53rd Annual Carl Snyder Memorial Lecture featuring David Card March 1, 2011

In his lecture, Prof. Card discussed the economic factors giving rise to immigration flows, the effects of immigration on the U.S. economy, and attitudes towards immigration. Card identified two main developments in the U.S. economy that have created an increasing demand for immigrant labor. One of these is the accelerating demand for highly skilled labor that results from technological progress, combined with the lackluster increase in the number of highly-educated workers produced by the U.S. education system. This development has led high-tech firms to seek skilled workers from abroad, through programs like the H1-B visa system. At the other end of the skill distribution, factors such as the increasing participation of women in the labor force and the withdrawal of unskilled American men from the labor force have fueled a rising demand for unskilled immigrants to do household chores and physical labor. This, together with the relatively porous US-Mexico border, has attracted a large wave of unskilled immigrants, mostly from Mexico and Central America. Taken together, these two processes imply that U.S. immigrants are much more likely to be drawn from the two ‘tails’ of the skill distribution—either highly educated or with less-than-high school education—than from the middle of the U.S. education or income distribution.

According to Prof. Card, evidence from a variety of sources, including cross-city comparisons, case studies of events such as the Mariel Boatlift, and aggregate economic trends, all suggest that even the high level of immigration recently experienced by the U.S. likely has only very modest effects on the wages and job prospects of native-born U.S. workers. In part, this is because capital is highly mobile in today’s world economy: capital follows workers to the places, including the U.S., where the best investment opportunities are available. These modest, overall economic effects are largely the same, Card argued, whether immigration is legal or illegal—the economic forces are the same, and most existing studies include both types of immigration in their measures. Finally, drawing on his own recent study using European data, Card considered what determines peoples’ attitudes towards immigration and immigrants. Perhaps surprisingly, the studies suggest that it is non-economic considerations, such as a respondent’s perceptions that immigrants truly wish to learn the language and adopt the culture of their new homelands, that are the most important determinants of attitudes towards immigrants and immigration.

ECONOMIC FORECAST NEWS

The UCSB Economic Forecast Project is associated once again with the Economics Department. The EFP turns thirty this year! After it got its initial impetus from Walter Mead and Llad Phillips (both Emeriti Professors), the project has had several directors.

Recently, Peter Rupert, Professor of Economics, has taken over the helm of the EFP. While the project is mostly self-supporting, thanks to local sponsors. The Executive Vice Chancellor has underwritten a portion of the project by funding two graduate students and several undergrads as well as providing support for the director which underscores the value the project has for our local community.

The EFP was created to provide the community with information on economic, demographic, and regional business trends in the Santa Barbara, San Luis Obispo, and Ventura counties area. The primary research activity is the collection and verification of statistical data and other evidence about the changing business and economic environment. From the assessment of this data the Forecast Project monitors the status of the economy and provides projections of future economic activity in the local area.

While the EFP has been a very influential tool for decision-makers in our community, new efforts have expanded the role it will play in aiding individuals, business, and policy makers as well. In particular, the project is implementing state-of-the-art data search tools, thanks to a collaboration with Simpler Systems, a local firm providing a unique process for accessing data. A broader overview of some data that will be available at their website can be found at: http://www.simplergov.org/simplergov.html.

The EFP will maintain a website that will have a description and analysis of recent data releases in our area. This website will be interactive and will allow users continued on page 3
Dear Alumni and Friends of the UCSB Economics Department

Readers may wonder why they are receiving another copy of Econ News so soon after the last issue. We have decided to publish a slightly smaller version twice a year. We think this will make our news a bit more current; let us know what you think.

We all hope we are beginning to pull out of the economic slump of the past few years, a slump which has been felt by many Californians and the University of California. Although there are still uncertainties in the State budget, we are optimistic that the future is bright. This is California after all!

A big factor in the Economics Department weathering this economic storm has been donations from alumni. As the campus has cut our budget we have been able to make up some of the shortfall with donations. We are very grateful to our alumni for their continued support.

