Creating an Empire

By Dan Lockett ’10

In conjunction with the Anderson Business School at UCLA, the Lowe is working on a project that will ultimately establish the Institute as a leading economic expert on the Inland Empire. Surprisingly, as the 14th largest metropolitan area in the nation, the Inland Empire lacks an extensive technical analysis of its economy. Therefore, the main goal of the project is to fill this void by producing comprehensive economic forecasts and economic reports for the region of Riverside County and San Bernardino County. Overall, these services will specifically target the region’s private sector by providing information that businesses can use to improve their decision making and planning abilities.

Currently, the Inland Empire is in the midst of an unprecedented economic downturn with both of its economic gems, the housing industry and the logistics industry, in an abysmal condition. The impact of the ‘Great Recession’ on this area is substantially more severe relative to the U.S. as a whole. For example, the unemployment rate in the Inland Empire has increased by approximately four percentage points more than the U.S. unemployment rate since the beginning of the recession, which is currently around 14%. Looking to study the reasons for why the Inland Empire is particularly hurting, Institute Director Professor Weidenmier and Bernstein Present to Bank of England

Friends Don’t Let Friends Walk Drunk: Steven Levitt Comes to CMC

By Chase Gray ’12

Dinner reservations filled up within hours of going online. Students stood outside the Athenaeum for more than an hour just to get a seat at the back of the room. Less fortunate students, faculty, and local residents packed McKenna Auditorium just to see the event via live video stream. Dr. Steven Levitt’s highly anticipated visit to CMC had the feel of a keynote event before most of us even had the opportunity to catch a glimpse of the award-winning author and economist. The Athenaeum took on an incredible feel that night. Never have I seen the Athenaeum so hot, crowded, energetic, and superfreaky.

Just three days after the release of his newest book, SuperFreakonomics: Global Cooling, Patriotic Prostitutes, and Why Suicide Bombers Should Buy Life Insurance, Steven Levitt came to Claremont McKenna’s Marian Miner Cook Athenaeum to speak about his...
The Lowe Institute is finishing its second year of the Lowe Faculty-Student Research Program. Over the 2008-2009 academic year, more than 50 students worked at the Lowe Institute on about 16 different academic projects ranging from labor economics to economic history. About 10 students worked on public policy projects through the Lowe-RAND initiative under the direction of CMC Professor Eric Helland. The students are currently finishing up a project that examines the effect of pay on the quality of judges. Next spring, students will examine various aspects of tort reform in the pharmaceutical industry.

Faculty and students have co-authored five papers that have been published in economics journals over the last year. Brock Blomberg and Greg Hess, for example, published a paper with Hunter Jackson ’08 on oil and terrorism in Economics and Politics, a leading interdisciplinary journal in the area of political economy. Professors Hughson and Weidenmier published a paper on the importance of the lender of last resort function in the Journal of Financial Economics which is widely regarded as one of the top two or three journals in business school. The Lowe Institute also invited five speakers to come to campus to meet with students and faculty over the 2008-09 Academic Year. Perhaps the talk that stimulated the greatest amount of student interest was by Daniel Hamermesh from the University of Texas. He came to CMC to discuss “Beauty and the Labor Market.” Hamermesh discussed the economic benefits of good looks and how it affects people’s career choice and salary.

Going forward, we plan to continue the Lowe Faculty-Student Research Program and the joint speaker series with the Athenaeum. Approximately 60 students showed up for the fall Lowe BBQ. Steve Levitt recently came to the Athenaeum to discuss his latest book, Superfreakonomics. The event was sold out within an hour that it was posted on the Athenaeum website. The Lowe Institute has teamed up with the statistics/econometric classes to sponsor a competition called, “The 2010 NCAA March Madness Tournament Game.” As one of their homework assignments, students will build a statistical model to predict the margin of victory in the 2010 NCAA basketball tournament games. The person with the best model will win a prize. We encourage all CMC students (not just students in statistics classes) to participate in the game.

