



UNIVERSITY OF MINNESOTA

Graduate Alumni Newsletter Spring/Summer 2002

Trading Effluence

by Joel Hoekstra*

The aims of Wall Street and the goals of environmentalists are rarely seen as one and the same. Short-term profits are pitted against long-term conservation. But economist Richard L. Sandor believes in the power of capital markets to address environmental blights. Air pollution, global warming, desertification, vanishing species—there's hardly a problem that good old cost-cutting, profit-making thinking can't solve.

Take, for example, acid rain. "When's the last time you read about acid rain as a problem in the U.S.?" Sandor asks, exhuming a subject that regularly made headlines in the 1980s for its suspected role in causing lung disease, killing lakes, and licking paint off cars. But in 1990, Congress passed the Clean Air Act. As part of this aggressive move toward cleaning up sulfur-dioxide emissions, the major cause of acid rain, lawmakers authorized "emission allowances" trading at the Chicago Board of Trade. Sandor, widely known as the father of interest-rate derivative markets and then a member of the board, had dreamt up such trading as a way of yoking environmental and financial values.

Emissions quid pro quo

Emission-allowances trading gave companies that might have difficulty reducing pollution levels the ability to buy "credits" from companies that could do it more easily. The theory went like this: Company A, a manufacturer with old plants and outdated technol-

ogy, must spend, say, \$100 for every "unit" of pollution reduction, whereas Company B, a more agile company using new technology, discovers it can

reduce pollution at its facility by the same amount for \$10. If both companies must reduce pollution by a unit each, the total cost for a two-unit reduction would be \$110. But if the aim is overall reduction of two units, it could be done for as little as \$20 total. How? In exchange for cash from Company A, Company B agrees to reduce its emissions by a two units, rather than just one. Assuming Company B is willing to sell a unit reduction for less than \$100, Company A has great economic incentive to buy such a "credit."



Ellen and Richard Sandor

Richard Sandor received the University's Outstanding Alumni Award in October of 2001.

Trading emission credits has proven an astonishing success, Sandor says. "The Environmental Protection Agency says there are a couple billion dollars of allowances traded each year in their registry, and we reckon that there's a similar amount of derivatives traded, which is not part of their registry. So the size of market is one piece of evidence" of the program's success, he says. "The real significant evidence is that [sulfur-dioxide] emissions are well below where they were in 1990 and even below where they were targeted to be after the institution of the program." EPA estimates put the cost of the program at no more than \$2 billion, while the benefits—in saved medical costs and other measures—range from \$15 billion to \$40 billion. "So the costs of the program have been very small relative to the benefits," Sandor says, adding that his

continued next page...

Sandor continued....

critics initially claimed that reductions would be minimal and costs too high.

In some part, the program owes its existence to the University of Minnesota, where Sandor received his Ph.D. in economics in 1967. "Those were the halcyon days of Walter Heller," Sandor says of his decision to move to the Twin Cities. The much-hallowed professor and adviser to Presidents Kennedy and Johnson had added luster to the department's profile. "It had a good reputation for theory as well as public finance—and they were subjects that interested me," Sandor says.

At Minnesota, Sandor also met classmate **Jon Goldstein**, Ph.D. '67. The two kept in touch after graduation, and in the 1980s, Goldstein, a senior economist with the Department of the Interior, urged his old friend to apply to environmental problems his talents in creating new economic markets. (Sandor had already brought derivatives to the agricultural, insurance, and utilities sectors.) Rising to that challenge, Sandor saw that his "credit" ideas could be applied to a wide range of environmental problems. "As a student of research and development, I think we've only just begun," he says, noting that the same concepts can be applied to water usage, endangered species, and other matters.

2000-01 Minnesota Lecture

by Ed Foster

The annual Minnesota Lecture, started in 1998, recognizes a distinguished alumnus each year. John Roberts gave last year's lecture: The Design of Economic Organizations: Complements and Non-Convexity.

John completed his Ph.D. in 1972 under the supervision of Hugo Sonnenschein, and went to MEDS at Northwestern University's GSB. He has been at Stanford's GSB since 1980, and now serves as the John H. and Irene S. Scully Professor of Economics, Strategic Management, and International Business, and Senior Associate Dean. He describes his research interests as "Economics of strategy and organization; international business; methods for drawing robust conclusions from economic models."

Today, Sandor has his eye on greenhouse gases. Last year, he helped found the Chicago Carbon Exchange, and he hopes trading will be up and running later this year or in early 2003. Among the major industry and nonprofit entities backing the concept are Ford Motor Company, International Paper, Mexico City, and the Nature Conservancy. And Sandor, chairman and chief executive of the Chicago-based boutique trading firm Environmental Financial Products LLC, plans not only to watch trades, but to make them as well. As with sulfur-dioxide, he expects his firm will buy and sell hundreds of millions of dollars worth of allowances.

And although the United States recently abandoned plans to sign the Kyoto Protocol, a treaty limiting production of greenhouse gases—carbon among them—Sandor says many multinationals and American companies remain interested in taking steps toward reducing greenhouse-gas pollution. "We seem to have found a latent demand for people to want to be involved," he says. "They're beginning to recognize that their shareholders and consumers want them to have a sound environmental policy."

(Thank you to **CLA Today for allowing us to use this article which originally appeared in their Spring 2002 issue.)*

I would add as one of his interests "saving microeconomic theory from embarrassment by helping it to keep pace with the real world." John's recent work, done with Paul Milgrom and others, has helped to explain the rapid transformation of many organizations toward flexible manufacturing systems, expanded product lines, new personnel practices and other changes.

The comparative statics method that Milgrom and Roberts happened upon in an early excursion into this new world (1988), depending for its results on a supermodular function defined on a lattice, led them to a more general treatment (Topkis 1978) which they have since generalized, together and in collaboration with others (e.g. Milgrom and Roberts

Continued on Page 6...

