

Economics

Department Alumni Newsletter

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Bob Stonebraker, editor

Windows. After years in the depths of Keith Hall, shielded from sunlight, shut off from the sights and sounds of nature (save the skittish scurry of an occasional cockroach), I've got two glorious windows. Three-foot wide, ten-foot high windows overlooking the Oak Grove. The catch? I had to cawing jobs to get them. I'm now the Interim (a one-year position) Associate Provost for Enrollment Management and Planning. After years spent hearing me grouse about student quality, Provost Staszkievicz asked me to fix it. Clever revenge on his part.

Ensnconced in an official *Administrative* office with an official *Administrative* title wearing official *Administrative* suits (purchased in a special two-for-one deal at the local clothier) I'm supposedly discovering how to recruit better students, how to find courses for them to take, and how to retain them. What I really do is sit in a lot of meetings, talk about doing studies and forming task forces, and huff and puff. What a blast!

And, I'm not the only new economist-administrator. Yaw Asamoah has been tapped as Acting Associate Dean of the Graduate School for Administration. His Stright Hall office had even more windows than mine, but they're not as tall.

The rest of IUP had also experienced change. Technological change! Arena registration and arena drop-add, the nemeses of generations of IUP students, are dead. Gone for good. Kaput. Our new registration system allows continuous access for schedule changes by both telephone and computer terminals. Students were able to drop courses, add courses, and switch sections at will — twenty-four hours per day, seven days per week, all summer long. Alas, course availability is still somewhat limited. Not everyone wanting the best courses at the best times with the best professors can be accommodated. But, for the first time, students are able to call up a listing of available seats in any course, and with the push a of a keyboard button, grab any they want. No lines. No waiting.

Student I-cards have also been transformed. In addition to the usual identification and library services, the new I-cards double as telephone calling cards, "keys" for selected residence halls, and debit cards excepted by campus laundry and vending machines. No more quarters for the washing machine! Just stick in your I-card and add soap. The system is working well, but an early technical snag caused campus Pepsi machines to *JACKPOT*. Random students using I-cards to buy pop were treated to electronic convulsions that emptied the machine of all its quarters. Coins literally poured out of the return slot like a one-armed bandit. Our Office of Admissions is ready to bag its usual recruitment brochures and advertise the Pepsi machines instead.

Enjoy.

Bob Stonebraker, editor

Bus Drivers

One week before my first teaching assignment as a graduate student I fell apart. In a complete panic, convinced that I could not possibly teach, I marched to the department office to bail out. Within ten yards of my destination I froze. Finally, deciding that I was even more afraid of knocking on the chairperson's door than of trying to teach unsuspecting freshmen, I turned and walked home.

That first semester was hell. My stomach churned every day before entering the rooms and, on several occasions, I came within a whisker of blacking out in class from abject terror. Try to imagine a graduate instructor, chalk in hand, midway through a demand curve, passed out on the floor.

But, I survived. And the student feedback, with some exceptions, was positive. Although one evaluator wrote that I was "incompetent and should not be allowed in the classroom" (*yes, I still have that one tucked away in a drawer, ready to be read whenever needed*), on the whole, students ranked me among the best instructors in the department. I was surprised. Twenty-three years later, I'm still surprised.

Why? What makes a teacher effective? After countless hours of coffee room and hallway ruminations in the department, this seemingly simple question still baffles me. But, while browsing through the back periodical stacks in Stabley Library last Spring (*a great way to spend a rainy Saturday morning*), I struck paydirt. A small note tucked in the back of the Fall 1993 *Economic Journal* by Randy Bartlett of Smith College offered the most insightful answer I've seen.

Bartlett recounts that half-empty London buses were routinely passing by customers patiently queued up at stops a few years ago. After being verbally pasted by angry letters to the *Times*, an exasperated transit official replied, "How do you expect us to keep the buses running on time if they keep stopping to pick up passengers?" According to Bartlett, "effective teaching is a lot like running an effective bus company -- to succeed you have to remember the purpose is to pick up passengers along the way." He reminds us that:

the purpose of a course is not for the instructor to 'get through' the material, but for the students to do so. Effective teaching comes from stopping for passengers, bringing them on board, and getting them to their destination. Focus on getting the passengers, not the buses, to the end of the line.