In faculty news, we have two new faculty members who joined the department this quarter — Professors Shelly Lundberg and Richard Starz. We are very excited about their arrival; they are both senior and accomplished scholars who will further elevate the stature of our department. Professor Lundberg is also the Leonard Broom Professor of Economics and is the fourth endowed chair holder in the department.

These hires make up for significant faculty losses due to retirement, and this year we have lost two more of our valued colleagues. Professor Rajnish Mehra retired at the end of 2010 after 25 years at UCSB. Glenn Owen, one of our accounting lecturers is retiring after 30 years of service in the Department. We wish them both well and thank them for their service to the campus and Department.

The Career Connection (our newly established Departmental career center) is off to a great start. It is now finishing its first year and has big plans for next year. The Career Connection is entirely funded by donations and we are very grateful for the support.

Let me close by mentioning that this is my last Chair’s message. I will be stepping down on June 30 from the position of Chair, completing a three year term. My goal when I started was to help strengthen our department’s reputation outside UCSB and to improve the quality and experience of our undergraduate majors. I believe we have made progress on both of these fronts. I am extremely pleased that Peter Rupert has agreed to become Chair of the Economics Department, beginning July 1. Peter has great experience, including serving two years as Department Vice-Chair.

In terms of rankings the overall department ranking nationally is up. Further, several of our fields (open economy macro, experimental, environmental) are ranked in the top ten nationally. I am proud that approximately one sixth of our faculty members are female, which is important on a number of fronts. We continue to expand our number of endowed chairs, a very important factor in hiring senior and distinguished faculty.

The undergraduate experience has been enhanced by a restructured undergraduate major (due in large part to the efforts of the Undergraduate Director, Prof. Kelly Bedard). We are now able to provide a greater number of smaller classes, and can better prepare our students for a career after UCSB. In addition, the establishment of the Career Connection has provided a valuable bridge between the academic experience and the life post-UCSB for our majors.

I would like to thank everyone who has helped the department spiritually and financially over the past three years. I have to say that the support that comes from alumni makes an enormous difference in our ability to provide a quality educational experience and enhance our programs. In addition, I would like to thank the Department staff for all of their work. Thank you all — everything you do is much appreciated!

Charlie Kolstad
Email: chair@econ.ucsb.edu
Experimental and Behavioral Economics Laboratory

The UCSB Experimental and Behavioral Economics Laboratory (EBEL) was established in October 2007. Experimental and behavioral methods are gaining popularity in economics and social science in general. Many social scientists now view these as the most promising and novel approaches today. The focus of the Laboratory is to promote research in experimental and behavioral economics, as well as to employ experimental economics more effectively as a pedagogical tool. A primary goal of the laboratory is to enhance the familiarization of students and faculty with the techniques of experimental and behavioral economics and the possibilities for using these techniques to further their research. EBEL has been involved in sponsoring a very prestigious bi-annual conference in 2006, 2008, and 2010 and has also brought a number of prominent researchers and scholars to visit at UCSB.

Economic Forecast

Continued from page 1

to access the data and perform analyses on the data they require. It is also interactive in the sense that users can respond to various posts, asking for other data or, better yet, sharing data they might have to provide a better understanding of the economic and demographic environment.

In terms of data, EFP will house a broad array of data that is of interest to our community. Moreover, thanks to the Simpler Systems technology, it will be easily accessible and usable. The project will maintain not only economic data on real estate, employment, income, etc., but will also offer data to get a much bigger picture of region. There will be data concerning the quality of our beaches, the status of our lakes, data on our local financial institutions, agriculture, tourism and more. And, the project will continue with the Business Sentiment Survey that will give us a better understanding of how local business views the economic landscape. While much of the site will be for sponsors only, feel free to browse at www.ucsb-efp.com.

