The Next Generation of Monetary Models

A Minneapolis Fed/University of Minnesota conference explores the mysteries of money

by Douglas Clement*

“What is the thing called money?” asked University of Minnesota economists John Kareken and Neil Wallace over 25 years ago. The question seems elementary, but it links intimately with others far more complex: How does the value of money relative to goods and services get determined? Why do people use money as opposed to a number of other possible trading arrangements? Can government policy improve economic welfare by changing the forms of money that a nation uses? Economists have wrestled with these issues for decades—for centuries, in fact—grappling with subtle interrelationships among time, inflation, interest, banks and the thing called money.

To a substantial degree, these efforts have aimed at spanning the gap between what economists know about the microeconomic behavior of firms and households and their understanding of the broader macroeconomy: national economies, aggregate money supplies and the operations of central banks. Key to this effort is developing a solid theory of how money works in an economy.

In December 1978, Kareken and Wallace organized a conference at the Minneapolis Fed to focus on such issues. The 37 participants—including many of economics’ leading scholars—struggled to develop economic models that would capture money’s elusive character. The conference proceedings, published in a volume titled Models of Monetary Economies, became a classic in the field, providing the bedrock for future theoretical work. But many questions remained.

The second generation

Over a quarter century later, the Minneapolis Fed held a second conference, Models of Monetary Economies II, co-sponsored by the University of Minnesota, to review what has been learned, to focus on current debates and, implicitly, to set forth the agenda of monetary economics for coming decades. The planners of this “next generation” conference were Fed adviser Narayana Kocherlakota of Stanford University and Randall Wright (’86) of the University of Pennsylvania.

Over 130 economists attended the two-day conference, held May 21 and 22, 2004, at the University of Minnesota. Both days consisted of two sessions, with three papers delivered and discussed in each. Underlying this discussion were several shared understandings:

• Money plays a number of roles: It is a medium of exchange, a unit of account, a store of value. People hold onto money because it makes buying
things easy—economists call this “the transaction motive.”” They also hold it because it gives them a sense of security that they can buy things in the future—the “precautionary motive.” But holding money also entails risk: Inflation decreases the value of money day by day, and thieves can steal it.

- Money has several forms: Gold coins are a form of commodity money—money with intrinsic value. Bills and token coins are considered representative money when they are claims to things that have intrinsic value. Otherwise, bills and token coins, which have no intrinsic value, are considered fiat money.

Forging links

Twelve papers and much discussion later, the mysteries of money remained intact. Still, the economists had shared and debated new paths for linking monetary models to the real world of money, and they had reached a fuller—if still incomplete—understanding of how money works in an economy.

In addition, they’d reinforced the partnership between the Minneapolis Fed and the University of Minnesota that sparked the 1978 conference. And they’d bridged the first generation of monetary economies, led by Kareken and Wallace, to the second generation, for whom the intellectual challenge of money retains an undeniable allure.

*Reprinted with permission from The Region, 18:3, September, 2004. For the entire article, go to: http://minneapolisfed.org/pubs/region/04-09/models.cfm

Minnesota alumni attending the conference included Ricardo Cavalcanti ('97), Bruce Champ ('90), Andres Erosa ('96), Terry Fitzgerald ('95), Allen Head ('92), Keiichi Koda ('81), Zheng Liu ('97), Mike Loewy ('86), Antoine Martin ('01), Preston Miller ('72), Cyril Monnet ('01), Ricardo Nieva ('01), Art Rolnick ('73), Jim Schmitz ('86), Stacey Schreft ('87), Mike Stutzer ('81), Ted Temzelides ('95) & Randy Wright('86).

Conference News

The annual Minnesota Workshop in Macroeconomic Theory was held this year on campus from Tuesday, July 27 to Saturday, July 31. The workshop is organized by Nancy Stokey and Larry Jones with funds from the National Science Foundation, the Federal Reserve Bank of Minneapolis and the University of Minnesota.

The Program Committee this year was Chris Phelan (Federal Reserve Bank of Minneapolis) and Gary Hansen ('86) (UCLA) who put together an excellent set of papers. The conference program, along with numerous photos is available online at: http://www.econ.umn.edu/macro/

Next year, the conference will run from Tuesday, August 2 to Saturday, August 6. The Program Committee will be Randy Wright ('86) from Penn and Marios Angeletos of Harvard. Conference submissions will be accepted beginning around February 1, 2005; watch the website for details!

The Minnesota Economic Association annual meeting was held Friday October 15 at the U ‘s Humphrey Institute. Tim Kehoe and visiting faculty member Jonathan Eaton spoke about NAFTA and other international trade issues. A panel discussion between V.V. Chari and Christopher Phelan (Mpls Fed) about fiscal policy in the present Bush administration was moderated by Terry Fitzgerald ('95) of St. Olaf College. In the afternoon, the Walter Heller Distinguished Lecture was given by Steve Levitt of Chicago, followed by a champagne reception for Ed Prescott. Prescott spoke for a few minutes about receiving the Nobel notification phone call early in the morning and said that winning the prize does not get him out of taking out the garbage!

Myrna Wooders ('76) wrote that the PET (Public Economic Theory) conference of 2004 was held August 25-29 at the University of Peking. Three Nobel laureates were keynote speakers: James Heckman, Daniel McFadden ('62), and James Mirrlees. “The main purposes of the Association for Public Economic Theory (APET) are to promote public economic theory generally and to foster interaction between theorists, applied and empirical researchers in public economics and related
When people ask what I do for a living and I say “fundraiser,” I often notice an immediate and discreet (or not-so-discreet) attempt to find an escape route. Yes … even the most philanthropically inclined folks tend to be wary.

As a newcomer to the University of Minnesota though, I have been astounded by the openness and philanthropic spirit of the faculty and staff, particularly in the Department of Economics. When I say the word “fundraising,” University people stop to listen. For them, as public funding for the University has shrunk and competition for students and resources has intensified, the word has taken on a kind of urgency.

