

Notes from the Chair

The Department of Economics has continued to grow in several healthy ways: faculty, students, and services. First, we welcome Dr. Craig Burnside and Dr. Chris Timmins to our faculty. Formerly on the faculty at the University of Virginia and a senior economist at the World Bank, Professor Burnside is a leading scholar in macroeconomics, working on such topics as business cycles, currency markets, and foreign aid. Professor Timmins comes to us from Yale, where he was on the faculty for seven years. A specialist in environmental and development economics, he studies urban economies, environmental commodities, and poverty in Brazil.

This summer marked the first time the American Economic Association Summer Program and Minority Scholarship Program was held at Duke. Thirty-four students participated in the program, which emphasizes theory and quantitative skills. Duke's online computer classrooms provided tools for problem solving. Directing the program was Charles Becker; Duke professors who taught in the program were Frank Sloan, Dan Graham, Pietro Peretto, Paul Ellickson, Alessandro Tarozzi, Curtis Taylor, Rhonda Sharpe, and yours truly. Twelve of our graduate students served as teaching assistants. The students went to Washington to visit the Brookings Institution, the Congressional Budget Office, and the Fed Board of Governors to see firsthand the work

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economists perform. Our thanks to everyone who participated!

Our MA curriculum has been reworked in part to provide a diverse program. It is designed for students who wish to acquire additional skills prior to entering a doctoral program, international scholars and researchers aiming for a 12–24 month period of retooling and gaining new skills, technical economists with more applied rather than academic interests, and those with interdisciplinary interests. This year, 14 students entered the program — a major increase over recent years. The new focus of our master’s courses is on economic analysis and applied economics.

The department’s hallmark doctoral program accepted 23 first-year students this year. The students hail from all over the world, including South America, Eastern Europe, the Middle East, and the Pacific Rim. Our graduating PhD’s are now actively seeking employment as they wrap up their thesis work and prepare for defense and for graduation.

Economics has become the largest undergraduate major on campus. I am teaching Econ 55 to a class of 275, while Lori Leachman, director of the EcoTeach Center, Emma Rasiel, director of Undergraduate Studies, and Connel Fullenkamp, associate director of Undergraduate Studies, are also teaching large undergraduate classes again this fall.

There is a great opportunity for alumni of Trinity College and the Graduate School and their friends and families to become an integral part of the growth and refinement underway now in economics at Duke. Two of our endowment funds were created to honor economists who led young men and women into economic careers of research and teaching: John O. Blackburn and T. Dudley Wallace. Professor

Blackburn was chair of the department from 1968 to 1970; he also served as chancellor of the university. As E. Roy Weintraub notes, under Professor Blackburn’s leadership the department and the university were reconstructed to meet the changes of the post-segregation era. Professor Wallace is now emeritus, having taught two generations of students at Duke. The two funds, generous as they are, lack the total resources to support the department with adequate annual income. Your contribution to one of these funds can help them reach the \$100,000 level so that annual income can be made available to the department.

Keep in touch with us here at Duke so we in turn can keep you apprised of the activity and growth in your department.

—Thomas Nechyba, Chair

Department Notes

Patrick Bajari has had several papers published or accepted for publication in the past year; among them are “Deciding between Competition and Collusion” (with Lixin Ye), *Review of Economics and Statistics*; “Economic Insights from Internet Auctions” (with Ali Hortacsu), *Journal of Economic Literature*; and “Estimating Housing Demand with an Application to Explaining Racial Segregation in Cities” (with Matt Kahn), *Journal of Business and Economic Statistics*. He has been awarded a National Science Foundation grant for a project titled “Dynamic General Equilibrium Models of Community Formation: Theory and Empirical Analysis, 2004–2007” (with Dirk Krueger, University of Pennsylvania). With Duke colleague **Han Hong** Patrick is researching the nonparametric estima-

tion of discrete games with multiple equilibrium, unionization's effect on prices in product markets, and the nonparametric estimation of a principal agent model with an application to health insurance (also with Ahmed Khwaja).