Regrettably, that's easier said than done. As students, most of us in academia were talented and spirited learners. We were already inspired. We were already motivated. We only needed to be pointed in the right direction. Now, as professors ourselves, we want to teach students just like ourselves. According to Bartlett:

We want to teach us. We take the most delight in training teen-aged versions of our middle-aged selves so that they can go on to graduate school for more advanced training. But most of our students are not us and effective teaching means reaching them as well.

A tall order. One step, Bartlett contends, is teaching what matters. A student who can't see where the bus is headed is a student likely to get off at the nearest stop. Few of us are ready to pay the big

bucks for transport to unknown destinations. That doesn't mean we should trade in our theory. Our theory does matter; it's the bus! We can't go anywhere without it. But, infers Bartlett, maybe we should pay a bit more attention to where it's taking us.

No, we're not about to eschew indifference curves and kinked-demand graphs, they're just too much fun to skip. Nonetheless, several of us have been experimenting with new approaches to keep students on board. We're developing new courses and new approaches to old courses. Nick Karatjas has asked every student in his sections -- even the large sections of Principles of Economics and Basic Economics -- to visit his office and talk about "anything other than economics."

My own experimentation centered on a new contemporary issues course I taught last summer. Since *every* contemporary issue has an economic angle, I had a free hand. There was no subject-stuffed syllabus to plow through, and no agenda save asking students to "find" economics at work. I provided a minimal review of basic economic concepts, applied them to a few current controversies (love, sex and family structure, crime, education), and then allowed the students to direct the rest of the course however they wanted. They chose their own issues, presented them to the class and led discussions.

What a joyous experience it was. It helped that the class was small and diverse; five students from five different countries! But, the topics they chose were marvelous; they showed both insight and imagination. They argued the implications of Pearl Jam's price-fixing lawsuit (which made me start watching MTV so I could figure out what a "pearl jam" was) and the likely impact of the World Cup soccer matches on future pro leagues in the U.S. They drew supply and demand curves to debate the possible impacts of the O.J. Simpson case on celebrity marketing prices and analyzed the impact of Cuban AIDS policy on health and the equilibrium price of prostitution.

It was among the best experiences I've ever had in the classroom. I think I'll try it again.

The "No Comment" Department:

After blaming his poor academic performance on a "lack of focus", a student from another university claimed his grades would improve "now that I've decided what I want to do." When asked what major he had selectd, he replied, "I'm not sure. But I want to study the brain and learn to move objects by just thinking about them."

Attendance Redux

It's over. At least for now. The University Senate passed, and the Council of Trustees approved, a policy which *allows* faculty to require attendance. Faculty who choose to do so must publish their policy in the course syllabus, recognize the need of students to miss class for illness and personal emergency and allow some minimum number of permissible absences. It's not especially radical and not especially important. Only a minority of faculty will implement policies and those policies will usually be liberal enough so that few students will be affected. But the fighting was fierce.

Instead of reasoned dialogue on the appropriate role of attendance in an efficient educational process, discussions degenerated into adversarial and divisive combat. Reminiscent of the pitched battles we fought with our parents over how late we could stay up at age eleven, the rhetoric relied more

on emotion than logic. When the issue finally hit the Senate floor in May, passions were inflamed, battle lines had been drawn, and the television cameras were rolling.

Asked to present the motion, I tried to lighten the mood with a few bald jokes, but was largely unsuccessful -- stand-up comedy is not among my areas of comparative advantage. The audience was packed with visitors as raucous as backbenchers in the British House of Commons.

After lengthy "discussion", an indecisive voice vote and a disputed count of hands; a role call found 68 in favor, 59 opposed, and three abstentions. The motion passed. Most faculty Senators voted for the policy, while most student senators voted against it. Administrators were split; a strong majority of those in Academic Affairs voted yes, while most from other divisions voted *no*.

Regulation Begets Regulation

Although your editor, with reservations, supported the new policy in light of plausible external effects (see your last newsletter!), not all professors did. In the comment below, Will Radell presents an alternative view.

The new attendance policy empowers professors to increase the level of regulation on students. Not content to let student grades rise or fall with performance, some professors lobbied for and got the power to lower grades arbitrarily on the basis of physical absence from class.

In fairness to the new regulators, most had warm paternalistic feelings for students. They reasoned that more students would pass if more came to class more often.

