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AKERLOF SHARES 2001 NOBEL PRIZE IN ECONOMICS: DEPARTMENT'S SECOND WIN IN A ROW

A Message From Chair Alan J. Auerbach...

The award spotlight remained trained on Evans Hall this fall, with the announcement on October 10th that George Akerlof had been awarded the 2001 Nobel Memorial Prize in Economic Sciences. With Dan McFadden's receipt in 2000, this marks the second consecutive year that a member of the Berkeley Economics Department has received the award, the third time in seven years, and the fourth time overall. The Nobel committee cited Akerlof and his co-winners "for their analyses of markets with asymmetric information" or, to use the more colloquial expression based on Akerlof's original article on the subject, the "lemons" problem. With the Economics Department accounting for all of the campus' Nobel Prizes over the last decade and a half, graduates and faculty may take great pride in the Department's role on campus.

During the flurry of press inquiries following October's Nobel Prize announcement, I was asked more than once how one might

By Kathleen Maclay, Public Affairs (reprinted with permission)

George A. Akerlof, an economics professor at the University of California, Berkeley, was named the 2001 co-winner of the Nobel Prize in Economic Sciences [on October 10, 2001]. It is the second consecutive year in which the Nobel has gone to a UC Berkeley economist.

Akerlof, described by a colleague as "a citizen of the profession," is the author of a landmark study on the role of asymmetric information in the market for "lemon" used cars. His research broke with established economic theory in

illustrating how markets malfunction when buyers and sellers – as seen in used car markets – operate under different information. The work has had far-reaching applications in such diverse areas as health insurance, financial markets and employment contracts.

Akerlof shares the prize with economists A. Michael Spence of Stanford University and Joseph E. Stiglitz of Columbia University for their contributions to the analyses of markets with asymmetric information.

Akerlof, 61, is UC Berkeley's eighteenth Nobel Prize winner. He is the university's fourth economics professor and the third in seven years at the university to be so honored.



Photo: Peg Skorpinski

Nobel Prize recipient George A. Akerlof

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MICHAEL JANSSON:

HE FINDS AN “INHERENT BEAUTY” IN ECONOMETRICS

A New Faculty Profile



Photo: Grace Katagiri

Beauty in econometrics? “Yes,” says Michael Jansson, Assistant Professor of Economics. “I like the overall approach that econometricians take, in that they specify a mathematical model of the problem they want to study and then there are well-defined criteria that [they] try to meet when developing statistical techniques, and there is a way of getting regular results. It seems to me that you are doing real scientific research, there is no political agenda there; it’s real science.”

Econometrics was a natural choice for Jansson, primarily because his home department at the University of Aarhus (in his native Denmark) works primarily in that specialized area. The department is so small that all doctoral students are required to spend one year of graduate study overseas in order to flesh out their

graduate programs. Although Jansson is the first member of his family to be awarded even a bachelor’s degree, his parents, both elementary school teachers, encouraged his academic aspirations; those aspirations have now taken him far from his hometown of Viborg.

After one year at MIT as a visiting graduate student, Jansson decided that he wished to pursue his academic career in the United States, for a number of reasons. “American universities have better economics programs. They are so much better, there are hardly any comparisons.” So, Jansson returned to Denmark, completed his dissertation, and returned to the United States, this time as a Research Economist in UC Berkeley’s Economics Department, a one-year appointment which led to a tenure-track position. Although Jansson applied for a number of positions, he hoped for an offer from a large academic institution. Jansson says that, although he was sure that he wanted to be in the United States, his wife “was never sure that this was something that she would be willing to do. But she made it pretty clear to me that, if I could get a job at Berkeley, she would be willing to live here with me. So I pretty much knew what I had to do.” He says now that “even if I had the choice, I am not sure I would have chosen any other department over Berkeley.”