The Lowe Institute has started an Inland Empire initiative. The Institute hired a team of research assistants this summer to collect economic data on the Inland Empire from the mid 1970’s. The data has been used to analyze historical and current economic conditions in the Inland Empire which is the 14th largest metropolitan area in the United States. The Institute is planning to hold an economic forecasting conference with UCLA Anderson in 2010. We hope to make the forecasting conference an annual event.

The Lowe and Rose Institutes will publish The Inland Empire Outlook this fall. The newsletter will summarize economic and political conditions in the Inland Empire which is currently the fourteenth largest metropolitan area in the United States. We are in the process of developing an email list so that we can send the newsletter to local governments and leading businesses in the Inland Empire.

We would like to thank everyone for their support of the Lowe Institute.

Regards,

Marc Weidenmier
First off, I want to say that Erin Liu ('08) completed most of this research as her senior thesis. I added some sub-material but the core of the paper is her work. The first part of our research investigates the impact of foreign oil shocks on the Hawaiian economy. The second part of our research examines the viability of producing ethanol from sugarcane in Hawaii, and the potential of this production in mitigating the detrimental economic impacts of foreign oil shocks. An investigation of Hawaii's sugar cane industry begs the following question: Can something be done to simultaneously make use of Hawaii's potential for sugar cane production and reduce its sensitivity to oil shocks? Brazil's extensive production of sugarcane-converted ethanol has reduced its dependence on imported oil from 70% to 10% in the last forty years, providing an example of the benefits that ethanol production can provide. Applying this strategy to Hawaii could yield similar economic benefits.

Q: How did you test your hypothesis?

A: In order to test the first part of our hypothesis, we applied a model developed by J.D. Hamilton, an economics professor at U.C. San Diego. The model measures the sensitivity of Hawaii's real personal income growth to oil shocks using quarterly data from March 1966 to December 2008. Controlling for other significant factors on the Hawaiian economy such as tourism, we measured the decrease in quarterly personal income attributed to an oil shock in the previous year. For the second part of this test, we applied data for estimated ethanol production and estimated ethanol costs to several potential scenarios in order to determine if an ethanol industry would be economically feasible and beneficial to the Hawaiian economy.

Q: What were your results?

A: The results of the oil shock sensitivity research are fairly straightforward. The econometric results suggest that oil shocks produce an average 3.83% decrease in Hawaii’s real personal income growth one year later, clearly showing that income growth in Hawaii is significantly harmed by oil shocks. While the implementation of different ethanol production scenarios would vary in the extent of their effects, they all would help Hawaii move away from its dependence on foreign oil and reduce the harmful effects of oil shocks on its economy.

Q: What are the implications of your findings?

A: Sugarcane-produced ethanol has tremendous potential to reduce Hawaii’s current dependence on foreign oil, which amounts to a staggering 50 million barrels of oil a year. If Hawaii takes full advantage of its potential for sugarcane production using Brazil as an example, it will provide benefits beyond the reduction of foreign oil dependence such as diversifying the economy, creating jobs, and stimulating investment.

Q: Does your research provide any public policy prescriptions?

A: State and federal legislation could provide the spark needed to bring about the development of a dominant ethanol industry in Hawaii. Lawmakers, driven by the goal of a state economy fueled by 70 percent clean energy by 2030, are already working to encourage local production of renewable energy. Hawaiian Senator Daniel Inouye and Congressman Neil Abercrombie have already secured $9 million of federal funds for pursuing ethanol projects. Subsidizing and developing the ethanol industry could be a smart investment by the Hawaiian government because of its potential significant benefits that are supported by this research.
Although sufficient data exists to correlate economic disadvantage with terrorist activity, the work of Professor Blomberg and his research assistants, Jake Richardson ’10 and Candace Adelberg ’10, demonstrates that this is a vast oversimplification. In reality, there is a complicated and multi-faceted correlation between the political and economic conditions of a country and the likelihood of a terrorist attack. Blomberg, Richardson, and Adelberg are writing a chapter for the Research in Transportation Economics Volume on the Economics of Transportation Security that reflects this reality, entitled An Economic Model of Terrorism.

