I would like to introduce this newsletter by thanking my predecessor, Andrew Foster, who was department chair for eight years, from 2002 to 2010. Eight years as chair constitute a tremendous service to the department, which grew in size and quality under Andrew’s leadership. Having him around is also priceless for me, as he is an endless source of wise advice.

The academic year 2010-11 has been important for the department. We underwent an external review, something that happens about once a decade. External reviews are an opportunity to assess the trajectory of the department and to suggest appropriate directions for growth and setting of academic priorities. I am happy to report that the review came out strongly positive. The reviewers confirmed the assessment found in other recent rankings, in which our department ranks near the top ten economics departments in the world. In addition, we received sound advice on redefining hiring strategies in the fields of macroeconomics and finance, on identifying new targets of opportunity in applied micro, econometrics, and theory and experiments. The reviewers were also favorable towards the changes introduced in the graduate program, praised some of its recent job placements (including one at Stanford GSB this year), and provided suggestions to help us improve the facilities for graduate students, something on which we are already working with the administration. The booming undergraduate enrollments were also featured in the review. Indeed, this year, for the first time, our department led the list of departments by number of concentrators (putting together all concentrations sponsored). I take it as a very good sign that so many Brown students come to economics in the midst of the current crisis, perhaps to seek a better understanding of what is going on.
I would like to close by welcoming to the department our three new faculty colleagues:

Stelios Michalopoulos will join us as an Assistant Professor of Economics, effective January 1, 2012. He got his PhD in economics from Brown in 2008, and his fields are growth theory and political economy. He is currently an Assistant Professor of Economics at Tufts University, and during the academic year 2010-11 he has been the Deutsche Bank Member at the Institute for Advanced Study in Princeton.

Eric Renault is joining us as the C.V. Starr Professor of Economics, effective July 1, 2011. He holds a 1983 PhD in applied math from Paris Dauphine, and is a world leader in econometric theory and financial econometrics. His distinguished vitae includes over sixty refereed publications in the best journals of economics, finance and statistics. He is a Fellow of the Econometric Society, and has also had extensive editorial responsibilities, including having been an Associate Editor of *Econometrica* and an Associate Editor of the *Journal of Econometrics*, and having been the founder and main editor of the *Journal of Financial Econometrics*. He has also delivered a high number of prestigious named lectures and has organized and co-organized some of the most important conferences in the economics annual calendar. His previous academic title was the Henry A. Latane Distinguished Professor of Economics at the University of North Carolina at Chapel Hill.

Susanne Schennach is joining us as a Professor of Economics, effective July 1, 2011. She holds a 2000 economics PhD from the Massachusetts Institute of Technology. She is, in spite of her young age, already recognized as a world leader in mathematical econometrics. Her vitae is distinguished, including about a dozen papers in prestigious outlets, such as *Econometrica*, the *Journal of Econometrics*, *Econometric Theory*, *Biometrika* and the *Annals of Statistics*. She is an Associate Editor of *Econometrica* since 2008. She has also delivered several plenary lectures in regional meetings of the Econometric Society, as well as statistics and microeconometrics meetings. Her previous title was Professor of Economics at the University of Chicago.

Roberto Serrano
Chair and Harrison S. Kravis University Professor of Economics
Michalopoulos’ research agenda deals with a growing field in economics, examining how historic forces have given rise to contemporary comparative development and social phenomena that have been shown to explain economic performance. In his recent work on the Origins of the Ethnolinguistic Diversity forthcoming in the American Economic Review, Stelios explores the determinants of ethnolinguistic diversity within as well as across countries shedding light on its geographic origins. Moreover, in a current working paper he investigates the role of trade and geography in the economic origins and spread of Islam.

Currently he is working on uncovering the historic factors that shape contemporary regional development in Africa. The predominant explanations on the deep roots of contemporary African underdevelopment revolve around two broad categories. The first one stresses the influence of Europeans during the colonial period. The second view highlights the importance of local, pre-colonial ethnic structures in shaping contemporary outcomes. In the period between the ending of the slave trades and the commencement of the colonial period, the so-called “Scramble for Africa” starts with the Berlin Conference of 1884-1885 and is completed by the turn of the 20th century. In this brief period, Europeans partitioned Africa into spheres of influence, protectorates, colonies, and free-trade-areas. Those borders endured after the African independence in the 1960s leading to the partitioning of numerous ethnic groups across the newly created African states.