Laboratory for Aggregate Economics and Finance

July 1, 2010 marked the fifth anniversary of the establishment of the Laboratory for Aggregate Economics and Finance. Since then, LAEF can claim a host of accomplishments:

- Sponsorship of 18 focused, topical academic conferences and/or workshops, with 12 to 27 off-campus attendees.
- Hosting three well-attended public lectures on the timely issues of housing prices, by a leading scholar in the field, and the state of the macroeconomy, by a Federal Reserve Bank President and Vice President.
- Publication of nine issues of our newsletter, From the Lab, containing the proceedings of our conferences summarized by UCSB Economics graduate students.
- Hosting of approximately 30 academic research visitors who have stayed anywhere from several days to a year, all of whom have collaborated or are currently collaborating on research with UCSB Economics professors. Most of the visitors also present their research papers in the Economics Department Seminar Series.
- Sponsorship of a macroeconomics reading group, which provides lunches and activities to effect academic interchange among professors, graduate students, and LAEF visitors.

It is especially gratifying to see the extent to which the graduate students have become involved with LAEF, as conference attendees and summarizers and in other ways. As the conferences are extremely focused, with papers and participants for each conference selected by one or more experts on the conference topic, the students get to see papers and hear discussions on particularly timely current research. As a particularly successful example: The two PhDs summarizing one of the conferences discovered, based on their own backgrounds in theory and tools, an opportunity for a novel and interesting paper. Within a couple of months they had written one. This paper has been accepted at a conference and presented in seminars at several universities.

UC Center for Energy and Environmental Economics

In 2009 the President’s Office of the University of California set up and provided interim funding for a new “Multi-Campus Research Unit” at UC Berkeley and UC Santa Barbara: the UC Center for Energy and Environmental Economics (UCE3 for short). The goal of UCE3 is to foster research in energy and environmental economics, not only here at UCSB, but throughout the UC system. UCE3 sponsors conferences and workshops, provides funding for faculty research, supports graduate students, and hosts visitors to campus.

One major activity of UCE3 at Santa Barbara is to host the “Occasional California Workshop in Environmental and Resource Economics and Policy.” Held every year or two (since 1993), the conference attracts over 100 participants from around the world.

Another activity of UCE3 at Santa Barbara is to host small focused workshops on specific topics in energy and environmental economics. Last year, Professor Paulina Oliva organized and hosted a workshop on environmental and development economics.

In August, the first UC-wide summer school in energy and environmental economics will be held, under the auspices of UCE3. This one week “school” will be open to PhD students from all UC campuses. There will be no cost to students, and lecturers will be drawn from faculty at various campuses, primarily UCB and UCSB.

From a management point of view, UCE3 has two co-directors, Professor Severin Borenstein of UC Berkeley and Professor Charles Kolstad of UC Santa Barbara. There are also two deputy directors, Professor Max Auffhammer of UCB and Professor Olivier Deschenes of UCSB. An extremely important part of the center is the UCSB Administrative Director, Debbie Kleinpeter. Visit the webpage (www.uce3.ucsb.edu) for more information.
An Interview with Stephen LeRoy

- Hrishikesh Singhania

Stephen LeRoy is Professor Emeritus at UC Santa Barbara. Steve started working at UCSB in 1977. Steve’s research interests lie in the fields of macroeconomics, financial economics, real estate economics and monetary economics. Though he retired in 2007, Steve is still active in the department and with graduate students. Hrishikesh Singhania, a graduate student who is working with Steve sat down with him for this interview.

How did you come about choosing economics as a field of study?

My dad was a Marxist and an English professor who did not have any interest in economics. I started reading Marx when I was in high school, as one does if one’s dad thinks it’s important to do that. One of the things you got from Marx is that economics is really important. Basically, if you are going to be interested in Marxism, it seemed to me, you needed to be interested in a serious way in economics.

What happened to me, particularly after I started studying economics, was that the Marxism part kind of fell away. I spent some time reading papers in graduate school, like the ‘labor theory of value’ by Samuelson. To the extent that I was thinking about Marxism at all, I was thinking about it from the point of view of standard economics. Then of course, I quite thinking about Marxism altogether.

I stayed interested in economics. It has a nice combination of practical orientation and also the theory is attractive. So you are doing high theory, but not of the sort that nobody cares what the conclusion is. If you are doing pure math, most likely, you can only get five people in the western hemisphere who understand what you doing, let alone have any idea what use it might be. But that is not true of economics; I found it was a very attractive field and I stayed interested in it.

While you were in graduate school, who influenced your thinking the most?