It will be one of the only chapters in the book written by an economist. The majority of the book will be authored by transportation specialists that explore specific hypothetical events, such as the costs of a terrorist attack on the ports of Los Angeles. However, Blomberg’s chapter will provide a macroeconomic model of terrorism for the broader context of the book.

The model for terrorism used in this paper is the same model that Blomberg found to be effective in his previous work from as late as the 1990s. With updated data, the results show that when the model is extended to the present, the connection between the economy and terrorism is slightly weaker. This may reflect changes in the nature of terrorism in the past two decades.

“Some of the new aspects of terrorism that we’re seeing lately may have less to do with what we’re modeling here,” said Blomberg. “With Al-Qaeda and terrorism today, it’s not so much due to a bad economy, at least in the short run.”

Due to the complexities of terrorism, there are many other factors that may have become more influential than economic conditions in determining the likelihood of a terrorist attack occurring at a given time. However, all of these factors cannot be taken into consideration because a model must be simplified to be practical.

“You might have to develop a theoretical and empirical framework based on tribes, civil war, and ethnic differences,” said Blomberg. “But when you go on that there’s not a lot of predictive power.”

Blomberg, Richardson, and Adelberg used two different approaches to find a useful model. The first compared only the effect of current economic conditions on the likelihood of a terrorist attack.

“This simple probabilistic view didn’t say all that much about what was going on,” said Richardson.

For the second approach, they ran a more complex econometric model that used eight different economic and terrorist activity conditions for both the past and present periods. This data was then divided into country categories based on income and democracy.

The second model demonstrated that the effects on terrorist activity vary between countries based on political structure and level of economic development. Blomberg, Richardson, and Adelberg found that if the dissident group lacked resources, the chance of a terrorist attack increased more than if the economy was weak overall. Another finding was that countries with unsound institutions, with more corruption and less available education and health care, were more susceptible to terrorist attacks. A specific example of these findings is that the chance of a terrorist attack in a non-democratic country after an economic contraction in the previous period was twice that of a democratic country under the same conditions.

“Suppose there is a constant stream of terrorist attacks,” Blomberg explained. “What’s going to cause that stream to turn into a river? In the U.S., you won’t find many things that will change that. In another country, you may see that the stream turns into
raging water based on certain conditions.”

The many factors shown by this model to affect terrorist attacks demonstrate the difficulty of finding effective public policies to prevent terrorism. For example, the chapter shows that just giving money to countries is not necessarily helpful in preventing terrorism if the dissident groups do not receive any resources. In fact, the model shows that if the elite or the government possesses more resources, the donation could actually increase the chances of a terrorist attack.

“Our results are complicated,” said Blomberg. “And our public policy implications are complicated, but that’s the real world.”

Richardson and Adelberg also learned from their research with Blomberg that deciphering the real world meaning of their results is a challenge.

“A lot of times in classes the models work perfectly, but in the real world they don’t,” said Adelberg. “There are a lot of barriers that you run into, especially with the data. You have to be creative to figure out how to come up with a coherent story.”

The difficulty of interpreting economic data and the resulting implications is part of what draws Blomberg to economic research.

“That’s the beauty of economics. A lot of people think it should just be simple...and it’s not,” said Blomberg. “The real world we work in is a complicated animal, and when trying to look at a lot of processes at once you realize it’s not going to come out easy.”
Marc Weidenmier and Asaf Bernstein Give Presentation to Bank of England

By Laura Hagen ‘11


Weidenmier and Bernstein helped answer that question through their paper, which examines financial market volatility before and after the creation of the Federal Reserve. Typically, the specific effects of the creation of the Fed are practically impossible to calculate due to conflating variables. However, by only examining the months of September and October, they were able to isolate these effects to show that a central bank indeed lowers volatility in financial markets. The logic behind this is that due to the costs of moving crops to market during the fall harvest season, the demand for loans would sharply increase during September and October, frequently resulting in illiquid financial markets. A consequence of this illiquidity was that nearly all of the major panics of the National Bank period occurred during the fall harvest season, when loan interest rates were significantly more volatile relative to the rest of the year. After the creation of the Fed, the volatility of monthly call loan rates during these months lowered drastically, which signifies that the Fed acting as a lender of last resort did have a positive effect on financial markets.