Jansson joins a distinguished group of Berkeley econometricians, including Nobel Laureate Daniel McFadden. He describes his current

research, specification testing in non-stationary time-series analysis, as macroeconometrics, in that he tries to develop statistical techniques that macroeconomists can use in their work. The sub-field of non-stationary time-series analysis, which has been in existence for at least twenty years, is crucial to undertaking empirical work in macroeconomics. Jansson explains: “One of the things you have to take into account is that the data you are working with exhibits serial dependence, and it turns out that the way you interpret the results of your model, and the statistical techniques you employ in order to get results from the model, depends crucially on the extent to which this pattern of serial dependence is there in the data. So it is very important from a practical point of view to be able to discriminate between different models of the way in which time-series evolve over time.” Jansson’s work therefore involves the development of techniques that will enable people to discriminate between competing models of this dependence structure. He goes on to say that his current research tries to clarify “whether the inability to discriminate between competing theories is just a fact of life, in the sense that the data we have simply doesn’t allow us to draw any clear conclusions, or whether it is due to the fact that the techniques we use simply aren’t good enough.”

Jansson’s research is primarily motivated by concrete applications from international finance, particularly the question of whether purchasing power

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CHAD JONES:

ECONOMIC GROWTH IS THE 'BIG QUESTION'

A New Faculty Profile

"Why are some countries rich while others are poor?" "Why is there long-run growth in per capita income?" These are the questions Charles "Chad" Jones has been struggling with since he started as an undergraduate at Harvard University in the mid-1980s. As new Associate Professor of Economics this fall, Jones has compared his path to economics with that of many other scholars in the field: a love of math and a desire to do something with "real-world applications."

Jones started off thinking that math and computer science were the way to go. He grew up just as computers were becoming "personal," back when students could build their own machines from components. During his first year of college at Harvard, he "discovered that computer programming really meant spending three hours a week designing programs and fifty hours a week debugging them, which didn't strike me as a good bargain." Since his roommates were taking some introductory economics courses that seemed interesting, he joined in, and decided that economics offered him a forum to apply his interest in math to real social phenomena.

His road to a specialty in economic growth was not a straight one, but at first it traveled through the office of Harvard economist Robert Barro. At the time, growth economics was exploding, and Barro was working on his famous cross-country empirical papers. Jones was hired as a research assistant,

which sparked an initial interest in the area. Eventually, under Barro's supervision, Jones wrote his senior thesis on Ricardian equivalence.

However, when Jones arrived at MIT as a graduate student, he explains that he "was affected by what seems to be a common anti-macro



sentiment among first-year students (or at least it did at that time)." And so he broadened his interests and considered microeconomics as a specialty. He spent his summer tracking down data sets and a collection of panel data from about 1000 firms, writing an econometrics paper in his second year on the hedonic pricing of health insurance. But as soon as he included "state effects" in the econometric specification, all of the results disappeared.

Jones says: "This gave me a much better appreciation for the difficulty of answering *any* questions in economics. I decided that if all questions are hard to answer, I might as well work on the important ones." This led him directly back to his earlier interest in economic growth. Ultimately, Jones produced a dissertation entitled "Time Series Tests of Endogenous Growth Models," under the tutelage of advisers Olivier Blanchard and Stanley Fischer.

In general, Jones' research centers on questions about the growth of per capita income. Why is there long-run growth in per capita income and why does it take hold in some places but not others? Recent publications in this area include "Was an Industrial Revolution Inevitable? Economic Growth Over the Very Long Run" (*Advances in Macroeconomics*, August 2001) and "Why Do Some Countries Produce So Much More Output per Worker than Others?" (with Robert E. Hall, *Quarterly Journal of Economics*,

February 1999). Interestingly enough, some of his current research harkens back to a topic he has visited before: health economics. In a paper entitled "Why Have Health Expenditures as a Share of GDP Risen So Much?" Jones investigates technological advances in the health field and their effects on the rising share of expenditures on health care.

While an Assistant Professor at Stanford University (1993–2001),

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YINGYI QIAN:

A TRANSITION ECONOMIST COMES FULL CIRCLE

A New Faculty Profile

“My background is a bit unusual,” Yingyi Qian says of his journey from a village in rural China to the position of Professor of Economics at the University of California, Berkeley. Born in Beijing in the mid-1950s, Qian enjoyed only a few years of formal education at the experimental Beijing Jingshan School before all the country’s schools were closed down as a result of China’s Cultural Revolution. At 17, Qian was “sent down” to the countryside, along with all high school graduates at that time. He went to a mountainous suburban area of Beijing, Miyun County. “The village I was in was very poor. I spent four years there, working as a peasant, doing all kinds of farming jobs... raising pigs, digging canals, watering vegetables, everything.”

