



UNIVERSITY OF MINNESOTA

Graduate Alumni Newsletter

Summer 2003

The Wealth of a Nation

by Joel Hoekstra*

Ed Prescott has no tolerance for mumbo jumbo. Clear logic and precise language are the essential tools of good economic science, argues the University of Minnesota professor. Economists who traffic in high-falutin' terms and only speak faster when questioned don't impress Prescott.

"I like a nice neat language," the 62-year-old macroeconomist says. "Some words in economics are used six different ways. If someone uses one of those terms and you don't know how they're using it, you can't communicate. I get very frustrated by that."

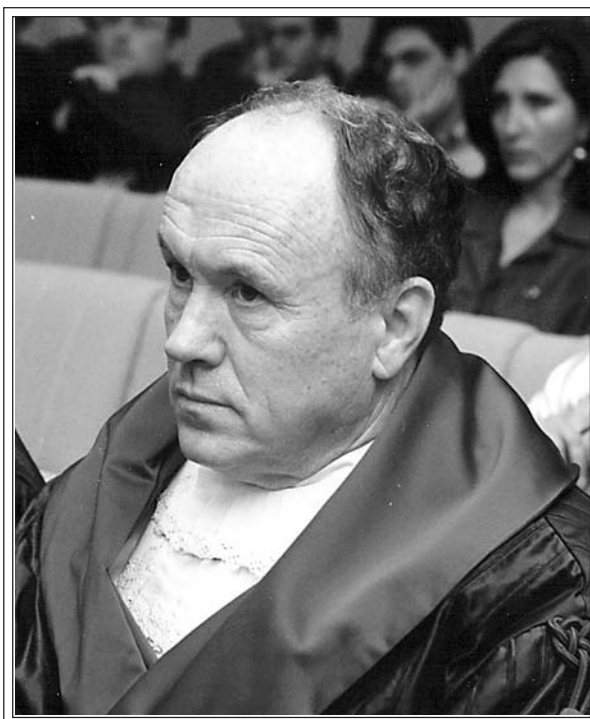
His own knack with straightforward economic vocabulary has allowed Prescott to ask and answer questions many economists once thought too complex or too broad to tackle: What causes depressions? Why do some countries thrive while others stagnate economically? Why is American productivity so much higher than that of other countries?

These are big questions, of course, but Prescott's facility at developing economic models for studying such issues and positing answers has earned him considerable international recognition. In April, Prescott was awarded the \$125,000 Erwin Plein Nemmers Prize in Economics, one of the most prestigious honors in the field of economics. The award, which is paired with a prize in mathematics, is generally reserved for economists believed to be future contenders for the Nobel Prize.

The Nemmers ceremony, held at Northwestern University in Chicago, came just days before Prescott was to accept an equally impressive laurel on the U of M

campus. A longtime Regents' professor, Prescott was recognized with a McKnight Presidential Endowed Chair in Economics. The award, made possible by a gift from the Minneapolis-based McKnight Foundation, recognizes excellence in research and teaching.

Just as he has an interest in questions that affect real people, so, too, has Prescott made a commitment to making sure his theories jibe with real numbers, says Ed Foster, chair of Minnesota's economics department. "What most strikes me about Ed's work is his commitment to the science of economics. Economics isn't always described as a science, but Ed insists on being able to test theories with numbers, to look at data and see if the theories hold up. He always focuses his evaluation, even of students' work, on the contributions to economic science."



Ed Prescott at Tor Vergata in Rome

Sphere of influence

Prescott's wide-ranging research covers the globe. Recently, he has zeroed in on the matter of productivity. At a 2002 conference, he posed this puzzler: "Why do Americans work so much more than Europeans?"

What sounds like a cheeky question was actually serious academic inquiry. "Americans [generate] 50 percent more [output] than the French on a per-person basis," says Prescott. That's a big difference. But in the early seventies, that wasn't the case. The French worked more than Americans then. So what happened?"

Searching for an answer, Prescott and his students sorted through mounds of economic data on productivity, consumption, and taxation. They compared data of other

Continued next page...

Prescott continued...

industrialized nations. “The primary reason that people get richer is that productivity factor,” he says. “There are huge differences between countries.”

