Alumni News

Department of Economics

Indiana University of Pennsylvania ✠ Indiana, PA 15705–1087

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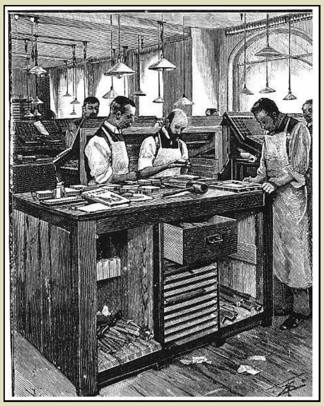

In this issue:

Editor: Jack D. Julian, Jr.

Financial Markets in Crisis: A Panel Discussion with Dr. David Yerger

Editor's Note: Reprinted with permission of The Indiana Gazette, October 17, 2008, pp. 1 and 14, written by Lauren Daley.

With confidence in the stock market shaken and the credit market in crisis, financial experts are predicting the national economy is going to get worse before it gets better, and Americans can expect a shrinking job market in the meantime. "We all believe this is the mother of all downturns since the Depression," said Dr. Robert Camp, dean of the Eberly College of Business and Information Technology at Indiana University of Pennsylvania. "It is highly likely it will get worse before it gets better." What it means for the average American, Camp said, is a difficulty in getting or keeping a job, and a loss of wealth.

Camp, joined by John Dolan, president/CEO of First Commonwealth Financial Corp.; Malcolm Polley, president of Stewart Capital Advisors LLC; Dr. Ibrahim Affaneh, chairman of finance and legal studies at IUP; and Dr. David Yerger, an IUP economics professor, provided an analysis of the global financial situation at a panel discussion Thursday at IUP.

From left: Dr. David Yerger, Malcolm Polley, John Dolan, Dr. Ibrahim Affaneh, and Dr. Robert Camp (in back). Photo taken by Mike Walker.

"In terms of national economic data, this slowdown is going to get worse. We haven't seen the high point yet on unemployment rates. We haven't seen the end of job loss yet and things like that," Yerger said. "I do think western Pennsylvania has a quite good chance of not experiencing as much of a slow down as the country overall. We're not as exposed to the sectors that are really shrinking rapidly." It also means that for college students, sources for student loans have died, according to Polley. Prospective students may have to look at schools with larger endowments, such as Ivy League schools, or it means more kids don't go to college right away, he said.

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THE ECONOMY

Financial Markets in Crisis (cont.)

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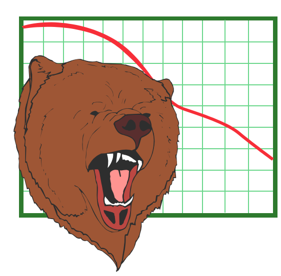
So how did the economy get to this point? A major contributor, according to Camp, were problems in the housing market with the Federal Reserve, the bank that loans to other banks, lowering interest rates on loans. "The (Federal Reserve) has been holding down interest rates by making cheap loans," he said, and the Fed told institutions Freddie Mac and Fannie Mae to purchase more and more mortgages. "With Freddie and Fannie agreeing to buy mortgages from commercial banks, commercial banks and mortgage banks started making loans where they didn't have to verify income and get in with a down payment," Camp said. "That sounds like risky business." Banks would make loans like that, he said, because they could turn around the loans and sell them at a premium. "They were basically in the loan creation business," he said. And by Fannie and Freddie putting the mortgages out on the street so the market could determine the interest rates, the market artificially held them down, according to Dolan. "What you were seeing with Freddie and Fannie were they were a huge part of keeping the rates down which kept fueling the mortgage rise," he said. The Congressional goal of expanding home ownership through the use of loans with low or no down payment, no requirement income verifications and teaser interest rates and adjustable rate mortgages also lured potential buyers who could not really afford to purchase a home, causing a bubble in the market, Camp said. Buyers, he said, could "get loans on the cheap." "You could get into a house without much money, without much income … so housing prices went up, up, up," he said.