I went to graduate school at the University of Pennsylvania. The two leading people in macroeconomics were Lawrence Klein, who subsequently won the Nobel prize for pioneering large econometric models, and the other was Albert Ando, who was my dissertation supervisor and had the same orientation.

As you know, that orientation took a pounding, starting about the time I graduated from there and so with hindsight, I made some big mistakes. One of which was to study with the big stars of the department, the people who were famous at the time. Whereas, what I should have done, in hindsight, is study with the assistant professors, who nobody ever heard of - which included Tom Sargent, Ed Prescott and Steve Ross. These assistant professors were looking for students.

My friend Tom Cooley, who used to be on the faculty here (and then he moved, as you know, to Rochester and then to NYU and became the Dean of the Business School) spent a lot of time working with Ed Prescott. They would sit in a bar called Smoky Joe’s and talk economics, hour after hour. That benefitted Cooley immensely, but I didn’t do any of that because I was hanging around these big stars who didn’t do that kind of stuff; they would go off to their suburban houses. In hindsight, there were some wonderful opportunities there that I didn’t take advantage of and I sort of regret that.

But it seems to me that financial economics is you area of expertise.

Well yes. My first two jobs were in the Federal Reserve System. So even though, financial economics is what I was doing in graduate school, I kind of lost that orientation for those first two jobs and I was thinking mostly about macroeconomics. At that time, the Federal Reserve wasn’t interested in finance. Of course, that’s completely changed now. But there were huge numbers of courses in regular finance at the Wharton School, several of which I took. My interests reverted to financial economics and away from macroeconomics, pretty much when I moved here. I started out teaching mostly macro because we didn’t have finance here. Then, when finance became a field in graduate school here, I worked in that area.

Why UC Santa Barbara?

A friend of mine, Roger Craine, from the Federal Reserve System spent a year as a visiting professor at UCSB. When you have been at the Federal Reserve System for about three or four years, you come to a divide in the road. You make up of your mind, whether you want your career here. If that is your orientation, you are going to get increasingly into an administrative position, which didn’t seem very attractive to me. It is pretty hard to keep on being a junior person when you have been around three to five years. There is a good deal of pressure - if you are not going to get on the administrative track to be a section chief or what have you - to take an academic job where you are supposed to keep on writing papers. That was what I wanted to do at that time.

Roger Craine was telling me that UCSB was a great place and I ought to consider moving here. The problem was that he also wanted to come back here. It turned out that he also had interest from Berkeley, where he wound up going. He also spent his career there and just retired a year or so ago. He is still a good friend. Had he decided to come to Santa Barbara instead of Berkeley, there wasn’t going to be room for me.

What got you interested in real-estate finance/mortgage finance?

This also goes back to Roger Craine, and back to before I moved to Santa Barbara, when he and I were at the Federal Reserve Board together. He was interested in owning real estate. So he and I bought little apartment buildings in Washington which, at that time, was the right thing to be doing. This is probably why I got interested in it, because it seemed fantastically lucrative which real estate is, sometimes [laughter]. And it
was during that period, I basically made some money right away. Which is why I could work for UCSB’s salary which I believe was nineteen thousand dollars, my first year. This wasn’t as bad as it sounds, but it was almost as bad. I wasn’t enthusiastic about trying to live in that kind of money. But the fact that I had some savings from this real estate helped a lot.

That led to me being interested in real estate finance; that’s still a major interest of mine. There are not so many people that are competent in that field. There was always the thought that at some point, maybe I’d want to make the leap into that area. I never ended up doing that, but it was one of the options that was in the back of mind for a while.

After the financial crisis, how do you think research in finance and monetary economics will change? What do you think are the big issues that this crisis has brought to the forefront?

It is kind of odd that you ask me that because I think about what were the big issues that we were talking about in the Federal Reserve System in the seventies. One of the biggest was systemic risk. But nobody knew what to do about it - how to model it. That, I think, continues to be true. Among the researchers at the Federal Reserve, there was this awareness that there are these imponderables that we really don’t have a clear idea of how to model them. But we know that they are very important. That is not particularly new. But it is fair to say that the urgency levels have dialed up. Now, we have this awareness that the practitioners, in the absence of decent models of systemic risk, are not going to get it right. They didn’t get it right in this case.

