

# THE LOWE DOWN

LOWE INSTITUTE OF POLITICAL ECONOMY

Fall 2010

Volume III, Issue I



## CMC-UCLA Inland Empire Economics Forecast Conference

By Mark Gose '11

How has the Great Recession impacted the United States, California, and particularly the Inland Empire? Have we experienced the worst, or is the worst yet to come? When can we expect to see growth again in this area?

These pivotal questions served as the focal point of the inaugural Inland Empire Economics Forecast Conference on October 6, 2010. Hundreds of businessmen, local government officials, and professors congregated at the Citizens Bank Arena in Ontario, CA to hear UCLA Senior Economist Jerry Nickelsburg and CMC Economics Professor Marc Weidenmier deliver key note speeches addressing these fundamental issues related to our economy. In addition to these two speakers, there were two panel discussions, one regarding real estate and the other on public finance.

*Forecast Conference—Continued on Page 10*

## Wizard of Oz: A Monetary Allegory

By David Ulrich '12

Marian Miner Cook Athenaeum -- On Thursday, November 4, Hugh Rockoff, a professor of economics at Rutgers University spoke about how *The Wizard of Oz* is not merely a great children's tale but a sophisticated monetary allegory. In his talk, Rockoff revealed that the

book on which the movie is based, written by L. Frank Baum, was in fact a detailed commentary on the economic and political debates of the Populist Party in the 1890s.

Rockoff began by drawing parallels between our current economic woes and those of the 1890s. The stock market



*Rockoff—Continued on Page 8*

### In this issue:

Economics Forecast Conference 1

Wizard of Oz: A Monetary Allegory 1

Message from the Director 2

Trust, Terrorism, and Your Income 3

How to Make Financial Regulatory Reform Work 4

Research Assistant Spotlight: Aanchal Kapoor '11 5

The Effect of Genes on Investment Behavior

Interview with Matt Varghese '12 12

## Message from the Director

Dear students and Board members,

It has been an exciting summer and fall at the Lowe Institute. I would like to briefly update everyone on recent and upcoming events at the Lowe Institute.

We have new editorial staff for the 2010-2011 Academic year. Mark Gose, Chase Gray, and Justin Yamamoto are the three new editors. I have enjoyed working with the new editorial staff. I am sure that they will continue the strong tradition of good writing and reporting that was established by the founding editor Dan Lockett.

One of the highlights of the fall semester was the CMC-UCLA Forecast Conference that was held at Citizen's Business Bank Arena. Professor Weidenmier presented the economic forecast for the Inland Empire which is the 14th largest metropolitan area in the United States. CMC students, led by senior economics major Aanchal Kapoor, helped Professors Keil and Weidenmier assemble an Inland Empire economic database and build forecast models. The Lowe Institute forecasts that it will be several years before the Inland Empire recovers from the recent economic downturn. UCLA presented the California and US forecast. We look forward to hosting additional conferences with UCLA in 2011.

The Lowe Institute continues to sponsor a seminar series at the Athenaeum on Thursday night that is followed by a RDS department seminar on Friday. The series featured two accomplished economists this fall. Professor Hugh Rockoff of Rutgers University discussed the economic symbolism behind the famous book and movie, "The Wizard of Oz." Rockoff wrote a well known economics paper on the topic that appears in many undergraduate textbooks. Professor Martha Bailey of the University of Michigan also came to campus this fall. She spoke on the economic implications of the birth control pill for women in the labor force. She discussed how the pill led to large changes in the timing of childbearing as well as women's investment in education. CMC was also fortunate to have Professor Charles Calomiris of Columbia University Graduate School of Business visit CMC this fall. Professor Calomiris is an expert in banking and financial institutions. Professor Calomiris was Professor Weidenmier PhD supervisor at the University of Illinois. Professor Calomiris team taught a class on the history of financial crises with Dean Hess and gave an Athenaeum talk on the recent meltdown in financial markets.