The presentation was well received at the conference. Weidenmier and Bernstein received many positive comments, including one that incited them to write a follow up paper on how margins affect financial markets through liquidity.

The paper they presented is available on the Lowe Institute webpage. It will be published in an upcoming edition of the prestigious Journal of Financial Economics, which is the second most read financial publication among business schools and has an article acceptance rate of under 8%.

Gordon Hanson
U.S. Immigration Policy: An Economic Perspective

By Mark Gose ‘11

Athenaeum — On October 29th, 2009, Gordon Hanson, a renowned economics professor at the University of California, San Diego, spoke about a widely debated “hot topic” issue: U.S. immigration policy. He described the current U.S. policy toward both illegal and legal immigration, analyzed its economic impact, and concluded with ways in which Congress can effectively address the political conundrum of immigration.

According to Hanson, the U.S. has experienced steady growth in illegal immigration for the past thirty years. This is largely because the U.S. has adopted an accommodating policy toward immigrants by providing them, among other rights and benefits, free healthcare and access to public school education. In addition, a study shows that a worker in the U.S. can earn a wage that is 2.5 times greater than the average wage in Mexico, where the majority of the immigrants come from. Consequently, these incentives have spurred an influx of undocumented workers.

In order to reduce the number of illegal immigrants crossing U.S. borders, Congress has established both border and interior enforcement. There are over 20,000 border patrol officers who concentrate on urban areas along the border; and another 20,000 Custom and Border Protection agents who screen passengers and cargo at 300 ports of entry. As for interior defense, Congress formed the U.S. Immigration
and Customs Enforcement agency as a part of the Homeland Security Act of 2002. This branch of Homeland Security not only investigates crimes committed by illegal immigrants in the U.S., but also ensures the departure of all removable aliens through fair enforcement of the U.S. immigration laws. Overall, the budget for immigration enforcement is around $15 billion. Yet despite this high cost and large enforcement effort, the U.S. government has failed to slow the flow of illegal immigrants. According to Hanson, a study shows that over 500,000 immigrants still enter the U.S. illegally every year.

This large inflow of illegal immigrants must be taken into consideration when shaping policy for legal immigration. The United States’ main objective for permitting legal immigration is to foster the reunification of families. Hanson explains that approximately two-thirds of the immigrants who receive green cards are either immediate relatives of U.S. citizens or being sponsored by U.S. families. However, with the increasing number of illegal immigrants, the U.S. government must choose between adjusting the current immigration quotas to lower the amount of legal immigrants or further strengthen border and interior enforcement.

Although illegal immigration inflicts serious costs, Hanson also highlights the economic benefits that arise from a more open door policy. First, it is important to note that immigrant inflows are sensitive to the business cycle and create a more mobile labor force. When the U.S. experiences an economic boom, employers in low-skilled industries have a high demand for immigrants because they not only fill the gap of low-skilled workers in the U.S. but also can be moved fairly easily across regions and occupations. Hanson stated that, “Illegal workers are mobile. They could be laying carpet in Vegas one week, and putting up a dry wall in Georgia the next.” Furthermore, a surplus in labor will lead to a decrease in wages, thereby depressing consumer prices. Therefore, illegal immigration does provide economic benefits to both U.S. employers and consumers.

On the other hand, workers who compete with immigrants do suffer. But since low-skilled labor is relatively scarce in the U.S., the loss to those competing with immigrants is small compared to the gain to U.S. employers. U.S. taxpayers are by far the biggest losers and the strongest advocates for greater enforcement. The problem is that immigrants receive government services but do not pay their full share of taxes. It has been estimated that illegal immigration costs U.S. taxpayers $10 billion per year!