The Spanish Connection III

Workshop in Dynamic Macroeconomics in Vigo, Spain

by *Tim Kehoe*

Every year since 1996 I have organized a workshop in dynamic macroeconomics in Spain with the help of the macroeconomists from the Universidade de Vigo and Omar Licandro, Franck Portier, and **Jose-Victor Rios-Rull** ('90). This workshop, which is funded by the Fundación Pedro Barrié de la Maza, allows young people - advanced Ph.D. students and new professors - to receive intense feedback on their work from senior macroeconomists. The workshop takes place at a beautiful pazo (Gallego for palace/castle) near the village of Soutomaioir in the region of Galicia in northwestern Spain. Participants come from all over, but predominantly from France, Portugal, and Spain. The sessions are intense, but so is the fun. Workshop participants often stay up much of the night in the pazo's bodega drinking beer and discussing economics. Galicia is known for its excellent food, especially seafood, and the workshop is a gastronomic, as well as an intellectual, experience. Current and former Minnesota faculty who have participated in this

workshop include Michele Boldrin, Tom Holmes, David Levine, Ed Prescott, and Julia Thomas. Current and former Minnesota graduate students who have participated include **Pedro Amaral** ('02), **Guilherme Carmona** ('02), **Juan Carlos Conesa** ('99), **Javier Diaz** ('90), **Andres Erosa** ('96), **Gary Hansen** ('86), **Ayse Imrohroglu** ('88), **Karsten Jeske** ('00), **Antonio Manresa** ('86), **Kim Ruhl** (still in the program), **Jessica Tjornhom** ('01), **Carlos Urrutia** ('98), and **Javier Vallés** ('90). Most of the macroeconomists at the Universidade de Vigo have spent some time as visitors at the University of Minnesota, including Eduardo Gimenez, Francisco Xavier Lores, Baltasar Manzano, José María Martín Moreno, María Montero, Carlos de Miguel Palacios, and José María da Rocha. The workshop's website is <http://www.uvigo.es/webs/x08/webx08/workshop>. Some interesting photos can be found on Tim's website, <http://www.econ.umn.edu/~tkehoe/photos/workshop.html>.

Economics Research Library

by *Wendy Williamson*

This year I spent recovering from the intense duties as 2000-01 Chair of the University's Civil Service Committee. Being "Past Chair" was a lot less work..and yet I still was involved in fun events like Staff Day and the riverboat cruise for long-term employees. Less fun service involved being chair of the Dental Subcommittee of the University-wide Benefits Advisory Committee, working on developing a self-insured dental plan for 2003. I also ran for election to the Minnesota State Retirement Board and came in third (the top two vote-getters were elected), but hey, I got 1500 people to vote for me! And there were nearly 900 "ineligible" votes...Al Gore, I feel your pain!

The library has matured and things are pretty much in place after 3 years on the 12th floor. One project this year was replacing a lot of "lost" classics that some of you walked away with years ago. The internet site www.abebooks.com is invaluable for finding out-of-

print books from small booksellers at very reasonable prices. I highly recommend it.

I am still spending some summer days out at the family cottage <<http://www.econ.umn.edu/~econlib/cottage.jpg>> on Lake Minnetonka. I am trying to devise a way to get funds to shore up the 115 year-old 50-foot porch. The house is on the National Historic Register, but getting money to fix these old places is not easy. Any suggestions on how to work the system will be appreciated!

There have been 3 Minnesota papers in the CER series this year:

313) John Nyman, *The demand for insurance: expected utility theory from a gain perspective*. October 2001.

314) Leonid Hurwicz & Thomas Marschak, *The informational efficiency of finite price mechanisms*. February 2002.

Continued on Page 10...

Alumni News

Ibrahim Oweiss ('70) retired from teaching at Georgetown University after 35 years. The Dean of the School of Foreign Service held a special dinner for him and he received an award as well as letters of congratulation from President Bush and King Abdullah of Jordan. Just prior to his retirement Professor Oweiss gave the Annual Distinguished Lecture at the Center for Contemporary Arab Studies on "Islamic Economic Thought." Professor Oweiss and his family also met with his former student Bill Clinton in the Oval Office on May 26, 2000 where the President commended him on the far reaching impact he had on him in the field of economics.

James D. Likens ('70) was named the 2001 Director of the Year by the Credit Union Executive Society. He also received the 2001 Leo H. Shapiro Lifetime Achievement Award, the highest honor given by the California Credit Union League.

Terry Monson ('72) just returned to the faculty of the School of Business and Economics at Michigan Tech after having served 10 years as associate dean of the School.

John Roberts ('72) was named to a new chair at Stanford last year, the John H. and Irene S. Scully Professorship in the Graduate School of Business. This spring he was given the outstanding teaching award by the students in the GSB's Sloan Program, a one-year program for mid-career executives that leads to an MSc degree. See also the report on John's Minnesota Lecture by Ed Foster on page 2.

Francisco Thoumi ('73) is now a senior visiting scholar at the Latin American and Caribbean Center at Florida International University. He just published *El Desafio de las Drogas en Los Andes*, with Planeta Editorial in Bogota. An English version, *Illegal drugs, economy and society in the Andes*, will be published by the Woodrow Wilson Center for International Scholars (Washington, DC) in early 2003.

Myrna Wooders ('76) has been elected a fellow of

the Econometric Society. Also elected in 2001 was **Lawrence Christiano** (MA '75) who received his Ph.D. at Northwestern.

Chuck Orvis ('76) and his wife Jane are living in Hawaii until next June. Chuck will be teaching at the Iolani School. Their e-mail is darrowvis@earthlink.net.

Gary Maybarduk ('80) left Caracas, Venezuela this July with his wife Sharon after three exciting years spent as an Economic Counselor. They will spend the next year at the U.S. Army War College in Carlisle, Pennsylvania. They can be reached in the interim at marmadukes5@hotmail.com.

Keiichi Koda ('81) reports "My eldest son was born in Minneapolis in September 1979 when I was writing my Ph.D. dissertation. This year he graduated from a Japanese university and was admitted to the Graduate School of the University of Texas at Austin, where he will pursue a Ph.D. degree in Physics (not Economics, though) this fall. Time flies so fast!"

Mike Stutzer ('81) wrote that he is leaving the University of Iowa. "For all the skiers, hikers, and bicyclers out there, I am delighted to report that I am moving to the Finance Department of The University of Colorado-Boulder. My title will be Professor of Finance and Director of the Burrigge Center for Security Analysis and Valuation."