Bradley Heim has received a grant from the National Poverty Center for a project entitled "The Impact of the Earned Income Tax Credit on the Labor Supply of Married Couples." His paper, "Work Costs and Nonconvex Preferences in the Estimation of Labor Supply Models," written with Bruce D. Meyer at Northwestern University, was published in the *Journal of Public Economics*. He presented the paper "Structural Estimation of Family Labor Supply with Taxes: Estimating a Continuous Hours Model Using a Direct Utility Specification" at the Society of Labor Economists in May 2004.

Lori Leachman's paper titled "Multicointegration and Sustainability of Fiscal Practices" has been accepted for publication by *Economic Inquiry*. This paper was the result of four years of revision. Lori also had a piece of art in the Durham Art Guild show that was a political protest piece and was written up in the local media.

Curtis Taylor continues to work on the economics of privacy; he has been awarded a second NSF grant on this topic. A recent paper of his on privacy was accepted last year by the *Rand Journal of Economics*, and he presented his latest work at a conference on electronic commerce in Toulouse, France, in October 2004.

Gianni Toniolo spent a good portion of his leave from Duke in Basel, Switzerland, working on his book titled *Central Bank Cooperation at the Bank for International Settlements, 1930–1971*. It will be published by

Cambridge University Press in 2005. With Paul Rhode (UNC) he organized the conference "Understanding the 1990s: The Long-Run Perspective," held at Duke in March 2004. The proceedings of the conference will be published by Cambridge University Press in late 2005. He also contributed to and edited a book (with Vincenzo Visco, University of Rome) in Italian titled *Il declino economico dell'Italia* and published in 2004. Also in 2004 Gianni published "Laudatio Patritii: Patrick O'Brien and European Economic History," which appeared in *Exceptionalism and Industrialization: Britain and Its European Rivals*, edited by L. Prados de la Escosura (Cambridge, 2004).

After visiting the University of Pennsylvania in 2003, **Kirk White** took a position with the U.S. Census Bureau as the administrator of the Triangle Census Research Data Center (RDC), located in the Duke economics department. Kirk is currently working on a joint project with Duke professor **Arpad Abraham** using non-public-use RDC data to investigate the dynamics of plant-level productivity in U.S. manufacturing. Kirk is also continuing work on his project on the long-run dynamics of black-white earnings and wealth inequality.

EconActive

This summer we completed work on a great new Graduate Student Center in the Social Sciences Building that houses the Department of Economics. There are three permanent study rooms with work tables, computer desks, and comfortable chairs with desk surfaces for laptop computers and books. Each room is equipped with white boards and projection screens as well. A large central area has sixty lockers for our graduate students, many of whom do not have

individual offices assigned to them. Lastly, a break room with tables, a fridge, and coffee service greet everyone who enters.

This space has had heavy and continuous use starting with our American Economic Association Summer Program students and continuing as our graduate students arrived on campus early this fall. The center room has a folding wall similar to those found in hotel conference facilities. This enables us to provide two rooms or one larger space for larger groups.

Major investment has been made in computing facilities oriented to the research work pursued by our students. A pilot “cluster” system consists of eight nodes with additional groups of nodes planned for the immediate coming months. This represents a whole new level of computational power in the department. A number of other machines were replaced with current state-of-the-technology equipment last spring. The cluster currently offers MATLAB with various toolboxes and STATA, two major research tools used in the department.

As we developed the plans for the Graduate Student Center, we constantly attempted to set up an adequate computer workstation arrangement. Every concept took up too much of the limited space available. Finally, we settled on using laptop computers as portals to our computing cluster, the university networks, and the Internet. An initial purchase of twenty-five units forms the inventory we have for students to borrow as needed. Each is equipped with wireless modems that communicate through the Duke wireless network. The result: additional workstations for those who need them without sacrificing space and furniture.

Finally, we welcome Molly Brown as our new staff assistant in the EcoTeach Center. And, Nuzhat Rahman has joined our staff as a staff assistant in the Administration Center. Our congratulations to Jennifer Socey, administrative assistant in the EcoTeach Center, and her husband, Stew Carpenter, on the birth of their son, Jack. Many of you will also remember Gail McKinnis, who is a grandmother several times over, but most recently of twins.