Since increasing enforcement may be a futile attempt to slow the wave of illegal immigration, Hanson offers another a course of action. First, allow undocumented workers to enter the U.S. but require an entry fee, which should be large enough to deter unmotivated immigrants. Second, make the number of visas available sensitive to the business cycle and sell them at auction rates. When there is a boom in the U.S., more immigrants will want to enter, so the government can auction off more visas. Selling them at auction rates as opposed to fixed rates will help the U.S. find the most willing and motivated workers. Finally, allow the illegal immigrants to earn green cards. Ultimately, these policies force undocumented workers to pay a price to participate in the U.S. labor force while at the same time offers them incentive to abide by the law by allowing them to earn green cards. Whether or not this is a viable strategy to manage illegal immigration is yet to be determined. One can only hope that the U.S. government will soon find a solution to this critical problem.

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**CALENDAR OF EVENTS**

**Southern California Applied Microeconomics Conference**
Friday, April 16, 2010

**Board of Governors Meeting**
Winter 2010 T.B.D.
Q: What is the testable hypothesis of your paper?
A: Brazil is the only one of the ten largest economies in the world that has dramatically reduced its dependency on foreign oil in the last 30 years. By increasing domestic oil production and introducing sugarcane ethanol as an energy alternative, Brazil reduced its oil imports by 60%. Most countries have virtually no alternative energy, but sugarcane ethanol accounts for over 22% of energy consumption in Brazil while oil accounts for only 36%. Based on this premise, the A.E.I. (American Enterprise Institute) asked me to work on a project called Hedging Against Peak Oil Shocks. The focus was the extent to which increasing domestic energy production could shield the United States from oil shocks. One of the main hypotheses was to show that increasing domestic energy production generates greater income and consumption smoothing, reducing the negative effects of oil shocks. Oil shocks are like a tax because they reduce production and raise prices. We found that, during an oil shock, there is a substantial rise in unemployment in states that do not have an energy sector while this does not occur in energy-producing states.

Q: How did you test your hypothesis?
A: We looked at some economic models that measure the extent to which you get consumption smoothing across the states, and we found that energy-producing states show twice as much smoothing as non-energy-producing states. We also looked at employment rates during oil shocks, and we found evidence that employment goes up in energy-producing states due to multiplier effects. A thriving oil sector creates positive spinoffs in the rest of the economy. For example, the 7-11 next to the oil rig might hire more employees.

Q: What are the implications of your findings?
A: In terms of energy production, this study implies that increasing the production of natural gas is the best way for the U.S. to partially offset oil shocks. Not only is natural gas cleaner than oil, but the U.S. has more natural gas reserves than oil reserves. Our findings indicate that smoothing out economic activity by reducing U.S. dependence on foreign oil would offset the negative effects of oil shocks. Jim Hamilton, a famous oil shock expert in San Diego, estimates that if oil prices had not sky-rocketed to nearly $150 a barrel, the recession would have started approximately six months later. Importing sends money overseas, whereas increasing domestic production allows us to keep the gains from paying domestic workers and domestic owners of capital. Consequently, they are more likely to spend their money domestically, which helps offset the negative effects of an oil shock.

Q: Does your research provide any public policy prescriptions?
A: You can’t avoid oil shocks, but you can minimize their impact to a certain extent. This paper exemplifies the fact that the U.S. can smooth out oil shocks by increasing domestic energy production through oil, natural gas, or both. Right now, the alternative energy options we have are highly inefficient, with the exception of sugarcane ethanol. Unfortunately, the federal government has placed an enormous tariff on sugarcane ethanol. The Obama Administration refuses to consider the policy prescription our research points toward. I think that what will happen in Washington largely depends on the price of oil. If the price of oil is not very high, then I don’t think that there will be a big call for increasing domestic production.
Silvia Ann Hewlett

Yes She Can: How to Better Utilize Female Workers

By Laura Hagen ’11

On October 5th, 2009, the Marian Miner Cook Athenaeum welcomed the renowned writer and economist Silvia Ann Hewlett to speak about the growing need to utilize women in the workforce more efficiently. In 2004, Hewlett became the founding President for the Center for Work-Life Policy (CWLP) where she chairs a task force titled the “Hidden Brain Drain.” This task force is committed to analyzing the utility and potential of female workers by evaluating current workplace policies and developing new policies with “enough heft and traction to drive change.”