So I do think that topics that have been very hard for us to get going on are going to get a lot of study now - liquidity, systemic risk. Those kinds of systemic financial phenomena require a general equilibrium orientation but they are nowhere near the paradigm or general equilibrium that we have all inherited. So it is very hard to know what to do about it. I don’t think that was a new discovery from the current financial crises, although you might guess that from the amount of papers that coming out on those topics now.

What are you working on currently?

I have been writing a paper with Kevin Lansing from the Federal Reserve Bank of San Francisco. This paper has to do with the variance bounds violation. This goes back to a contribution I made, that got quite a bit of attention for a while. The kinds of models that we have been using to think about stock-pricing are present-value models. We assume that stock prices are the present value of future dividends. It turns out what I discovered - and Bob Shiller discovered at about the same time - was that this (present value) relationship has implications for the variability of stock prices, namely that the stock prices ought to be less variable than the dividend streams they are entitled to.

When you try to test out that implication, it appears that it is violated. Stock prices are more volatile than they should be. There are lots of econometric issues that make it not so easy to draw out the implications of the present value relationship. There was a lot of study about that topic in the late seventies and eighties. None of it has been decisive, to my mind. I keep returning to that topic.

Most recently, I reminded myself that these early studies had assumed risk neutrality. We don’t really believe that people are risk neutral. The question became - are there implications for price volatility if people are risk averse? Kevin Lansing, my co-author, had written a preliminary paper in which, it seemed to me, he had figured out how to extract the implications of the present value model under risk aversion. We are trying to figure out which of the variance bounds carry over to situations where people are risk averse and determine if you could account for stock price volatility with reasonable amounts of risk aversion. That is the idea of this paper.

Any tips for Ph.D. students?

The area that I have been interested in is at the intersection of macroeconomics, finance and general equilibrium. I continue to think that’s a very fruitful area. You see a lot of the best people in finance are also the best people in macroeconomics. I think of people like John Cochrane, John Campbell. Is he a finance guy? Is he a macro guy? They are both. Neither of them would be favorable to be classed exclusively as one or the other. That was not true when I was a graduate student. I think these areas have grown together. A lot of the best work that is happening in finance is happening at this intersection. Indeed topics like liquidity and systemic risk can only be treated in a general equilibrium setting and have large elements of economics and finance. Those areas, if you are ambitious. They are difficult areas – that’s the bad news. It is not so easy to come up with an idea that is easy to implement given the tools we have. A lot of the easy research has already been done. I tell the students that they need to roll up their sleeves and work on topics that are really difficult. That is basically all that’s left [laughter].
30th Annual Accounting Awards Banquet

The Accounting Program faculty held its 30th Annual Accounting Awards Banquet to recognize juniors and seniors who have achieved academic excellence and made outstanding personal contributions to the Accounting Program in the Department of Economics at UCSB. The generosities of the accounting firms that recruit the students provide the entire support for the monetary awards given to the award recipients. Approximately 250 current students, family members, university guests, alumni, and the firm professionals attend this event each year. UCSB has been designated as a key school or premier school by all of the Big 4 accounting firms. This designation provides for more recruiting funds to be directed to recruiting UCSB accounting graduates. This allows our graduates who take employment with the Big 4 the opportunity to start their employment in any of the major offices throughout the United States. The accounting program graduates approximately 350 students each year. This year, the following thirty-one students were recognized at the banquet for their outstanding achievements.