Economics department staff and faculty know it’s about the future of their renowned department. They know it’s about opportunities to ensure the department’s continued excellence and to make it even stronger. And they know they must step forward to help make these opportunities happen.

And step forward they do. I have marveled at the deep and unwavering commitment of faculty and staff to the department and to its students. Individually and collectively, the department’s people work incredibly hard to provide the highest quality education and service to students. They do it because they are so proud of their department and want to maintain its strong national ranking. They do it because they believe in public higher education and in the University’s teaching, research, and service mission. And they do it because they are a family, looking out for each other across generations.

Their dedication makes them role models for us all—as teachers and mentors, as donors, and as alumni and friends of the department.

As a development officer, I help the department secure private funding to support cutting-edge research and to recruit the very best students, both graduate and undergraduate. Just as today’s research benefits future generations, today’s students will be tomorrow’s scholars and practitioners in the field of economics. Without the help of generous benefactors, the strengths of the department cannot be sustained.

One such benefactor is professor emeritus Herb Mohring, who established a planned gift called a Charitable Remainder Unitrust. Herb said that the reason he established the trust was, first and foremost (as any wise economist would), to take advantage of a vehicle that would reduce the capital gains tax on heavily appreciated assets. He also said that his 35 years of teaching and research were very rewarding intellectually and socially. His colleagues were a friendly, helpful and collegial group with very fine minds. Working with his advisees on their dissertations was in particular, a great joy. Herb hopes that his gift will help the department continue to produce very important research and attract talented graduate students to Minnesota.

A few years ago, Ed Prescott gave a stock gift to create the Herb Mohring Fellowship Fund in recognition of Herb’s dedication to the profession. This fund qualified for the Graduate School’s 21st Century Fund—an incentive program that doubles the payout of a newly created fellowship fund. The good news is that many new University fellowships have been established and matched dollar for dollar. The bad news is that the 21st Century Fund will be exhausted in the next 12 months, if not sooner.

If you want to take advantage of the match, I encourage you to act quickly. We recently sent a letter to Herb’s advisees asking them to consider a gift to the Herb Mohring Fellowship Fund. Over $10,000 has already been raised—a wonderful tribute to someone who has given so much to the department. The fund will now provide $4000 each year in financial support to a graduate student. But additional funding for fellowships is critical if we are to remain competitive for the most gifted graduate students.

If you wish to contribute to the Herb Mohring Fellowship Fund, create a new fund (which may qualify for the 21st Century Graduate Fellowship Fund or the Promise of...
**The Minnesota Lecture**

by Erzo G. J. Luttmer

**Lars Peter Hansen** gave the Sixth Minnesota Lecture on April 23, 2004. Hansen graduated from the University of Minnesota in 1978. His advisor was Chris Sims, and he also worked with Tom Sargent. Hansen is currently the Homer J. Livingston Distinguished Service Professor at the University of Chicago. He is a member of the Econometric Society, the American Academy of Arts and Sciences and the National Academy of Sciences.

Hansen’s Lecture was entitled “Valuation in an Uncertain Economy.” In his lecture Hansen discussed models of investor behavior that feature a role for long run risk or uncertainty. Past investments accumulate as assets, including physical capital, unmeasured intangible capital, durable consumer goods and human capital. By their very nature capital assets are backward looking and built up from past actions. In contrast, the valuation of these assets is necessarily forward looking, reflecting investor beliefs far into the future as well as the risk or uncertainty associated with the returns to owning these assets. Modeling and measuring the long run component of this risk is challenging for time series econometricians as well as consumers and investors.

Since asset prices are forward looking, they contain potentially important information about long run stochastic growth and about investor preferences. In the past Hansen and many others have studied the seemingly puzzling behavior of security market data. This work has combined time series econometrics, macroeconomics and asset pricing theory. Empirical observations are only puzzles relative to a class of models that predict their behavior. Hansen’s talk explored the implications and further challenges posed by some recent modeling advances.

The focus was on recent developments in dynamic decision theory under uncertainty in which a) the intertemporal composition of risk matters; b) there is an aversion to potential model misspecification or to ambiguity in the assignment of probabilities; or c) there are perpetually hidden states that change over time and provide moving targets for estimation and prediction. For instance, investors may have preferences about the intertemporal unraveling of uncertainty, they may be averse to uncertain ventures in which full probabilistic assessment is difficult if not impossible, or they may envision that long run growth is linked to a hidden state variable that determines whether there is a productivity slowdown or a new economy boom in growth. These models of investor behavior put time series models of dividends, broadly conceived, at the forefront of the analysis.

In equilibrium models of investment behavior, long run growth prospects are encoded in prices, but so are the uncertainties associated with this growth. In many circumstances, seemingly different specifications of investor preferences can have similar implications for prices and investment decisions. Hansen’s talk developed some simple but revealing model economies to illustrate the implications of recent developments in dynamic decision theory and the new challenges they pose for model builders and time series econometricians.

**Fundraising from page 3...**

Tomorrow Scholarship incentive programs), or learn about other gift opportunities, please feel free to email me at donah071@umn.edu or call me at (612) 626-7642. There are many ways to make a gift - cash, pledge, or appreciated assets are but a few - and often, it can be extremely tax advantageous for you (just ask Herb).

Finally, on behalf of chair Ed Foster and the department’s faculty and staff, I want to thank all of you who have contributed to the Department of Economics. The generosity of our alumni, friends, and community partners is helping to sustain the exceptional reputation the department has built over the past several decades and to keep the department in the global vanguard of economic research and understanding.

**Conferences from page 2....**

fields.” APET publishes the *Journal of Public Economic Theory*, and Wooders is co-editor with John Conley.