The Lowe Institute also sponsored a student conference this fall at the Athenaeum. Several seniors were invited to present their thesis to faculty and their classmates. Faculty discussed the papers and provided constructive criticism on how students can improve their writing and research. The event included lunch and a brief reception with faculty. We plan to sponsor a similar event in the spring to provide seniors writing their thesis next semester an opportunity to present their research.

The Lowe Institute will continue its sponsorship of the NCAA Men and Women's March Madness Basketball game. Students will construct statistical models to predict the outcomes of the tournament games round-by-round. The winners will receive a prize. The Lowe Institute, in conjunction with the Berger Institute, will host the Second Annual Southern California Applied Microeconomics Conference. The first conference was very successful as more than 50 scholars from the Southern California region attended the conference. David Card, a world famous labor economist at the University of California, has agreed to be the keynote speaker for the event.



I hope that everyone has a safe and happy holiday season!

*Marc D. Weidenmier*

# Professor Brock Blomberg and Dean Gregory Hess: Trust, Terrorism, and Your Income

By Jennifer Good '13



Photo: Professor Blomberg

Professor Brock Blomberg and Dean Gregory Hess have conducted extensive research evaluating the difference between the economic cost of a terrorist attack and the price countries pay toward counterterrorism efforts. They estimate

that a terrorist attack can cost a country up to 50% percent of its growth, yet a country will often spend significantly more in defense. For example, the World Trade Center attacks cost the United States about \$50 billion, but the U.S. government has spent \$60-90 billion dollars fighting terrorism. Blomberg and Hess hypothesized that this discrepancy may be due to terrorism's indirect effect of lowering trust, a factor not taken into account when measuring the economic cost of a terrorist attack. With the help of Daniel Tan, a senior at Pomona College, they sought to explain in their paper, *Terrorism and the Economics of Trust*, which is under revise and resubmit status at the *Journal of Peace*, whether or not a terrorist attack's indirect effect of lowering trust does, in fact, lead to a higher economic cost.

To test this, they collected data on terrorist attacks, income, politics, and trust in 179 countries from 1968 to 2007 from ITERATE and the World Values Survey. Because the effects of terrorism are widespread and complex, Blomberg explained that they could not measure all the separate results of terrorist attacks. He states, "If you only took into account the effect terrorism has on airports or infrastructure, you would get pretty big numbers, but that leaves out the resiliency of the economy and the steps policymakers take to counterbalance these effects after an attack."

To make sure each factor was included, Blomberg and Hess measured the total effect of an attack on the economy by comparing before

and after snapshots of GDP (of the 179 countries) to previous growth rates and international trends. They then used a country fixed-effect control, an econometric tool that removes country-specific special differences, like the high defense spending of the U.S. that would, otherwise, skew the data. According to Blomberg, "There are no other countries in the world that police in the manner that we do, so we cannot really measure a global impact of terrorism on defense."

By eliminating country-specific factors and measuring the changes in GDP, Blomberg, Hess, and Tan, were able to measure the direct cost of terrorism on economic growth and the indirect cost of terrorism from the trust factor. They discovered a strong correlation between a country's level of trust and income. The shock of terrorism lowers trust, which thereby lowers incomes. However, although the decline in income from reduced trust is statistically significant, it is not economically significant. The direct impact of a terrorist attack is much larger. This implies that the trust factor should not be a huge concern for policymakers and does not explain why the response to terrorism is much greater than its economic effect. Consequently, "the policy question remains," Blomberg said, "if terrorism isn't all that expensive, why are we dedicating so many resources to it?"

A possible explanation is that other social capital or behavioral reasons might make fighting terrorism so important. He suggested that the emotional effect of fear may justify the extra defense spending even if the economic effect does not. More research with better measures of social capital or experimental analysis could possibly measure these behavioral consequences. But for now, Blomberg's research concludes that the response to terrorism is out of proportion with its measurable effect. "We haven't figured out yet why there is so much demand for homeland security if your primary concern is economics," Blomberg said. "My research says terrorism is bad, but not that bad."