Since the task force was founded, over 50 global companies and organizations including the CIA, World Bank, and Google have joined. These employers have joined the task force because they are looking for ways to prevent their talented female employees from permanently leaving. According to Hewlett, 95% of women who take a career break end up working for a different company than the one they left. By finding better ways to retain talented female employees, companies can reduce the costs of training new workers and prevent these employees from joining competitors.

Hewlett asserts that the underutilization of women can be explained through the vast differences in the career trajectories of men and women. Men usually have linear careers; they start work after their education and don’t stop until they retire. On the other hand, Hewlett’s research shows that 37% of women will take a career break for an average of 2.3 years. The biggest factor pushing women out of the workforce is having kids, which accounts for 45% of women who leave the workforce. However, there are a number of other significant factors that cause women to leave the workforce, such as caring for their elders, feeling under utilized or appreciated, and being passed for a promotion. Research shows that the consequences of leaving the workforce are significant. On average women who re-enter the job market after taking time off permanently lose 20% of their earning power. There are also problems with finding a job in the first place: out of the 93% of women who try to re-enter the workforce, only 70% find jobs, and only 40% find jobs with serious prospects. Hewlett asserts that the problems associated with re-entering the workforce stem from generally held, very rigid conceptions of what a career should be.

The first traditional career conception is that the steepest gradient of a worker’s career must be when they are in their 30’s. A second traditional conception is that workers need to provide “full-time face time,” which means working specific hours at specific places where their bosses can supervise their work.

The CWLP has found that the best solution to revolutionize traditional career conceptions and better utilize the talent of female workers is flexible hours. Six years into their “flex” research project, the CWLP has found that more flexible hours lead to higher economic efficiency and better business performance. While flexible hours have certainly shown to help women balance a family life without sacrificing productivity at work, they have also been shown to increase the economic performance of male workers as well. Hewlett attributes this increase in overall productivity to the improved psychological outlook of a worker who has a choice about when and where they do their work.

Hewlett ended the talk by showing just how far the appeal of flexible hours extends by presenting data on the motivations of college graduates entering the workforce. She surprisingly found that college graduates highly value flexible hours, even over salary. This data illustrates that younger generations want to choose when and where they work because it makes them feel in control and gives a greater sense of fulfillment to their lives.

Essentially, Hewlett’s study shows that the next generation of workers, men and women alike, value opportunities to expand their fulfillment from life in general more than the opportunity to become wealthy. By revamping the rigid career model and offering employees motivation beyond money, companies can reduce human capital waste, especially through utilizing the talent of women and appealing to the highest motivations of college graduates.
Aanchal Kapoor ‘13

Benefits of Economic Research
By Anna Eames ‘13

As a sophomore at Pomona last February, Aanchal Kapoor ‘13 began working as a research assistant for Professor Marc Weidenmier at the Lowe Institute. She worked with Professor Weidenmier during the school year and then throughout the summer as a full-time research assistant on a project entitled “Hedging Against Peak Oil Shocks.” At the end of the summer, Kapoor transferred to CMC and is continuing her work at the Lowe Institute.

Kapoor’s work at the Lowe last summer also included “creating a database on stocks from the 1930s to analyze the impact of the SEC (Securities Exchange Commission)” for Professor Cronqvist. This fall, Kapoor is working with Professor Burdekin on a project that focuses on the nearly global shift to the gold standard in the 1930s. She is also on a team of research assistants that is working on the Inland Empire project.

After working on these projects at the Lowe for the past several months, the foremost skill Kapoor has gained is data analysis. Although she had some past experience with Excel, her work at the Lowe opened her eyes to “what Stata and Excel can really do.”

Kapoor’s experience at the Lowe has convinced her that working as a research assistant makes all the difference in pairing liberal arts with “a career-oriented, pre-professional approach.” Her work with Professor Weidenmier gave her “an idea of...what they would expect when you graduate, in a full time job.”

Research Associate Professor Keil found that there is an absence of a systematic analysis for its large economy, presenting a unique opportunity for CMC and the Lowe Institute. CMC’s closeness to the region and expertise in economics provides a solid foundation for it to play a major role in the forecasting, reporting, and analysis for the Inland Empire economy.