SENIOR SCHOLASTIC AWARDS
Ryan Andrews
Wendy Lieu
Bradley McGough
Christopher Michaels
Stephen Middlebrook
Edward Miller
Sam Mohamadi
Danielle Myers
Andres Nitsche
Anastasia Palmer
Hayley Ryan
Giovanni Scalzo
Kathryn Smedley
Michael Sterman
Amy Zhao

JUNIOR SCHOLASTIC AWARDS
Melanie Block
Chris Condron
Shannon Hines
Adam Ingber
Christopher Lyon
Jonathan Minoofar
Alexander Rusoff
Sina Sharif
Brian Shively
Jeffrey Sloan
Lauren Spector
Kelly Stich
Steven Sullivan
Jessica Tunberg
Leslie Wright

ROBERT J. SWENSON AWARD FOR OUTSTANDING SCHOLASTIC ACHIEVEMENT AND SERVICE
Kathryn Smedley

MAXWELL PELLISH AWARD FOR OUTSTANDING SERVICE
Richard Gillham

FACULTY AWARD
Richard Gillham

Award winners (left to right) Danielle Myers, Sam Mohamadi and Leslie Wright with Coby Harmon.

The Department of Economics Congratulates the 2010 Ph.D. Graduating Class

LAURA GRANT studied under Matthew Kotchen, Charlie Kolstad, and Doug Steigerwald in the areas of Environmental/Resource and Public Economics. She accepted the position of Assistant Professor of Economics at the University of Wisconsin, Milwaukee.

TILL GROSS studied with Peter Rupert, Finn Kydland and Cheng-Zhong Qin in the areas of (international) macroeconomics, public finance and international trade. He has accepted a position as assistant professor at Carleton University in Ottawa.

CAMERON KAPLAN studied Health Economics under Ted Frech and Bill Comanor. He accepted a position as a Post-Doctoral Research Associate in the Department of Health Policy and Management at the University of Pittsburgh Graduate School of Public Health.

ERIN KAPLAN studied under Kelly Bedard in the areas of Applied Microeconomics and Labor Economics. She accepted a Visiting Lecturer position in our own department.

JOÃO SOBRAL do ROSÁRIO studied under Rajnish Mehra in the areas of Finance, Industrial Organization and Econometrics. He accepted a Visiting Lecturer position in our own department.

STÉPHANE VERANI studied under Peter Rupert and Finn Kydland in the areas of Real Business Cycle Theory, Financial Contracting and International Trade. He accepted a position of Economist at the Federal Reserve Board of Governors in Washington D.C.

Good luck in all of your future endeavors!
You Can Be a Part of Futures Filled with Hope and Promise!

Donations to the Economics Department Support These Activities:

GRADUATE STUDENT SUPPORT
including entry-level scholarships designed to attract the most promising students to our campus, and support for continuing students writing dissertations.

PROMOTING EXCELLENCE IN UNDERGRADUATE EDUCATION
by funding awards to top-performing undergraduate students, and creating innovative and challenging undergraduate courses.

SUPPORTING VISITING SCHOLARS
Donations support the visits of top-flight speakers and teachers from around the world to UCSB, enriching the intellectual lives of both students and faculty.

RESEARCH SUPPORT
Donations to the department provide crucial seed money for new research projects that can eventually yield major institutional grants and benefits to society.

INFRASTRUCTURE
Keeping the department’s instructional space in North Hall up-to-date and attractive is a constant challenge given our huge enrollments and rapid advances in instructional technology. Donor funds play an important role here as well.

For more information on giving opportunities to UCSB Economics, please visit http://econ.ucsb.edu/about_us/giving.html.

To make a contribution to the Department of Economics, mail this form and your tax-deductible donation to the address below.

ECONOMICS DEPARTMENT
North Hall 2127, Mail Code 9210
University of California
Santa Barbara, CA 93106-9210

ANY QUESTIONS ABOUT MAKING A DONATION CAN BE DIRECTED TO:
Joan Giovannone (805) 893-3569 or joan@econ.ucsb.edu
Ann L. Hagan (805) 893-2772 or ann.hagan@ia.ucsb.edu
Michael O. Miller (805) 893-3922 or Michael.miller@ia.ucsc.edu

Name ___________________________________________ Occupation/Position ___________________________________________

Home Address ____________________________________________________________

________________________________________________________________________

Email ___________________________________________ Home Phone ___________________________________________

________________________________________________________________________

Business Phone ___________________________________________

Please make your check payable to UC Regents
To update your mailing address or if you do not wish to receive future issues of EconNews, please send an email with your name and address to joan@econ.ucsb.edu