**Charles Calomiris:**

# How to Make Financial Regulatory

## Reform Work

By Laura Hagen '11



Photo: Charles Calomiris

In early November, Charles Calomiris, a visiting professor from the Columbia University Graduate School of Business, visited the Marian Miner Cook Athenaeum to discuss the importance of reforming the financial system in a way that will prevent future economic crises. He emphasized the need for policymakers to focus their reform efforts on two main issues: the current measure of an investment bank's risk of default and the notion that financial institutions are "too big to fail."

The SEC currently measures default risk by simply asking both the bank and its rating agencies to evaluate the possibility of default. The problem is that both the banks and ratings agencies have incentives to understate risk. The banks want to portray a safer, more reliable image to potential clients. And, ratings agencies compete for business from the issuers of credit, so they could earn more money by offering favorable ratings.

In order to fix this problem, Calomiris believes that regulators need to find a better way to measure risk and take steps to improve the credibility of ratings agencies. Instead of looking at capital structure, he argues, we should analyze loan interest rates because they are "incentive robust" devices -- that is, harder for banks to manipulate. With respect to credit ratings agencies, Calomiris believes they should use numerical forecasts instead of letter grades to describe credit ratings and be required to report an error margin. If the agencies' forecasts exceed the preset error margin, they should be temporarily banned from rating and be forced to forfeit potential fees in order to de-incentivize lax ratings.

The second problem is addressing the concept of "too big to fail." Both Bear Sterns

and Lehmann Brothers could have raised enough equity to save their firms, but Calomiris contends that they chose not to. To understand why, consider the projections of the bank. In the event the market went up, they could make greater profits with lower equity. If the market went down, they assumed that the government would bail them out in the event of a collapse, effectively mitigating the economic consequences. Decreased risk enabled banks like Bear Sterns and Lehmann Brothers to decide that it would be more costly to raise equity early and dilute their return to investors than to face a bailout later on.

One financial tool Calomiris believes could combat this "too big to fail" notion and help thwart future market panic is the use of Contingent Convertible Bonds (CoCos), hybrid capital investments containing elements of equity and debt. Banks and businesses get their capital primarily through shareholder equity and debt. One form of debt is a bond. Investors lend banks money, and the banks pay them back interest payments in addition to the base loan. CoCos would act like normal bonds except for in times of financial distress. If a bank reaches a preset "measure of financial distress," the bond would automatically convert into equity. That is, bondholders become shareholders. Calomiris thinks an automatic switch, a feature not present in past hybrid bonds, would "incentivize timely recapitalization of the bank to avoid dilutive conversion of CoCos."

The biggest obstacle in implementing these changes is the political climate in Washington. Currently, the Dodd-Frank bill does not include these measures and has institutionalized the "too big to fail" notion. Nevertheless, Calomiris gave an insightful lecture, and he offered viable ways to reform our broken financial system.

# Research Assistant Spotlight: Aanchal Kapoor '11



Photo: Aanchal Kapoor

*Aanchal Kapoor (CMC '11) has been an active participant in the Inland Empire Outlook, a joint project launched in Spring 2010 by the Lowe Institute and the Rose Institute. She has also been active in CIVITAS, a community service organization that plans one-day events throughout each semester. The Lowe Down had a chance to interview Aanchal about her*

*experience, which she discusses below:*

## **Q: What kind of work have you done for the Inland Empire Outlook and CIVITAS?**

A: I began my work for the IEO by writing an article about the Inland Empire economy and its potential for becoming a trade hub in Southern California. Following that, I was part of the team that constructed the leading economic indicators for the Inland Empire. In the last two semesters, I have had the opportunity to work with Professor Weidenmier and Professor Keil on developing new ideas for IEO and editing the publication. Also, I helped play an important role in preparing for the UCLA-CMC Inland Empire Forecast Conference.