When you are on campus, please take the opportunity to stop in the department to see the physical changes in this building that enable faculty, students, and staff alike to better teach, learn, and serve.

Stephen Harper, Business Manager

Free Agency in Baseball: A Recent Economics Grad Weighs In

Peter Fishman graduated from Duke in 2002. The Oeconophile recently came across an online baseball magazine article about Pete's senior thesis and ask him to provide a commentary on the paper and the topic.

In the job market, the vast majority of people are free to change employers (or not) or take jobs with whatever employers they find most appealing. Up until the 1970s, such was not the case for Major League Baseball players. Before then, a given team had exclusive rights to a given player; once the player's contract expired, he had to re-sign with the same team, if he wanted to keep playing baseball. He was not a “free agent,” free to “test the market” and look for a position with another team. All that began to change in the 1970s, and today free agency is well established in Major League Baseball.

Many studies have been conducted on the economic effects of free agency. One issue they have examined is the effect of free agency on competitive balance among the teams. Has free agency allowed some teams — notably, the wealthier ones — to stockpile the best talent and dominate the league? Most studies of that issue conclude that it has not. My paper, however, demonstrates that the introduction of free agency to Major League Baseball has indeed had a harmful effect on competitive balance. My work uses a weighted measure of “free agency” that depends on the number of free agents that signed before the season, and it focuses on regular season dispersion (which more accurately captures imbalance).

I became interested in the subject when I was doing some supplemental reading for Professor Grabowski’s industrial organization course. I discovered a previous Duke economics thesis by Todd Bowen on the same subject. As a final project for the I.O. seminar, I thought about ways I could add to Todd’s work. I wound up turning the class’ final paper into my thesis topic with Professors Grabowski and Tower as my advisors.

My Happy Adventure Writing a Senior Honors Paper at Duke

I ran into Ed Tower outside the Social Sciences Building one afternoon on a spring day during my junior year. I had taken a couple of classes with Ed, and he asked me to lunch. We went to a Vietnamese restaurant on Ninth Street, and at some point the conversation turned to my summer plans, which involved my remaining in Durham to work on *The Chronicle* while taking a couple of classes. Ed asked whether I’d

also be interested in helping him with a project, and I said that I would. I’m not exactly sure what Ed had in mind for me; I’m pretty sure that neither of us thought that it would result in two coauthored published papers and an ongoing collaboration and friendship.

During that summer I spent in Durham and after, we worked on a paper titled “Predicting Equity Returns for 37 Countries,” which was published in the *Journal of Investing*. I would usually wake up early in the morning and either head over to Fuqua to download data on international stock markets or go to Ed’s office to start playing with the data. Usually Ed and I would go to lunch (sometimes at that same Vietnamese restaurant) and discuss what I’d found and how to move forward.

During the fall semester, after we had completed and submitted the first paper, I signed up for an independent study with Ed. What ultimately resulted was a paper titled “Index Fundamentalism Revisited,” which compared the performance of Vanguard’s index and managed funds and was published in the *Journal of Portfolio Management*. The process for writing this paper was much the same as the first, but this second paper went through many more revisions and much more rewriting than the first did. Ultimately, we found that Vanguard’s managed funds had outperformed its index funds for some long time periods, an ironic result considering that Vanguard’s founder, John Bogle, is a staunch believer in the superiority of index investing. This result got us a lot of attention; various financial websites, electronic financial journals, and *BusinessWeek* discussed the paper, and we received several handwritten notes from Bogle himself making substantive comments on the paper. It also prompted

a response that will soon be published in the *Journal of Portfolio Management*, along with a reply from Ed and me. Since much academic work takes place in obscurity, this attention was gratifying. It also strengthened the work we were doing, as we got helpful comments and criticisms from many different people.