Oh-kyu Kwon (MA' 81) was appointed by the Korean government to head the Supply Administration of the Republic of Korea (SAROK) in July of 2002. Kwon is currently the Deputy Finance and Economy Minister and has also been a member of the board of directors of the International Monetary Fund.

Tatsuyoshi Saijo ('85) is on sabbatical from the University of Osaka and will be visiting CalTech until July 31, 2003.

Michael Loewy ('86) and his wife adopted a two-year old boy last November who was born in Tampa,

Continued next page....

Florida. "He joined me, my wife, and our older son Aaron back in January 2001 and things became final 10 months later. His name is Matthew and he is a very happy little guy who adjusted to the three of us much faster than the three of us adjusted to him!"

Tapen Sinha ('86) won one of the 2001 Lumina Awards, "The Global Insurance Awards for Pioneering Research" in the category of insurance regulation for a paper co-authored with Bradley Condon. Tapen also won the outstanding paper award at the 2002 Society of Actuaries Conference in San Francisco for his paper on pension reform.

Albert Marcet ('87) is delighted to report that he is a new father. "Our little girl was born on April 20th. Her name is Nuria. Everything went and is going very well."

Hirschel Kasper ('63) wrote to report on a fellow alum: "**Barbara Craig** ('88) is just completing her first year as Chair of the Economics Department at Oberlin College, and leading the search to fill a senior position in macroeconomics."

Emmanuel Skoufias ('88) wrote, "My wife Agnes and I had a second daughter Alexandra, born on March 22, 2002. So now we have two daughters (2 ½ years old and 3 ½ months old) that keep us extremely busy. Also, on August 15th, I will be moving from IFPRI to the Research Department of the Interamerican Development Bank (also based in Washington DC)."

Kathy Combs ('88) reports "I received tenure and promotion to full professor at the University of St. Thomas, Department of Economics, effective this fall. Looks like we are here to stay in the Twin Cities."

Ted Temzelides ('95) is moving to the University of Pittsburgh from the University of Iowa this July. His new e-mail is tedt@pitt.edu.

Ted Herzog (MA '95) is the proud father of a baby boy. He was born on November 23, 2001. "We named him Adam Patrick Tibbs, giving him Amy's last

name since she has no brothers and no paternal uncles (she would otherwise be the last in her family to have the last name Tibbs). He is a health and amazingly cheerful little guy who was blessed to be born with his mom's good looks. We couldn't be happier! I, of course, am still at Dorsey (-Whitney law firm) and still loving the world of international business transactions, mergers and acquisitions, and emerging company work. No surprise there!"

Todd Kaplan ('96) reports: "Vered and I have a son! Joel Jack Kaplan was born on April 21 in Exeter, UK. He came a month early, but in perfect health. From a combination of too much research beforehand and procrastination, we had not yet bought anything; however, our love (and loner clothing from the hospital) was enough. Joel is now working more on his athletic side. He is very good at kicking and is working at swimming in the bathtub. I should have pictures up soon on my website at <http://www.toddkaplan.com>."

Kevin Huang ('98) left Utah State University and is now at the Federal Reserve Bank of Kansas City as a senior economist. He can be reached at kevin.huang@kc.frb.org.

John Hatch ('98) relocated to Minneapolis in the summer of 2000, still working for PricewaterhouseCoopers as a transfer pricing consultant. "In addition, my wife Jenelle and I have added a third boy to our family, Jake Alexander, born on November 28, 2001. Not sure about the rationality of having three boys spaced only 2 years apart (the older two are twins), but we are Catholic, and so economic models of the family do not apply."

Dan Houser ('98) has been granted tenure and promotion to associate professor at the University of Arizona and at George Mason University and is currently on leave at George Mason, in northern Virginia. "So I left hot and dry Arizona for hot and very humid DC...but my wife, son and I are enjoying it nevertheless."

Jessica Tjornhom ('01) reports, "I was just promoted

Continued Page 10...

Bargains in the Minnesota Economics Department Capital Campaign

There is a little under one year left in the university's Capital campaign which officially closes June 30, 2003. While Economics has been the recipient of many gifts that are most helpful and for which we are deeply grateful, we still are in need of gifts to support graduate fellowships, endowed professorships, and undergraduate scholarships. Graduate fellowship funds are a particular need under the pressure of declining summer support for foreign students (summer school teaching jobs are sharply reduced) and increasingly generous funding offered by competing programs.

While the capital campaign continues, there is a two-for-one bargain in gifts for endowed graduate fellowships. The Graduate School matches the annual payout on endowments of \$25,000 and over, dollar for dollar, thus doubling the benefit of the donor's gift. Fellowships at this level may be named for the donor, a family member, or another person. Also, a gift of any size made to an existing fellowship that is already getting the match will add to the match on that fellowship. One fellowship, for example, was started by Professor Ed Prescott to honor Herb Mohring; further contributions to this fund by others before the June 30 cut-off would increase the amount being matched.

To learn how you can be a part of this major gift effort that will help assure the department's continued excellence, please contact me or Bruce Forstein, Major Gifts Development Officer for the College of Liberal Arts. Bruce may be reached at:

University of Minnesota College of Liberal Arts
225 Johnston Hall
101 Pleasant Street S.E.
Minneapolis, Mn. 55455
612-624-2848
forst006@umn.edu

Ed Foster (foster@econ.umn.edu)

Roberts from Page 2....

1994; 1996b). The "new comparative statics" is elegant in its reduction of underlying assumptions to the bare essentials, eliminating the need for differentiability, convexity, or even continuity of functions where there exists complementarity (supermodularity) among instruments defined on a lattice.

Roberts and his co-authors have applied the theory to strategic choices in manufacturing and other businesses (e.g. Milgrom and Roberts 1990; Milgrom, Qian and Roberts 1991; Roberts and Van den Steen 2000), to game theory (Milgrom and Roberts 1996a), and to the transition from socialism (Gates, Milgrom and Roberts 1996), to list only papers I have seen. John's stimulating lecture drew from this range of literature to illustrate uses of the theory.