There are three integral parts of this massive project. In collaboration with CMC’s Rose Institute, the Lowe will soon create the Inland Empire Economics and Public Policy Outlook. Essentially, this Outlook will be an online newsletter that will be distributed to the private sector, public sector, and academics of the region. The Lowe’s contribution to the Outlook will include interviews with business leaders, articles on specific industries and topics, as well as detailed economic reports on key industries and the economy as a whole.

Initially, this online newsletter will be issued twice a year with the goal of issuing it quarterly in the near future.

Beginning next year, the Lowe Institute will team up with UCLA’s Anderson Business School to host a semi-annual forecasting conference. At this joint conference, UCLA will present relevant information and forecasts of the U.S. economy and the California economy, while the Lowe will focus on the Inland Empire economy. The Lowe will present information compiled through the forecasting models and reports for both the regional economy as a whole and its major industries. Professor Weidenmier explains that “the overall idea behind the forecasting models is to take advantage of these differential features [housing, logistics] to explain comparative economic performance of the Inland Empire vis-à-vis California and the United States.” Business owners, government officials, and academics will be in attendance to gain a wealth of valuable information on national, state, and local economic development. There will also be a specific topic of interest that relates to the results of the forecasts for each conference. For example, if the forecasting models show that the housing market will turn around in the next six months, the conference would host a panel of academic specialists and business owners of the housing sector to discuss these results.

A new function of the Lowe that will be developed through this project is Recession Dating. A panel of academics and business leaders will form a committee, with the purpose of specifying when recessions begin and end in California and the Inland Empire. Although this is done at the national level by the National Bureau of Economic Research (NBER), business cycles may differ substantially by state and region. Therefore, recession dating with a state and regional focus will be more consistently accurate. Economic events and news will largely determine when these predictions are made by the committee; however, the ultimate goal is to be able to use the information compiled from the forecasting models to effectively predict these dates. Professor Keil points to the significant role that a reliable dating committee could play in an economy, emphasizing that it would positively impact business decisions. If the Lowe’s forecasting and dating information proves to be accurate, this will eventually stimulate popular interest and lead to visibility in the news media.

One of the most important benefits resulting from the project is that it will provide students with a great number of unique opportunities. “There is an additional service that we will provide, which is to train students in research methods,” says Professor Keil. Students have already contributed a substantial amount to the development of all three primary components of the project. Future responsibilities will include writing articles for the Outlook, interviewing business leaders, as well as creating preliminary economic reports and...
memos. Students and faculty members will run the forecasting models together and independently, providing students with the opportunity to apply what they learn in their courses to the real world. In the words of Professor Weidemier, “students play an integral part in all aspects of this project” and have the opportunity to “use the latest techniques in econometrics and statistics to analyze economic activity in the Inland Empire.”

Steve Levitt — Continued from Page 1

newest work, his critics, and his life as an unconventional economist. His speech, co-sponsored by the Lowe Institute as part of the 2009-2010 Lowe-Athenaeum Speaker Series, was by far the most entertaining Athenaeum event I have attended during my time at CMC.

Dean Gregory Hess, in his introduction to Dr. Levitt’s speech, remarked that “what makes Levitt’s visit such a good fit here is that it seems like such a holiday, such a celebration.” It sure felt like a celebration once Dr. Levitt got behind the podium. He had the crowd roaring from the very beginning.

Dr. Levitt began by proposing a scenario. You and a couple of your buddies are in the Claremont Village for a night out, you have all had a few drinks too many, and one of your friends asks you to give him the keys to the car. He wants to drive back to CMC. Like any responsible friend would do, you decline his request and tell him to walk home. That is where you mess everything up.

By telling your friend to walk the half-mile back to campus, you have actually made your journey home more dangerous than it would have been had you given him the keys and let him drive back. According to Dr. Levitt, “mile for mile, it turns out to be eight times more dangerous to walk drunk than to drive drunk.”

