

Department of Economics

Newsletter

2004

This is the last newsletter for which I will write the introductory remarks as my term as Chair of the Department of Economics ended on June 30th, 2004. During my five-year term as Chair, I have been fortunate to be part of many positive developments within the Department. The number of undergraduate majors and honors students has grown, there has been a substantial increase in the size of the graduate programs, faculty members have been successful in securing increased amounts of research funding, and the Department has been able to recruit seven new assistant professors. Despite some ongoing budget difficulties, the Department of Economics continues to offer excellent undergraduate and graduate programs and continues to be a highly productive research environment.

I would like to thank all the faculty and staff of the Department who were so generous in their support of me during my tenure as Chair. I would also like to whole-heartedly welcome André Plourde as the new Chair of the Department. I am sure that under his leadership the Department's students, staff and faculty will be well served.

Bradford G Reid

NEW FACES

Haibin Wu

Newly-appointed Assistant Professor Haibin Wu hails from China. Haibin graduated from Fudan University in Shanghai with a BA in Economics. He then went on to Vanderbilt University in the USA, collecting an MA and PhD in Economics along the way. Dr. Wu graduated from doctoral studies in 2003, and promptly joined our department here in Edmonton.

Haibin was drawn to economics because of an interest in mathematics and human behaviour. Economics has been described as the sometimes beautiful, sometimes horrifying, often puzzling intersection of those two streams... Well if not before, then now it has been described so.

He currently teaches intermediate macro theory, monetary economics, and time series econometrics. His current research focuses on behavioural economics and non-parametric econometrics. In particular, Haibin is interested in the learning and herding behaviour in financial markets and its effect on market bubbles and crashes. He is also studying the use of nonparametric methods to construct econometric tests.

When not rounding up Bulls and Bears, Dr. Wu cheers for Titans – the Tennessee Titans of the NFL that is. He is not only a “Tennessee” fan, he also enjoys playing “tennis”. Coincidence or conspiracy? Furthermore, Haibin is an avid football (soccer) player and spectator. Asked whether he prefers football to football, Dr. Wu confidently answered in the affirmative. If stranded in Tennessee (it could happen – see conspiracy, above) which three CDs would Haibin want? George Winston’s “December”, Sheryl Crow’s “The Globe Sessions”, and Rene Liu’s “My Failure and Greatness”.

Here’s hoping Dr. Wu has very little failure and much greatness in his future – stranded in Tennessee or not.

David Feeny

On April 1, 2004 Professor David Feeny transferred from the Faculty of Pharmacy and Pharmaceutical Sciences to the Department of Economics at the conclusion of his tenure as Merck Frosst/Canadian Institutes of Health Research R_x & D Chair. Dr. Feeny’s research interests lie in the area of health economics, particularly issues concerning health-related quality of life and health technology. He is a Fellow of the Institute of Health Economics, associate editor of *Quality of Life Research* and a member of the editorial boards of several health-related journals.

STUDENTS IN THE WORLD

Once again we are very pleased to feature career profiles on two of our former students. We hope you find these profiles interesting.

Michael Hoffman

BA (Economics and History) University of Calgary, 1992. MA (Economics) University of Alberta, 1995. PhD (Economics) University of Alberta, 2001.

When I finished my undergraduate degree at the University of Calgary, the economy was doing poorly and the job prospects were dismal. So, I avoided getting a real job and went to graduate school! I ventured north on Highway 2 to the University of Alberta, making the Tory building my new home for a few years. When I finished my Master’s degree, the job prospects were marginally better, so I did what I knew best – stayed at the University of Alberta to attend graduate school, this time for a PhD.

There were finally lots of jobs for economists when I eventually started the job search! In July 2000, my wife and I moved to Chicago and I started a great career in the transfer pricing group at PricewaterhouseCoopers. After a few years in Chicago, I transferred to the firm’s Calgary practice.

For those who don’t know what transfer pricing is (which I have learned over my career is most people), it involves determining the arm’s length price for intra-company cross-border transactions. From a tax perspective, there is an incentive for companies to minimize their tax liability by charging a transfer price that puts more profits in low-tax jurisdictions. But, the tax authorities wanting their fair share of tax dollars require intra-company cross-border transactions to be priced as if the parties were dealing at arm’s length. Because billions and billions of dollars of intra-company cross-border transactions are made every year, transfer pricing has become one of the hottest issues for tax authorities.