American productivity increases don’t necessarily mean that Americans are working harder or longer. Other factors—including technology and government incentives for business—significantly boost productivity, says Prescott. “People in the U.S. and Western Europe now get 16 times as much output from the same work effort as do the people of India,” Prescott notes. But he believes the gap will close, noting that Indian living standards have begun to rise rapidly in recent decades. Just as the United States is now 20 times more productive than it was 200 years ago, India and other developing countries will likewise see changes. “My expectation is that this increase in productivity will continue,” he says, “and that in a hundred years, the entire world will be many times richer than the United States is today.”

As for the state of the U.S. economy, Prescott says bluntly, “There is no downturn.” The U.S. is trending upward at roughly three percent a year in terms of productivity, he says. Telecommunication innovations and Y2K fixes boosted output four percent above that trend in early 2000, but a year later the output per working-age person was back on track, per economists’ predictions.

Prototypes developed by Prescott have become the platform for economic models now used by central banks throughout the world. Art Rolnick, senior vice president and director of research at the Federal Reserve Bank of

Minneapolis, where Prescott is a senior advisor, has said he believes Prescott is one of the most influential economists of the last 30 years.

The 1995 Nobel laureate in economics, Robert Lucas—one of Prescott’s professors at Carnegie Mellon University and a frequent research collaborator—is equally impressed with his protégé’s work. “Prescott practices high-wire economics, economics without a net,” said Lucas recently. “You begin by admiring his nerve, but after watching him land on his feet again and again, you gain respect for his skill and methods and start to try to imitate them.”

Prescott, who knows something about teamwork from volunteering as a kids’ soccer coach, notes that his own students are vital collaborators in much of his work. He has an enviable reputation as a research adviser, says department chair Foster, and many of his graduate students have gone on to groundbreaking careers in economics.

For his part, Prescott appreciates the value of innovative interaction: “Students are less wedded to traditional ways of thinking,” he says, “so it’s easier to break out of the boxes. If you start thinking like other people do, you’re going to come to the same conclusions that they do and hit the same dead ends that they did.

“With students, you start fresh—and often a student will come in with a question that should’ve been asked but wasn’t. It opens up different ways of thinking.”

(Thank you to *CLA Today* for allowing us to use this article which originally appeared in their Spring 2003 issue.)

CONFERENCE NEWS

The Workshop in Macroeconomic Theory was held at the University of Minnesota again this summer. The dates this year were from July 29 to August 2. This meeting now has been running for about 15 years and continues to be one of the top meetings in Theoretical Macro and Dynamic General Equilibrium Theory.

The principal sponsor is the National Science Foundation with extra support coming from the University of Minnesota and the Federal Reserve Bank of Minneapolis. The purpose of the meeting is to provide a forum for young, active researchers working on Macroeconomic Theory to disseminate their work. This year, the program organizers were Ellen McGrattan of the Federal Reserve Bank of Minneapolis, and John Leahy of NYU. They selected excellent papers for the program which lead to lively discussion in the best of Minnesota Economics tradition. Indeed the discussion is still continuing on some of them!

As usual, the students played a big role in the conference, attending the sessions regularly, and even organizing a barbeque at Boom Island Park for all the attendees.

Check out the website at: <http://www.econ.umn.edu/macro/>

for information and pictures from this and previous year’s conferences.

— *Larry Jones*

Next year’s Society for Economic Dynamics Conference will be held in Istanbul from July 1-3, 2004. *Selo Imrohoroglu ('88)* invites you all to come to Turkey!

Conferences to be Held at the Minneapolis Fed

Art Rolnick ('73) wrote that a conference entitled, “The Economics of Early Childhood Development: Lessons for Economic Policy,” co-hosted by the Federal Reserve Bank of Minneapolis and the McKnight Foundation (in cooperation with the U of M) will be held on October 17, 2003 at the Mpls. Fed. This conference is a continuation of Art’s interest in this area and the paper he wrote with Rob

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Policy-Making in the Time of Regime-Change (with apologies to Gabriel Garcia Marquez)

by *Tapen Sinha ('86)*

Oil makes the world go 'round. It does so more ways than one. I found that out recently. In 2001, the Auditor General's Office of the Federal Government of Mexico wanted an investigation on the projects undertaken by Pemex, the Mexican oil monopoly. It also wanted to launch a similar investigation over the projects undertaken by the Federal Electricity Board (CFE). The basic idea was simple: they wanted to know if these projects (called PIDIREGAS for its Spanish acronym) were financially sound. With approximately 66 billion dollars of contracts under review, it was quite a task.