Three weeks into the new policy, we have what to an economist is a predictable result. Students with religious preferences have beseeched their regulators to grant dispensation to accomodate worship. Most professors do accomodate students' personal preferences. But some of the regulators say "a contract is a contract," and "bust a deal, face the wheel." As a result, the regulatees and some of the regulators are now asking to extend the scope of regulation. We are now asked to regulate the regulators to force them to be nice.

Meanwhile, the regulatees, our customers, are getting caught in an increasingly thick web of convoluted regulations. As Milton Friedman might say, what do you expect? -- regulation begets more regulation." Since the current controversy is about religious exemption from attendance regulation, it is fitting to look to Saint Adam Smith for a solution. The way out that would be offered by the patron saint of economics is "*laissez-faire, laissez-passer, laissez-aller*." Then student grades would not be dependent on individual exemptions from arbitrary standards. Then grades would not come from the benevolence of the professor, but rather from students' regard for their own self interest.

LET US ALL EAT CAKE!

BUT WHEN, FIRST OF LAST?

The recent air disaster north of Pittsburgh dominated regional newscasts for weeks. Dr. George

Radakovic reflects on some economic implications of such tragedies.

The tragic loss of life in the recent crash of the USAir Flight 427 in Hopewell Township gives us all pause to reflect on the meaning of life. The profound sadness we feel for families and friends of the victims is magnified by the tragedy's proximity to "home." So too is the futility that grips us as we grapple with trying to make sense of it. For the preachy among us the frustrating search for understanding inevitable leads to attempts to glean "lessons" that might assuage our grief and offer guidance as principles of daily living. A popular Pittsburgh radio commentator, still confounded by the inexplicability of the crash after pondering the wisdom of ages, was moved to invoke the T-shirt philosophy, "Eat dessert first,; life is too short!"

Before we accept these as "words to live by," our training cautions that their implications must be fully explored *from the economic perspective*. They seem to make sense, but what exactly do they suggest? Are they consistent with rational behavior?

For most of us, no matter how much time life grants us, it is not enough to accomplish all our goals and complete all our earthly tasks (e.g., President Clinton's wish to "shoot par" before he turns fifty may be an accomplishment that even an extended lifetime won't grant). Tragedies such as the Flight 427 crash make it abundantly clear that time may indeed be the scarcest resource of all.

The T-shirt epigram views this time constraint as universal. But, that may not be true. Some of us reach points in our lives where time is no longer scarce and the choice of death may become rational -- for both those who believe in an after life and those who do not. A more telling weakness is that practicing this philosophy may hasten death itself.

The T-shirt philosophy accepts the certainty of death, but assumes the time of death is uncertain and beyond our control. This applies to cases of accidental death of the kind caused by the crash of Flight 427, but does it apply to all catastrophes? The recent Baltic Sea capsizing of the ferry Estonia provides an interesting contrast. In terms of lost lives, the Estonia disaster was nearly ten times as great. Yet, some ferry passengers managed to survive. What accounts for the difference?

The physical condition of the passengers on Flight 427 had no bearing whatsoever on whether or not they survived. However, this was not true for some of those sailing on the Estonia. Luck can explain how *some* escaped "certain" death, but others survived because they were physically fit. They were able to withstand the battering inflicted by the listing vessel, the force of the ferocious waves that threatened to wrench them from flotation devices, and lengthy exposure to the frigid Baltic waters. They also had the physical strength to respond favorably to post-rescue medical treatment.

We may believe in miracles, but could these people have survived had they followed the precept "eat dessert first"? The T-shirt philosophy dismisses the fact that when death threatens, our survival might depend on the health habits we have practiced to that point. Even in the face of Flight 427 and Estonia disasters, some may continue to eat salads first or eat salad only. Perhaps those who do might soon sport attire proclaiming "I survived the pneumonic plague of 1994 and all I got was this lousy T-shirt."

Depending on our aversion to risk, we might still choose to eat the cake first or to eat cake only. But if so, how much should we eat? Over what intervals? Why not pig out now and pay Richard Simmons or Jane Fonda to whip us back into shape later. How much later? And then, how often and how long should we brush our teeth. And . . . ? Life is always more complex than T-shirt philosophers suggest. On the other hand, once we have defined the problem, it is always simple in economics.