In ongoing work with Elias Papaioannou of Dartmouth College Stelios is exploiting the Scramble for Africa as a quasi-experiment to contribute to the perennial debate on the origins of contemporary African development. The authors pose two distinct, though inter-related, questions. First, do contemporaneous nationwide institutions affect economic performance across regions once hard-to-observe ethnicity-specific traits, culture, and geography are accounted for? Second, do pre-colonial institutional and societal ethnic characteristics correlate with regional development once country-level attributes are considered?

Identifying the causal impact of contemporary institutions on regional comparative development is a particularly demanding task; this is because, among other challenges, there are rarely otherwise identical cultures exposed to different institutional settings. This is where the research design offers a decisive advantage. In contrast to previous works that have relied on cross-country data and methods, the authors tackle these questions exploiting within-country and within-ethnicity regional variation across approximately 1,200 African ethnic regions. They combine anthropological sources on the spatial distribution of ethnicities in the eve of colonization with current satellite data on light density at night to proxy for contemporary comparative development.

The drawing of political boundaries partitioned in the eve of African independence more than 200 ethnic groups across different countries. Taking advantage of this historical accident, they compare economic performance in regions belonging to the historical homeland of the same ethnic group, but being subject to different contemporary national institutions. The evidence shows that there is no systematic relationship between country-wide differences in institutions and regional economic performance within partitioned ethnicities casting doubt on the causal interpretation of the cross-country positive correlation between institutional quality and economic development in Africa.

Second, they explore the significant heterogeneity of historical ethnic institutions and examine their role on regional development. In line with an influential conjecture among African scholars, the evidence suggests that ethnic pre-colonial institutions correlate significantly with contemporary regional development, even when controlling for local geography, country characteristics, and other ethnic traits. The authors are careful to note that since ethnic institutions are not randomly assigned, this uncovered correlation does not necessarily imply causation. Yet their result provides large scale formal econometric evidence in
support of the African historiography that emphasizes the importance of ethnic institutions and other historical features in shaping local economic performance suggesting that research on African development needs to focus at the ethnicity rather than the country level.

A native of Argos, Greece, Stelios completed his undergraduate work at Athens University of Economics and Business before coming to Brown for his graduate studies. He is currently an assistant professor of economics at Tufts University and recently served as the Deutsche Bank Member at the Institute for Advanced Study at Princeton.

Susanne Schennach will join the faculty at the Economics Department of Brown University for the Fall Semester 2011. She attended MIT from 1996 to 2000, completing her PhD in economics. She then joined the Department of Economics at the University of Chicago as an Assistant Professor, where she was promoted to Full Professor with tenure in 2007. She is currently an associate editor at *Econometrica* and *Econometric Theory*.

Much of Susanne's research has focused on measurement error in nonlinear specifications, such as Probit, Logit, Tobit, polynomials or, more generally, nonparametric specifications. Her interest in that topic stems from her work as a research assistant on an applied project on coal productivity at MIT, where her reading of the econometrics literature made her realize just how little research had been done to deal with errors-in-variables in nonlinear models, despite the fact that most undergraduate textbooks cover measurement error in linear specifications. She has proven identification and suggested estimators to correct for measurement error using different sources of information, such as instrumental variables, multiple error-ridden measurements of the same variable, and so-called "higher-order moments" (moments other than means and variances). Since, in practice, data sets may measure errors that do not necessarily fit the classical picture of independent additive errors, her work has also addressed more general "nonclassical" measurement error models.

Susanne has also contributed to the literature on one-step alternatives to the generalized method of moments, demonstrating how to obtain an estimator that combines some of the complementary properties of the best existing estimators, namely, low bias and variance as well as a certain robustness under model misspecification. She also provided a natural interpretation for this estimator as the nonparametric limit of a bayesian procedure.

