Economics Department Newsletter

January 10, 2014

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Seminars and events

1. Trade, Technology and the Skill Premium: The Case of Mexico

On Monday, January 13, from 4:00pm-5:30pm in Schapiro 129, economics job candidate Andrea Waddle of the University of Minnesota will present a seminar on her paper "Trade, Technology and the Skill Premium: The Case of Mexico." All are welcome. From the abstract: "In the decade following the Mexico-U.S. trade integration, the manufacturing skill premium rose by almost 60 percent in Mexico and by only 12 percent in the U.S. Standard trade theory predicts that when countries with different levels of skilled labor integrate, the skill premium should fall - not rise - in the skill-scarce country. In this paper, I reconcile theory and data by building a model in which intermediate goods are produced using rented technologies. After integration, producers in Mexico begin to rent technologies from the United States, which are more advanced and, hence, more skill-intensive. This has two effects: The skill premium in Mexico rises due to adoption of the more advanced technology and the skill premium in the U.S. rises due to increased investment in this technology, which is driven by the increased marginal return on technology arising from to its adoption in Mexico. The mechanism is supported by industry-level evidence: Mexican industries which are integrated into the U.S. supply chain have higher skill premia than their non-integrated counterparts. The calibrated model can account for about two-thirds of the increase in the skill premium in each country."

2. Financial Intermediation, Leverage, and Macroeconomic Instability

Wednesday, January 15, from 4:00pm-5:30pm in Schapiro 129, economics job candidate Greg Phelan of Yale will present a seminar on his paper "Financial Intermediation, Leverage, and Macroeconomic Instability." All are welcome. From the abstract: "Many economists believe excessive bank leverage played a critical role during the crisis but do not agree what appropriate leverage regulation should be. I ask how banks' portfolio choices affect macroeconomic stability. In particular, how does regulating leverage change the evolution of the financial sector and the frequency and duration of good and bad aggregate outcomes? To answer these questions, I present a continuous-time general equilibrium model in which banks are useful for allocating resources and providing liquidity. Households and banks can invest in two types of risky projects, producing two different goods, and banks have an advantage in one type of project. Banks use households' preferences to discount dividends paid to shareholders, but banks are limited in their ability to issue equity. This implies: banks' portfolio choices depend on current equity levels; agents primarily trade non-contingent contracts (debt); banks increase leverage to invest more. I solve for the global dynamics of the economy as the level of bank equity fluctuates. Compared to when banks can freely issue equity, banks raise the volatility of asset prices when they collectively change their portfolios, and higher volatility increases how frequently banks have low levels of equity. Financial sector volatility decreases the mean level of aggregate outcomes because equity levels fall on average faster than they rise. After a sequence of good fundamental shocks, bank equity increases and banks pay dividends, but after bad shocks banks are still limited in their ability to issue equity. With larger shocks, banks are in trouble more often. When in trouble, banks cut back on risk-taking, which depresses economic activity. Because of limited equity issuance, the marginal value of bank equity—both the direct value to shareholders and the indirect value to households—is greater than the marginal utility of consumption, and so welfare depends critically on how bank equity evolves. Bank leverage determines the size of the distortion in each state, as well as the probability of, and transition between, states—all of which agents take as given. Regulating leverage alters the severity of aggregate outcomes, but it also affects the frequency and duration of aggregate outcomes by modifying the evolution of the financial sector."

3. Quantitative Easing and the Liquidity Channel of Monetary Policy

On Thursday, January 16, from 4:00pm-5:30pm in Griffin 6, economics job candidate Lucas Herrenbrueck of UC Davis will present a seminar on his paper "Quantitative Easing and the Liquidity Channel of Monetary Policy." All are welcome. From the abstract: "Currently, we have only a limited understanding of how central bank purchases of illiquid assets ('quantitative easing') affect long-term interest rates, borrowing costs, and the real economy. Since the historical record of quantitative easing is sparse, theoretical work is needed to guide both empirical research and policy work. For this purpose, I construct a parsimonious and very flexible general equilibrium model of asset liquidity. I find that central bank purchases of illiquid assets can reduce yields across the board and stimulate investment. However, I also find that this is not a given. A temporary program of quantitative easing can cause a 'hangover' of temporarily elevated yields after it has ended. When assets are already scarce, further purchases can crowd out the private flow of funds and cause deflation and elevated yields even during the intervention."

Employment Opportunities

4. Jobs and internships in economic and public policy research

Now is the time of year when many organizations involved in economic and public policy research seek to hire summer interns and research assistants (the latter typically being graduating seniors). The economics department has assembled a page with links to internship and job openings at many of these organizations, which can be found at: http://econ.williams.edu/students/econ-research-jobs/job-search-advice/policy-research-jobs

5. David Kane '88, Portfolio Manager at Hutchin Hill, seeks summer interns

David Kane '88, a portfolio manager at Hutchin Hill, is hiring interns for this coming summer in Boston. If you are interested in quantitative equity management (and have solid programming skills) please contact him at mailto:david.kane@hutchinhill.com. Please include information on your programing skills, especially in R and/or Python. Feel free to contact prior interns who have worked for David, including Yang, Heidi Chen '14, Vu Le '14 and Michael Flynn '15.

For students interested in study abroad

6. Questions about study abroad?

Undergraduate economics students with questions about study abroad should check out the economics department's "frequently asked questions" web site for study abroad, at: http://econ.williams.edu/students/study-abroad

If you have questions that are not adequately answered there, or need someone in the economics department to sign a study-abroad related form for you, please contact the economics department's study abroad coordinator, Prof. Nafziger <Steven.E.Nafziger@williams.edu> (Please do *not* contact department chair, Prof.

Gentry about study abroad questions. In economics we believe in the benefits of specialization the division of labor!).

For students interested in the political economy major

7. Information session on the political economy major (with pizza!)

On Monday, January 13th from 6:00-7:30pm in Schapiro 129, there will be an information session for students interested in the political economy major. Professor Shore-Sheppard, chair of Political Economy, will talk and answer questions about the major, including courses, study abroad, and the experiential education requirement. First-years and sophomores considering a political economy major are strongly encouraged to attend. Hot Tomatoes pizza will be served!

Other news

8. Yang Lu ’14 and David Kane ’88 publish article in *The R Journal*

Yang Lu '14 and David Kane '88 have published “Performance Attribution for Equity Portfolios” in the latest issue of *The R Journal*. The article describes a package, written in the R programming language, for analyzing the performance of equity portfolios. The project began after Yang worked for David during a summer internship.

About the newsletter

9. How to get items into the newsletter and how to unsubscribe

Please contact Jon Bakija with any news, events, or other information that you would like to send around to Economics and Political Economy faculty and majors, as well as anyone who has manifested an interest in the field by taking a class in either department this semester, or if you would prefer not to receive the newsletter and want to unsubscribe.