CIVITAS has been a slightly different, yet fun experience. The documentaries we have shown have been ones I have previously enjoyed watching, however, now I also get to hear the opinions of professors and students on the issues covered by these films. We have had stimulating discussions on topics like the history of money, the Cold War, and the interplay of wars and banking.

By Laura Hagen '11

## **Q: What skills have you gained and what did you learn from working for the Inland Empire Outlook and CIVITAS?**

A: The process of putting together the IEO publication from scratch with other students has been challenging but very rewarding. I feel that through my various roles in this process, I have really developed my analytical and leadership skills. And, my work for CIVITAS has enabled me to combine my interest in economics with my interest in historical movies and documentaries. It has been an enjoyable experience, and I really appreciate all the students who have participated in our events.

## **Q: How has your work for the Lowe Institute helped you in your courses at CMC?**

A: My research work for the Lowe Institute has helped me with several economics courses, particularly econometrics. Through my use of Stata and my experience in data collection and analysis, I have definitely developed a better understanding of the concepts covered in my economics courses at CMC.

## **Q: What is the most difficult part in the data collection process?**

A: Identifying the data source is usually the most difficult part. In the last two years I have come across several instances where the data did not seem to exist even though other organizations and academics had used it in their research work. However, once I find the data source, the data collection process is pretty straightforward. Though, it can definitely be pretty time consuming.

## **Q: Any last words?**

A: The Lowe Institute has been a very important part of my experience at CMC, and I am thankful that I have had the opportunity to serve as a research assistant. My work at the Lowe has not only been insightful but also extremely useful in applying for jobs.

## 2010-2011 Research Assistants

Aanchal Kapoor '11

Aisling Scott '12

Andrew Grimm '11

Aria Krumwiede '12

Ben Pyle '13

Blake Morell '13

Christopher Blomberg '13

Christopher Murray – RDS '11

David Xu '11

Igor Tischenko '13

Jacinth Sohi '11

Jake Roth '13

Joe Swartley '11

Joey Ge '13

Juliet Archer '11

Kevin Yeung –HMC '11

Kristina Bergess '12

Maira Mercado '12

Matthew Varghese '12

Megha Maniar '12

Miles MacDonald '11

Mitch Skotarczyk '11

Ryan Shaffer '12

Sandy Russell '10

Sara Reed '12

Sarah Quincy – Scripps '10

Saumya Lohia '12

Sean Hannley '10

Shrivats Khaitan '14

Tim Park '13

Van Ahn-Su '13

Yun Lai Li '12

# Interview with Professor Henrik Cronqvist: The Effect of Genes on Investment Behavior

By David Ulrich '12



Photo: Professor Cronqvist

*Professor Henrik Cronqvist is the McMahon Family Chair in Corporate Finance, George R. Roberts Fellow, and Associate Professor of Financial Economics at the Robert Day School of Economics and Finance at Claremont McKenna College. I sat down with Professor Cronqvist to discuss his latest paper in behavioral finance, examining the genetic components of an individual's savings behavior.*

**Q: What inspired you to undertake this project?**

A: Since my PhD dissertation, I have been interested in the way that individuals behave with regard to their

financial decisions. In this paper we addressed the question of what determines an individual's decisions regarding savings. Such decisions are, for example, how much one saves out of his disposable income and how one invests his savings. These are questions that I have been interested in for a long time, and this was a great opportunity to look at them with an entirely new set of data.

**Q: Did the current state of our economy lead you to look at savings specifically as opposed to other financial decisions?**

A: Two of the most interesting and important financial decisions that individuals have to make are first, how to trade off the present with the future and second, how to invest assets. So, even if we didn't face this financial crisis, we would have certainly pursued these topics because I think that they are fundamental



to understanding individual investing behavior.