More recently, Susanne has developed a general way of dealing with unobserved variables (such as ability, preferences, or true personal income), which play an important role in economic modeling but are unfortunately not available in most economic data sets. This work complements the recently burgeoning literature on partial identification and extends the well-known generalized method of moments by using simulations to generate the unobserved variables via so-called a least-favorable finite-dimensional family of distributions, which provide maximum flexibility on the distribution of the unobservables while introducing the minimum number of parameters in the model.

While Susanne's research focuses mostly on econometric theory, she has also addressed some important practical problems related to her work, such as joint work with Flavio Cunha (now at the University of Pennsylvania) and Nobel prize winner James Heckman on the skill development of children, where typical measurements of skill (such as test scores, or measurements of noncognitive skills), for instance, are inherently mismeasured.

Susanne will be teaching in the graduate and undergraduate econometric sequences.
**Eric Renault** joins our department as C.V. Starr Professor of Economics. Renault comes to Brown from the University of North Carolina, Chapel Hill, where he taught from 2004 to present.

He received his PhD in Applied Mathematics from the University Paris 9 Dauphine in 1983 and held over the last 20 years positions of Professor of Economics in the universities of Toulouse, ENSAE (Paris) and Montreal. He also has taught Finance in Ecole Polytechnique Paris, Princeton University and several Business Schools in Europe.

Renault's research is consistently contributing to econometric theory, asset pricing and the interactions between them. In econometric theory, his main focus of interest is asymptotic theory for non-linear models. His research includes contributions to generalized and/or simulated method of moments, with in particular inference methods robust to fat tails, misspecification or weak identification. His results have been applied to macroeconometrics (calibration, causality), microeconometrics (nonparametric instrumental regression) and to finance. For the purpose of econometrics of option pricing, Renault has developed specific moment methods in presence of latent variables (implied volatility estimators and implied pricing kernel) and market incompleteness (implied preference parameters).

Renault's contributions to the theory of asset pricing set a special focus on the modeling of investors' preferences in the face of uncertainty: state-dependent preferences, disentangling risk aversion and elasticity of intertemporal substitution, impact on asset prices of the heterogeneity of preferences and beliefs, risk measurement in case of asymmetric information. In addition, Renault develops new time series models for the purpose of option pricing and risk management: continuous-time models of stochastic volatility with long memory (Fractional Brownian motion) or with endogeneity of observation times (high frequency data in finance).

Beyond his own research and the supervision of many PhD students, Renault has also been much involved in research evaluation and administration. He has been head of two research units in France (Toulouse and ENSAE-CREST, Paris) and in both cases has launched a new graduate program in Finance. Among many editorial boards and conference program committees, he has been Associate Editor at *Econometrica* for 12 years, Associate Editor at *Journal of Econometrics* for 17 years and has founded the *Journal of Financial Econometrics* 10 years ago. He is still on board in the two latter cases, is an active Fellow of the Econometric Society and belongs to the Council of the Society for Financial Econometrics.

Eric Renault is used to teaching econometric theory, time series for macroeconomics and finance, mathematical finance and asset pricing. At Brown, he will teach macroeconometrics and financial econometrics at both the graduate and undergraduate levels.
We are delighted to welcome Rajiv Vohra back to the faculty of our department. Rajiv has served as Dean of the Faculty at Brown since 2004, and has been a key player in the implementation of the Plan for Academic Enrichment. He will be teaching the mathematical version of intermediate microeconomics and general equilibrium theory for advanced undergraduates in 2011-12. Here’s what Rajiv has to say:

It's exciting to be back in the economics department. Even though I've been on campus these last seven years, it seems like I've been light years away from the department. To play a role in the transformation of Brown has been interesting, and rewarding. From my perspective at least, it was also an experience in applying economics to the real world, or as close to the real world as I am likely to encounter. The trade-off between the short-run and long-run is a recurring theme in university administration and one is constantly dealing with issues of incentive compatibility and moral hazard. But now that my work in applied economics is done, I am looking forward to returning to the systematic and rational world of economic theory, and working with my colleagues (many of whom arrived while I was away) to keep our department on its upward trajectory.
Economist studies how higher gas prices affect consumer behavior

By Deborah Baum (Media Relations)

Brown University economist Justine Hastings uses gasoline purchasing data to show how consumers make buying decisions when prices jump at the pump.