No Joy in Mudville

*Where have you gone Joe DiMaggio,
the nation lifts its hopeful eyes to you.*

No baseball. No play-offs. No World Series. A tragedy. The sight of Three Rivers Stadium breaks my heart. Its parking lots, once jammed with cars and kids sporting baseball mitts, Pirate caps and looks of wide-eyed anticipation, stand empty. The aisles, once ringing with cries of "beer here" are silent. The mezzanine decks, once filled with the aroma of Kahn's all-beef wieners, roasted to perfection, now host only the occasional pigeon.

And all because a bunch of millionaire players and millionaire owners are squabbling about issues which, in the end, are periforal to what really matters -- baseball.

Media accusations abound. We are asked to choose sides and root for the players or the owners. But, I choose not to root. The players are driven by self-interest and greed. The owners are driven by self-interest and greed. Economists understand self-interest and greed. They are the bread and butter of economic life.

We even can learn to appreciate greed. In his recent presidential address to the Western Economics Association, Jack Hirshleifer contends that "love and friendship may sustain cooperation among a few partners, but the elaborate division of labor essential for modern life has to rely on the force of self-interest." He cites Nobel Prize laureate Friedrich von Hayek's claim that transition to a free, civilized life became possible "only when people learned to be selfish." A central lesson of microeconomic theory is that a society filled with individual consumers and firms maximizing private self-interest can generate, at least in a perfectly competitive world, an allocation of resources that is best for society at-large. According to Hayek, we must learn to withhold "from the known needy neighbors what they might require, in order to serve the unknown needs of thousands of unknown others."

Does it work in baseball? Do unfettered market forces allocate resources efficiently? The sport offers some curious economic lessons.

First, baseball, and other professional sports, are unique products. Introductory textbooks always differentiate between substitute and complementary products. An icrease in usage of vanilla ice cream lowers the demand for substitutes like frozen yogurt, but raises the demand for complements like butterscotch sauce. *Yummmmm*. But, compare the New York Yankees and the Boston Red Sox. Quick; are they substitutes or complements?

I'm not sure either. In a sense, they're *both*. Surely they are substitutes. One can't root for both the Yankees and the Sox. They compete for the same cutomers. But, they're also complements. The Yankees *need* the Red Sox; and the Red Sox need the Yankees. After all, a major advantage of watching the Yankees win is that it also means watching the Red Sox lose! The rivalry is an indispensable part of the game. And, for that rivalry to remain healthy, the entie league apparatus must remain healthy.

That's the dilemma facing players and owners alike. Should they compete or should they collude. The only answer is that they must do both. But how? Both sides agree that the financial burden of teams squeezed into smaller markets (like Pittsburgh) must be addressed. Both sides agree that overall league competitiveness can only be maintained through a collusive agreement. The central dispute is over what

form that collusive agreement should take. The players argue that the small-market teams should be propped up through revenue-sharing plans funded by the wealthier teams, while the owners are holding out for aid through lower costs through salary caps. Both sides agree redistribution to small-market teams is needed, they simply disagree over whether the donors should be wealthy teams or wealthy players.

Does it matter? Not to me. I just want my game back. And that's the tragedy. Hayek's free market self-interest seldom works efficiently when external effects are present. And baseball certainly generates external effects. An efficient allocation balances costs and benefits to *all* parties, not just those directly involved in the strike.

Millionaire players and millionaire owners can afford an interrupted income stream. But the peanut vendors, parking attendants and hotel clerks cannot. The most sorrowful spillover costs are psychic -- missing box scores in the morning paper, lost patter about last night's game that builds office camaraderie, silence between fathers and sons that could still talk baseball when all other communication links are lost in the turmoil of adolescence. And pity poor Cleveland -- chasing its first pennant since 1954 when the Indians rolled off 111 wins only to be crushed by the *New York* Giants in four straight World Series games. Gone. Hopes dashed.

Players and owners who maximize self-interest will remain on strike as long as the marginal benefit (MB) of doing so covers the marginal cost (MC) they must pay. But the MC to society, which includes the external costs imposed on others, exceeds the MC to the players and owners. Because players and owners consider only part of the overall costs, they think of a strike as being less costly than it truly is. As a result, they "overproduce" days on strike.

Do you remember the classic solution to this overproduction problem? Tax. Imposing a tax on strike participants raises their *internal* costs of staying on strike. The appropriate tax will end the strike at the socially-efficient moment. Call your local Congressional representative immediately.