**Q: What was your testable hypothesis?**

A: What is quite clear from psychological literature and research is that genes have a very important role in determining different individual traits, like extraversion or introversion, while parenting and other social effects typically do not have a very important role. Thus with this as a benchmark, we began our analysis to see if genes affect savings behavior. Our hypothesis was that if genes matter, then identical twins should be more similar than fraternal twins in terms of their savings behavior. This is because identical twins share 100 percent of their genes and fraternal twins on average share 50 percent of their genes.

**Q: What were your key findings?**

A: We found that the correlation among identical twins was much higher than among fraternal twins for savings behavior. By looking at both types of twins together, we were able to determine that there is a substantial genetic component of savings behavior. This genetic effect explains about a third of the cross-sectional variation in savings behavior. Also we determined that this genetic component interacts with the environment; sometimes the genetic effect is stronger, and sometimes it is weaker.

**Q: In your analysis what things affected the strength of the genetic component?**

A: We determined that the genetic component interacts with the environment you have been subject to, both when you are growing up and later on in life; sometimes the genetic effect is stronger, and sometimes it is weaker. For example, we found the genetic effect to be stronger if the individual's parents, or the person themselves, had higher socio-economic

status. What this suggests is that some people are predisposed, based on their environment, to certain behaviors such as impatience, favoring current consumption over savings.



**Q: Do you see any public policy implications to your findings?**

A: We found the genetic component to explain about one third of savings behavior; public policy however, influences the other two thirds that are unexplained. Nevertheless, you can consider the fact that policy can either influence someone directly or it can influence one's environment, which interacts with the genetic component that determines savings behavior. The objective of our research was to really understand the deeper determinants of individuals' behavior rather than be policy makers. While this is an important question, it is a little bit beyond what we did with our work.

**Q: Do you plan on doing any further work on this topic?**

A: One thing that is very established in finance literature is that people exhibit investment biases, such as loss aversion. We are hoping to estimate such biases across different people to try and see whether people are hard-wired, through their genes, to behave in these ways. If we are able to find anything in this area it will be very interesting because it will tell us something about the likelihood that these biases will survive over a long period of time. Recent history has shown many people do not learn from their mistakes particularly in the case of bubble economies. But if each generation has a similar genetic makeup they might be predisposed to making the same mistakes. Therefore, we are very interested in learning more about the genetics of investment biases.



Rockoff — Continued from Page 1



Photo: Hugh Rockoff

crash of 1893 gave way to a large spike in unemployment and significant deflation. Many wanted to increase the money supply as a remedy, which sparked a great monetary debate. On one side were the defenders of the gold standard

and on the other were the Populists, advocating the free coinage of silver due to its abundance and relatively cheap price in world markets. According to Professor Rockoff, when considering this debate in the context of the Wizard of Oz, the tale can become powerfully pedagogic.

An important aspect of the Wizard of Oz is its setting, Kansas. The populist movement began in the West and was, according to Rockoff, “a natural setting for the story.” Farmers were greatly affected by the persistent deflation as they saw farm prices drop and found themselves bound by mortgages that they were unable to pay.

The tale begins with a cyclone that hits Dorothy’s farmhouse and transports Dorothy to the Land of Oz, symbolic of an America where the gold standard reigns supreme. Dorothy’s house lands on the Wicked Witch of the East leaving only her silver (Hollywood changed them to ruby) slippers. These slippers and their powers represent the coinage of silver, its power understood by the East but withheld from the Populists.