A dollar is a dollar is a dollar, so goes the economic theory of fungibility. But do people really act that way? In a new working paper, Brown University economist Justine Hastings and Jesse Shapiro of Chicago Booth School of Business find striking evidence that basic consumer choice behavior violates this bedrock theory.

“Fungibility is an important assumption in many economic models, but we have a lot of laboratory evidence suggesting that people don’t, in fact, treat a dollar as a dollar,” said Hastings, associate professor of economics. “People instead try to manage their budgets based on rules of thumb, which is a divide-and-conquer strategy.”

Otherwise known as “mental accounting,” that strategy means households often budget things like rent money, gas money, and grocery money separately. While a significant body of laboratory and experimental evidence shows that households maintain mental budgets, Hastings says that until now, it’s been tough for economists to demonstrate this model of consumer behavior in the real world.

In their paper, “Mental Accounting and Consumer Choice: Evidence from Commodity Price Shocks,” Hastings and Shapiro analyzed individual-level data on purchases of gasoline from a large grocery chain from January 2006 through March 2009. A clear pattern emerged: People behaved as if they were much poorer, buying cheaper gasoline as if a $2 increase in gasoline prices had decreased their annual income by tens of thousands of dollars.

Hastings says this real-life demonstration of mental accounting isn’t just about gasoline. “It uses gasoline to make a more technical, deeper point about economic behavior and modeling, and I think that’s important for everything from macro- to micro-economic models.”

As for what to expect this summer, a season when gasoline prices typically jump, Hastings says gas prices could eat into the nation’s economic recovery.

“There is actually an overall income effect for non-gas purchases. While people may overreact with mental accounting and what types of grade gasoline they will purchase, there’s not much they can do to save money on the gasoline purchasing margin,” she said.

In prior work using similar data, Hastings and her co-authors examined the regular income effect of gasoline prices on non-gasoline purchases and showed that households move expenditures in categories from restaurants to grocery purchases to make up for decreased income. The higher gas prices get, the less disposable income there is for other goods and services, and “that could really eat into an already strained economy.”
By Deborah Baum (Media Relations)

Brown University economist **Oded Galor** founded the field of unified growth theory, which examines the economic growth process over the entire history of the human species.

Throughout most of modern human existence, economic growth has been all but absent in the world. But about 200 years ago, some parts of the world began to emerge from economic stagnation into a period of sustained economic growth, profoundly altering the level and distribution of wealth, education, and health around the world and marking one of the most significant transformations in human history. The question ever since has been, Why?

Oded Galor, the Herbert H. Goldberger Professor of Economics, explores that question in his new book, *Unified Growth Theory* (Princeton University Press, 2011), which results from 20 years of developing and advancing this single theory. Reviewers say the book is “breathtakingly ambitious,” “full of original and daring ideas,” “Big Science at its best,” and “will have a long lasting effect on economics.”

Galor spoke with Deborah Baum about unified growth theory and how it explains what some scholars call the most profound and difficult questions of human history.

**As the father of unified growth theory, what does it mean to have a single theory that accounts for the entire growth process since the dawn of civilization?**

This is partly a quest for unification of knowledge and theoretical completeness, if you wish. But beyond that, it is an attempt to understand the role of historical and pre-historical forces in differential patterns of development and the great disparity in the standard of living across the world as we see it today.

Broadly speaking, the theory examines how individuals, societies, and economies have evolved virtually since the emergence of modern humans and how this evolution contributed to the vast inequality across the globe. To do so in a unified way means that you don’t rely on different models for different stages in the process of development. Instead, the same model and behavioral rules characterize individuals throughout human history — but individuals take different action in different stages of development, due to the fact that economic incentives are changing in the course of human history.

The [non-unified] theories we have at the moment were built to characterize economic growth in the past decades and they are inconsistent with economic development in the course of most of human history. Consequently, they are unable to shed light on one of the most important phenomena in the course of economic growth, which is the emergence of a huge and persistent gap in income per capita across the globe in the last two centuries.