With another colleague, I started working on the projects. There were two obstacles. First, this had to be done with utmost secrecy. In 2001, two whistleblowers of Pemex died in an "accident". In a country where it is easy to hire a hit-man for \$2,000 or less, it is not hard to imagine what could happen. Second, the volume of paperwork touched the ceiling (literally eight feet high!). Most of it was totally useless for financial valuation. But we had to rapidly sift through the mountain (we had exactly 28 days). It was a formidable task.

Armed with our results, the Auditor General's Office summoned all the bigwigs from Pemex and CFE. They were told, in no uncertain terms, if they did not respond to the concerns that we raised in 48 hours, their funding would be stopped. The bosses were so enraged, they walked out of the meeting in unison! They called the President of the Republic to complain. He gave them a dressing down.

The following morning, I got a call from the Finance Minister's office. They told me that they were going to make all the documents public. They asked me if I had any objections. To which I replied, "As long as my name does not appear in any of the documents, it is fine with me." The next day, the analysis we did made the headlines. Fortunately, nobody said who actually did the dirty deed. We made some recommendations about how future projects should be documented and how valuation should be done. In September 2002, the Mexican Congress discussed these issues.

What we recommended became law. Over the next six months (while on my sabbatical), I will be finishing a book on this work.

Recent Books by Alumni

Carol Dahl (Norling) ('77), *Energy Economics and International Energy Markets*, Tulsa: Penwell Press, forthcoming.

David Orden ('84), *Food Regulation and Trade: Toward a Safe and Open Global System* (with Timothy Josling and Donna Roberts), Washington, DC: Institute for International Economics, 2003.

Soumyen Sikdar ('84), *Contemporary Issues in Globalization: An Introduction to Theory and Policy in India*, Oxford University Press, 2003.

Fernando Vega-Redondo ('84), *Economics and the Theory of Games*, Cambridge University Press, 2003.

Tapen Sinha ('86), *Drawing Lines in Sand and Snow: Border Security and North American Economic Integration* (with Bradly Condon), M.E. Sharpe, 2003.

Karine Moe ('95), ed., *Women, Family and Work: Writings on the Economics of Gender*, Blackwell, 2003.

Sad News

Professor Herb Mohring's wife, Popie, has been undergoing treatment for cancer since the middle of June. As I write this in mid-September, she has been in the University of Southern California hospital for the past three months, with Herb spending every afternoon and evening there.

Popie is just now able to talk a bit, but not on the phone. She does however enjoy phone calls in the form of monologs (which must be frustrating for her but at least give some outside contact). Call between 3 and 9PM Pacific Time, to 323-442-8893; ask for room 706.

Or send a card to either
USCUH
1500 San Pablo, Room 706
Los Angeles, CA 90033
or
9 Rustling Wind
Irvine CA 92612-3210.

You can also reach Herb at either his University of Minnesota e-mail address (Mohring@econ.umn.edu) or in Irvine at 949 725 9664.

DC Alumni Gather at the IMF

Mimi Tung
University of Minnesota Foundation



(From left to right) Back row: Alex Mourmouras, Dave Fronk, Tim Kehoe, Ted Saxerud, Frank Emerson, Emmanuel Skoufias, Alvaro Mezza. Front row: John Simpson, Dale Larson, Ben Klotz, Michele Boldrin. Not included in photo: Jahangir Aziz, Andy Baukol, Gianni De Nicolo, Eve Mourmouras, Daria Zakharova.

Coinciding with Michele Boldrin's presentation at the University of Maryland and Tim Kehoe's sabbatical posting, also at the U of Maryland, we had a delightful gathering of econ alumni in the Washington, D.C., area. The breakfast meeting was held at the IMF headquarters, thanks to *Alex Mourmouras, ('88)*.