This is where I come in. My job is to help multinational corporations with their transfer pricing, both from tax compliance and planning standpoints. Similar to economics, transfer pricing is not an exact science. While some transactions are relatively easy to price, others can be very difficult. For example, how much should IBM Canada pay to IBM USA for the right to use the IBM trademark in Canada? I find transfer pricing to be interesting as you get to meet with executives at large companies, help them with various issues, and you can see the direct impact of your advice.

Working for a “Big 4” accounting firm is not the place that you would necessarily expect to find an economist. But, in fact, many transfer pricing specialists are economists. While my job doesn’t require theoretical proofs, utility maximization problems, or econometrics, I draw upon my economics education every day as many aspects of economics, including industrial organization, game theory, information and incentives, taxation, and macroeconomics play important roles in transfer pricing. Beyond the economics is the need to be able to think critically and address complicated issues. I have found that my economics background allows me to bring a different perspective to issues that accountants, lawyers, and others typically don’t bring to the table.

In the end, it seems to me that the choice to pursue economics has been worthwhile. My time at the University of Alberta proved to be a great experience as I learned a lot about economics (although a few faculty members may disagree), I met a lot of great people, and I discovered a great career. I figure it’s not a bad outcome for someone who went to graduate school to avoid getting a real job!

Barrie Hebb

Odessa, Ukraine, is not where I expected to live and work just two months ago let alone while I was studying for my MA in economics at the U of A in 1996-97. Yet I found myself arriving here in July, 2004, for my fifth year of humanitarian aid work in the former USSR (I use the word “former” in a popular sense only). After completing my MA I spent a year researching/lecturing in economics at the U of A and co-authored a paper in economic history with professors Norrie and Szostak. My interest in the relationship between institutions and social well-being started taking greater shape at this time and I was fortunate to be one of the few people without a PhD to be granted a fellowship with the Civic Education Project to promote democracy in the Newly Independent States and work on higher educational reform in 1998. Within weeks I found myself packing my bags and on a plane to Alma-Ata (father of apples), Kazakhstan, and spent one year in Tashkent, Uzbekistan. One year soon turned into three more and covered Petropavlovsk, Kazakhstan (Southern Siberia – which is warmer than Edmonton); Bishkek, Kyrgyzstan; and Kharkov, Ukraine.

The Civic Education Project is now called the Visiting Faculty Fellowship Program and is administered by the Open Society Institute. The name has changed, much like the USSR’s, but a lot remains the same. I lecture in economic history and standard theory, but in addition, the project aims at promoting long-term democratic development. It does this by focusing on reform in universities and promoting the skills that students need to assess information, constructively criticize each other, agree to disagree, and communicate various points of view. These skills are essential for any progressive democracy

where people actively participate, introduce new ideas, and force those making policy decisions to consider the chances that they might be wrong before acting since it will affect the lives of others. These skills are not innate, they are learned, and by reforming universities and introducing liberal arts programs, it is hoped that in the future students will enter into civil society and actively promote progress based on their own views, needs, and abilities and reduce the chances of policy errors as well as have the independent skills for leading a happy life. Openness and Democracy are really only words if people do not actually make use of the possibilities to promote alternative views and challenge the status quo.

Promoting this kind of grassroots reform means that my job involves more than simply lecturing. I spend a lot of time researching methods and developing techniques in the classroom to get students involved and raising serious doubt about assumptions they may have taken as given. I have to always be prepared to argue the opposite of whatever position they may take. I am also heavily involved in dealing with many logistic issues such as introducing liberal arts materials and elective courses into the curriculum and how to do this with a lack of resources. It is also the case that many pressing issues in the former USSR are not pressing issues in the West and vice versa – so there will be a natural tendency for different focus in economics programs. I also solicit donations, fundraise, help students write grant proposals, promote liberalization, minority protection and civil rights and am often involved in public discourse on these issues. In order to learn more about the local conditions, reach a wider audience, and prepare students to take positions in economics in the region, learning Russian has been essential and thanks largely to Soviet linguistic methods I

was quickly able to attain fluency and convert courses and lectures. My Russian teacher was the first person to introduce me to the idea that education was not a democracy as far as he was concerned, and he decided for me that this was also true as far as I was concerned. Oddly enough, I was one of the few students who did not quit his program – so in a weird sort of way, I elected this brutal regime given that there were plenty of other teachers – so it was in fact democratic.