In 1977, the Chinese government reinstated university entrance exams, which Qian took while still in the village. He had continued to study while in the countryside, focusing mainly English and calculus. “I had a small transistor radio. I listened to the broadcasts of various programs in English. When people in the village asked what I was listening to, I told them ‘an ethnic minority language.’” That year saw the most competitive college entrance exam in China’s history, with a ten-year accumulation of

high school graduates vying for acceptance to university. Entrance exams had not been administered for over a decade, meaning that only 3% of the large pool of applicants gained admission. Qian, one of the fortunate minority, was only familiar with mathematics, so he chose to become a major in that field at Tsinghua University in Beijing,



known as “China’s MIT.” Qian has always had a strong interest in social issues, honed by the four hard years he endured working in the poverty of the Chinese countryside. At that time, economics in China consisted exclusively of Marxist political economy, and did not attract science-oriented students. The term “Western Economics” in Chinese carried a negative connotation, and the subject was, at best, summarized and then heavily criticized in university economics courses. For this reason, Qian stuck to math, a hard science isolated from the Marxist

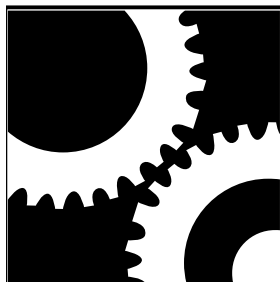
political agenda.

Within a few years of arriving at Tsinghua, a series of events occurred that radically changed Qian’s direction and future. Shin-sheng Tai, a professor from the Institute of Mathematics at the Academy of Sciences of China, taught Linear Algebra and Differential Form at Tsinghua; Tai had done his graduate work at Cal in the 1960s and returned to China in the following decade. In 1980, Tai selected Qian and several other Tsinghua students to attend a Differential Geometry course at Peking University, taught by S. S. Chern, a visiting professor from Cal’s Mathematics Department. Qian received an “A” in Chern’s course, leading Tai to suggest that he continue his studies in the U.S. He had

proved, with his success in Chern’s class, that he could compete at the same level as American students. Within a year, Qian received a fellowship in Mathematical Statistics from Columbia University and completed an M.A. in 1982. Next, as a student at Yale’s School of Management, Qian finally began formal training in economics.

During those years, China underwent its successful agricultural reform, and there was talk of extending these reforms to the urban areas, to the industry and banking sectors, among

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*News from Graduate Student Affairs
Officer Helga Northrop:*

2001 was a very successful year on the job market for May 2001 Ph.D.s. Tenure-track assistant professorships were accepted by

Gary Charness (UC Santa Barbara), Justine Hastings (Dartmouth College), Ling Huang (Peking University, PRC), Stephen Luk (Hong Kong Polytechnic University), Chris Meissner (Cambridge University, UK), Kris Mitchener (Santa Clara University), Suzanne O'Keefe (CSU Sacramento), Steven Puller (Texas A&M), Michael Roberts (Duke University), and Wei-Kang Wong (National University of Singapore). Graduates who accepted non-academic positions include Mark Carlson (Fed Board of Governors), Brendan Daniels (General Accounting Office), Erling Larson (Statistics Norway), Bhashkar Mazumder (Federal Reserve Bank Chicago), Richard Mortimer (Analysis Group, Cambridge, MA), Andrea Tokman (Banco Central de Chile), and Sally Woodhouse (Cornerstone Research, Boston, MA).

The department received 600 graduate applications, of which 92 were recommended for admission. 28 new students enrolled this past August. Due to the generosity of Dean Breslauer, the department was able to offer two-year fellowships to its top incoming students. In addition, continuing students are eligible for the Dean's Normative Time Fellowship Program. The fellowship is intended to encourage students to start their research early, take their oral exams and advance to candidacy at the end of the third year. If successful, the student receives a full one-year fellowship with a stipend of \$14,000, University fees and non-resident tuition, where indicated. Students who advance to candidacy by the end of their fourth year receive a one-semester fellowship with a stipend of \$7,000.

Other student news:

Doug Almond received a National Institute of Aging fellowship in the demography and economics of aging, which will support dissertation research on the early childhood origins of adult disease and mortality.