**You say that up until about 250 years ago, the world economy was stagnant because any technological progress was ultimately being counterbalanced by a population expansion. What happened 200 years ago that made some economies stop that cycle and take off to sustained growth?**

The theory shows how the interaction between technological progress and population ultimately raised the importance of education in coping with the rapidly changing technological environment, brought about significant reduction in fertility rates, and enabled some economies to devote greater resources toward a steady increase in per capita income, paving the way for sustained economic growth.

**How does the theory help explain the worldwide disparities in living standards and population we see today?**

One of the main insights of the theory is that initial conditions that were determined in the distant past have a persistent effect on contemporary economic outcomes. It suggests that if we really want to understand the great disparity of income per capita today, we must examine the source of variations across societies thousands of years ago. The attempt of the theory is to argue, look, if you really want to understand why Kenya is 100 times poorer than the
United States, you cannot disregard the past ... and you have to carefully examine the factors that affected the ancestor of the current populations of Kenya and the United States hundreds and thousands of years ago and how they contributed to the gap in income per capita today.

**What types of conditions and factors help explain the disparities?**

There are several mechanisms that contribute to the persistent effect of historical conditions. For instance, the level of genetic diversity that was determined thousands of years ago contributed significantly to the disparity in income per capita across countries. How? There is a trade-off associated with diversity in the context of economic development. If we are more diverse, we are less likely to cooperate, which is detrimental to economic development. On the other hand, more diverse traits are more likely to contain the ones that are more complementary to the technological environment and as a result, diversity is beneficial for economic development. The hypothesis therefore is that there is an optimal level of diversity for different stages of development. Society doesn’t want to be overly homogenous or overly diverse — it wants to be optimally diverse.

When people migrated from East Africa 100,000 years ago, tribes that resided farther away from Africa had lower genetic diversity. This is a well-established theory in evolutionary biology. In light of the effect of diversity on contemporary outcomes, the distance of the ancestors of each society today from East Africa has had a persistent effect on economic development. While the intermediate level of genetic diversity prevalent among Asian and European populations has been conducive to development, the high degree of diversity among African populations and the low degree among Native American populations have acted as detrimental forces in the development of these regions.

**What’s next for unified growth theory?**

The most promising and challenging future research in the field of economic growth in the next decades will be the examination of the role of historical and pre-historical factors in the prevailing disparity across the globe, and the analysis of the interaction between human evolution and the process of economic development. The exploration of these vast and largely uncharted territories may revolutionize the understanding of the process of development and the persistent effect that deep-rooted factors have had on the composition of human capital and economic outcomes across the globe, fostering the design of policies that could promote economic growth and poverty alleviation.
Electronic Banking in Africa

By David Weil
Professor of Economics

Africa is the poorest continent in the world, and one of the aspects of its poverty is its poor infrastructure. The road and rail network is sparse and very badly maintained, electrical power is unreliable, and a large fraction of households do not have access to piped water. Poor infrastructure has held back economic growth and made day to day life difficult for almost all of the continent’s residents. Until recently, telephones were part of this story as well. In 2004, for example, only 2.8% of Africans had access to landline telephone service.

Set against this background, the rise of mobile phones in Africa has been one of the most exciting stories in development economics over the last 15 years. The number of mobile phones in Africa grew from fewer than four million in 1998 to more than 400 million today. There are now more than ten times as many mobile phones as land lines. The rise of the mobile phone in Africa took economists and even the mobile phone companies by surprise. There were many drivers of the change, including the development of extremely cheap handsets and the use of pre-paid calling plans.

In most parts of Africa, one can buy “top up” cards, sold in denominations that are often extremely small so that they are accessible to poor people, in just about any little town. Also important was the energy of African entrepreneurs, most notably the Sudanese Mo Ibrahim (now a billionaire), who managed to put together networks and erect cell phone towers under exceedingly difficult circumstances. Finally, it turned out that even very poor people were willing to spend a significant fraction of their income to reap the benefits of communication.