For those of you attending the ASSA Meetings in Philadelphia, please note that the Minnesota Cocktail Party will be held on January 8, 2005 from 6-8:30p.m. in the Marriott Hotel, Grand Ballroom, Salon 1. Cash bar; appetizers will be provided.
Recent Books by Alumni


From the (Williamson Family) Archives

or: “My 15 minutes of fame”

by Wendy Williamson

I spent the last year facilitating the project of saving my family’s 1887 summer cottage, which I first wrote about here two years ago. This house, on Lake Minnetonka, was built for my Thompson great-grandparents on my mother’s side of the family, and she spent summers there with her sisters in the 1920s. I was lucky to get my niece’s husband, Wes, a contractor, on board with his 3-man crew. The two week “just replace the porch” project turned into 8 months of rebuilding the foundation and other key areas. In August 2003, I contacted the local TV show, *Hometime*, asking them if they’d like to film the project. I learned that their contribution was donated material from manufacturers and stores like Home Depot. We were lucky in that as soon as the host of the show saw the place they immediately started to film. This was in January of 2004. At this point, steel beams had just been installed under the house and thirty footings were dug which were filled with 14 yards of concrete. Additional steel was placed in some of the footings and welded to the I-beam system. Two upstairs rooms needing extensive bracing were repaired with new wooden supports. The water and sewer pipes were replaced, and a tiered retaining wall was built. This all happened before the 50 x 11 foot front porch was rebuilt, which was extended around the west and north sides of the house. Prior to this, the back porch flooring was cracked concrete; now it is all new cedar. In September the crew filmed the last shot of the front of the house, which had just been painted.

The three episodes, all entitled “Historic Summer Home” were shown nationally on PBS in September and October. I was interviewed on camera — and Wes, as head of the crew, was the star of the shows; as the host Dean Johnson noted, “You can tell that this is more than just a job to Wes!” The deadline was July 4th, for our traditional family party, and we met that, albeit with no screen doors on the porch. We had 94 people at the house on Independence Day, and I’ve had several other parties since then, including the 1st and 2nd year Econ grad student party this September. Overall, it was an amazing experience, but I’m so glad it’s over!

For the blurb on the Hometime website, go to: http://www.hometime.com/TV/pastshow/pastshows/2004/historic.htm
Comings and Goings*
* with thanks to N.J. Simler (’59)…re, the name for his file on Minnesota faculty.

Gustavo Villagran, from BBV Banco BHIF to BancoEstado, Santiago Chile. gvilla90@bancoestado.cl

Dale Domian (’87), from University of Saskatchewan to York University. ddomian@yorku.ca

Rich Barnett (’89) from Southern Methodist University to Villanova University, Richard.Barnett@villanova.edu

Gary TeSelle (’96), now the VP – Treasury at the First National of Nebraska, Inc. from the Fed. in Washington, DC. teselle@earthlink.net

John Hatch (’98) to the Ballentine and Barbera Group in Washington, DC. john.hatch@bateswhite.com

Kevin Huang (’98), from the Federal Reserve Bank of Kansas City to the Philadelphia Fed. kevin.huang@phil.frb.org

Luciane Carpena (’01) from the Instituto Brasileiro de Geografia e Estatistica to the Brazilian Bank for Economic and Social Development (BNDES), both in Rio de Janeiro. carpena@bndes.gov.br

Victor Matheson (’01) from Williams College to College of the Holy Cross in Worcester, Mass. vmatheso@holycross.edu

Ricardo Nieva (’01), from the Rochester Institute of Technology to Concordia University in Montreal. mnieva@alcor.concordia.ca

Thor Koeppl (’02). from the European Central Bank to Queen’s University. thor@qed.econ.queensu.ca

Miguel Cardoso (’03), from Carlos III Madrid to the Spanish Bank, BBVA. Miguel.Cardoso@grupobbva.com

Ben Bridgman (’03), from Louisiana State to the Bureau of Economic Analysis, U.S. Department of Commerce. Benjamin.Bridgman@bea.gov

David Sjoquist (’71) of the Andrew Young School of Policy Studies at Georgia State University was appointed to the Dan E. Sweat Distinguished Chair in Educational and Community Policy early in 2004.

Terry Monson (’72) has been elected president of the Michigan Tech University Senate for the coming academic year.

John Sneed (ABD ’73) is the president of TESLA, Inc., which supplies electric load forecasting systems in the U.S. and in the U.K. He lives in Washington, DC and London. Friends can reach him at jsneed@teslaforecast.com or john.sneed@TeslaEurope.com

Michael Salemi (’76) has a forthcoming book with W. Lee Hansen of the University of Wisconsin to be published by Edward Elgar called Discussing Economics: A Classroom Guide to Preparing Discussion Questions and Leading Discussion. Mike was named Bowman and Gordon Gray Professor at UNC-Chapel Hill effective July 2005. Mike also sent along a story: “In the summer of 1975, John Geweke (’75), Ray Riezman (’77), Tom Sargent and I went on a canoe/fishing trip in Quetico Provincial Park. It was a great trip even though Tom caught most of the fish. On the way to our campsite, we stopped our canoes for a photo. I have a picture of us pouring over the General Theory. Tom was irritated but we were never quite sure what bothered him more—bringing a book on a fishing trip or our choice of book.”

Gordon Streeb (’78) sent the following news: “I came to The Carter Center in Atlanta in March of 1994 as a Diplomat-in-Residence after serving as U.S. Ambassador to Zambia. I initially directed the Center’s Global Development Initiative for several years. I retired from the
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Foreign Service in September 1995 after thirty years of service (interrupted by my four years at the University of Minnesota) and in 1996 became the Associate Executive Director at The Carter Center in charge of Peace programs which encompass conflict resolution, Western Hemisphere affairs, human rights, democracy and governance, and economic development. On August 31 I am “retiring” from The Carter Center but will move to Emory University where I will be a visiting professor in the Department of Economics teaching courses in economic development."