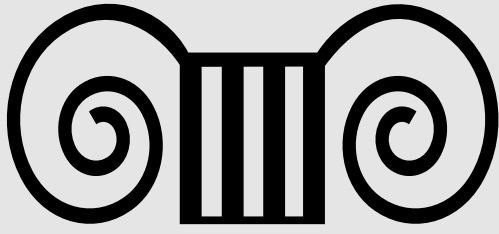
Kalena Cortes is the recipient of the Graduate Opportunity Program Dissertation-Year Award from UC Berkeley for 2001-02.

Scott Gehlbach, Ph.D. candidate in political science and economics, was awarded a Fulbright-Hays Doctoral Dissertation Research Abroad (DDRA) Fellowship to study in Russia during the 2001-02 academic year. He is spending the year at the Center for Economic and Financial Research (CEFIR) in Moscow.

Petra Geraats (Ph.D. 2000) was awarded the European Economic Association 2001 Young Economist Award for her submission to the EEA 2001 Congress entitled "Precommitment, Transparency and Monetary Policy." Dr. Geraats is in her first year on the Economics faculty at Cambridge University, and is a fellow of St. John's College. The announcement of her award was made at the August meeting of the Congress, at which Professor Matthew Rabin delivered the Marshall Lecture.

This year's Graduate Economics Association's co-presidents are Gustavo Bobonis, Andrea Cann, and Sally Kwak.

Fourth-year student Rebecca Hellerstein has been awarded a two-year fellowship from the Social Science Research Council's Global Security and Cooperation Program (funded by the MacArthur Foundation) to gather and analyze data on the prices of patented drugs across developing economies. To gather the data, she is working with the non-governmental organization Medecins Sans Frontieres (Doctors Without Borders).



FACULTY NEWS & NOTES

During this past summer, **Alan Auerbach** served as an advisor in Wellington to the New Zealand Treasury's Tax Review Commission, which released its report in October.

Pranab Bardhan presented lectures at home and abroad this past summer and into the fall. He spoke on "Inequality and Collective Action" at the University of Copenhagen in June and at the Santa Fe Institute in September; on "Democracy and Inequality" in Columbia University's Mellon-funded Sawyer Lecture Series; on corruption at a meeting of the Gorbachev Foundation in Madrid, Spain; and again at Columbia University, as part of the symposium on decentralization at the Institute of Policy Dialog, all in October.

Congratulations! **Barry Eichengreen** received the Felix Neuburgh Prize (awarded to an economist once every two years). He delivered the Felix Neuburgh Lecture in Gothenberg, Sweden, in November.

Joseph Farrell is back in Berkeley after a year as Deputy Assistant Attorney General at the Justice Department's Antitrust Division. His successor there is another Berkeley professor, Michael Katz. Farrell is teaching antitrust and regulation to undergraduates, and in a joint effort with Oxford University professor Paul Klemperer, is writing an article on switching costs and network effects for the next volume of the *Handbook of Industrial Organization*, a standard reference.

In October, **Bronwyn Hall** organized a Franco-American workshop on the Law, Economics, and History of Intellectual Property, held at the Haas School of Business. Economics Department members presenting papers were Richard Gilbert, Suzanne Scotchmer, and graduate student Petra Moser. In September, Hall lectured at the European Summer School in Industrial Dynamics at Cargese, Corsica.

In August, Professor **John M. Letiche** delivered a lecture on "National Security and the World Economy" at the U.S. Federal Government Senior Executive Program in Aurora, Colorado, where he spent the day discussing with heads of our government agencies the political-economic determinants of terrorism. He also worked in Western Europe on United States-European Union and Russian economic collaboration in September. His latest publication is "Lessons from the Euro Zone for the East Asian Economies", *Journal of Asian Economics*, 11 (2000).

Ted Miguel was in the field this summer in Delhi, India, planning an evaluation of a non-profit school health program, and in Busia, Kenya and Meatu, Tanzania, continuing his research on local school public finance in rural Africa.

Maurice Obstfeld spent July "down under." He presented the Reserve Bank of New Zealand Lecture at the Australasian Meeting of the Econometric Society and the Miguel Sidrauski Memorial Lecture at the Latin American meeting of the Econometric Society in Buenos Aires. In addition, he has been named a Foreign Honorary Adviser to the Institute of Monetary and Economic Studies of the Bank of Japan (the Japanese central bank). Previous holders of this position include Milton Friedman, James Tobin, Stanley Fischer, and John B. Taylor.