In the last four years, a new and economically important service has been added to mobile phones: money transfer. The most developed system is in Kenya and is called M-Pesa (M for mobile; Pesa means money in Swahili). M-Pesa, which started operations in 2007, allows users to exchange cash for “e-money” at any M-Pesa agent. After handing over his/her cash, the user receives a text message from the system saying that the e-cash has been registered to the phone. The user can then send a text message to someone else, transferring the e-cash. The recipient can in turn transfer the e-cash to someone else, keep the e-cash on his/her phone for later use, or go to another M-Pesa agent and turn the e-cash back into regular money.

The system is remarkably fast, cheap, and secure. A complete transaction in which one person deposits and sends money, and someone else receives and withdraws money on the other side of the country, might take 15 minutes or less. Prior to the advent of M-Pesa, people would often take long bus trips back to their home villages solely to deliver money to family. The total fees associated with a transfer of 2,500 shillings (roughly $35) through M-Pesa are two percent. The cost of a postal money order, by contrast, is roughly six percent, and of course it is far slower. Because the e-cash does not actually live on the phone handset, but rather as an entry in the central computer, and because accounts are locked with a PIN, people who have their phones stolen do not lose their money. For this reason, some people use M-Pesa like an e-wallet, turning cash into e-money when they are going on a trip, then turning the e-money back into cash when they

There are more than 25,000 M-Pesa agent outlets in the country. By contrast, there are roughly 1,000 bank branches and 350 ATM machines.

Professor David Weil and Isaac Mbiti, who received his PhD from Brown and now a professor at Southern Methodist University, have been studying the economic aspects of M-Pesa. For economists, M-Pesa raises a number of interesting issues.

By studying the patterns of “cash out” transactions, in which an individual turns e-money back into regular money, Mbiti and Weil are able to learn about household discount rates. Consider the problem of a person who receives regular transfers of e-cash, for example a woman living in a village who receives transfers from her husband every few weeks. One strategy she could follow is to withdraw her transfer each time she received it. Alternatively, she could wait to receive several transfers, saving the value on her phone, and then withdraw the full amount all at one time. Because of the structure of M-Pesa fees (there is a flat fee of 25 shillings for withdrawing the first 2,500 shillings; a fee of 45 shillings for withdrawing between 2,501 and 5,000 shillings, and so on), there would be a cost saving from bunching withdrawals together. Of course, this strategy would also involve a delay in the woman getting her money. By examining the extent to which this bunching strategy is followed, Mbiti and Weil can learn how much users value money today relative to money in the future. They find evidence of relatively high discount rates among M-Pesa users, on the order of 4% per month. (Students who took Intermediate Macroeconomics may recognize the tradeoff between fixed costs and the time value of money as a variant of the Baumol-Tobin model of money demand.)

One of the most exciting aspects of M-Pesa is that it allows poor people to access financial services which have generally been out of reach for them. In Kenya, only 23% of adults have a bank account, and another 18% use informal financial institutions, such as microfinance. Only 7% of the adult population uses a formal insurance product. Elsewhere in Africa, the connection to the formal financial system is even weaker. In Tanzania, only 11% of adults have bank accounts, and in rural areas of that country it is only 4%. Mbiti and Weil find that the arrival of M-Pesa increased the fraction of the population holding bank accounts by 58% of its 2006 value. Further, 25% of adults reported using M-Pesa to store money. At the same time M-Pesa reduced the use of informal saving mechanisms such as Rotating Saving and Credit Associations (ROSCAs) and the likelihood that people saved money by hiding it somewhere in their houses. Recently, M-Pesa has added new services, including the ability to link one’s phone to an interest-paying savings account, access to a line of credit, and ability to purchase life insurance.

Another issue that Mbiti and Weil examine is how central banks, which are responsible for monetary policy, should think about e-money. Students who took Intermediate Macroeconomics will recall that economists put a lot of effort into measuring the money supply and its relationship with the price level and economic activity. Clearly e-money should be part of the money supply, but knowing how it affects economic activity requires knowing its “transactions velocity,” that is, the frequency with which it is transferred from person to person. Because e-money exists as an entry on a central computer, it is actually easier to measure its transactions velocity than it is to measure the transactions velocity of cash (a problem on which economists have been working for more than a century). Mbiti and Weil estimate that the transactions velocity of e-money in Kenya is roughly 14 transactions per month – in other words, the average unit of e-money is transferred from person to person once every 2.2 days.

