the sixth annual Southern California Conference in Applied Microeconomics, also known as SoCCAM, on April 17, 2015 in the Kravis Center at CMC. The conference was the most attended yet. Participants included faculty and researchers from all of the major research institutions in Southern California including, University of California-San Diego, University of California-Santa Barbara, UCLA, and the RAND Corporation, as well as individuals from more distant places such as University of California - Davis, University of Colorado-Denver, and Harvard. In all, over 100 participants registered for the program. Papers were presented on a wide variety of topics including unemployment insurance, how Medicare reforms may have impacted prescription drug overdoses, the impact of novel judicial strategies on recidivism, and even a field experiment looking at different innovations that might help people eat healthier.



Photo © Genevieve Shiffar

The lunchtime keynote address was held in McKenna Auditorium at CMC and delivered by Professor Emmanuel Saez (pictured left) from the University of California-Berkeley. Professor Saez is a world renowned economist who has been one of the primary academic voices in the theory of optimal taxation and more recently has been a part of very prominent studies on income inequality and intergenerational mobility. In 2009, Emmanuel Saez was awarded the John Bates Clark Medal, widely considered one of the most prestigious prizes in the discipline of economics. During the course of his address here at Claremont McKenna, Professor Saez discussed his work on the growing income inequality in the United States and around the world. In addition to the SoCCAM participants, several CMC students attended his talk. ●

6th Annual Lowe Senior Thesis Writers' Conference

By Heather Antecol, Boswell Professor of Economics

The Lowe Senior Thesis Writers' Conference was held on Thursday, April 30, 2015 at the Parent's Dining Room in the Athenaeum. Three select Robert Day School (RDS) seniors presented their thesis projects and discussed their thesis experiences. The topics ranged from strategic risk taking, the index of consumer sentiment, and gains in operational efficiency. The audience, which included RDS faculty and students, was fully engaged as evidenced by the lively discussions following each thesis presentation. This unique Lowe Institute event highlights the extremely high quality of RDS students and showcases the liberal arts in action.●

"Strategic Risk Taking in Tournaments through the Lens of PGA Match Play"

Theodore Connor Schlegel '15

Reader: Professor Janet Kiholm Smith

"Variation in the Construction Methodology of the Index of Consumer Sentiment and Its Effect on the Forecasting Power"

Mengyue (Vicky) Yang '15

Reader: Professor Manfred Keil

"Examining Gains in Operational Efficiency in Public-to-Private and Private-to-Private Transactions"

Dante Quazzo '15

Reader: Professor Eric Hughson

Photo from left: Eric Hughson, Dante Quazzo '15, Vicky Yang '15, Manfred Keil, Heather Antecol, Connor Schlegel '15, Nancy Li '15, Serkan Ozbeklik



Baker-Lowe Scholars Program

The Baker-Lowe Scholars Program of the Lowe Institute of Political Economy is designed for advanced economics majors with interests in public policy and political economy. The institute provides research supervision and assistance. Recipients receive \$2,500 cash stipends or half course credit. During the 2014-15 academic year, three Baker Lowe Scholars were awarded. Vicky and Rachel presented their projects at the Institute Board of Governors meeting on April 7th and Nancy presented her project at the Lowe Senior Thesis Writers' Conference on April 30th.

Why Do We Care About Inequality?

By Xinzhu (Nancy) Li '15

From the Occupy Wall Street Movement to the Capital of 21st Century, income inequality has recently generated broad interest among economists and politicians. There are various schools of thought in explaining why inequality is not desirable. Piketty and Saez (2013) argue that widening income inequality could pose a potential threat to democracy through increasing rent-seeking behaviors. Corak (2011) and Krueger (2012) demonstrate that income inequality results in a lack of intergenerational mobility. Ostry, Berg, and Tsangarides (2014) present evidence that income inequality leads to slower growth for countries, and that redistribution does not necessarily negatively impact growth. Wilkinson and Pickett (2011) show that health and social problems are positively related with the level of inequality across countries. One possible conclusion of this literature is that sustainable growth can be achieved coincidentally with political stability. For the U.S., this implies that policy makers need to get a better understanding of the consequences of inequality. Moreover, it will be important that academic researchers will continue to work on concepts such as optimal levels of income distribution and their political feasibility.