The 2001-2002 Minnesota lecture fell victim to scheduling problems; I hope that I will be able to report on it next year.

REFERENCES

- Gates, S., P. Milgrom and J. Roberts (1996). Complementarities in the transition from socialism: A firm-level analysis. *Reforming Asian socialism: the growth of market institutions*. J. McMillan and B. Naughton. Ann Arbor, The University of Michigan Press: 17-37.
- Milgrom, P., Y. Qian and J. Roberts (1991). "Complementarities, momentum, and the evolution of modern manufacturing." *American Economic Review* 81(2): 84-88.
- Milgrom, P. and J. Roberts (1988). "Comm Milgrom, P., Y. Qian and J. Roberts (1991). "Complementarities, momentum, and the evolution of modern manufacturing." *American Economic Review* 81(2): 84-88.
- Milgrom, P. and J. Roberts (1988). "Communication and inventory as substitutes in organizing production." *Scandinavian Journal of Economics* 90(3): 275-289.
- Milgrom, P. and J. Roberts (1990). "The economics of modern manufacturing: Technology, strategy, and organization." *American Economic Review* 80(3): 511-528.
- Milgrom, P. and J. Roberts (1994). "Comparing Equilibria." *American Economic Review* 84(3): 441-459.
- Milgrom, P. and J. Roberts (1996a). "Coalition-proofness and correlations with arbitrary communication possibilities." *Games and Economic Behavior* 17: 113-128.
- Milgrom, P. and J. Roberts (1996b). "The LeChatelier Principle." *American Economic Review* 86(March): 173-179.
- Roberts, J. and E. Van den Steen (2000). Shareholder interests, human capital investment and corporate governance, Stanford Graduate School of Business.
- Topkis, D. M. (1978). "Minimizing a submodular function on a lattice." *Operations Research* 26(2): 305-321.

Faculty News

Rena Coen

Rena Neumann Coen, wife of Ed Coen, died on October 18, 2001 at her home in St. Louis Park, MN at the age of 76 from complications of heart surgery. Rena was an art historian, professor, and author. She received her bachelor's degree in 1946 from Barnard College, a master's degree in art history from Yale University in 1948 and her PhD. in art from the University of Minnesota in 1969. She and Ed moved to Minnesota in 1953. Besides Ed, she is survived by a daughter Deborah (a psychiatrist), sons Joel and Ethan (the film makers), son-in-law Nathan Busch, daughters-in-law Trisha Cook and Frances McDormand, and grandsons Pedro, Buster and Dusty.

Rena taught art history for 27 years at St. Cloud State University and was the author of numerous art books, children's books, and exhibition catalogs. Her Ph.D. thesis was entitled "The Indian as noble savage in nineteenth century American Art," and her books included *Painting and sculpture in Minnesota, 1820-1914*, *Dakotah: or, life and legends of the Sioux around Fort Snelling*, and *Minnesota Impressionists*. Rena was also featured on a recent Twin Cities Public Television program about Seth Eastman, a 19th century soldier and artist. From the October 20, 2001 *Star Tribune*: "Coen's interest in regional artists was so unusual in the 1960s that "It wasn't just frowned on; you were considered a Neanderthal, a barbarian," she told the *Star Tribune* in 1977...."She was a wonderful person, so kind and thoughtful, and a very good scholar who devoted herself to explaining and promoting Minnesota art history," said Evan Maurer, director of the Minneapolis Institute of Arts."

Lela Brownlee

Lela McDonald Brownlee, 84, wife of former Economics professor Oz Brownlee (1917-1985), died on March 22, 2002, from an accidental fall. From the obituary in the Minneapolis *Star Tribune*, "Lela was born in Bear Creek, Montana. She received her Bachelor of Arts degree at Montana State University, where she met her husband to be, economist Oswald H. Brownlee. Oz and Lela were married for 45 years until his death in 1985....She was an avid traveler, theater, film, and concert goer and supported all of the arts. She was healthy and active until the last moment, being with and helping those whom she loved." Lela and Oz had two children, Dick and Barbara (Drillick), four grandchildren and a great-grandson.

Mary Lou Hildreth, wife of Cliff Hildreth (1917-1995) wrote this about Lela: "I have known Lela since 1942, 60 years, over half of my life. In 1942 our husbands, Cliff and Oz, were working on their PhDs at Iowa State. Then we followed each other to the University of Chicago, Michigan State University and finally, the University of Minnesota. After Cliff and I retired to Eugene, Oregon in 1987, every other year I would go to the Washington, DC area to visit my sister and stop in Minneapolis on the way back. Lela always invited me to stay with her during my visit....These are the things that I loved about Lela: 1) Her spirit of adventure which resulted in her traveling to many parts of the world. 2) Her sense of fashion, especially her hats. 3) Her devotion to her grandchildren which was evident from the time she spent taking them to hockey practice, skating lessons, and attending their games. 4) Her love of music and art. 5) Her exceptional knitting and sewing skills. I am deeply saddened by Lela's untimely death and I will miss her forever."

Pauline Schmookler

Pauline Schmookler, wife of Jacob Schmookler who was on the Minnesota faculty from 1957-1967, died January 23, 2002 at the age of 83. "A beloved woman, who lived a rich life, she was dedicated to family, teaching, and creativity. She taught at Alexander Ramsey High School, now Roseville Area High

School, between 1962-1979....She is survived by two sons, Edward and Andrew Schmookler." (Minneapolis *Star Tribune*). Andrew Schmookler is an author of books on cultural evolution as well as a social and political commentator.

Faculty News, Continued

Regents' Professor **Edward Prescott** received the Erwin Plein Nemmers Prize in Economics from Northwestern University this spring. The prize is awarded every other year to individuals with careers of "outstanding achievement, as demonstrated by major contributions to new knowledge or the development of significant new modes of analysis." The prize carries a \$125,000 stipend. Consistent with the terms of the bequest, past recipients of the Nobel Prize and current or former full-time members of the Northwestern faculty are ineligible. Other winners with Minnesota connections are **Thomas Sargent**, who won in 1996, and **Daniel McFadden** ('62) who won in 2000, just before he won the Nobel Prize.