Mobile phone based banking systems like M-Pesa have now been implemented in many developing countries and are growing very rapidly. These systems bring with them enormous potential for improving people’s lives and enhancing economic growth.
Crossing Party Lines: The Role of Information in Politics

By Katherine Casey

The strength and competence of a country’s political leadership likely have large impacts on its economic performance, yet it is unclear how to ensure that the most qualified people get elected. While voting is intended to reward high performing politicians and get rid of bad ones, a lack of information about candidates critically impedes this accountability mechanism. My job market paper thus explores the problems that arise when citizens vote under limited information, a common occurrence in many developing countries where mass media remains limited. The paper combines a theory of how information affects redistributive politics with empirical work in Sierra Leone.

Without information about the individual candidates competing for office, citizens have few options other than to vote “blindly” along partisan lines. When they cannot perceive the differences in quality between candidates, they sub-optimally support their traditional party even when the rival party fields a significantly superior candidate. Such uncritical support in turn generates little incentive for politicians to perform once in office. Moreover, an uninformed electorate enables parties to invest their resources quite narrowly in only those “swing” jurisdictions that are most tightly contested along partisan lines, taking votes from their strongholds as given. Allocating the government budget according to such electoral pressures is not a particularly efficient nor equitable way to distribute public resources.

How might information help break this low accountability equilibrium? To answer this question theoretically, my paper builds a model of redistributive politics under asymmetric information. By expanding Lindbeck and Weibull’s (1987) seminal work to incorporate a new determinant of voting choice—candidate quality, which is only imperfectly observed by voters—I show that voters with better information are more likely to cross party lines to support a high quality candidate. And, since information encourages voters to consider characteristics like candidate charisma that are more difficult for parties to observe, it makes party forecasting of expected vote shares more uncertain. Such electoral uncertainty in turn induces parties to relax their swing voter targeting and spread their resources more evenly across jurisdictions.

The decentralization movement and prevalence of ethnicity-based voting in Sierra Leone present an opportunity to test these predictions empirically. While standard arguments for decentralization focus on efficiency gains arising from the information advantages held by local politicians, I instead focus on the often overlooked complementary advantages it creates for voters. I show that citizens are more willing to vote across traditional ethnic-party lines in local elections, where they have better information about candidates, than in national races. As information encourages voters to place greater weight on characteristics like the candidate’s performance in their previous job, it adds more uncertainty to the parties’ estimation of the most competitive jurisdictions. As predicted by the model, this uncertainty leads parties to smooth their campaign spending and investments in public goods across a broader spectrum of jurisdictions when competing for local as opposed to national offices. In sum, giving voters better information relaxes their partisan loyalties, improves the choices they make in the polling booth, and leads to a more equitable distribution of public spending by competitive parties.

Katherine Casey completed her PhD in Economics this past June under advisers Kaivan Munshi and Brian Knight. She will be joining the Stanford University Graduate School of Business as an Assistant Professor of Political Economy.
While many undergraduate economics concentrators simply do their homework while cashiering at Brown University Dining Services, they might be surprised to know there are other ways to combine economics coursework with work experience and even a paycheck.

Some of the most important moments in those four years are time spent outside the lecture setting, putting concepts from the classroom in practice (or on trial) with real data, learning about professors' work and experiences, or exploring concepts with graduate students. But where can undergrads find more hours in the day to spend hanging out in the economics department? I did it by replacing a class with a senior honors thesis, and replacing other jobs with a Research Assistant position. Some professors offer paid research positions to undergraduates, but with the Chase Manhattan program any economics concentrator receiving financial aid can become a Research Assistant and receive pay outside of a professor's funding for a project. This gives students the opportunity to research a topic they're interested in, while meeting their other needs to gain experience, network, and earn pay.

Angelica Vargas, the economics Student Affairs Manager, administers the Chase Manhattan program and can help match students and professors. The fund has some big advantages for students, giving them a degree of choice in what they work on since they bring their own funding, and potentially allowing for continued part-time work through school semesters, breaks, and over the summer, depending on the professor's needs. And it allows professors to stay focused on their own research projects while mentoring students.