It provided an opportunity for econ grads in Washington to meet fellow alumni and get an update on the department from Michele and Tim.

Grad alumni participants included: *Jahangir Aziz, Andy Baukol, Gianni De Nicolo ('92), Frank Emerson ('69), Ben Klotz ('69), Alex ('88) & Eve Mourmouras, John Simpson ('78), Emmanuel Skoufias ('88), and Daria Zakharova ('00)*. Also on hand were Alvaro Mezza, an Inter-American Development Bank colleague of Emmanuel, and Minnesota economics undergraduate alumni *Dave Fronk ('73), Dale Larson ('69) and Ted Saxerud ('81)*.

ALUMNI NEWS

J. Hayden Boyd ('67) retired from the U.S. Department of Commerce and moved to Malawi in October of 2002. He is now Director of Research at Mzuzu University and his e-mail is jhboyd@erols.com.

Jim Likens ('69) is still at Pomona College. His friends can get an update at <http://www.economics.pomona.edu/jlikens/>.

John Roberts ('72) is now co-director of a new research center at the Stanford Graduate School of Business, The Center for Global Business and the Economy. His Clarendon Lectures in Management Studies are scheduled to be published by Oxford University Press in March 2004 under the title, "The Modern Firm: Organizational Design for Performance and Growth."

Continued next page...

Thanks for your generosity...

Bob ('80) and Mary Litterman have made ongoing contributions to a fellowship fund established in 2001, Ed Prescott has made a further contribution to a fellowship he established in 2002, and **Richard Sandor ('67)** has created a new fellowship fund this year. While he hopes it will not come to the department too soon, Ed Foster has also provided for a fellowship from his estate.

Gifts for graduate fellowships like these are a top priority to maintain the quality of the graduate program. Competing private universities are raising the ante for levels of support, and declining opportunities for summer teaching jobs are drying up funding: this means that we face more challenges each year to recruit the best students.

... and a request

As part of the University of Minnesota's just-finished highly successful capital campaign the Graduate School used funds derived from a patent license to establish the 21st Century Graduate Fellowship Endowment, which matches dollar-for-dollar the payout of new endowed fellowships made with an initial gift of \$25,000 or more. (If demand for these matching funds exceeds supply, matches will be pro-rated). This offers a two-for-one bargain in gifts to support a fellowship: \$25,000 will provide a summer fellowship in perpetuity. Smaller gifts can generate the same two-for-one bargain by piggybacking on an existing gift established during the capital campaign. Larger gifts (to \$300,000) can endow a full 12-month fellowship plus tuition that is competitive with private universities.

If you would like to consider the possibility of supporting the department through fellowship funds, either now or through your estate, let us know: Bruce Forstein, CLA Development Officer, is the expert on tax and estate issues (Bruce.M.Forstein-1@tc.umn.edu), or call Ed Foster (foster@econ.umn.edu or 612 624-6567).

Thank you.

-- Ed Foster

More Alumni News....

Ken Judd of the Hoover Institution and **Leigh Tesfatsion ('75)**, Iowa State University, have completed the organization of a new volume they are co-editing for the Handbooks in Economics series published by Elsevier under the North-Holland imprint. The title of the new volume is "Handbook in Computational Economics II: Agent-Based Computational Economics." The planned publication date for the new volume is early 2005. A listing of chapter titles and contributors can be accessed at <http://www.econ.iastate.edu/tesfatsi/hbace.htm>.

Martin Eichenbaum ('81) gave the Walter Heller Distinguished Lecture at the Minnesota Economics Association annual meeting last year on October 25, 2002.

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Conferences continued....