I would not have anticipated that my interests in economic history, growth, social welfare, and the role of the state would have led me to the USSR while I was at Queen's, where I completed my undergraduate degree, or at the U of A. Studying economics has opened doors for me that I could not have planned and it has given me the skills I need to adapt to new situations, to promote change and reform, and at the same time, remain open to new possibilities. I was not aware of how many ideological assumptions I had, or held so firmly, until virtually every single one of them was challenged by students, colleagues, and government officials in a variety of countries and in a variety of languages. My MA did not train me specifically for any of the challenges I have faced, but I cannot imagine how difficult it would have been to face any of these challenges without it and the support and advice I have received continually from the department.

Alumni Please Drop Us a Line....

We thank Michael Hoffman and Barrie Hebb for taking the time to share with us their career experiences. We are curious about our alumni, both undergraduate and graduate. Please let us know what you are up to, and how your education here has served you in your life. We are also curious as to how our

present students experience our program. We may profile you in a future newsletter!

Contact information:

<http://www.ualberta.ca/economics>

FACULTY IN THE WORLD

Paul Boothe

Paul Boothe has been appointed as Associate Deputy Minister of Finance in the Federal Government. Paul will be taking a three-year leave of absence from his academic duties in order to take on this daunting challenge. We wish him well in this high profile appointment.

Bev Dahlby

Greetings from Rio,

I am spending my sabbatical in 2004 at the Escola de Pós-Graduação em Economia da Fundação Getulio Vargas (EPGE-FGV) in Rio de Janeiro. EPGE-FGV is one of the leading economics departments in Brazil. It is part of FGV, a private foundation named after one of the Brazil's most illustrious (and controversial) presidents. FGV includes a number of research institutes that provide regular reports on the Brazilian economy and Brazil's leading business school. EPGE has a staff of about 23 full-time professors and until recently only offered Masters and PhD programs. Within the last three years, it has added a small undergraduate degree program with a concentration on mathematics, statistics and economics. The first students in the undergraduate program will graduate next year. The EPGE web site is <http://epge.fgv.br/portal/index.html>. I am very impressed by the quality of the students and staff. Over the last few years, they have hired a number of bright young Brazilian economists with PhDs from the top US graduate schools and so EPGE is a very exciting research environment. It also has a

very beautiful location – Botofogo Bay. Outside my office window is a famous landmark in Rio, the Pao de Acucar or Sugar Loaf Mountain.

My main goal during my sabbatical is to complete my book on the marginal cost of public funds. (I have been working on this book for more years than I care to admit in public.) But I have also started to work on some other research projects with a couple of the young professors who recently obtained their PhDs from the University of Chicago. We are working on a theoretical model of capital market imperfections caused by adverse selection. (In the 1980s, I wrote a number of papers on adverse selection, and so I am returning to one of my “youthful” research interests with this project.) I am also currently teaching a graduate course in the economics of taxation. EPGE has always focused on economic theory, mathematical economics, and finance and has not offered graduate courses in a number of fields including public finance. This is the first time a course in the economics of taxation has been offered at EPGE in living memory. The students are excellent and I am learning a lot about the Brazilian federal system.

Rio is a uniquely beautiful city because it combines dazzling beaches with stunning mountain landscapes. The mountain parks, which are covered with extremely beautiful forests, offer a tranquil paradise in the midst of a densely populated, and at times dangerous, city of 14 million people. I am slowly learning to communicate in Portuguese, although my progress is slow because everyone at EPGE speaks English. I have not yet traveled extensively in Brazil, but I have been to Ilha Grande and Buzios, which are beautiful resorts close to Rio. As many of you will know, one of my passions is tennis. Fortunately, I live very close to a major sporting complex that has six clay

courts and two hard courts, as well as an Olympic size swimming pool, weight lifting facilities, and saunas. I play tennis most mornings during the week from 6:30 to 8:00 am with a group of retired Brazilian men in their 60 and 70s. They are excellent players and extremely friendly, as are most Brazilians.