Robby Rosenman (‘82), at Washington State University, reports that their Department of Economics merged with Agricultural and Resource Economics to become the School of Economic Sciences. Robby is the associate director of the school. “Also, my daughter Emily is a junior at Oberlin College where she had Barbara Craig (‘88) as an advisor (before switching out of the economics major) and my son Jeremy is a freshman at Penn where he is planning on taking Randy Wright’s (‘86) class.

Christine Cumming (‘83) was named first vice president of the Federal Reserve Bank of New York in February of 2004. Chris has worked at the bank for 24 years, and her last position prior to this was director of research, responsible for the Research and Market Analysis Group. From the Fed NY website: “The first vice president is the second ranking officer in the bank, and serves as its chief operating officer, as well as an alternate voting member of the Federal Open Market Committee.” Read more at http://www.newyorkfed.org/newsevents/news/aboutthefed/2004/oa040209.html

Miguel Sebastian (‘85) has been appointed as an economic advisor in Spain’s new government, led by President Jose Luis Rodriguez Zapatero. From CLA Today: “On record as a political independent, Sebastian headed up a committee that drew up the economic program of the Socialist Workers’ Party (PSOE). Before that he was director of research at the Banco Bilbao Vizcaya Argentaria (BBVA), where he had worked for 7 years. Sebastian has been a consultant to the IMF, the OECD, and the IADB.” Miguel also has an appointment at the Univ. Complutense de Madrid and can be reached at msebastiang@telefonica.net

David Eagle (‘86) spent last year on sabbatical from teaching at Eastern Washington University, resurrecting some joint research with Dale Domian (‘87) on quasi-real indexing, a form of inflation indexing he and Dale developed, (Applied Economics Letters, 1995). For more info, see http://www.cbpa.ewu.edu/~deagle/ProfHome.htm

Tapen Sinha (‘86) spent a recent sabbatical visiting the Wharton School in the fall of 2003 and from January-July 2004 was at the Institute of Insurance and Risk Management in India as a visiting professor and research director. Tapen started a Yahoo group for “People who have taken graduate courses in the Economics Department of the University of Minnesota.” Check it out at http://groups.yahoo.com/group/minnesota (note the “o”!) Paul O’Brien (87) and Kristine McFeaters O’Brien sent an update to their report from last year. “Paul is a fixed income portfolio manager at Morgan Stanley. Before moving to Philadelphia, we lived in London, Paris, Val d’Isère (French Alps), Washington DC, and Basel, Switzerland. Kristine spent most of her time raising our children in all of these places. She is very into alpinism, ski mountaineering and adventure racing (when she can’t get to the mountains). Kristine had a tour operator business running skiing and ski mountaineering trips to the French Alps. That became rather unprofitable after 9-11 and the war in Iraq. We have two children: John-Paul, 20, is a Marine. He is a lance corporal with the Presidential Guard in Washington DC. Anna, 15, attends the Agnes Irwin School and is a passionate horsewoman. She competes in Hunter events and plays on a girl’s polo team at the national level. Mayra Zermeno (‘87) is Anna’s godmother. While working in London, Paul ran into Kurt Winkelmann (‘87) in the underground, who was also working in “the city”. On a climbing trip to Argentina last year, Kristine had dinner with Alfonso Martinez (‘81), his wife Marita and their 5 children; George McCandless (‘81), his wife and two younger children

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were also present. I believe Alfonso and George ran into each other at a rowing club (or something like that). It’s amazing what far corners of the world we find our classmates. We encourage anyone passing through Philly to send an email to either paul.o'brien@morganstanley.com or mkristine@verizon.net

Guoqiang Tian (‘87) was appointed Dean of the School of Economics at Shanghai University of Finance and Economics in July 2004. Guoqiang is still affiliated with Texas A&M University and can be reached at gtian@tamu.edu

Harald Uhlig (‘90) was awarded the Gossen Prize on October 1, 2003, which goes to the best economist under 45 from the German language area. The purpose of the Gossen Award is to promote the internationalization of German economic sciences. In the selection of the winner, publications in respected international journals and the number of citations in the Social Science Citation Index are the key criteria. In December of ’03 Harald was also elected a Fellow of the Econometric Society. Since 2000 Harald has been at the Econ department at the Humboldt Universitat Berlin. He has a daughter Anjuli (13) and a son, Jan Peter (10). Harald can be reached at uhlig@wiwi.hu-berlin.de

Ron Sands (‘90) is still affiliated with the Pacific Northwest National Laboratory, but is now at the Joint Global Change Research Institute at the University of Maryland. “Ron currently manages the economic analysis task for the U.S. Department of Energy program to enhance Carbon Sequestration in Terrestrial Ecosystems.” See more at http://www.globalchange.umd.edu/staff/rs.html

Bill Shobe (‘91) was also involved recently with environmental economics. He writes: “I just started a new job as the Director of Business and Economic research at the Weldon Cooper Center for Public Service at the University of Virginia. I will spend the largest part of my time providing expertise to state and local government in designing and implementing efficient and effective policies. My unit will also be collecting and distributing a variety of data items important to government, items such as income growth, tax rates around the state, etc. I will also be doing some teaching in the economics department here.

Before leaving my previous job, I was able to pull off a fun and interesting little project. Virginia is required to limit air emissions of nitrogen oxides in the state to about 17,000 tons per year. This is all managed by an emissions trading program that includes 19 eastern states. Given our dire financial situation, I have been encouraging the state to sell rather than give away these tradable pollution allowances. There are significant efficiency gains to be had by substituting such revenues for revenues from taxes. After 3 years of pushing, I finally got my wish. Last June, Virginia held an English clock auction to sell about 3,600 allowances. Our auction, the first ever emissions auction held purely for the purpose of raising revenue, pushed the over-the-counter price for allowances up around 5% and earned the state $10.5 million. It was a grand success, a testament to the importance of good auction design, and an important precedent in environmental economics. This is an important first because of what may happen to carbon emission in the next few years. The inframarginal rents from carbon emissions are several orders of magnitude greater than those for nitrogen oxides. There is often some fun to be had in taking some of the abstract ideas from our profession and implementing them on the ground. Watching this auction from the auctioneer’s point of view was most interesting!” Bill can be reached at shobe@virginia.edu.