Grunewald, "Early Childhood Development: Economic Development with a High Public Return." <<http://minneapolisfed.org/pubs/fedgaz/03-03/earlychild.cfm>>

Last May Art was honored by the University for this work at the Children, Youth and Family Consortium Summit. From the introduction given by Robert Jones, Executive Vice-President and Provost: "This year's recipient is not one of the "usual suspects" who works in the field of child and family service. Rather, he is someone who has stepped out from another field that doesn't always pay attention to babies and little kids: the field of economics. As many of you in this room know, this past fall Art Rolnick and his colleague Rob Grunewald released a groundbreaking report declaring that the best way to invest in a strong economy is to invest in young children. This report has people talking all over Minnesota and in other states around the nation. And the report is not the end of Art Rolnick's work; he continues to serve on the board of Ready4K, advocating around the state for a real commitment to ensuring that all Minnesota children have the strong starts they need and deserve. Art also has given his time and good ideas to the shaping of today's Summit and the overall President's Initiative on Children, Youth and Families — and later this afternoon he will join President Bruininks onstage as a panelist. So please join me in a round of applause as the Children, Youth and Family Consortium honors Art Rolnick for his outstanding service on behalf of children and families." Congratulations Art!

The Minnesota Economic Association Conference will also be held at the Mpls. Fed on October 24, 2003 and Art will present the above paper in the afternoon session. Robert Lucas will give the Leo Hurwicz Distinguished Lecture in the morning.

In 1978, John Kareken and Neil Wallace of the University of Minnesota organized a conference on monetary economics at the Federal Reserve Bank of Minneapolis called, "Models of Monetary Economies." On May 21-22, 2004, the Federal Reserve Bank of Minneapolis and the University of Minnesota will host a follow-up conference, "Models of Monetary Economies II: The Next Generation". The agenda for the conference is described in its title: to present the latest developments in theoretical monetary economics. To that end, the conference will contain the latest and best work from all theoretical approaches to monetary economics. For further details on the conference and on how to submit a paper, see the call for papers at <http://www.stanford.edu/~nkocher/kocherwright/>.

— Narayana Kocherlakota, **Randall Wright ('86)**

THE MINNESOTA LECTURES

by Ed Foster

2001-02 Minnesota Lecture

The annual Minnesota Lecture, started in 1998, recognizes a distinguished alumnus each year. **Rob Townsend** gave the 2001 – 02 lecture in November 2002: Thai Project: Evaluation of Financial Systems. Rob completed his Ph.D. in 1975 under the supervision of Neil Wallace, and began his teaching and research career at Carnegie-Mellon University. He has been at the University of Chicago since 1985, and now holds the title of Charles E. Merriam Distinguished Service Professor. His work in general equilibrium theory has included important contributions that make restrictions on trade endogenous, including the revelation principle, costly state verification, optimal multiperiod contracts, decentralization with private information, and money with spatially separated agents.

It was a wonderful insight that led him to go on to test general equilibrium theory in various relatively simple economies: Where trade in goods is insignificant, one can focus on risk sharing. In that environment, given a few restrictions, a Pareto optimum implies that everyone's consumption varies only with aggregate output; idiosyncratic shocks will be fully insured. Does the existing institutional structure achieve a Pareto optimum? He has now gone through that kind of exercise with respect to medieval European villages, and modern poor villages in

south India, the latter winning the Econometric Society's Frisch medal in 1998. More recently and more elaborately, he has extended such detailed study to the more complex economies of Thai villages and their links to the rest of the world, with enormous increases in the kinds of information collected and the sophistication of analytic methods required.

Rob's lecture drew on the work he has been doing in the Thai project, concentrating on villagers' access to financing. Quoting from his web page, "A multi-regional level survey in Thailand has as its goal the study of the entire national economy, linking together clusters of villages in the semi arid northeast with industrialized, urbanized zones near Bangkok. Annual and monthly surveys collect quantitative panel data on income, consumption, assets, and other variables and collect information on the underlying contracts, using the theoretical constructs developed earlier. The goal is to combine the qualitative and quantitative data necessary to test the theories of risk-bearing and mechanism design. With a more solid understanding of the underpinnings, one can construct and simulate macro models which allow for growth with inequality and financial deepening."

For more information on the data being collected in this ambitious project, go to <http://cier.uchicago.edu/intro.htm>.

2002-03 Minnesota Lecture

We doubled up with two Minnesota Lectures in one academic year: **Richard Sandor** gave the 2002 - 03 lecture in March, 2003: Financial innovations and building institutions.