Research Funding

The Canadian Building Energy End Use Data and Analysis Centre (CBEEDAC)

CBEEDAC works with data providers and users within the residential and commercial sector, and the research community, to provide a forum on strategic data collection and analysis, and to facilitate an integrated approach to energy-efficiency improvements in these sectors.

With André Plourde's (temporary) relocation to Natural Resources Canada, the Centre appointed two new Associate Directors, Denise Young in the Department of Economics and Joseph Doucet in the School of Business, both at the University of Alberta. David Ryan continues as director of the Centre with research associates, Heather Eckert, and Mel McMillan.

At the 23rd Annual North American Conference of the International Association for Energy Economics held in Mexico City, Ryan, Young, and Plourde reported on work using data from the Commercial and Institutional Building Energy Use Survey (CIBEUS) to investigate the determinants of various forms of commercial building retrofits undertaken in Canada.

In the past year CBEEDAC has provided financial assistance for eleven graduate students. CBEEDAC provides part-time assistance during the summer months to enable students to work on energy topics that fit in with the Centre's mandate, and which may form the basis of their MA, PhD, or certain other projects. This summer Carolina Aguilar, Mike Lockerbie, and Jon Buck will be providing research assistance on a variety of projects ranging from methods of evaluating Minimum Energy Performance Standards (MEPS), to standby power usage by household equipment and evaluating the extent of possible energy efficiency gains in commercial buildings.

Throughout the preceding winter term, the Centre provided direct financial support as well as training opportunities and computing resources to students interested in working in the area of energy economics. This year Chris Hughes completed the Economics Masters Program with his research project *Analysis of Energy Efficiency in Commercial Buildings in Canada*. Chris continues to work at the Centre on a series of papers exploring commercial energy efficiency. Darren Herasymiuk also completed the Economics Masters Program. His research focused on the impact of household energy use of programmable thermostats, a form of energy efficient household equipment.

In addition to providing internal reviews for its funding partners, CBEEDAC produces reports on building sector technology and economics. This year research has also been completed on electricity consumption in water purification, pumping, and wastewater treatment, auxiliary equipment energy use, and historical commercial building energy consumption.

CBEEDAC continues to produce tri-annual newsletters that document the activities of

the Centre as well as containing articles on current topics in energy economics. Recent articles have covered such topics as programmable thermostats, the role of weather in residential energy demand and commercial energy retrofit decision-making, and factors influencing commercial retrofit decisions.

Copies of previous newsletters can be accessed from the CBEEDAC website. Should you be interested in being added to the mailing list to receive future newsletters, or if you wish to find out more about CBEEDAC or to become involved with its activities, the Executive Director, Donna White, can be contacted by mail through the Department of Economics, or directly by phone at 492-4134 or by email to cbeedac@ualberta.ca.

Institute for Public Economics

Founded in 1997, the Institute for Public Economics seeks, through research and teaching, to create and disseminate knowledge of the public sector and its influence on the economy and society.

Policy Research

Over the period 2002-2004, Institute fellows were involved in a number of projects aimed at developing public policy. Paul Boothe and A.D. O'Brien provided technical advice to Alberta's *Financial Management Commission* headed by David Tuer which recommended the new fiscal framework adopted by the province. In the area of health care reform, Paul Boothe was a member of the *Task Force on Health Care Funding* headed by MLA Gordon Graydon and the *Health Reform Implementation Team* lead by Larry Ohlhauser. The Institute formed a research group that included Paul Boothe, Mary Carson, Barry Finegan, Glenn Greiner and James Smythe to support

Alberta's *Expert Advisory Panel on Public Funded Health Services*, chaired by Robert Westbury.

Institute fellows Paul Boothe, Stuart Landon and Brad Reid joined Ron Watts from Queen's University to develop a 'fiscal compendium' for the Forum of Federations which outlined best practices in fiscal federalism for developing countries.

Paul Boothe, Bev Dahlby and Mel McMillan of the Institute led a major collaborative project on municipal finance that led to a national conference and research volume. Finally, graduate student Vannis Lau joined Mel McMillan and Paul Boothe in a study of the impact of net fiscal benefits using Alberta and Saskatchewan's border city, Lloydminster, as a case study.

Institute Events

The Institute hosted a number of research and teaching related events in 2003.