Shomu Banerjee (‘92) is now at Emory University in Atlanta. As of November ’03 Shomu is a black belt in Aikido after more than 10 years of study. Shomu notes: “Rank is slow in this martial art, and at the black belt level, conferred at an annual seminar presided over by old Japanese men, students of the founder! It’s nerve-wracking, being tested in front of the multitudes from around the globe.” Shomu’s son, Ahanu (6½), skipped first grade and went directly to 2nd grade; reads at the 4th grade level, and is already doing multiplication and division, and daughter Mahala (4) who reads at the 2nd grade level, will be sitting in with a joint 1st-2nd-3rd grade class in her Montessori school.
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Per Krusell (’92) has moved from Rochester to Princeton and spends late spring every year at the International Institute of Economic Studies in Stockholm. He was also recently elected to the Royal Swedish Academy of Sciences. Per can be reached at pkrusell@princeton.edu.

In-Uck Park (’93) started a new appointment as the Leverhulme Professor of Industrial Organisation in the Department of Economics, University of Bristol, UK. For the academic year 2004-05, In-Uck will retain his affiliation with the University of Pittsburgh, albeit on a leave of absence. You can reach him at I.Park@bristol.ac.uk

Tugrul Temel (MA ’94, Ag Econ PhD) is now at Wageningen University in the Netherlands working on a European Union project: “Turkey: part of the EU? Exploring the consequences for agricultural, food and structural policy.” He can be reached at tugrul.temel@wur.nl

Joao Gata (’95) has been on a leave of absence since January of 04 from the University of Aveiro. Joao is now “working as a senior economist at the Portuguese Competition Authority in Lisbon, which is an independent entity supervising competition in Portugal, and in accordance with the European Union Policy of promoting the creation, or development, of national competition authorities, and their ever closer cooperation.” Joao’s academic e-mail is jgata@egi.ua.pt

Andres Erosa (’96) and his wife, Luisa Fuster moved back to North America in January of 2003 to the University of Toronto. He added: “our most important news is that on August 1 (’03) we became parents of Daniel Erosa Fuster. We are very happy and we are learning how to be good parents.” Andres can be reached at andres.erosa@utoronto.ca

Thu-Mai Ho-Kim (’96) had a second baby girl, Coral, on April 16, 2004. She joins Carmen, age 2, who is a proud big sister.

Todd Kaplan (’96) and his wife had twin girls on May 9, 2004. You can see pictures of Dorelle Camelia and Anaelle Jasmine at www.toddkaplan.com. Todd’s other news is that he was promoted to Reader at Exeter, “which is ironic considering that right now I don’t have time to read.”

Zheng Liu (’97) and his wife Ping had a son, Alan Emory Liu, born on June 24, 2004. Alan weighed 7 pounds, 4 ounces and was 21 inches tall. Zheng has been visiting Minnesota this year, but is currently at Emory University, thus the middle name!

Anna Maria Siti Kawuryan (’97) and husband Keith Fuglie (Ag Econ PhD, ’89) had TRIPLETS on March 19, 2004. Two daughters and a son were born in Singapore; the first girl weighed in at 4 lb., 10 oz., the boy was 5 lb., 4 oz., and the second girl was 4 lb., 13 oz. They live in Bogor, Indonesia, where Keith works for the Int’l. Potato Center.

Ron Edwards (’99) is the proud father of a new baby boy. William Penn Edwards was born this year on May 10th, which also happens to be the birthday of his mother, Ming-Feng. Ron continues to work in Taipei and recently moved from Academia Sinica to Tamkang University, where Ming-Feng is also a faculty member.

A Minnesota Thanksgiving, 2003

Consider a set of Minnesota expats in Spain. All Spanish but, in a certain sense, expats. The set contains elements from PhD ’72 on, and are getting together to celebrate Thanksgiving in Julio Viñuela and Paulina Beato’s posh estate in Southwestern Spain. Make the plausible assumption that the elements are in an excited state, picking up outside energy from the wine and dining, the music and dancing, the frolicking. Well, they certainly moved into a higher-energy orbital. What a party! The Northern Barbarians from Minnesota, of the sort of Albert Ballesteros, Paulina Beato (’79), Antoni Bosch-Domenech (’75), Xavier Calsamiglia (’75), Andreu Mas-Colell (’72), Teo Millan (’81), Josep

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A New Columbian Connection
by Francisco Thoumi (’73)

The life of an illegal drug industry researcher is never dull although sometimes it is unstable. In 2000 I resigned my job coordinating the United Nations World Drug Report 2000 in response to the U.N. Undersecretary General heading the Office of Drug Control and Crime Prevention mismanagement and intellectual dishonesty. After that I was part of a small group of former U.N. employees activists who managed to get the Undersecretary out of the U.N. system.

Last November I was offered a job by a consulting firm directing a project to evaluate anti-drug USAID policies in the Andean countries. The terms of reference for the job looked as if I had written them for myself. After all, I have spent most of the last 15 years researching and writing on that subject. Two days before starting the job I was vetoed at a meeting of USAID Latin American country representatives in Washington. Simply put, USAID wants “serious and objective” studies that support their policies like aerial spraying of coca and poppy fields and, unfortunately, the current political environment in the two countries of which I am a citizen, Colombia and the United States, is not conducive to tolerating dissent.