In August, **Glenn Woroch** presented a paper at the "Industrial Competitiveness and Competition Policy in the Era of Telecommunications Convergence" conference in Seoul, Korea. He was an organizer of, and presenter at, the October "National Summit on Broadband Deployment" in Washington, DC.

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Economics professor Daniel McFadden shared the prize last year. The now-deceased John Harsanyi, a professor of economics and business administration, won the Nobel Prize in 1994; and Gerard Debreu, a professor emeritus of economics and mathematics, won the prize in 1983.

Since joining UC Berkeley's Economics Department in the College of Letters & Science as an assistant professor in 1966, Akerlof has been recognized for his research that borrows from sociology, psychology, anthropology and other fields to determine economic influences and outcomes. His areas of expertise include macroeconomics, poverty, family problems, crime, discrimination, monetary policy and German unification.

Akerlof is married to economist Janet L. Yellen, the Eugene and Catherine M. Trefethen Professor at UC Berkeley's Haas School of Business and Professor of Economics. Yellen served as chair of the President's Council of Economic Advisers from 1997 to 1999 and was a member of the Board of Governors of the Federal Reserve System. Akerlof and Yellen have worked together on numerous research projects. Their son Robert, 20, is a junior at Yale University.

"He has real flashes of insight into human problems, into what may explain social phenomena," Yellen said. "It's wonderful to work with him; he's so original."

UC Berkeley colleague and fellow Nobel laureate McFadden said Akerlof's receipt of the Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel "is richly

deserved" for his leadership in the revolution of understanding what makes markets work. McFadden, who lives near Akerlof, dropped by to congratulate him in person early [on October 10th].

"One of the most profound insights in modern economics is that the formation and structure of markets depend critically on the information available to participants, and on the mechanisms that govern transactions and the enforcement of contracts," said McFadden.

"These conditions can prevent the formation of markets that would be desirable for resource allocation, or lead to markets that do a poor job of allocating resources. Conversely, getting information flows and governance aligned can facilitate the development of markets that improve resource allocation, particularly in situations such as the internal operation of firms and bureaucracies."

Akerlof's award came as no surprise to many of his fellow economists at UC Berkeley and around the country.

"More than any other person in economics, George has worked to show how the insight from sociology and psychology could broaden, enrich and increase the power of economics. He is, in my opinion, perhaps the most imaginative and creative applier of insights from other disciplines," said Henry Aaron, senior fellow at the Brookings Institution.

"George Akerlof's contributions to economics have been fundamental, from his celebrated paper describing the role of asymmetric information between buyers and sellers in the market for 'lemons' to

his work that helped launch the burgeoning field of behavioral economics," said Alan Auerbach, Chairman of UC Berkeley's Economics Department. "All the while, he has made crucial contributions to macroeconomic theory, thereby demonstrating the extraordinary breadth of his interests."

Christina D. Romer, a colleague in the Economics Department at UC Berkeley, wrote in a 1996 evaluation of Akerlof's work that he was almost certainly destined to win a Nobel Prize. She praised his path-breaking work that incorporates psychological insights into models of economic behavior.

Also known as an outstanding professor, Akerlof earns teaching evaluations by his students that "are simply off the charts," Romer said. His commitment to the University, the Economics Department and his students "is legendary," Auerbach said.

"George is a kind, generous, and enthusiastic person who loves economics," Romer said. "He contributes immeasurably to the department by simply being the kind of person he is."

The native of New Haven, Conn., developed a keen interest in economics as a child growing up in the shadow of the Great Depression of the 1930s, an era he called the "catastrophe that took over the world."

"I've always been interested in why people are poor," he said. "What economics is about is trying to prevent poverty insofar as that is possible."

Akerlof earned a bachelor's degree at Yale in 1962 and a Ph.D. at

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the Massachusetts Institute of Technology in 1966. He is a Non-resident Senior Fellow at the Brookings Institution and a research associate of the Canadian Institute for Advanced Research. He also is one of five Richard and Rhoda Goldman Distinguished Professors in the College of Letters & Science, appointed in 1997 for a five-year term.

Additional awards he has received include a Guggenheim Fellowship, Fulbright Fellowship, Fellow of the Econometric Society and Fellow of the American Academy of Arts and Sciences. He served as senior staff economist with the Council of Economic Advisers from 1973-1974 and was visiting research economist in the special studies section of the Federal Reserve System Board of Governors from 1977 to 1978.