It is precisely these conclusions that make Dr. Levitt so entertaining. Few economists have the ability, not to mention the courage, to use data and economic analysis to establish conclusions on very odd topics. In SuperFreakonomics, Dr. Levitt, along with co-author Stephen Dubner, asks questions like “why do prostitutes make less money now than they did a century ago?” (The sexual revolution.) “Can eating a kangaroo save the planet?” (Yes.) “What do hurricanes, heart attacks, and highway deaths have in common?” (Read the book.) Dr. Levitt’s comments had the audience howling, but they also brought up a much more serious point. If absurd economics can be used to answer such mundane questions, might it also be able to answer more important ones, while still maintaining its hilarious nature? Dr. Levitt suggests that it can.

The most interesting and controversial chapter of Levitt’s book discusses the possibilities for solving our global warming crisis. During his speech, he proposed that it is possible to offset our carbon dioxide emissions by simply using two “hoses,” placed near the poles, to continuously dump carbon dioxide out of our atmosphere and into outer space. He contends that the hoses would only have to be as large as standard garden hoses to be effective.

During the question and answer period, a few students expressed doubts about Dr. Levitt’s conclusions regarding global warming. Levitt, however, did a fine job of addressing their concerns, pointing to data collected by him, other economists, and influential scientists that support his process and conclusions. He also noted, to a wave of laughter from the audience, that one of his detractors, the Union of Concerned Scientists, is actually not a group of scientists.

Despite the scrutiny on the global warming chapter of SuperFreakonomics, the evening was quite light-hearted and entertaining. Dr. Levitt shared a number of personal stories with the audience:

- His high school calculus teacher remembered him at his twenty year reunion. Unfortunately, it was because Dr. Levitt had the dubious distinction of being the only student to get a 2 on the AP Calculus exam in the teacher’s entire career.
- In a paper he wrote in 2001, he calculated the externality cost of drunk driving. About 30 cents per mile.
- He once paid a prostitute $400 an hour to teach a lecture for him at the University of Chicago. Additionally, he taught her better profit maximization methods in return for data on all of the tricks she had ever performed.

Dr. Levitt’s speech was insightful, intriguing, and absolutely hilarious. Blending economics and comedy seamlessly into one, Dr. Levitt is just the rock star figure that the study of economics needs to give it the attention it rightfully deserves. Economics is often portrayed as a dull, boring subject. It is difficult to get most people to care about short-run average cost curves, deadweight loss, and price-to-earnings ratios. However, Dr. Levitt’s first book has sold over four million copies to-date, and by using comedy, he is doing his best to give the field the image makeover it needs, one trick at a time.
Lowe Institute to Host Applied Microeconomics Conference

By Chase Gray ’12

This coming April, the Lowe Institute will co-host the first annual Southern California Conference in Applied Economics. Established in conjunction with the Berger Institute for Work, Family and Children, the conference will be held at the Claremont Colleges on Friday, April 16, 2010. The conference will include a variety of paper presenters from colleges and universities throughout Southern California. The organizing committee includes representatives from CMC, UCLA, UC-Irvine, UC-San Diego, UC-Santa Barbara, and USC.

Presenters will discuss a wide variety of topics, including experimental economics, labor economics, health economics, population economics, law and economics, urban economics, and public economics. The first of its kind in Southern California, the event is sure to be entertaining and insightful for all who attend.

Interested in submitting a paper? The board members of the Southern California Conference in Applied Microeconomics will select the papers to be presented at the conference. The deadline for paper submissions to the conference is January 31, 2010. Please send all paper submissions to Professor Marc Weidenmier at mweidenmier@cmc.edu. We invite paper submissions from all colleges and universities in Southern California. Faculty and graduate students are encouraged to submit papers to the conference. Paper presenters will be paid an honorarium of $300 to cover travel expenses. The Berger and Lowe Institutes will provide a continental breakfast, lunch, and dinner.

Organizing Committee:
Leah Platt Boustan (UCLA)
Jan Brueckner (UC-Irvine)
Gordon Dahl (UC – San Diego)
Eric Helland (CMC)
Peter Kühn (UC-Santa Barbara)
Darius Lakdawalla (USC)