In response to my veto, I decided to return to Colombia and start a Research and Monitoring Center on Drugs and Crime at the School of Economics of the Universidad del Rosario where I am now a Professor and Center Director. This is one of the oldest universities of the continent (351 years old) and throughout its history has been one of the most traditional Colombian universities. Fortunately, during the last few years it has undergone a rapid modernization process and today its School of Economics competes with the best in the country.

Life in Colombia is extremely stimulating. This country is a fantastic social laboratory: it is a society at war with itself confronting either collapse or the development of institutions, communities and social capital capable of promoting solidarity, trust and national identity. It is not clear which way things would go, but the struggle between opposite forces of creation and destruction is fascinating and exciting.

Sometimes I long for the peace and quiet of traditional research and remember the years at Minnesota without substantial worries outside the university environment. Life, however, has proven to be a lot more complex and I failed in my goal to be a straight academic. I can be located at fthoumi@urosario.edu.co

The Korean Reunion

The Far Eastern Meeting of the Econometric Society met in Seoul Korea from June 30- July 2, 2004. Christopher Sims of Princeton (former MN faculty member) was one of the invited speakers and he met a number of Minnesota alumni for dinner. Attending were:

Kookshin Ahn (’82), Baekin Cha (’92), Heetaik Chung (’90), Inbong Ha (’87), Moonsoo Kang (’84), Byung Duck Kim (’93), Jaeyoung Kim (’95), current MN student Sanghoon Lee, and Sangdal Shim (’84). Moonsoo Kang is now a member of the Monetary Policy Committee (similar to a member of the Federal Reserve Board); Baekin Cha is now the vice president of the Korean Institute of Finance; and Inbong Ha recently became a member of the committee for site selection of a new Korean capital; he was appointed at the cabinet minister level to the Presidential Committee of Administrative Capital Relocation. Inbong is still at Kyungpook National University and visited Minneapolis this summer (his daughter Joyce Ha attends the U of M).

Thanksgiving.....

Oliu (’78), Jose Trujillo (’80) and Julio Viñuela, were joined by some Patricians from Northwestern and Chicago, like Salvador Barbera, Javier Ruiz-Castillo, Isabel Fradera and Antoni Zabalza, as well as a sprinkle of Spanish economists envious of our good time in the U.S., in addition to wives/husbands, lovers, brothers/ sisters, and friends of all types. No children were admitted.

— Antoni Bosch (’75)
Ed Prescott awarded the Nobel Prize
by V. V. Chari

On October 11, 2004, the Royal Swedish Academy of sciences announced that Finn Kydland and Edward Prescott had been awarded the Nobel Prize in Economics “for their contributions to dynamic macroeconomics: the time consistency of economic policy and the driving forces behind business cycles”.

Finn and Ed’s work has fundamentally reshaped the way economists think about policy and the way we think about business cycles and, more generally, quantitative economics. Their work on the advantages and necessity of commitment represented an entirely new argument for the superiority of rules over discretion in policy making. The essence of their argument stems from two simple observations. First, in many situations expectations of future policy affect current decisions in the private sector. Second, in making current policy, rational governments correctly take the history of past private sector decisions as given. Theses observations imply that policies which are optimal under commitment may well not be followed in a world without commitment.

The classic example is taxation of capital income. It is rational to tax inherited capital heavily since the decisions to invest and accumulate capital are in the past, and it is rational to commit to lower future tax rates on capital income to provide the right incentives for the private sector to invest for the future and it is equally rational to attempt to renege on these commitments when the future becomes the present. This work, applied to monetary policy, has fundamentally reshaped the workings of central banks across the world. It is difficult to think of any paper in the last thirty years that has had such a large influence on the way policies are made.

Finn and Ed transformed the theory of business cycles both by integrating it with the theory of economic growth and by setting and meeting a sharply higher quantitative standard for applied theory. It is now routine to expect that economic theories will deliver sharp quantitative answers to questions. Finn and Ed taught us how to design models to meet these standards.

Ed Prescott was the bulwark of the department at Minnesota for over twenty years. His influence on the graduate program was immense. The roster of his students is beyond compare. Ed’s insistence on integrating theory and application continue to serve as the core of our graduate program. To quote Tim Kehoe: “Minnesota economics is Prescott economics”. We are extraordinarily fortunate to have Ed Prescott as teacher, mentor and colleague.

Editor’s note: For a report from the Fed of Minneapolis’s Region magazine, see: http://woodrow.mpls.frb.fed.us/pubs/region/04-12/prescott.cfm and responses from some Minnesota grads: http://woodrow.mpls.frb.fed.us/pubs/region/04-12/model.cfm

This Just In:

MINNEAPOLIS / ST. PAUL (12/15/2004) — The University of Minnesota has joined the Chicago Climate Exchange (CCX), a voluntary, legally binding multisector market for reducing and trading greenhouse gas emissions. The university is the fourth educational institution and the largest public research university to join CCX. The action places the university in a small but growing group of organizations committed to the development of a rules-based North American greenhouse gas emission reduction program.

The Chicago Climate Exchange is a pilot program for reducing and trading greenhouse gas emissions in the United States, Canada and Mexico. Members with direct emissions have agreed to reduce their emissions of greenhouse gases by four percent below the average of their 1998-2001 baseline by 2006, the last year of the pilot program. Members that make further reductions can be compensated by selling reduction credits to other members for which a four percent reduction would be technically or economically difficult. Greenhouse gases