Some media pundits prophesize the strike will do irreparable harm to the game; that the fans will not come back. Perhaps, in the short run, fan interest will suffer. But, in the long run, the game will rebound. It is too important, too integral a part in the relationship between fathers and sons (and mothers and daughters?) to fade. Will the fans return? Yes, they will. Do you remember the speech by James Earl Jones to Kevin Costner in *Field of Dreams*?

Ray, people will come, Ray. They'll come to Iowa for reasons they can't even fathom. They'll turn up your driveway, not knowing for sure why they're doing it. They'll arrive at your door, as innocent as children, looking for the past.

"Of course, we won't mind if you look around," you'll say. "It's only \$20 per person." They'll pass over the money without even thinking about it, for it is money they have and peace they lack. And they'll walk out to the bleachers and sit in shirtsleeves on a perfect afternoon. They'll find they have reserved seats somewhere along one of the baselines where they sat as children and cheered their heroes. And they'll watch the game and it will be as if they dipped themselves in magic waters. The memories will be so thick they'll have to brush them away from their faces.

People will come, Ray. The one constant through all the years, Ray, has been baseball. America has rolled by like an army of steamrollers. It has been erased, rebuilt, and erased again. But, baseball has marked the time. This field, this game; it's a part of our past, Ray. It reminds us of all that once was good, and it could be again.

Oh, people will come, Ray. People will most definitely come.

Discrimination: Still Kicking

I remember segregation. I remember separate public restrooms for "coloreds" and "whites" outside the courthouse of my hometown in western Maryland. I remember eating a hot dog in the "colored" side of a bus station restaurant in North Carolina because my companion was barred from the "white" dining facilities.

Times have changed; people have changed. Racial tensions still abound and racial disparities persist, but discrimination in the workplace has been curbed by law. Or has it? In these days of affirmative action plans and preferential hiring policies, do minorities enjoy equal access to the labor market?

The traditional answer, at least by many middle-aged white males with secure, well-paying jobs (like me), has been "yes". But, a recent article published by Genevieve Kenney and Douglas Wissoker (KW) in the *American Economic Review* counters with a "no".

KW report on a government-funded study conducted by the Urban Institute to examine the extent of job discrimination faced by young Hispanic males. Researchers culled through a list of volunteers and formed two-man teams, each with one Hispanic and one Anglo male. The team members were carefully matched with respect to age, size, amount of education, job history, and personality. Team members differed only in race. Once the teams were selected, members were sent out to apply for a series of low-skill, entry-level jobs advertised in Chicago and San Diego newspapers. Team members applied for a total of 360 employment positions.

The results are eye-poppers. Applying for the same positions less than one hour apart, Anglo team members were more 4.4% more successful in being allowed to fill out application forms, 30.0% more successful in getting interviews, and 53.6% more successful in being offered employment.

Success Rates In:	Anglos	Hispanics	% Difference
Being allowed to complete application forms	95%	91%	4.4%
Obtaining interview	65%	50%	30.0%
Getting job offer	43%	28%	53.6%

Although Hispanic applicants were less successful across the board, the amount of discrimination varied depending upon the type of neighborhood or firm or interviewer involved. As you might expect, the apparent discrimination most severe in white and high-income neighborhoods as opposed to Hispanic and low-income neighborhoods. More surprising, discrimination also seemed more pronounced when candidates were interviewed by males rather than females and were seeking jobs in local rather than national firms.

KW suspect that nationwide firms are more likely than small, local employers to have affirmative action plans or be bound by federal hiring policies. That could explain the national/local differential. But, why the male/female differential? Are men more biased? If so, why?

Wait. This doesn't necessarily mean the *interviewers/employers* are biased. Perhaps employers

perceive their *customers* to be biased. If officials at Burger King or K Mart suspect their customers prefer to deal with Anglos rather than Hispanics, their profit motive would push them to discriminate against Hispanics; even if they themselves were racially and culturally ambivalent. Profit-maximizing employers in a competitive environment must hire with *customer* preferences in mind, not their own.

Aha. KW can check this out. If perceived *customer* bias is the root cause, the observed discrimination should vary with the amount of customer contact. If my *customers* are biased, it might be profitable to grant prejudicial favor to Anglos for front-door cash register positions. But, what about the man working alone in the basement counting inventory after hours? If an employee never sees a paying customer, customer bias should be immaterial.

No dice. KW find that customer interaction is irrelevant. The observed discrimination in jobs with little or no customer interaction was just as great as that with jobs involving significant interaction. *Employer* bias is the apparent culprit.

How can we fix it?

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