Although I might have spent an embarrassing number of hours of my senior year working with Stata, I highly recommend taking advantage of the Chase Manhattan program.
The department started to organize this year a symposium series under the title “Economics in the Real World.” The symposium will be held annually, around a topic of major interest in which economic theory and economic policy questions will be discussed. The symposium is open to faculty, graduate and undergraduate students, visitors of the department, as well as the local community.

The first edition of the series took place in November 2010, and the topic chosen was “Health Care and its Reform.” The kickoff to the symposium was a lecture given by Professor Jonathan Gruber, from the Massachusetts Institute of Technology. Professor Gruber was instrumental in the health care reform implemented in Massachusetts under Governor Romney, which in turn influenced heavily the design of the plan of President Obama. The symposium also continued with the participation of first-rate speakers from UPenn, U of Maryland, Harvard and Brown. The symposium closed with a panel, in which the speakers engaged in a free-flow discussion and took many questions from the audience.

The next edition, which will take place on October 20, 2011, will be devoted to the Chinese economy and its connections with the international economic and financial world, and it will be one of the many events that Brown is planning for its Year of China, during the academic year 2011-2012.

The symposium is funded with the generous sponsorship of an anonymous donor. Professor Gruber’s lecture was funded by the generous contribution of the family of Bernard Fain.
Dear Professor Welch,

I have read your most interesting article about my old Alma Mater – Hope Street High School – in the current issue of ‘2010 Economics Brown University’ and it brings back fond memories.

My twin brother, Clifford and I graduated from the Old Hope Street High School in January 1937. He was 9th and I was 7th in a graduating class of approximately 120 students. We attended school in the old building directly across Hope Street from the new building which was opened for students in September 1937.

My, what a difference three quarters of a century makes! The OLD Hope Street High School was equivalent to a private preparatory school like Moses Brown. My twin brother and I were approved for admission at both Brown and Dartmouth without taking any entrance exams.

Two teachers stand out in my memory for their excellence in teaching. Mr. Dexter, Chairman of the Mathematics Department, made calculus so interesting that he held a voluntary class on Saturday mornings – which my brother and I attended regularly.

Miss Collins, also a Math teacher gave her students difficult math problems during Friday’s class to solve over the weekend. My twin brother and I put our joint brain power to work and came into class on Monday morning with the only correct answer. Miss Collins gave each of us a lollipop as a reward.

My twin brother CLIFFORD, Class’41, myself, CLIFTON, class’41 and my older brother, Prescott, class’36 all graduated from Brown University.

During World War II, we all graduated from the United States Coast Guard Academy Reserve Officer’s School.

My late wife and I have always been interested in supporting scholarship programs at our Universities. We have established National scholarships at Brown University (my alma Mater) and Syracuse University (her Alma Mater).

I hope I haven’t bored you with too much detail of my schooling.

I congratulate you in your endeavor with the Underprivileged students at Hope Street High School.

Sincerely,

Clifton S. Gustafson – Brown’41.
Loury’s work extends beyond conventional economics research to embrace topics of social and political importance on which economics can shed considerable light. In recognition of his achievements, he was recently elected a member of the American Philosophical Society. His 2008 book on punishment and inequality in the U.S. -- Race, Incarceration, and American Values -- has helped to shape an important national debate. He gave the keynote address at the Rhode Island State House for its second annual Joint Legislative Black History Month Heritage Celebration. He recently discussed the challenge of mass incarceration with Tavis Smiley and Cornel West on national public radio.

To see how Loury puts simple economic analysis to work in a discussion of an important public question, consider this excerpt from the argument he (and economist colleague Larry Kotlikoff of Boston University) have made advocating the legalization (and taxation) of some currently illicit drugs:

“Penalties should equal the difference between the gross price paid by buyers, including the dollar value of their lost time, and the net price received by sellers, after subtracting the dollar value of their lost time. The amount of drugs bought and sold doesn’t change. What does change is that no one is sitting in jail on drug charges, and the government has real revenue from taxes or penalties” –Businessweek.com article dated 5/10/11