Richard completed his Ph.D. in 1967 under the supervision of Jack Schmockler, and began a teaching and research career at the University of California, Berkeley. While there he took a different path from the others who have given these Minnesota Lectures: rather than simply analyzing economic institutions, he went off to create them. At Berkeley he designed the first course on futures and options for the School of Business. During the social and economic disturbances associated with the Vietnam War he became persuaded that interest rates were becoming more volatile, and that financial traders would benefit from being able to hedge interest rate movements. He could not find a banker who agreed, but officials at the Chicago Board of Trade were willing to explore the possibilities, so he took leave from Berkeley to establish a department of

economics at the CBOT. The first market was in Ginny Mae futures, opened in 1975, later expanded to futures for US Treasury securities of all maturities, and since then taken up by exchanges all over the world.

Later he turned his attention to markets for catastrophe insurance derivatives, then to markets for environmental trading. He chaired the committee at the CBOT that designed the cap and trade system in SO₂ for the EPA, a market that showed that the cost of reducing SO₂ emissions was about 1/5 what the EPA had estimated in advance. In 1992 he gave a talk at the Rio Earth Summit asking if one could develop market for greenhouse gas emissions, looking seriously at what is needed to do that with verification of results and an effective policing function.

That talk led to formation of the Chicago Climate Exchange, a for-profit exchange intended to provide electronic trading in greenhouse gas emissions, similar in

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FROM THE ARCHIVES

(It was 30 years ago today...; remember the summer of the Watergate hearings?; or, the more things change, the more they remain the same..)

October 23, 1973

To: Graduate Students and Faculty

From: Bob Hagen

Re: Miscellaneous

- 1) A reminder that only G.E.C. members are allowed to xerox through 1035. If you have joined recently, make sure your name is on the list in said office.
- 2) A new coffee policy will go into effect on Monday, Oct. 29. Members of the G.E.C. will be charged 5c/cup and non members 7c/cup.
- 3) It is not too late to join the G.E.C. First year students who feel isolated should strongly consider joining. All it takes is \$3 in Carol Norling's mailbox.
- 4) Drop in to my office (1073) if you wish to have your name on a telegram which will be sent to Rep. Don Fraser with the following message: We, the below, favor the impeachment of Richard Nixon.

More Alumni News...

Robby Rosenman ('82) writes from Washington State: "I made the poor decision to accept the position as Chair of the Department of Economics as of May 15. I also spent 3 weeks this summer teaching at Khon Kaen University in Thailand and 2 weeks in Poland, both as a Fulbright Senior Specialist."

Alfredo Leone ('83) wrote from Washington D.C. that he was recently promoted to Senior Advisor and will move to the IMF Statistics Department this September. He was formerly Assistant Director of the Monetary and Financial Systems Department at the IMF.

David Orden ('84) will be on leave from Virginia Tech as a Senior Research Fellow at the International Food Policy Research Institute (IFPRI) from October 2003-September 2004. He will be working on WTO negotiations and other trade policy issues.

Paul O'Brien ('87) and Kristine McFeaters O'Brien are now living outside of Philadelphia. Paul is a fixed income portfolio manager/economist with Morgan Stanley. Kristine

runs a tour company, Bon Ski Inc., that specializes in ski vacations to the French Alps. Their son JohnPaul is now 19, and their daughter Anna is 14. Any econ-alumni in the Philadelphia area are welcome to contact them at Paul.O'Brien@morganstanley.com or mkristine@attglobal.net.

Harald Uhlig ('90) has been at the Humboldt University in Berlin since the fall of 2000 and he recently organized a conference in Berlin with a number of excellent papers. See <http://www.phillips-curve-revisited.de/welcome.html>.

Francois Ortalo-Magne ('95) has decided to accept a permanent offer at the University of Wisconsin after two years on a visiting appointment. He is in the Department of Real Estate and Urban Land Economics.

Karine Moe ('95) was promoted to Associate Professor with tenure at Macalester College in St. Paul, Minnesota.

Betsy Caucutt ('97) got married this last May to economist Lance Lochner. They moved to the University of Western Ontario in July, joining fellow Minnesota grads *Igor Livshits* and *Jim MacGee*. *Andres Erosa*, *Luisa Fuster* and *Diego Restuccia* are all next door at the U. of Toronto. Betsy's new e-mail is ecaucutt@uwo.ca.