He is a former Cassel Professor of Economics with Respect to Money and Banking at the London School of Economics, and visiting professor at the Indian Statistical Institute in New Delhi.

In *An Economic Theorist's Book of Tales* (Cambridge University Press, 1984), Akerlof discussed his approach to his work.

"Economic theorists, like French chefs in regard to food, have developed stylized models whose ingredients are limited by some unwritten rules," he wrote. "Just as traditional French cooking does not use seaweed or raw fish, so neoclassical models do not make assumptions derived from psychology, anthropology, or sociology. I disagree with any rules that limit the nature of the ingredients in economic models."

Editors note: Additional information can be found at <http://emlab.berkeley.edu/users/akerlof/index.html>, and at <http://www.berkeley.edu/news/features/2001/nobel/index.html>.

explain Berkeley's recent success (including Matthew Rabin's receipt this past spring of the American Economic Association's John Bates Clark Medal). After the obvious disclaimer that these awards recognize remarkable individual achievements for which there need be no common explanation, I did allow myself to speculate that our department provides a challenging and yet uncommonly collegial environment in which to do research.

Alas, success brings its own problems, as discovered by students who attempted to enroll this fall in Dan McFadden's intermediate microeconomics course, Economics 100A. At one point, early in the semester, there were nearly as many students on the waiting list as enrolled in this, a key gateway course for the economics major. While this example is perhaps among the more extreme, it reflects the difficulty we face in accommodating the many undergraduates wishing to study economics.

With the University's support, we are making progress in expanding our department to meet student needs. Thanks in large part to the outstanding leadership of my predecessor as Chair, Maurice Obstfeld, the Department has added four new members to our faculty this year, joining the four who arrived last year. This year's "class" includes Professor Yingyi Qian, a specialist in transition economics and the Chinese economy, Associate Professor Charles (Chad) Jones, a leading expert on economic growth, and Assistant Professor Michael Jansson, who specializes in time-series econometrics. Arriving officially later this year will be Professor Guido Imbens, a leading microeconometrician.

As I assume, once again, the role of Department Chair, I wish to thank those friends of the Economics Department who have provided their support in the past, which has played a key role in helping us maintain the

momentum of recent years. Future issues of *The Econ Exchange* will provide more information on how gifts to the department have been used, and the challenges that remain.



JONES, from page 3

Jones authored *Introduction to Economic Growth* (W.W. Norton and Company, 1998), a textbook on growth that is available in five languages. Before this book was written, Jones says, the fascinating advances in the study of economic growth achieved during the last fifteen years had yet to filter down into undergraduate teaching—the insights were largely locked away in academic journal articles. At Berkeley, Jones plans to incorporate this material into the undergraduate courses that he teaches, including intermediate macroeconomics, and possibly in smaller seminar-style courses. He will also teach growth at the graduate level.

When asked to comment on what he likes best about being at Cal, Jones remarked that "the Economics Department at Berkeley is a very special place these days. Obviously, it is one of the top departments in the world. But in addition, it has a great collection of economists at all stages in their careers." He says that he really enjoyed the warm welcome he received upon his arrival in July and the level of collegiality among the faculty.

Jones and his wife are the parents of twenty-one month old Audrey. So when he is not hard at work, Jones and his family are hard at play, discovering the many attractions that the East Bay boasts for children, including playgrounds, parks, and the Oakland Zoo.

others. While at Yale, Qian met Jinglian Wu, a visiting scholar from the Chinese Academy of Social Sciences, and now arguably the most famous economist in China, who played an important role in China's market-oriented reform. Wu suggested that Qian read Janos Kornai's *Economics of Shortage*, which greatly inspired him. At this time, Qian decided to become an economist and applied to the Ph.D. program in economics at Harvard, where Kornai was on faculty. His decision led him to the fields of economic theory and comparative economic systems, under the guidance of Kornai, economic theorist Eric Maskin, and Andreu Mas-Colell, a long-time Cal mathematical economist. He used game theory to study such topics as incentives in hierarchy and "soft budget constraints" in centrally planned economies. With the completion of his Ph.D. in 1990, Qian began to look at China's transition from a centrally planned to a market economy. It was at this point that his interests and academic study found common ground in which to develop. Qian now saw a way to link his profound interest in social problems with his solid mathematical background, to become the kind of economist he could not have become had he remained in China.