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Faculty and Staff News

Popie Mohring (1926-2004)

by Josie Rawson*

Against every indication of her immortality, Popie Mohring has left us. She died in Minneapolis on Monday, February 9, as a result of esophageal cancer and its many complications, after eight long months in the devoted care of her husband of fifty years. In 1926 she was born Kalliope Marinou—named for the muse of epic poetry—in Schimatari, Greece. At the time, educating a girl was thought to be like throwing money into the sea. But she was a smart one, and won a Fulbright scholarship to study in the U.S. She got on a boat in Piraeus and set off for a year abroad. What a long year that year has been. During it, Popie shared what came to be known, quite cheerfully, as five decades of incompatibility with her husband Herb Mohring. They raised three boys together in their house on East River Road. Herb taught economics at the University of Minnesota until his retirement. Popie put her studies on hold to raise her kids, as did so many resourceful women of her day, and in 1985 finished her Ph.D. in social psychology. Lately, they’d escaped Minnesota for winters in Irvine, California, where they both taught until she fell ill. In the later years of her year abroad, Popie was possessed of a maniacal gardening spirit. In its eventual glory her garden looked as if it were sprung from a paradise myth. There are weeping caragana trees. Islands. A sacred oracle. And there are rocks: quartz, lava, slate-pebbles and boulders and all manner between, arranged into rivers, mountains, cairns, even Mt. Olympus populated by the pantheon. Popie’s perennial dawn-to-dusk labors meant that she’d often pitch over in exhaustion before the season was out. Passersby might find her there, already dreaming up next year’s schemes, and soon be lost in intimate conversation. It was a rare person who left her garden a stranger. Those who loved Popie never could quite decipher her with satisfaction, or account for all of her passions and quirks, her accent and her illusions, and, finally, her silence at the end. For all of her complexity, she was, simply put, a force of nature. Kalliope Marinou Mohring endures in the lives of her husband and her sons’ families, all in Minneapolis: Herb Mohring; Eric Mohring, Karen Kleinspehn, and Andre; Andrew Mohring, Barbara Buenz, Zachary, and Mason; Stephen Mohring, Josie Rawson, and Piper.


* “Josie Rawson, Stephen’s wife, whose friendship with Popie began when, on a garden tour, she decided to interview Popie for City Pages, for which she then wrote. Popie has many talents, among them being matchmaker. She entreprenuere both Eric’s and Stephen’s marriages.” {e-mail from Herb Mohring, Feb. 16, 2004}

A memorial service was held for Popie in her garden at their East River Road house on May 16, 2004. Herb can be reached at mohring@econ.umn.edu.

Our Award-Winning Faculty and Staff

Aldo Rustichini was elected a fellow of the Econometric Society in December 2004. Way to go, Aldo!

Kathy Kipp-Huspeni, our departmental principal accountant, won the 2003-04 CLA Staff Outstanding Service Award, and Sara Shuford, our assistant to the chair, won a group outstanding service award for her service on a College of Liberal Arts search committee. The awards event was held at the McNamara Alumni Center on November 16th. Congratulations to both!
New members of the department

Cristina Arellano

Cristina Arellano joined the department as an assistant professor in August 2004. Cristina is originally from Quito, Ecuador. She did her undergraduate studies at Indiana University and completed her Ph.D. at Duke University this past summer. Cristina’s thesis supervisor was Enrique Mendoza, who moved to the University of Maryland while she was finishing her degree. The last two years of Cristina’s work at Duke included numerous trips back and forth to College Park.

Cristina’s research focuses on open economy macroeconomics, particularly on currency crises and debt crises in emerging market economies. She is already busy teaching in our graduate program an advanced topics course in international economics and a course in the second year monetary economics sequence. She is also working with Tim Kehoe in running a research workshop for advanced graduate students doing research in international economics.

Cristina is not just a maestra at economics. She studied classical piano for years and has been a concert pianist.

Bianca Bassetto

Bianca Bassetto, daughter of faculty members Cristina De Nardi and Marco Bassetto, was born Sept. 27, 2004, weighing 8 lbs. 10 oz. Marco wrote, “Our prima donna was 10 days late and needed some mild prodding, but both she and Cristina are doing great.”

In Memoriam

James Rosse (1931-2004)

James N. Rosse (’62), Stanford University Provost from 1984 to 1992, died Feb. 16, 2004 in Newport Beach, California, of a pulmonary condition. Rosse, 72, a resident of Irvine, Calif., had been hospitalized following a sudden illness, said his daughter, Anne.

As the university’s seventh provost, Rosse oversaw the budget crises of the early 1990s as well as the $1.2 billion Centennial Campaign, the creation of the Stanford Institute for International Studies, a university committee study on minority issues and the redevelopment of science facilities on campus.

“Jim was very important at Stanford and did a wonderful job as provost of the university. He guided us through tough times,” said John Shoven, the Charles Schwab Professor of Economics and director of the Stanford Institute for Economic Policy Research (SIEPR).

Rosse was born on Nov. 4, 1931, in Sidney, Neb., and attended Princeton University before earning bachelor’s and master’s degrees and a doctorate, all in economics, at the University of Minnesota. He taught at the University of Minnesota before coming to Stanford in 1965 as an assistant professor of economics. Before becoming provost in September 1984, Rosse was the first director of SIEPR. He also had served as the chairman of the Department of Economics and as the associate dean of the School of Humanities and Sciences.

An expert on communication industries, industrial organization and public policy, Rosse was instrumental in rebuilding the Department of Economics and in strengthening SIEPR, Shoven said. Rosse had served on SIEPR’s advisory board and had been planning to participate in a conference scheduled next week, Shoven said.

......continued on page 15
Julian Greene (1941-2004)

Julian M. Greene ('71), an economist who specialized in energy matters and who taught at three Houston institutions of higher learning, died in Houston in June of 2004 of complications from Alzheimer’s disease. He was 63.

Greene also served in the office of controller of the city of Houston and worked as an economist for Transco Energy, Conoco and The Williams Co.

In the early 1970s, Greene helped the Federal Energy Regulatory Commission develop plans and policies in preparation for the creation of the U.S. Department of Energy.

A native of Cambridge, Mass., Greene as a child moved to Corpus Christi with his parents, Sol and Dorothy Greene. An Eagle Scout and a member of the Order of the Arrow, Greene also was valedictorian of his graduating class from Ray High School in Corpus Christi in 1959.