From the official press release: Dr. Nancy Stokey, a University of Chicago professor of economics and a member of the Nemmers selection committee, said that Prescott was awarded the prize for his influential role in changing the direction of macroeconomics. "The greatest real-world impact of Prescott's work comes as a result of his analysis of the time inconsistency of optimal policy. His work, which shows how important it is for a central bank to operate as an independent body, has influenced the way monetary policy is conducted in many countries."

Ed has agreed to set up an endowment to fund the weekly Happy Hours with his prize money

Harlan Smith published a new book with M.E. Sharpe in 2000 called *Understanding Economics*.

Jan Werner's and former MN faculty **Stephen Leroy's** *Principles of Financial Economics* was published last year by Cambridge University Press.

Former faculty member **Anne O. Krueger** was honored recently with the publication of *Trade, Development and Political Economy: Essays in Honour of Anne O. Krueger*, ed. by Deepak Lal and Richard H. Snape. It was published by Palgrave in 2001.

New Faculty

Vasiliki Skreta joins the department as an assistant professor. Research interests include microeconomic theory, mechanism design, and auction theory; she has also been interested in applications of the theory to telecommunications and privatization. Vasiliki wrote her thesis, "Essays in Mechanism and Market Design" under Phil Reny at the University of Pittsburgh, defending the thesis in the summer of 2001. She received her BA in Economics from the Athens University of Economics and Business, was a visiting scholar at Northwestern's Kellogg School in 2000 - 2001, and for the past year has held a research fellowship at the Institute of Economic Analysis of the Universidad Autonoma de Barcelona.

—Ed Foster

Hee's Baaack!

Patrick Kehoe is back in the Economics Department. Patrick first came to Minnesota in 1982. Tom Sargent, who had spent the previous year as a visiting professor at Harvard, invited Patrick, then a Harvard graduate student, to spend the year working as a research assistant at the Federal Reserve Bank of Minneapolis. After returning to Harvard to finish his Ph.D., Patrick first came back to Minnesota in 1984 as an assistant professor. Working with such coauthors as David Backus, V.V. Chari, Hal Cole, and Finn Kydland, he established himself as a leading researcher in international macroeconomics. Although he was promoted to associate professor in 1991, Patrick left Minnesota to go to the University of Pennsylvania, where he was the Ronald S. Lauder Professor of Economics. The lure of Minnesota could not be denied, however, and Patrick returned to Minneapolis in 1997 as a monetary adviser in the research department at the Federal Reserve Bank of Minneapolis. For the past five years, he has regularly taught a graduate course in the department. This year, he returns permanently (we hope?) as the Paul W. Frenzel Land Grant Professor of Economics. Patrick plans to continue his association with the Fed, and will teach half time in the department.

—Tim Kehoe

More Faculty News on Page 12

From the (really deep) Archives

A Keynesian Rejection

The following letter was forwarded to us by **Carl Nelson**, a former Business School professor of economics and accounting, who was at Minnesota from 1947-1963, who then went to Columbia. He wrote, "The enclosed has been in my hands for several years. It is a copy, of course. I thought it might be useful for a colleague who had just had a paper rejected by a journal. It would help him or her to know that even a great economist had his problems. Of course, he may never have heard of Wicksell."

Royal Economic Society

From Mr. J.M. Keynes
Editor of the
Economic Journal

Kings College,
Cambridge.
9th January, 1924.

Professor Knut Wicksell
Stocksund, Sweden

Dear Professor Wicksell,

I must apologize for not having dealt sooner with your proffered contribution to the *Economic Journal*. I wished, however, to obtain another judgment on it besides my own.

I am sorry to have to reply that we cannot accept it for publication in the *Economic Journal*. Apart from the fact that our space in the near future is already filled, the editors feel that any treatment of this topic of the present day ought to bring in various modern conceptions for handling the problem and that the time has gone by for a criticism of Ricardo on purely Ricardian lines. Nor is it quite correct that the problem in question was not taken up by Ricardo's contemporaries. Ricardo himself discusses it in his letter to MacCulloch (Hollander, pp. 107-8) 18 June 1821. The question was also discussed in the Political Economy Club on 8 February 1822. I am indebted for these references to Dr. Bonar.

Yours sincerely,
J.M. Keynes

Recent Books by Alumni

Price Theory and its Applications, edited by **Bernard Saffran** ('63) and F.M. Scherer. Edward Elgar, 2001.

edited by **Jun-Young Kim** ('84) and Per-Gunnar Svensson. Ashgate, 2000.

Macroeconomic Management: Programs and Policies, edited by Mohsin S. Khan, Saleh M. Nsouli and **Chorng-Huey Wong** ('70). International Monetary Fund, 2002.

Soumyen Sikdar ('84), *Basic Issues of Liberalisation and Globalisation*. Oxford University Press, 2002.

Domain Linkages and Privatization in Social Security,

Tapen Sinha ('86), *Retrospective and Prospective Analysis of the Privatized Mandatory Pension System in Mexico*. Society of Actuaries, Chicago, 2002.

News from Indonesia

by Anna Maria Siti Kawuryan ('97)

I finished my program in June 1997. My husband Keith Fuglie (Department of Applied Economics) and I stayed for another one and a half years in Falls Church, Virginia, before leaving for Indonesia in December 1998. For us, that made it a total of six years of living in Falls Church. Throughout that time, Keith worked for the Economic Research Service of the USDA and spent a year as a senior economist at the Council of Economic Advisers of the White House.

We came to Indonesia at a time of political, social and economic uncertainty in the country. It started in mid 1998, around the time Suharto fell from power. I still remember making comments that all throughout the time I lived in the USA (from 1986 to 1997, minus a year spent with Keith in Tunisia when he received a post-doc fellowship from the Rockefeller Foundation), the only time Indonesia received a considerable attention in the US media was in 1998. So, I guess Indonesia was not much news when things were relatively calm. Keith started work at the International Potato Center, an international research institution under the wings of CGIAR, while I started teaching at the Faculty of Economics of the University of Indonesia. We chose to live in Bogor, about 60 km from the capital city of Jakarta, and have been living there since. We chose Bogor because it is cooler than Jakarta (it is surrounded by mountains), and is within relatively convenient distance to work for both of us.