Dorothy begins her journey along the yel-

low brick road, symbolic of the gold standard, to the emerald city, Washington DC, meeting several characters along the way. Dorothy’s first encounters the scarecrow. Representative of the Midwestern farmers, the scarecrow reveals that although they were considered to be uninformed, brains figuratively full of straw, farmers did in fact understand the theories behind the monetary debate of the time. Next, Dorothy meets the Tin Woodman (Tin-Man) who symbolizes the industrial workers. Rusted and unable to work, the Tin Woodman symbolizes how the industrial workers, in addition to the farmers, had fallen victim to the economic policies of the east. Although industrial workers were only part of the Populist movement to a limited extent, Rockoff stated that Baum was conveying that the problems created by the gold standard were widespread. The final character that the group meets is the cowardly lion, representing William Jennings Bryan himself. Symbolically a roaring lion in his many orations, Bryan was the last and final piece to the populist group. Yet clearly Baum offers some criticism regarding Bryan’s

actions as he was depicted as a cowardly lion, stumbling through the poppy fields much like he stumbled to become president.

The group walks along the yellow brick road toward emerald city to meet the wizard. Before

they enter the city, the group is required to don green colored glasses, symbolically showing how the Populists felt that Washington was forcing all to view the world through their money colored glasses. The wizard embodies what the Populists thought of Washington’s politicians, full of prom-





ises but unable to help struggling citizens. After their meeting with the wizard, the group is figuratively sent back home to the west to kill the Wicked Witch of the West. Only after returning is the wizard revealed to be nothing more than a man fooling people with falsified grandeur. The Wizard promises to take Dorothy back to Kansas in his hot air balloon, but like his balloon, his promise was merely full of hot air.

Dorothy finally finds the solution from the Good Witch of the South. Generally sensitive to the Populist's ideals, Southerners were supportive of free silver. Thus, it comes as no surprise that the Good Witch of the South understands the secret power of Dorothy's silver shoes, which she has had all along.

Rockoff concluded by admitting that his

work began by simply studying Williams Jennings Bryan who was commonly considered, as Rockoff put it, "a bit of a monetary crank." Professor Rockoff's original paper on Bryan had a footnote on the idea of The Wizard of Oz as an allegory, but as he claimed, "people were just simply more interested in the footnote than the paper." In the end, Professor Rockoff not only showed Bryan to be "surprisingly sophisticated" in his monetary policy but also built a powerful allegory through which historians of economic policy can better understand the battle over the free coinage of silver for years to come.

## CALENDAR OF EVENTS

**CMC-UCLA Inland Empire Forecast Conference, Citizens Business Bank Arena**

**Ontario, CA, October 6, 2010**

**Lowe Board of Governors Fall meeting, California Club**

**Los Angeles, CA, October 14, 2010**

**Hugh Rockoff – Lowe Athenaeum Speaker**

**Marian Miner Cook Athenaeum, CMC, November 4, 2010**

**Martha Bailey – Lowe Athenaeum Speaker**

**Marian Miner Cook Athenaeum, CMC, November 18, 2010**

**Lowe Senior Thesis Writer's Conference**

**Marian Miner Cook Athenaeum, CMC, November 18, 2010**

Forecast Conference — Continued from Page 1

After a brief introduction by CMC Dean Gregory Hess, Jerry Nicklesburg proceeded into a discussion about the shape of the current economic recovery in the U.S. He explained that the latest recession has been the most severe since the Great Depression and that “all evidence suggests that we are ever so slowly coming out of the recession.” According to Nicklesburg, one main factor contributing to this prolonged recovery is the uncertainty that pervades the U.S. economy. Due to the Wall Street Panic in September 2008 and the subsequent credit crisis, investors and consumers have become skeptical and hesitant in their actions. In addition, many policy questions regarding taxation and financial and healthcare regulation are still largely unsettled. Consequently, people are holding off on investing and spending until they feel confident in the stability of the economy.

Despite the fact that this uncertainty is hindering economic growth and thereby contributing to high unemployment, Nicklesburg maintained that there is a lack of evidence for a double-dip recession. He emphasized that investment levels in residential property and consumer durables have bottomed out in 2010, and investment levels in business structures and equipment, which are at 30-year lows, are unlikely to decline any further. Although Nicklesburg is expecting the U.S. unemployment rate to stay high over the next few years, he believes that exports will continue to rise, the housing market is beginning to revive, and GDP recovery is well underway in the U.S.