Wenli Li ('97) moved from the Federal Reserve Board in Washington, D.C. to the Federal Reserve Bank of Philadelphia in May. Her son, Ryan Hu, was born in October of 2002. Wenli can be reached at Wenli.Li@phil.frb.org.

Peter Angelides ('98) wrote from Philadelphia (his hometown) that he's been doing economic consulting for PricewaterhouseCoopers for the last two years. His work is mostly related to analysis of economic issues in lawsuits. He and his wife recently had a second child, Madeline, who joins older brother Matthew. Peter's e-mail is peter.a.angelides@us.pwc.com.

Toshi Arimura ('00) visited Resources for the Future for four weeks last spring. During his stay in D.C., he saw Minnesota grads *Paul Sotkiewicz*, *John Stevens* and *Arnie Quinn*. Toshi added that his research was very fruitful and he was surprised to learn how many Minnesota economists work in the D.C. area.

Victor Matheson ('01) was quoted this summer in the *StarTribune* in an article on the Powerball, and I quote

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MORE FROM THE ARCHIVES

*Telephone Regulation
(the Department Move of 1963)*

November 21, 1963

MEMO TO: Messrs. G. Keyt, R. Sandor, K. Sontheimer

FROM: John Turnbull

We have received a one-and-one-half page letter from Plant Services which can be summarized in one line: "There is no money currently available for additional telephones."

This note is being sent to all of you who expressed an interest in having a phone in your office. Given University regulations the only group "entitled" to such service are the occupants of Room 945. The rest of you do not "qualify" under current University policy, though we submitted requests for you to see if anything could be done.

For those of you in Room 945 I realize there is some "discrimination" existent in that you as instructors do not have a phone and some teaching assistants do. This, however, is a result of the happenstance of room assignments which we will rectify next year.

While several wrongs do not make a right, let me note (1) that as yet we do not even have phones for Professors Hildreth and Richter (to return winter quarter); (2) that during my visit to the California campus at Berkeley last summer phones were being taken out of ALL private offices as an economy measure, and to make a call you went down to the departmental office.

Please see me if you would like to discuss this in any way.

Sandor continued....

some ways to the SO₂ emissions system. He thinks it too will show that experts have greatly overstated the cost of reducing these emissions, because of the great variety of feasible paths available. To learn more of that activity, scheduled to start on October 1 of this year, go to www.chicagoclimateexchange.com.

Richard's talk reviewed the development of markets to trade stocks, commodity futures, financial futures and environmental options, focusing on the circumstances leading to development of the market and developments needed for the market to function efficiently, with low transaction costs. We await the paper he promises to write to convey that fascinating story to a wider audience.

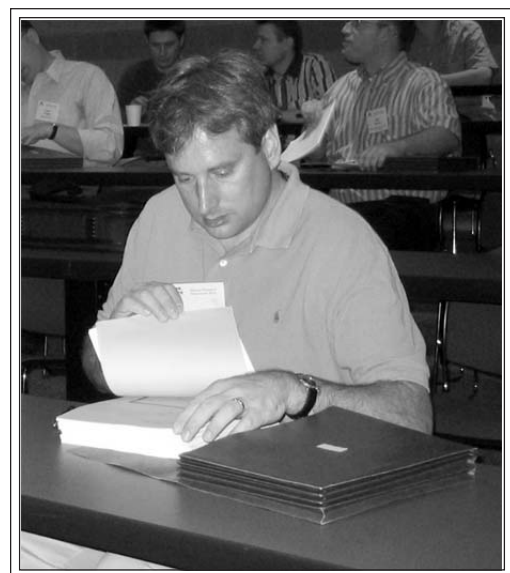
A Few Pictures from the 2003 Macro Workshop



Doug Joines and Selo Imrohoroglu ('88)



Tim Kehoe and Debasis Bandyopadhyay ('93)



Gary Hansen ('86)

LIFE PAST RETIREMENT

by John Buttrick*

A year or two before retirement, I was asked to teach at the University of the West Indies. Ann found a job teaching at the College of Visual & Performing Arts. We had a good year and decided to try retirement in Jamaica. Fifteen years later, we are still here and are both still working. Ann's archive of 500 videos on art and architecture received a UNESCO grant and the catalogue is about to go to the printer. Without her archive, students of art and architecture would not see what is going on elsewhere. I work as a consultant for the Ministry of Finance but failed to persuade Ottawa that working without pay is still being employed under the tax laws.