I enjoy my work at the university tremendously. I have been teaching advanced microeconomics and economics of human resource for the undergrad level, and also microeconomics at the grad level. Aside from that, since September 2001 I have also been deputy director of the Economics Graduate Program of the

Alumni News from Page 5...

to Vice President at State Street Bank (I do research for them on institutional investors and international asset flows, holdings, etc.)...and I'm getting married August 3, 2002."

Faculty of Economics of the University of Indonesia. This job allows me to have a lot of contact with the students, and I really enjoy it. Meanwhile, Keith directs the International Potato Center for the East and Southeast Asia and the Pacific region. His job has taken him to many countries and I have enjoyed the opportunities to travel with him.

We get questions from time to time about life in Indonesia. Well, I'm afraid I won't be able to do justice in just a few paragraphs of response. What the country is experiencing now is a multifaceted crisis. The period of 1999-2000 was marked by demonstrations in different places in the country, including Jakarta. We simply learned to avoid going to places that were risky. Otherwise, life felt normal and we still went to many places without feeling threatened. Since we got here, there has been trouble in West Kalimantan, Aceh (in Sumatera), Irian Jaya (the name has been changed to Papua), and the Mollucas (the Maluku islands). But, the size of the Indonesian archipelago is so big that trouble in those areas do not have effect on the lives of ordinary people on the island of Java. The general election year of 2004 will surely be an interesting time. We'll see where this country is going! Nevertheless we are enjoying our time in Indonesia and have had the opportunity to see some beautiful places around the country. We've been around Java and also to Bali, Lombok, Sumbawa and Sumatera islands. Lake Toba in North Sumatera is certainly worth a visit!

We can be reached at amskawuryan@pascafe.ui.ac.id or k.fuglie@cgiar.org

ERL from Page 3

315) Andrew McLennan, *The expected number of Nash equilibria of a normal form game*. May 2002.

Papers 313 and 315 are available in pdf from the ERL website at <http://www.econ.umn.edu/~econlib/mwp397.html>. If you would like a copy of the Hurwicz-Marschak paper, please send an e-mail to me at wendy@umn.edu. Have a good autumn!

HONORING KET RICHTER ON HIS 70TH BIRTHDAY

By Charles Zheng ('99)

On April 20, 2002, Professor Marcel Ket Richter was honored at the NSF/NBER Decentralization Conference dinner, held on the Georgetown University campus. The dinner was organized by Ket's former students to celebrate his 70th birthday, which was this past June. Professor **Daniel McFadden** ('62), a Nobel Laureate and Ket's coauthor, gave a speech "A Salute to Marcel K. Richter: Scholar, Scientist, Gentleman." Ket's former students presented him with a volume of admiration letters entitled *A Tribute to Marcel K. Richter: Reminiscences from His Former Students and Colleagues*. Ket delivered a thank-you speech, as graceful as ever. Mrs. Sheila Richter attended the dinner with Ket, as well as their daughters Cindy and Leila.

It had long been told as a legend that Ket did not turn to mathematics until two years after he became an assistant professor. In his 40-minute speech, Professor McFadden recalled this turning point: "In 1961 Ket went off to Berkeley on an NSF program to upgrade college teachers who were weak in mathematics. Economists argue about the effectiveness of job training programs, but this one really worked. Two years later, when I also made my way to Berkeley, I found that Ket had become a maven of mathematical logic, citing obtuse theorems from Tarski and Szpilrain on the axiom of choice and the extension of partial orders... Ket would meet for lunch or coffee with me and **Bernie Safran**, a fellow Minnesota student who was also a friend of Ket's and an assistant professor at Berkeley. Bernie and I speculated on whether Ket would ever get his fill of logic and return to practical economics. We can now answer that question. Never, and the profession is better for it."

Speaking of Ket's scholarship, Professor McFadden told the audience the Richter Three-Paper Rule: "I particularly remember one comment that Ket made during one of our lunches in Berkeley. He said that the economics profession would be better off if every scholar was constrained to publish at most three papers in his or her life time. This would concentrate the mind, encourage careful, error-free work, and limit contributions to important topics that matter. Ket has

exceeded his own limit, but he has no careless, hastily written papers. He has taken economic theory to places it needed to go, and along the way has left tight, crisp, important, and beautifully elegant results. Each paper is a destination, a result that is worth the trip, a stop that instructs the student on the unreasonable effectiveness of mathematics and liberating power of crystalline logic."

Needless to say, Ket has inspired generations of Minnesota alumni. The *Tribute* is filled with testimonies to this fact. Professor **John Roberts** ('72) recalled the moment of reading Ket's 1966 *Econometrica* article on revealed preference theory: "I read the first line. It is still burned into my mind: 'A consumer ... is a function h which to each $B \in \mathcal{B}$ assigns a non-empty subset $h(B) \subseteq B$.' The idea was morally repugnant to me. Yet at the same time, it was oddly exciting. It was my first exposure to foundational analysis, and it suggested to me that there was far more to economics than I had ever guessed." John recalled career-shaping advice from Ket. It was John's first year in Minnesota: "In those days there were two micro theory sequences that first year students could take. Jim Henderson taught a lower-level one from the Henderson and Quandt book, and then there was Ket's Economics 135. It was much more mathematically rigorous... I had come to Minnesota with a very weak mathematics preparation... Still, it quickly became apparent that real Minnesota students took 135, so I signed up. Just as quickly, I realized I was in over my head... In despair I went to Ket for advice. He was encouraging, although I could not imagine why, and actually suggested I stick with 135. More to the point, he told me that he himself had had a limited mathematical background when he arrived at Minnesota as a faculty member and had learned to become a serious theorist only after starting his career there. This from the man who could conceive of a consumer as being a function h ! His example encouraged me to get serious about economic theory and, correspondingly, to take much more mathematics than the second-year calculus course I thought then might suffice. This advice had a permanent effect on me, shaping my career fundamentally."