Forecasters, we study the dynamic relationship between monetary policy expectations shocks and fluctuations in output and inflation. We propose a structured recursive vector autoregression (VAR) model using orthogonalized impulse-response functions to identify the macroeconomic effects of changes in expectations about monetary policy. We find that when interest rates are away from the zero-lower bound, a perception of higher future interest rates leads to a significant rise in current measures of inflation and economic activity. However, when interest rates approach zero, the perception of higher future interest rates leads to the opposite effect, with modest declines in current inflation and economic activity. The impact of changes in expectations about monetary policy is qualitatively robust when we control for changes in long-term interest rates and oil price shocks, as well as incorporate other channels of monetary policy (e.g., quantitative easing and the exchange rate channel). Our findings emphasize the role of forward guidance as a tool for monetary policy and provide new evidence on the role it plays in expectations-driven business cycles when interest rates approach the zero-lower bound.

Monetary Policy Expectations and the Zero Lower Bound

By Rachel Doehr '16 and Enrique Martínez-García,
Federal Reserve Bank of Dallas

Using a panel of survey-based measures of future interest rates from the Survey of Professional

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Faculty Student Research Program

Each academic year, the Lowe Institute awards faculty stipends for academic research in any area of economics. The goals of the Program are to involve students in research as well as to publish papers in top field journals in economics and finance.

Winter and Spring 2015

"Shanghai and Hong Kong Financial Markets: Market Reactions during the Asian Financial Crisis and the Global Financial Crisis"

Richard Burdekin, Lovelace Professor of Economics

"Infrastructure Spending and the Trade in Construction Materials"

Oana Tocoian, Assistant Professor of Economics

"A Test of Market Efficiency in Response to Public Information"

Mitch Warachka, Associate Professor of Financial Economics

Summer and Fall of 2014

"Say Goodbye to Hollywood: The Performance Discrepancy of Franchise Films between the Domestic and Foreign Box Office"

Darren Filson, Associate Professor of Economics

"Determinants of Commuting"

Manfred Keil, Associate Professor of Economics

"Family Environment and Gender Differences in High School Math and Science Achievement"

Serkan Ozbeklik, Associate Professor of Economics

"University Endowments, Governance, and Socially Responsible Investing"

Janet Kiholm Smith, Von Tobel Professor of Economics

"Corporate Governance and the Creation of the SEC"
Marc Weidenmier, Lowe Professor of Economics

2014-15 Lowe Research Assistants

Lakshay Akula HMC '17

Sarah Baker '17

Audrey Breitwieser '16

Mitch Bremermann '16

Ellis Butterfield '16

Sophie Chou '16

Syed Farooq '17

Jinlin (Dennis) Gu '17

Ji Young Huh '15

Alex Hwung '16

Han Jia '17

Kavya Joshi RDS '15

Nina Kamath '16

Seohyun Lee '17

Xinzhu (Nancy) Li '15

Yicong Lin '16

Pei Lun Liu '15

Vanessa Liu '17

Chuyuan (Caroline) Lu '16

Jessica Ng '17

Daniel Padilla '17

Sean Sakaguchi '16

Martin Sartorius '15

Alessandra Savino '16

Theodore Connor Schlegel '15

Tongjia Shi HMC '15

Fred Crawford Taylor '16

Chen-Han Tsai CGU

Maxwell Urman '17

Yunyi "Joanna" Wang '17

Danmai Xiang '15

Mengyue "Vicki" Yang '15

Jacquelyn Zehner '15

Yi "Nora" Zhang '17

Lowe Summer Internship Program

The Lowe Institute of Political Economy is pleased to announce the recipients of the 2015 Lowe Summer Internships. Students interested in domestic internships with public policy think-tanks and private sector firms applied for Lowe Institute support earlier this year. Internships can originate with the sponsoring agency, be designed by the student with agency approval, or be coordinated by CMC faculty or alumni. Awards of up to \$10,000 are available to assist with travel and living expenses associated with an 8-10 week internship. Awards are based on the academic record of the applicant, relevant extracurricular activities, recommendation, and merit of the internship proposal. *Congratulations and good luck summer interns!*

Lakshay Akula HMC '16

Los Angeles Mayor's Office

Audrey Breitwieser '16

Brookings Institution

Sarah Baker '17

Brookings Institution

Chifeng (Sherry) Shen '16

Josh Lerner, Harvard Business School

Coachella Valley Economic Forecast

The Inland Empire Center, a joint venture between the Rose and Lowe Institutes, held the 4th Annual Coachella Valley Economic Forecast Conference on April 9, 2015 at the Miramonte Resort in Indian Wells, California. The morning event attracted nearly 200 business and government leaders who gathered to hear the latest national, state and regional forecasts. A team of Lowe and Rose research assistants collaborate with faculty yearlong to create the *Coachella Valley Economic Forecast Book* and the *Inland Empire Outlook*. Both publications focus on economic and political analysis for the Inland Empire region.