In 1963, Greene received a degree in mathematics from Rice University, where he was a member of Phi Beta Kappa. He also earned a master’s degree in 1965 and a doctorate in 1971, both in economics, from the University of Minnesota.

Before returning to Houston, Greene taught economics at Southern Methodist University. From 1993 to 1995, he also was an adjunct professor of economics at Houston Community College, Texas Southern University and the University of St. Thomas.

Under former city of Houston Controller George Greanias, Greene worked on a project on the economic health of the city.

Greene had been president of the Houston chapter of the International Association of Energy Economists. He also was assistant scoutmaster of Boy Scout Troop 599 in Houston.

He leaves his wife, Frances Grossman Greene of Houston; a daughter, Jennifer Greene of Bellport, N.Y.; a son, David Greene of Worcester, Mass.; and a sister, Madeleine Greene Appel of Houston, a former reporter for the Houston Chronicle.

Scott Freeman (1954-2004)

Scott Freeman ('83), Rex and Dorothy B. Sebastian Professor and Professor Emeritus at the University of Texas, passed away on July 23, 2004. Scott held prior academic positions at Boston College, the University of Western Ontario, and the University of California at Santa Barbara. He also served as Research Associate at the Federal Reserve Banks of Dallas and Minneapolis.

I first met Scott when we both started graduate school in economics at Minnesota in 1978. This began a long-time, close friendship.

Scott was a dedicated teacher, who pushed students to achieve. When he started his first academic position at Boston College, he decided to teach students out of his own notes, often a risky decision. However, Scott pulled it off and typically had courses that were oversubscribed. He challenged students, but was generous with his time in helping students through the material.

In the early 1990s, Scott approached me about writing a textbook. The writing of the book probably was the best experience I ever had working with another individual. And it remains the thing I am most
proud of in my career. Several years later, our editor approached us about writing a second edition. This was after Scott was diagnosed with ALS (Lou Gehrig’s Disease). Throughout the writing of the book, I could tell everything was getting harder and harder for him. But that didn’t stop him, and he never complained. In fact, a month before he died, Scott expressed interest in writing a third edition even though it would have been extremely physically challenging, if not impossible.

Scott made lasting contributions to the economics profession. He published around 30 journal articles in his too-short career. A large percentage of those articles appeared in top journals. He primarily published articles in monetary theory, but also in economic growth and crime. His contributions related to the optimal quantity of money, money and the business cycle, and the payments system stand out.

In his eulogy for Scott, Preston McAfee referred to Scott as “a man of good will.” These words capture Scott’s personality. Between receiving his undergraduate degree from the University of Wisconsin and starting graduate school, Scott spent time in the Peace Corps, teaching English in Africa. I often saw Scott put his hand out to some of the foreign grad students who were experiencing culture shock by coming to the U.S. He often invited them to dinner, pulling off fantastic meals on an impoverished grad student income. Throughout his battle with ALS, Scott’s main concern was how it would impact his family and friends.

I will remember Scott for the courage with which he approached his disease. I never once heard him whimper or complain about it, despite the fact that I personally saw how difficult simple tasks were for him. His bravery taught me important lessons.

Most of all, I will miss a dear friend.

— Bruce Champ (*’90)

Editor’s note: Preston McAfee has put together an extensive web site devoted to the memory of Scott Freeman. You can view it at http://www.scottfreeman.us/.

Rosse continued ....

said. “He was engaged with Stanford until the end,” Shoven said.

“If Jim were writing his own obituary, he would quickly mention his students. He was very proud of his graduate students,” Shoven said. In 1976, Rosse won the dean’s award for distinguished teaching in the School of Humanities and Sciences and was a Ford Faculty Fellow in 1969-70.

After leaving Stanford in April 1992, Rosse became president and chief operating officer of the media company Freedom Communications Inc. in Irvine, Calif., which owns radio and television stations and newspapers, including the Orange County Register. Rosse retired in 1999.

Rosse is survived by his wife, Janice Grimminger Rosse; daughter, Anne, of Irvine, Calif.; sons James J. Rosse of Omaha, Neb., and Stuart Rosse of Naples, Fla.; his parents, James C. and Shirley Rosse, of Omaha; and six grandchildren.

—Barbara Palmer, Stanford University News Service

For further information on Jim’s media career see: http://www.econ.umn.edu/contacts/jrosseobit.pdf. For those who want to express their sympathies to Jim’s wife, Jan’s address is 78 Lakeview, Irvine, CA 92604.

Climate Exchange continued ....

covered by the agreement are carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride.

“I’m particularly proud, as a graduate, that the university is taking a leadership role in sustainability,” said Richard Sandor, chair and CEO of CCX. He received a doctorate in economics from the University of Minnesota in 1967.

CCX is a self-regulatory exchange that administers the world’s first multinational and multisector marketplace for reducing and trading greenhouse gas emissions. It is designed to allow entities from the public and private sectors to use market-based mechanisms to account for greenhouse gas emission reductions. Its 70-plus members include Dow Corning, Dupont, Ford Motor Co., IBM, the universities of Iowa and Oklahoma, and International Paper. For more on CCX go to www.chicagoclimatex.com.

— University of Minnesota News Service
The newsletter is now published once a year.
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Design and Layout: Caty Bach

Many thanks to all alumni who have sent in items and to the faculty we have bribed copiously to write copy!

Let us hear from you: We can be reached at the following:

Mail: Department of Economics
      1035 Heller Hall
      271 - 19th Avenue South
      Minneapolis, MN 55455

Phone: (612) 625-6353
Fax: (612) 624-0209
E-mail: econdept@atlas.socsci.umn.edu
       wendy@atlas.socsci.umn.edu
Homepage: http://www.econ.umn.edu

MINNESOTA DEPARTMENT OF ECONOMICS
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Department of Economics
University of Minnesota
1035 Heller Hall
271 - 19th Avenue South
Minneapolis, MN 55455

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