Continued next page...

(Richter continued)

Former advisees of Ket probably all remember his perfectionism in scholarship, with which he had you revise the abstract and (if you were lucky) the introduction again and again. How much worse can it get when Ket applies the rigid standards to himself? Professor Ed Foster told the dinner participants a story that had yet to end: Up to late March of this year, Ket was still completing the final report of an NSF grant from 1988. This time span was so long that the NSF resorted to sending a letter to Ed, the poor department chair, that threatened to close down all its grants to the University of Minnesota unless Ket submitted the report!

There are many personal stories about Ket's kindness. Professor **Ahmed Khwaja** ('01) told the dinner participants an episode that happened in Ahmed's last year in Minnesota: "I had had a terrible day for various reasons. I was trying to make a decision about whether to go on the job market and at that time it seemed that I would not be able to make it. It was about 6 pm in the evening. I was making my way up to my office when I ran into Ket in front of the 10th floor elevators. Ket was on his way to some appointment. In politeness he asked me how I was. I suppose I was feeling terrible enough that I made no illusion of hiding it. I recall asking him whether he had some time. He replied that he was in a hurry but had about 15 minutes. Subsequently I replied that 'I was not good' and if he could spare some time I would like to talk with him. In characteristic fashion he agreed to talk with me. We conversed for about 2 hours in the 10th floor graduate lounge! I pity the person who was waiting for him for the 6 pm appointment! We talked about my decision to go on to the market, my family and my research—which by the way was not in microeconomic theory. He even gave me a research idea, that in fact came out of his work with Dan McFadden on Stochastic Utility Theory. This is something that is still

More Faculty News from Page 8

Matt Mitchell and April Franco Mitchell are proud to announce the birth of their son, Malachi Najimi Mitchell, born on February 21, 2002 at 4:09 am. He weighed 6 lbs., 15 1/2 oz. and measured 21 inches. April writes, "Malachi enjoys listening and watching his parents sing and dance, which as those who have been to Arone's on karaoke night know, means he has

on my research plan! That evening convinced me, if I had not known earlier, that Professor Richter was not just a scholar and an economist but a very kind human being."

In his thank-you speech at the dinner, Ket acknowledged the friendship and intellectual influence from a few economists, including Leo Hurwicz, Jim Jordan, Anne Krueger, and Daniel McFadden. Ket especially thanked Sheila for supporting him during the Berkeley training—he had to take a pay cut from Minnesota—and throughout all the years. Ket also told us the epiphany that triggered his one-way trip to mathematical economics: It was his second year in Minnesota. Ket was waiting in the hallway to talk to Professor Leo Hurwicz, who was talking to a graduate student. The student had trouble getting his points across. Frustrated, Leo asked: "Do you mean 'œ > y . . . ' or ' > y œ ' ?" That really impressed Ket, and the rest is history.

Professor **Raymond Riezman** ('77) summarized well in his letter: "Not every faculty member is always positive, giving students hope in their darkest hour. Not every faculty member is generous, refusing to take credit for ideas that contributed in a major way to a student's research... Not every faculty member has unbending standards and absolute intellectual integrity... Not every faculty member is a good role model... You [Ket] are all of these things and more."

(Colleagues and former students who attended the dinner are: Beth Allen, **Nabil Al-Najjar** ('89), **Matthew** and **Sally Canzoneri** ('75), Ed and Janet Foster, Jim Jordan, **Ahmed Khwaja** ('01), **Roger Lagunoff** ('89), **Rosa Matzkin** ('86), **Ibrahim Oweiss** ('70), **Kam Chau Wong** ('94), and **Charles Zheng** ('99). Thanks to Wendy Williamson for the coordination.)

Malachi Najimi Mitchell

very perverse taste! He absolutely hates red lights or anything else that makes the car stop, finds it uproariously funny to watch his dad try to kill mosquitoes, and shares his birthday with at least three economists that we know of — Matt Shum, Markus Mobius, and Brian Peterson."

The Other Side of Ket Richter

March 20, 2002

by Jim Simler ('59)

Ket Richter is now in his forty-third year as a member of the Faculty of Economics at the U of M. I think only John Chipman, who joined the department in 1956, has had a longer full-time tenure. All of you who are gathered here tonight to celebrate his 70th birthday are well aware of Ket's distinguished contributions to the department – as scholar, teacher, adviser and citizen – so I will not elaborate on these. What you may not know however, is what I call “the other side of Ket Richter – Ket Richter as practical joker.”

He and I, along with Anne Krueger, joined the department in 1959 as newly minted assistant professors. Under the outstanding leadership of the late Walter Heller, the department had been built from scratch in the decade following World War II and had already reached a prominent position in the profession – Oz Brownlee, John Buttrick, John Chipman, Ed Coen, Cliff Hildreth, Leo Hurwicz, Jack Kareken, Scott Maynes, Joe McKenna, Andy Papandreou, Harlan Smith, John Turnbull, Lloyd Ulman and others who have escaped my fading memory. We were in awe.

Everything seemed to be going well until one day in the fall of our second year, Walter Heller called me into his office. He said that while we were pretty well known in the profession, the world-at-large seemed less well informed. We needed some well-targeted publicity to get the word out. So, he appointed me “public relations” officer of the department. He urged me to work with the local papers and the local radio and TV stations – and maybe even with the *New York Times* and *Wall Street Journal* – to bring us to the attention of the general public.

I protested, but to no avail. I thought (but did not say) it was unseemly to bring attention to ourselves in that way. When I got back to my office, I ranted and raved

to Scott Maynes, my office mate, and then down the hall to Anne and Ket. I resolved not to do anything about it, thinking maybe Walter would forget about the project. As time passed, I cooled down a little bit.

Then, one day Walter announced that he was flying to Amman to consult with the authorities there on some matters of public finance in the Kingdom of Jordan. It never occurred to me that this was a story that should be fed to the local media. I thought nothing more about it and went on with my work.