Policy seminars:

Professor G. Marchildon, U. of Regina

Professor B. McLeod, UCLA

Professor P. Boothe, IPE

Professor J. Richards, SFU

Dinner for O'Brien Graduate Scholarship recipient

Book launch for Institute volume *Paying for Cities*.

In addition, throughout the summer, the Institute hosts a regular research lunch for undergraduate research assistants.

Students, Staff and Fellows

Over the two year period, a total of 14 undergraduate and graduate students were employed by the Institute. Dawn Bissett joined the Institute as Administrator and Dr. Mary Carson joined the Institute as Research Associate in 2002. Two new fellows were appointed to the Institute: Professor Barry

Finegan, Chair of Anesthesiology and Pain Medicine at the University of Alberta and Professor Glenn Griener, faculty member in the departments of Public Health Sciences and Philosophy, and member of the John Dossetor Health Ethics Centre at the University of Alberta.

Institute Publications

In addition to the regular scholarly publication activities of its fellows, the Institute produced four books in the period since July 2002:

Alberta's Fiscal Frontiers: The O'Brien Years and Beyond, Western Studies in Economic Policy No. 7, Institute for Public Economics, Edmonton

Alberta's Volatile Government Revenues: Policies for the Long Run, Western Studies in Economic Policy No. 8, Institute for Public Economics, Edmonton

Fiscal Relations in Federal Countries: Four Essays, Forum of Federations and Institute for Public Economics, Ottawa.

Paying for Cities: The Search for Sustainable Municipal Revenues, Western Studies in Economic Policy No. 9, Institute for Public Economics, Edmonton

Research Grants

Over the period, the Institute's research was supported by a number grants and contracts:

Completed:

SSHRC, Federalism Network I, \$40,980

Forum of Federations, Fiscal Compendium, \$12,000

Alberta Finance, Paying for Cities, \$20,000

Alberta Municipal Affairs, Paying for Cities, \$20,000

In Progress:

SSHRC Federalism Network II \$30,000

WCER, Lloydminster project, \$5,000

Alberta Health, Health Reform, \$351,095

HIRING

As mentioned in Brad Reid's introductory remarks, the Department is pleased to announce the appointment of André Plourde. André has had a long association with the Department of Economics through his joint research with David Ryan. This is André's second appointment in Economics, the first was in 1998 when he was half-time in the School of Business and half-time in Economics. After three years André moved completely to the School of Business to take over as Director of the MBA program. In 2003 he took a leave without pay to work for Natural Resources Canada as Associate Assistant Deputy Minister, Energy Policy Sector. We feel very fortunate to have attracted André back to Economics with his appointment as Chair.

STAFF NOTES

There have been no changes to the support staff in the past year. Margaret Howell continues to provide assistance to professors and graduate students in her dual role as secretary and manager of the reading room. Our other two, long-serving administrative support staff, Charlene Hill and Audrey Jackson continue to provide high quality support to the Department. Our newest member, Theresa Everest, is now in her second year. The cumulative years of service of our administrative support staff in the Department is 62.

SCHOLARSHIPS & DONATIONS

Since we reported to you last year, the Education Endowment Fund in Economics has grown to \$50,000. Again we would like

to thank all of you, alumni and staff, for your generous contributions.

This year the Department is proud to announce a new scholarship funded by the Economics Society of Northern Alberta. Students with superior academic standing enrolled in the third or fourth year in the Faculty of Arts, and majoring in Economics are eligible for the scholarship. The recipient will be selected on the basis of academic standing. Preference will be given to students with financial need. A presentation of the first award was made by the Economics Society of Northern Alberta at a lunch in January 2004 in the Petroleum Club. The first recipient was Lihe Yang. The value of the award is \$750.

Our 2003 Scholarship and Prizewinners are:

- **Jason Evans** — Duncan Alexander MacGibbon. Awarded to the student graduating with highest distinction from Honors Economics. Value: sterling gilt medal.
- **Iryna Nekhayevska** — AD O'Brien Graduate Scholarship in Public Finance. Value: \$5,500.
- **Jesse Lim** — Dr Milton F Bauer Memorial Scholarship. Value: \$1,750.
- **James Marple** — HSBC Bank of Canada Scholarship. Value: \$2,750.
- **Catherine Shih** — Andrew Stewart Scholarship. Value: \$1,000.
- **Ka Chung Chow** — Andrew Stewart Scholarship. Value: \$1,000.
- **Jason Hanna** — Andrew Stewart Scholarship. Value: \$1,000.
- **Ryan Tilleman** — Andrew Stewart Scholarship. Value: \$1,000.
- **Catherine Shih and James Marple** — Dr Manmohan Singh Prize in Economics. Value: \$500.