The process of sharing work and bettering it as a result is one of the reasons my and Ed's approach to writing an honors thesis yielded such rich results. (I ended up submitting these papers as an honors thesis and I started out as a paid research assistant, so one can view my experience through either lens.) Ed and I were able to refine our ideas through discussion and argument, and we were able to motivate one another. Ed later shared with me that in the summer after my senior year when we had completed the paper, he had a crisis of confidence and was unsure whether the paper should be submitted but that I had encouraged him to do so.

The research I did with Ed has stimulated me to do further research on my own, specifically an article on the regulation of mutual fund fees that hopefully will be published in a law journal sometime this year but also more generally by making me realize how enjoyable and rewarding the process of researching, writing, and publishing can be.

For anyone writing an honors thesis, a close collaboration between student and faculty member is essential and rewarding. The student develops a relationship with a professor, learns how research is done, does real academic work, and sometimes has a publishable product; and the professor gets a chance to interact with an interested coauthor and gets to pursue projects he or she would be otherwise unable to do.

To produce students who are capable of working on and thinking critically about sustained projects that are interesting and beneficial, professors and students alike should consider the value of genuine collaboration.

—Kenneth S. Reinker, Trinity '03.

Ken is a second-year law student at Harvard Law School.

AEA Summer Program and Benefits: A Participant's Perspective

It is not every summer that one gets a chance to experience not only the pleasure of working with knowledgeable professors and ambitious students, but the daunting task of accomplishing the equivalent of four advanced courses in a period of just eight weeks. The summer of 2004 was a unique one for me because it allowed my participation in the American Economic Association Summer Program (AEASP). The program was particularly rewarding because it featured a rigorous yet supportive learning environment, facilitated the identification and improvement of my academic strengths and weaknesses, and, most importantly, provided an insight into graduate economics programs while emphasizing the importance of research and the expansion of such research through academic contacts.

The AEASP provided challenging graduate-level coursework in three core areas of economics, plus a research seminar that provided a firsthand approach to conducting responsible research. There were regular problem sets that required group work (which helped develop interpersonal skills by working with other people) and cooperative action. The most rewarding accomplishment was persevering with my

partner until the job was successfully completed. During difficult assignments, there were always teaching assistants willing to help; moreover, it was not uncommon to find TAs at hours such as 10 or 11 p.m. Also reassuring was working with like-minded minority students linked by the desire to pursue graduate work in economics. Indeed, it was a worthwhile experience learning and sharing with my peers just as much as learning from professors.

Additionally, the AEASP helped me identify my strengths and weaknesses as a prospective graduate student in economics. My quantitative reasoning and time management skills steadily improved during the program. This action often involved extended hours practicing econometric proofs, or chatting up Professors Frank Sloan or Charles Becker about the appropriateness of a random-effects versus a fixed-effects econometric model for determining international loan default. Moreover, AEASP professors explained the importance of recognizing areas of improvement in a non-judgmental and constructive manner.

Also important were considerations about the diverse roles that economists, assume in society. This

was accomplished through the seminar speaker series, in which guests presented their research, and through memorable visits to the Federal Reserve Board, the Congressional Budget Office (CBO), and the Brookings Institution, in Washington, D.C. The visit to the Federal Reserve Board highlighted the career opportunities available to economists such as banking regulation, risk assessment, and, of course, national macroeconomic policy. The CBO lectures explained the non-partisan role of economists in estimating congressional expenditures and delineating the aspects of future planning.

The AEASP assisted with the graduate school selection process through the Pipeline Conference, graduate recruitment, and graduate student panel discussions.

Indeed the AEASP was invaluable in enhancing my preparation for graduate work in economics. In retrospect, if I could change anything, it would have been participating in the program earlier—but then I would have missed the vibrant intellectual community here at Duke University.

—Joseph Suah, MA student, Duke University

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If you have questions, suggestions, or information about yourself or an alumnus you would like to see in a future issue, please e-mail: pauldude@econ.duke.edu. Check out the department web page:

<http://www.econ.duke.edu>.

—*Paul Dudenhefer, Craufurd Goodwin, Henry Grabowski, Ed Tower*