With respect to California, the economy here is recovering slower than the rest of the country. Nicklesburg highlighted that the number of homes for sale in the inland region of Cali-

fornia continues to rise and prices continue to fall, which indicates that the housing market has not hit bottom. New building permits are also at record lows. Furthermore, with over 1.3 million jobs lost in California during the recession and not much sign of job growth, Nicklesburg forecasted the average unemployment to be around 12%. On the positive side, however, data on trade and commerce through California’s airports, seaports, and roads indicate that the logistics industry is beginning to grow. Using an analogy to the building of the Central Pacific Railroad, which gradually ascends from the Sacramento Valley to the Sierras, Nicklesburg concluded by saying that “although we will be climbing imperceptibly for some time like the Central Pacific Railroad in the 1860s, by 2012 we should be in the foothills climbing toward the peaks.”

Professor Marc Weidenmier then followed Nicklesburg with a talk about the economic outlook in the Inland Empire. He stated that this region has been one of the most severely impacted by the collapse of the housing bubble and the national recession of December 2007. Since 2006 the price of single-family homes decreased by more than 50%, new residential property starts fell from more than 5000 units per month to 500 units per month, and the construction industry

has lost nearly 80% of its jobs. Also, retail sales have dropped by more than 20%, and between October 2007 and March 2009, U.S. imports into the Los Angeles and Long Beach ports declined by 14%. As Weidenmier indicated from these figures, the housing, retail, and logistics sectors, which are integral to the economy in the Inland Empire, were drastically hit by the recession.

Although the Inland Empire economy has been devastated, Weidenmier is optimistic about future growth. He explained that purchases of



*Real estate panel at the Inland Empire Forecast Conference included Robert Lowe '62, Chair, shown above, and Randall Lewis '73, shown below.*



consumer durables (i.e. cars, large household appliances, etc) and retail sales have risen in 2010, which is a clear indication that consumers are beginning to feel more confident about the economy. The logistics industry is likewise exhibiting growth due to the influx of imports in particularly the port of Long Beach. And, despite the fact that the real estate and construction industries are still showing signs of decline, Weidenmier believes that this will change slowly over time as improving economic conditions enable households to pay off their debts. Overall, Weidenmier forecasted that the Inland Empire will slowly recover from the latest recession, but that we should expect to see the unemployment rate above 10% for at least a few more years.

The subsequent panel focused on the real estate market in mainly the Inland Empire. The panel was composed of four prominent leaders in the real estate industry: Larry Kosmont, Fred Cordova, Randall Lewis, Bert Silva, and Robert



ing the already sluggish industry. According to the panel, the solution to stimulating the real estate industry is to focus on job creation, which they consider to be the cornerstone of growth in the economy.

Lastly, a public finance panel that included three local government officials discussed the difficulties in policymaking during a recession. The group explained that since local municipalities generally rely on real property taxes as their main source of revenue, the Inland Empire is facing a serious budget deficit due to the weak housing market. Consequently, the lack of available government funds has resulted in budget cuts and a huge backlog of infrastructure improvements. The panel members all agreed that reforming the costly entitlement system in California is one way to help eliminate this shortcoming and increase government revenues.

The CEO of Citizens Bank Corporation, Chris Meyers, concluded the conference with these promising words: “California is a state with great population growth, a large employment base, and ample natural resources. I am confident that we have the capacity for correcting our economic problems and providing long-term stability to businesses and industries here in the near future.”



J. Lowe (Chairman and Co-founder of the Lowe Institute). Each panel member noted that the common trend in the current market is a “wait and see” mentality, which has thwarted traffic in the real estate sector. Prices are fair and interest rates are low, but since potential homebuyers are worried about job security, many are unwilling to commit to buying a home. Additionally, the new stringent loan regulations are further exacerbat-



## Board of Governors

James H. Cheney '65

Robert M. Cheney '94  
Founder and Wealth Advisor  
Westridge Wealth Strategies

John Cosgrove  
President and Chief Executive Officer  
Cosgrove/Meurer Productions, Inc.