Qian describes himself as a specialist in the fields of comparative institutional economics, economics of transition, and China's economic reform and development. His work on China focuses on that country's transition from planned to market economy. In contrast to the reform of the Central and Eastern European economies, China's transition looks markedly different. To date, it has not been accompanied by political

democratization, a reliance on the rule of law, nor has it involved very fast privatization. China's deviation from the norm begs the question of whether these elements are essential for fast transition and growth, which economists had always taken for granted. From the perspectives of political economy and institutional change, Qian looks at how nations develop institutions, and how these institutions evolve during a period of transition and as society quickly changes.

When asked what attracted him to Berkeley, Qian mentioned that he has had contacts with scholars here for many years—going back, of course, to that fateful Differential Geometry course he took from S. S. Chern in 1980. He first met Gérard Roland, Berkeley's first transition economist, at a Berkeley conference organized by the Economics Department's Pranab Bardhan in 1991. His interest in coming here was sparked when he learned that Roland would be joining the department. They share a strong interest in the institutional and organizational issues of transition, and have co-authored a number of journal articles, including "Federalism and the Soft Budget Constraint" (*American Economic Review*, December 1998). In addition, Qian corresponded for many years with Oliver Williamson on various issues in organization theory. He feels that Berkeley is quite committed to the study of transition, and he points to now-retired faculty Gregory Grossman and Ben Ward as examples of the department's tradition in comparative economic systems. Qian also mentioned the campus' long commitment to East Asian studies, and a recent

strengthening of the faculty in this area.

Qian is teaching two new courses during his first year here. For undergraduates, he is offering a lecture course entitled "Economics of Transition and Development: China"; and for graduates, a lecture course on economics of transition. In addition, he and Gérard Roland are starting a new seminar course on transition economics, which will bring in specialists from Europe's Center for Economic Policy Research and from the Davidson Institute at the University of Michigan, among other distinguished researchers in the world. The seminar seeks to identify general themes and principles beyond country-area specialties from the perspectives of institutional development and political economy.

Yingyi Qian is a fan of classical music, specifically Western opera and symphonic music, of which he has a very extensive collection. Qian often travels to Europe and Asia. He is delighted to be back on the West Coast (he taught at Stanford between 1990 and 1999), as flights to China are shorter from San Francisco than from the East Coast. His other interest—traditional Chinese cuisine—he links to his experiences during China's Cultural Revolution, when social disruption forced children to become self-sufficient at a very young age. As a result, Qian learned to cook at age 10 and still enjoys making the traditional dishes that he learned to prepare as a boy.



parity is found in the data. For instance, one can look at whether exchange rates in different countries tend to move together over time. Is there a long-run relationship between the exchange rates in the United States and the United Kingdom? Over time it is possible to see that the exchange rate of the dollar vis-à-vis the pound goes up and down. Do exchange rate movements move together with movements in the price levels in the different countries? The essential question is whether products in the UK sell for the same price as products in the US. If they don't, one would think that, over time, people would be able to exploit that difference to make money. Economists recognize that it takes a long time for this kind of adjustment to take place, but the question that lots of researchers have tried to address is whether this adjustment takes place at all. One is therefore attempting to quantify the inertia within the adjustment process. There are techniques that can be used to address these issues. The overriding theme in Jansson's research is that the current techniques do not do an acceptable job of quantifying the effect. He addresses existing questions by trying to develop new techniques that are better at quantifying these issues.

When he arrived at Berkeley last year as a research economist, Jansson says he "realized straight away that it is a very friendly and open department. The atmosphere is very collegial and supportive, which is very important particularly when you are

young. This group of econometricians is second to none . . . and Berkeley certainly has one of the best statistics departments in the world." Jansson hopes for an opportunity soon to offer a special topics course in the Economics Department on time-series analysis. He feels that this would be interesting to both econometrics and macroeconomics graduate students. Jansson expects his current research to keep him busy for at least another year, and hopes that his findings will suggest other avenues for investigation.

When not at work, Jansson and his wife like to visit San Francisco to explore the parts of the city not written up in travel guides or seen on television. His wife, a nurse, is awaiting permission from INS to work here in her chosen field. On weekends the couple attends local rock concerts (particularly bands from the UK) and seeks out good restaurants. Jansson has also taken up tennis, something he always wanted to pursue, but that Denmark's climate made difficult. He says that he finds the Bay Area weather "quite phenomenal" and conducive to hiking and travelling up and down the California coast, which offers "so much variety, you can find what you are looking for."