- **Ryan Clements** — KD Verville and DM Lowtan Scholarship for Academic Excellence. Value: \$800.
- **Lorne Priemaza and Michael Lockerbie** — MA Core Course Prize. Value: \$250.
- **Natalia Rylska** — MA Research Prize. Value: \$250.
- **Lihe Yang** — Economics Society of Northern Alberta. Value: \$750.

For alumni who would like to contribute to the Education Endowment Funds in Economics, you may send your donation to the Development Office of the University of Alberta, 6th Floor General Services Building, Edmonton, AB T6G 2H1. For information about undergraduate awards available to students majoring in Economics visit the <http://www.uofaweb.ualberta.ca/economics>

IN MEMORIAM - Balder Von Hohenbalken

I am greatly saddened by the passing of my friend and colleague, Balder Von Hohenbalken, on July 20, 2004.

I met Balder 23 years ago at my recruiting seminar. I presented a paper on locational predation in the supermarket industry. To obtain the empirical results in that paper, I had to plot store locations and calculate store catchment areas and neighbour relations by hand. Balder was quite excited by my presentation because he was thinking about a way that he could write an algorithm, in APL computer language, to do the calculations by computer that took me days to do by hand.

As it turns out, I ended up coming to the UofA, and pretty much immediately began working with Balder. We wrote and published 11 papers together over the

following 12 years, two of them jointly with David Ryan and three with Robin Lindsey. All of the papers that I wrote with Balder involved spatial analysis of some sort, and calculations produced by increasingly complicated algorithms. Balder would delight in the complexity of the algorithms, but also in their beauty and efficiency. I think few things gave him as much pleasure as writing the most efficient algorithm for solving a problem using the least amount of computing time.

Balder was a great colleague to work with and a great man to learn from. He always pushed for greater clarity and elegance in writing. He was always impressed with our empirical results. And while agreeing that we should always acknowledge the weak results, we should never apologize for the results that we got because they were new and interesting. I learned a lot about writing academic papers from Balder.

Of course, if Balder was keen on elegance and clarity in writing, he was not less keen on elegance and clarity in seminar presentations. Many of us in the Department have sat through many seminars with Balder, watching his temperature rise during a presentation until he could no longer contain himself. He did not like long and tedious introductions where the purpose of the paper was not clear. And he especially did not like talks that were not thoughtfully prepared. If you were presenting a model with messy notation, you probably heard from Balder.

Balder was a man of passionate likes and dislikes. He loved great literature, and was one of the most widely read people I have ever known. He loved great wine and great food, and he loved to cook. Balder loved great cars, particularly his BMW, which he tried to improve on. (I guess he thought

those German engineers didn't get it quite right.)

Balder was one of the few people that I have ever known who owned a tuxedo. He would wear it on happy occasions, and he somehow always looked quite dashing in it. Elegance is a word that comes to mind when thinking about Balder. The dictionary definition of elegance is "refined gracefulness". Balder was elegant, whether as a young actor in Austria, an expert skier, in his love and appreciation of the finer things in life, the construction of algorithms, the writing of academic papers, and of course in his life with Cathy. Elegantly is how he lived his life and he has certainly left us with a great legacy in the form of his written work and lasting memories of a fine scholar and gentleman. Thank you Balder for enriching our lives.

Written by Douglas S. West

FINAL NOTES

Margaret Howell has decided to retire from the Department at the end of December 2004. It's been a great 22 years, Margaret. We'll miss your support, your warmth, your candies and the photo gallery! Enjoy those grandchildren.

VISIT OUR WEB SITE

The department web site at <http://www.ualberta.ca/economics> provides information on our undergraduate and graduate programs, the teaching and research interests of faculty, and links to faculty web sites. We will add additional material, including this newsletter, and other news items. We would appreciate feedback on our website in general and on what you would like to see added. Please keep in touch – we love to hear from you!