A week or so later, I got a letter from the U.S. Embassy in Jordan, postmarked Amman, Jordan. I opened it and read: “I get to Jordan and what do I see – My image has not followed me!” I went berserk. I showed it to Scott and Anne and Ket. They sympathized a little with me but suggested that maybe I should take Walter's directive more seriously. I said: “No. I'm going to have it out with Walter when he gets back. I'm not going to be the department's P.R. man!”

They let me stew for a few more days. Then, just before Walter returned Ket came to me and said: “Did you know that Sheila's father is the U.S. Ambassador to Jordan? We figured out a way to rework the envelope containing a letter he had written to her and address it to you as though it came from Walter. We wrote the message. Cool down. Walter knows nothing about this.”

We all had a good laugh. I calmed down. Walter returned. I never did do any PR work. Walter never mentioned it again. Life went on. Here we are.

Take another look at Ket Richter at 70. Does he look like a guy who would play such a practical joke on his gullible fellow-assistant professor? He certainly doesn't – but he did!

In memoriam

Bruce D. Smith (1954–2002)

[Editor's note: Bruce Smith received a Bachelor of Science degree from Minnesota in 1977 and a Ph.D. in Economics from MIT in 1981. After a year at Boston College, he then worked at the Federal Reserve Bank of Minneapolis until 1986. It is said that Neil Wallace stimulated Bruce's interest in monetary economics when Bruce took Wallace's money course as an undergraduate student. Because of these connections it seemed as if Bruce was a member of Minnesota's economics graduate family].

Bruce D. Smith, a Regent's Professor at the University of Texas at Austin, died on July 9, 2002 from complications in the treatment of cancer. His premature death at the age 47 is a great loss to all his many friends, as well as to the economic profession at large.

He was a co-editor of *Economic Theory* and in this role contributed greatly to the success of the journal. These contributions will be missed. He also served as an associate editor for a number of other journals.

He was a prolific scholar publishing over 80 papers in his all too short career. In these articles he made fundamental contributions to macroeconomics. His research spanned problems in monetary and fiscal

policy, financial economics, economic growth and development, and monetary history. His work influenced that of many others as indicated by his citation record. Such breath is a rare in economics, or for that matter in any science.

Even more solely missed by his friends will be Bruce Smith the human being. He had the ability to see the humor in almost any situation and to lift the spirits of his friends. He helped a number of others with health problems through counseling and by the example he set of maintaining a positive attitude and being highly productive in the face of his own health problems. He also was a dedicated teacher who won the respect and endearment of the numerous students he supervised.

— Edward C. Prescott

John Tillman (1943 – 2002)

John Tillman passed away from pneumonia in Reston, VA on January 16. John was a graduate of the London School of Economics and received his Ph.D. from Minnesota in 1973. He subsequently taught for several years at the University of Massachusetts in Boston, after which he joined the staff of the International Monetary Fund, and later moved to the World Bank. John's work focused on various countries in the Far East.

John retired from the World Bank in the late-1990s. John was also an avid trainspotter, often traveling to

remote locations around the world to see yet another narrow gauge railroad, and he authored several items about trains. In the past few years John commuted to England to take courses related to railroads at the University of York. John was married to Suan Ying, who received her M.A. in Economics from Minnesota in 1970.

Condolences may be addressed to Suan Ying at:
10115 Westford Drive, Vienna, VA 22182

— Paul Manchester ('73)

In memoriam, continued

Carlos Escribano (1952 – 2001)

[Editor's note: Carlos Escribano ('78) was an Andreas Fellow, who pursued his graduate degree at Minnesota from 1974-1978. His thesis was entitled "On resource allocation mechanisms yielding Walrasian allocations at equilibrium messages" and his advisors were Ket Richter and Leo Hurwicz. After leaving Minnesota, he taught at the Universidad Complutense de Madrid.]

Ton Bosch ('75)

On October 21st, 2001, Carlos Escribano was 49 years old. At 49 you are not young anymore, except for dying. It was not for Carlos the sedate life. He took risks and paid for them. His life's path, personal and professional, was full of kinks and sharp corners. Not a smooth function his life trajectory, by choice not a smooth function. You will ask, what were his merits, his achievements? The names of the corporations he

presided over, the academic positions he reached, the prizes, the papers, the books? I want to tell you that Carlos Escribano was an extraordinary man. He was not one of us, with our list of merits, inflated yet limp. In life he did not search, he explored; he did not try, he strived. It was not for him to simply play, for him it was to envy. In life he did not rest in peace. Keep it up, pal!

Emilia Piwnik

I met Carlos in August 2000 in Warsaw, it was a beautiful Polish summer. I wish it weren't so late, too late to enjoy entirely his presence in my life. I remember my first impression about him: "What a wise man!" Yes, he was probably one of the wisest and the most talented men on the Earth. He used to say that I was always exaggerating but whoever met Carlos Escribano even once in a lifetime would share my opinion.

He was a man of the Renaissance, Leonardo da Vinci of our times: an economist and an artist, a mathematician and a poet, a clockmaker and a painter, a professor and a patient student of Slavic languages. This is Carlos that I met, I lived with and I admired.

The beauty of life – this is what he was always searching for. And he always succeeded – in the most unexpected circumstances and places. The pleasure of life – this is what I felt whenever he was around.

Someone may think that a person like that cannot exist, that such a person must have been an angel. There are so many doubtful things in life. One wasn't – you could always count on him. He never turned down anybody, never gave up, always fulfilled his duty. We couldn't have a better advocate up there than Carlos.

I want to share with everyone who cared about him something that he told me one night before he died. He said: "Emilka, I've been working very hard lately, but tonight I am very calm and very happy. I am looking at this beautiful sky and I think that I don't regret anything I have done in my life." I only hope to hear his words again, when I will be going to the same place where he is right now, somewhere beyond the clouds.

The newsletter is now published once a year.

Editor: Wendy Williamson

Design and Layout: Caty Bach

Many thanks to all alumni who have sent in items and to the faculty we have begged 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@econ.umn.edu
wendy@econ.umn.edu
Homepage: <http://www.econ.umn.edu>

**MINNESOTA DEPARTMENT OF ECONOMICS
GRADUATE ALUMNI NEWSLETTER
Spring/Summer 2002**

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

RETURN SERVICE REQUESTED