Manfred Keil, Associate Professor of Economics at CMC, on the Coachella Valley Forecast:

"The last year has been great for the Inland Empire with the recovery from the Great Recession finally in full swing. Employment as measured by the establishment survey has finally returned to pre-recession levels. If you include commuters, then this occurred even earlier. Unemployment rates have converged to California and Greater Los Angeles Area levels. Despite this positive image, there remains a major concern regarding the quality of jobs that have been created: job losses in higher paying manufacturing and construction sectors have been replaced with lower paying jobs in health and education, and leisure and hospitality. Still, the immediate outlook remains quite positive, with the unemployment rate predicted to reach full employment levels by the end of 2016."



Photo: Lakshay Akula HMC '16, Joanna Wang '17, Nora Zhang '17 attended the UCLA Anderson Forecast Seminar on March 11, 2015.

We ended the year with the Lowe Institute Senior Writers' Conference. The event allows students to present their senior thesis in front of economic faculty and other students. The student presentations are followed up by a question and answer period where faculty ask students questions about their research. Connor Schlegel won the award for the Best Senior Thesis. The thesis, under the direction of Professor Janet Kiholm Smith, examines how golfers manage risk on the golf course.

We are also excited about our summer internship program which continues to grow. The Lowe Institute has four students placed in high quality internships this summer. Sherry Shen will be working with Professor Josh Lerner of Harvard Business School on entrepreneurship. Audrey Breitwieser and Sarah Baker will be working on the African growth initiative at the Brookings Institute. Lakshay Akula will be working at the Los Angeles Mayor's Office.

I would like to thank the Board members of the Lowe Institute for their financial support over the past year. I would also like to thank all the students that worked at the Lowe Institute during the 2014-15 academic year. I hope that everyone has a great summer. ●

Baker Lowe Scholars – Six Californias continued from page 4

Six Californias

By Ji Young Huh '15

Tim Draper, a Silicon Valley venture capitalist, submitted a proposal for a ballot initiative to split California into six separate states last year. Even though the proposal failed to go on the 2016 ballot due to an insufficient number of valid signatures, Draper has indicated



that he will continue the battle given his firm belief that California is too big to be governed in its current state. Apart from the proposal itself, I was fascinated by his reasoning, that it is “too big” to be governed. There were three main questions that motivated my research: 1) how would California economically and politically look according to the proposal? 2) does California currently underperform because of the way it is politically organized? and if so, 3) is size really the cause of the problem? For his arguments to hold, dividing the state into less populous regions should result in more efficient governments. I looked at the question from an economic perspective and specifically used economic growth as a measure of government efficiency to assess the validity of Draper’s argument.

Using regression analysis, I found that population size does not have a statistically significant impact on economic growth when controlling for other factors. Furthermore, lower population size actually results in a higher share of government spending, suggesting lower government efficiency. These regression results oppose Draper’s argument that California’s size is the cause of government inefficiency. While there may be other measures of government efficiency than economic growth, in order to pursue the proposal, Draper should know that size does not necessarily bring about faster economic growth. Given Draper’s lack of empirical evidence, to attract more supporters, Draper should present arguments on how his proposal will benefit the economy. ●

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IN MEMORY OF

ROBERT M. WEEKLEY

FRIEND AND PHILANTHROPIST

WHO IS DEARLY MISSED

JANUARY 25, 1943 – FEBRUARY 28, 2015

Calendar of Events



1.20.15

Spring Semester Begins

2.12.15

Randall Kroszner, Lowe-Athenaeum Speaker Series MMCA, CMC
(co-sponsored with FEI)

4.3.15

CMC Research Institute Fair, Flamson Plaza, CMC

4.7.15

Lowe Board of Governors Meeting and Baker-Lowe Scholar
Presentations, California Club, Los Angeles

4.9.15

Coachella Valley Forecast Conference, Miramonte Resort, Indian
Wells

4.16 - 4.20.15

CMC Spring Break

4.17.15

Southern California Conference in Applied Microeconomics,
Freeberg Forum, CMC

4.30.15

Lowe Senior Thesis Writers' Conference, MMCA, CMC

5.8.15

Lowe BBQ, Appleby Picnic Area, CMC (moved to Founders Room
due to inclement weather)

5.16.15

Commencement