Joseph H. Davis  
Principal and Chief Economist  
Fixed Income & Economic Strategy Groups  
The Vanguard Group

David I. Fisher  
Chairman and Director  
The Capital Group, Inc.

Pamela B. Gann  
President  
Claremont McKenna College

Billie C. Greer  
Director, Los Angeles Office  
Office of Governor Arnold Schwarzenegger

Lisa Hansen  
Chairman of the Board  
The Kenneth T. & Eileen L. Norris Foundation

Beth Lowe  
Community Volunteer

Robert J. Lowe '62 (Chair)  
Chairman and Chief Executive Officer  
Lowe Enterprises, Inc.

Sue Lowe

Thomas L. Lowe, Jr. '56

Joseph D. Matt '99  
Vice President  
Capital Research Global Investors

Robert K. Montgomery  
Senior Partner  
Gibson, Dunn & Crutcher

Kenneth M. Novack '67  
Chairman  
Schnitzer Steel Industries

Walter B. Rose  
Venture Consulting

John C. Siciliano

Dr. Bryan Wilson Taylor II  
President and Chief Economist  
Global Financial Data

Robert M. Weekley  
Senior Vice President  
Lowe Enterprises, Inc.

Marc D. Weidenmier  
Director  
Lowe Institute of Political Economy  
Claremont McKenna College

# Matt Varghese '12

In the summer of 2010, Economics and International Relations major Matt Varghese (CMC '12) developed a statistical model for predicting wins in the NFL. He tested ten different variables: points scored differential, points allowed differential, 3rd down percentage differential (for the entire season), turnovers, special teams' touchdowns, defensive touchdowns, number of pro bowlers, coach's years of playoff experience, penalty differential, and whether or not the team had an all-star quarterback.

Using ESPN.com and NFL.com, Varghese collected data on each factor for every NFL game played from 2005-2009. He remarked, "I had to observe stats from 1200 games, which made me really hope that this model would tell me something significant in the end." After running the regression, Varghese determined that turnovers have the most significant impact on winning.

Statistics classes will now be able to use this innovative model to predict future outcomes of football games. More importantly, students can now add on to his model and further enlighten us sports fans on the factors that are most conducive to winning. Varghese explained, "I think with a few adjustments and adding in more variables like power rankings, current winning streak, and home/away games, the model will continue to improve."

Overall, Varghese loved the experience not only because he is an avid football fan but also because it gave him insight into the statistical analysis of sports. He enjoyed applying regression techniques from the classroom to one of America's favorite pastimes. Matt is an aspiring Economist who will be attending the London School of Economics this year.

By Brian Gose '12



Lowe Institute

500 E. Ninth Street

Bauer North 320, 322

Claremont, CA 91711

USA

Tel: 909-621-8012

Fax: 909-607-8008

E-mail: [lowe@cmc.edu](mailto:lowe@cmc.edu)

**To Subscribe to  
The Lowe Down  
Visit us on the Web!  
[www.cmc.edu/lowe](http://www.cmc.edu/lowe)**



LOWE INSTITUTE  
OF POLITICAL ECONOMY

CLAREMONT MCKENNA COLLEGE



From left: Brian Gose, Justin Yamamoto, Laura Hagen, Dave Ulrich, Anna Eames, Jennifer Good, and Mark Gose. Not pictured: Chase Gray

**Thank you  
to our Fall 2010  
Newsletter Staff:**

*Editors*

Mark Gose '11

Chase Gray '12

Justin Yamamoto '12

*Staff Writers*

Jennifer Good '13

Brian Gose '12

Laura Hagen '11

Dave Ulrich '12

*Layout*

Anna Eames '13