Jamaica, a country of 2,500,000 people of whom about one-third are illiterate, regularly produces world-class musicians and athletes, looks after about 1,000,000 tourists in hotels and guest houses on the north coast and exports bauxite and alumina, coffee, marijuana and trans-ships illegal drugs from Colombia which bring both income and crime. Traditional exports of sugar and bananas are no longer profitable. In recent years, perhaps 7-10% of the top end of the labour force leaves for North America and England annually. 41% of all physicians trained at the University of the West Indies have left the Caribbean and this year 600 Jamaican teachers were recruited by New York City and England. Over the years, an estimated 2,000 nurses have left. Emigration raises world income, lowers Jamaica's and raises educational costs beyond what the Government can afford. In the 1970's, to persuade Jamaica that Cuban socialism would be a mistake, the US encouraged Jamaica to borrow far more than was sensible and now almost half of its tax revenue just pays interest on this debt. Joe Stiglitz's criticisms are valid but IMF approval is still essential for a loan. Subsidised food from the US continues to damage Jamaican agriculture and push more people to Kingston where there are too few jobs. Nonetheless, 10% of the population is well-to-do and another 10% is middle class, imports are larger than are

More Alumni News...

without permission: "Normally, Powerball and other lotteries return less than 40 cents, after taxes, in payouts, for every dollar wagered, though this week's (July 9, '03) big jackpot raises the expected post-tax return to a little more than 77 cents, said Victor Matheson, an economics professor at Williams College in Williamstown, Mass. 'It's natural to think anytime the cash value of the jackpot is above \$120 million, your value [per dollar bet] is over \$1,' Matheson said. 'The complicated fact is that as the jackpot

reported exports and average income per capita is far higher than the World Bank's PPP estimate. Managing the economy is seriously hampered by a lack of timely and accurate data. A Swedish team is now bringing improvements and I am trying to persuade the Ministry of Finance to adopt SNA93+ (the U.N.'s System of National Accounts).

Young economists in Jamaica, as in North America, are taught with US textbooks to use rather than collect or criticise data. Especially in poor countries, this is a mistake. The rule should be: Don't use data that you don't understand. Throughout the 1980's, for example, dis-saving was reported for Jamaican households in every year but there was no inflation. Since 1989, no household accounts have been compiled or reported. For the past 15 years, the small firms, where about two-thirds of the labour force works, have been ignored as unimportant while large firms and agriculture were being battered by imports. But the small firms were growing along with illegal activities. What is a poorly trained labour force doing when there is no unemployment compensation and the unemployment statistics are almost meaningless? How about the assumption that reported GDP tracks "real GDP" closely enough to be useful? Cuidado, you may be making big mistakes.

*Editor's Note: John Buttrick came to Minnesota in 1952, arriving from Northwestern. He was Chair of the Department from 1961-1963. He then went to Japan on a Fulbright and on to Colombia for a year where the department had a contract with the USAID to start a Master's program in economics at the University of Los Andes in Bogota. (See "The Forgotten Colombian Connection" by Francisco Thoumi in this newsletter, 1999; more on the MN-Colombia relationship will appear in the next issue). Buttrick became disgusted with the U.S. failure to end the Vietnam War and former Minnesota professor Andreas Papandreou (See the Fall 1996 newsletter) offered him a job in Canada for a few years and he decided to stay. He taught at the University of York until he retired.

gets bigger, that generates all sorts of lotto-mania [and ticket sales], which means there's an increased chance of having to share that jackpot. Even though the mean return on a ticket is a record-high 77 cents after tax, the median return is of course zero, because 97 percent of the time your return is zero. On the other hand, \$1 is a cheap price to pay to dream about winning \$250 million.'" Victor has written a number of articles on lotteries as well as on the economic impact of sports.

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Editor: Wendy Williamson

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>

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University of Minnesota
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