Nicole Maestas is the recipient of two fellowships for 2001-02: a dissertation fellowship from the Burch Center for Tax Policy and Public Finance, and a Phi Beta Kappa fellowship from UC Berkeley's Alpha Chapter.

This fall, **Jason Seligman** is a Doctoral Research Fellow with the Office of Ratepayer Advocates, California Public Utilities Commission, researching regulatory federalism and electricity markets.

Roger Studley has again been awarded a research grant from Berkeley's Center for Studies in Higher Education, where he continues as a Research Associate. He is also working as a research analyst on admission policy for the UC Office of the President. In November, he presented "Inequality in College Admissions" at the "Rethinking the SAT in University Admissions" conference at UC Santa Barbara.

Till Wachter spent two months this summer doing dissertation research in Rome funded and hosted by the Ente 'Luigi Einaudi,' an Italian institute affiliated with the Bank of Italy, the Italian central bank.

Marta Wosinska has been awarded a dissertation fellowship from the Agency for Health Care and Quality to fund her work on the effects of direct-to-consumer advertising on demand for prescription drugs. She previously received funding from the Institute for Business and Economic Research and the Center for Health Research, both at UC Berkeley.



*Editor's Note: This timely press release from the UC Berkeley Office of Media Relations appeared in October, 2001. Economics Professor **Michael Reich's** research informs current public debate regarding the status of private airport security personnel: whether they should be replaced by, or made, federal employees, or whether they should remain employees of private firms which contract with airport management to provide security services. The issues under debate pertain to security personnel level of training and performance expectations, among other things.*

BETTER PAY FOR AIRPORT SCREENERS IMPROVES JOB PERFORMANCE, REDUCES TURNOVER, SAY RESEARCHERS

By **Kathleen MacLay**, Public Affairs
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Increasing wages for airport security workers significantly reduces turnover and improves job performance, according to a preliminary study by a UC Berkeley research team that is examining an innovative program at San Francisco International Airport.

The report comes as national attention focuses on how to improve

security and safety at our airports, as well as on the impacts of low pay, inadequate training and turnover among the 8,000 pre-board baggage screeners in the United States.

"Paying airport workers a living wage is proving to be successful in San Francisco," said **Michael Reich**, Professor of Economics in the College of Letters & Science and Research Chair for the Institute for Labor and Employment, which is sponsoring the study. "The quality standards program at the San Francisco International Airport should be looked to as a model."

The quality standards program was established at the airport in January 2000 and set recruitment, training, pay and benefit standards for all employers with workers in security areas or performing security functions at the airport. The standards are above those required by the Federal Aviation Administration. They cover baggage screeners, but also skycaps, baggage handlers, airplane cleaners, fuelers, and boarding agents—anyone whose performance is essential to airport security.

After a summer 2001 survey of ground-based employees of airlines, airport-service firms and concessionaires with almost 30,000 workers, researchers concluded that:

1) Turnover of screeners at San Francisco International Airport dropped from 110 percent to 25

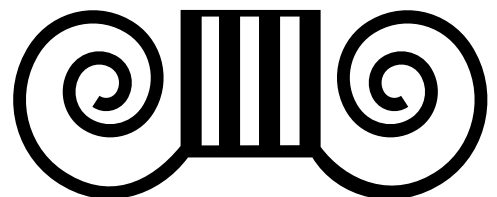
percent. (The federal General Accounting Office has cited higher turnover of airport screeners as a principal cause of security breaches. At Boston's Logan Airport, turnover rate reached 200 percent in 1998, which means the average screener had been on the job for three months.)

2) Employers reported improvements in overall job performance and greater ease in recruiting more skilled applicants.

3) Employers reported reduced absenteeism, fewer disciplinary problems and higher morale.

4) The cost of the San Francisco quality standards program works out to \$1.37 per passenger traveling through the airport.

"These findings imply that a policy of replacing all airport screeners with federal security personnel runs the risk of being too narrowly focused," the report concluded. "One of the main advantages of the SFO program is the breadth of its impact. By linking wage improvements to training and accreditation programs, the program has gone a long way to improving morale and performance across the entire airport."



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