Affaneh said blame for the problem should be divided among the financial institutions, government regulators and the public, and that disparities between the price of houses and the increases of personal [*sic*] indicated this would happen. In the last six years, the cost of houses has increased 85 percent whereas income has increased no more than 15 percent, he said. That disparity, he said, "rings a bell that there's some problem here." National housing prices essentially stayed flat from 1984 to 2001, Dolan said, but low interest rates making it easy for anyone to get into a home have caused prices to skyrocket in the last several years. "It will probably be around nine months to a year before we get back … to where we were before," he said. But all agreed that in Indiana the market had been relatively stable. The effects of a recession – which Dolan said he believes will happen – will be prolonged as baby boomers are selling their homes and downsizing. In the meantime, he cautioned all Americans to become financially savvy. A mortgage with insurance and taxes should not exceed more than 28 percent of a person's income, he said. "It's more important than ever for everyone … to get a little more financial literacy and a little more discipline in finances," he said. *(Continued on page 8)*

Websites of Economic Interest

Do you want to learn more about the current state of the economy? Dr. David Yerger suggests visiting the following websites:

- **www.nakedcapitalism.com** ("Naked Capitalism") – *It has a bit more European perspective and an excellent set of daily links.*
- http://**www.ritholtz.com/blog** ("The Big Picture") – *It has much more of a stock investing perspective.*
- http://**blogs.cfr.org/setser** ("Brad Setser: Follow the Money") – *This is the best site for the analysis of U.S. financial capital inflows and outflows. It is also the best site for the analysis of China's financial flows with the U.S.*
- http://**www.rgemonitor.com** ("Roubini Global Monitor") – *If I'm ever feeling a twinge of optimism, I visit this site and the optimism just melts away. Roubini was very negative (a.k.a. "Dr. Doom") very early and so far very right. He remains very negative.*
- http://**acrossthecurve.com** ("Across the Curve: A Daily Bond Market Chronicle") – *This is a very geeky site, the reader must enjoy discussions of interest rate spreads, swaps, and butterflies. Often has useful insights on sentiments in the bond market.*



Iraq War: Some Determinants of American Soldiers' Deaths

By Dr. Willard W. Radell

Much is written about the current Iraq War, mostly leaning toward opposition or support. What follows is an attempt at a politically neutral descriptor of one facet of the war's cost, American soldiers' deaths, using a simple regression model. As you follow the results, remember that behind the statistics are real people.

Since the beginning of the Iraq War, there has been an unprecedented amount of raw, public data available. Michael O'Hanlon and Jason H. Campbell, **Iraq Index**, http://www.brookings.edu/saban/iraq-index.aspx, and Michael White and Glenn Kutler, **Iraq War Casualties**, http://icasualties.org/oif/ have been regularly gathering, updating and publishing time series of various metrics associated with the war.

Several questions about the progress of the Iraq War were being asked in the public media in the spring of 2008. Was there a tendency for daily American deaths to increase as the war got "older"? Was the apparent increase in deaths during Ramadan statistically significant? How costly would a major offensive like the Fallujah campaign be? What was the impact of the Muqtada al-Sadr Truce apparently negotiated by the U.S. Army? What was the effect of the Surge in troop levels? To answer these questions a model was constructed of the following form:

$$\text{ADD} = -1.1073 + \underset{(.0000)}{.02975(\text{Age})} + \underset{(.009)}{.03171(\text{RamDays})} +$$

$$\underset{(.0000)}{2.5716(\text{FalDum})} - \underset{(.0000)}{2.0096(\text{AlSadrT})} + \underset{(.044)}{.0000169\ (\text{TLUS})},$$

(2-tail probabilities in parentheses)

where, ADD = Average U.S. Soldier Deaths per Day, by month; Age = month of war; RamDays = Days of Ramadan in the month; FalDum = binary coding of whether it was a month with a Fallujah campaign; binary coding of whether the al-Sadr Truce was on or off for the month, AlSadrT = al-Sadr Truce; TLUS = U.S. average Troop Level for the month. Since the R^2 was 0.63 and the adjusted R^2 is 0.60, it can be said that the model accounts for about 60% of the month-to-month fluctuations in average daily American soldiers' deaths. Tolerance statistics range from 0.51 to 0.96 so multicollinearity is not a serious problem.

What the model implies is:

- an upward trend in American deaths, increasing by 0.9 for every additional month of the war (although the trend has broken during the al-Sadr Truce);
- an extra 28.5 American deaths in a theoretical month with 30 days of Ramadan in it (until Ramadan 2007);
- an extra 77 American deaths in a 30-day month with a Fallujah campaign (Fallujah was costly);
- a decrease of 60 American deaths in a 30-day month with the al-Sadr Truce holding;
- an extra 5 American deaths in a 30-day month for every 10,000 extra troops in Iraq.

An alternative model that eliminates the al-Sadr Truce dummy variable and substitutes a dummy variable for the surge causes the adjusted R^2 to drop to 0.29 and the surge coefficient is not statistically significant. Thus, if the surge is working by other benchmarks, its effect is not to reduce American soldiers' deaths independently of the al-Sadr Truce. The key to the reduction in soldiers' deaths from September 2007 to March 2008 seems to have been the al-Sadr Truce. It is notable that although from 2003 to 2006 there was a strong Ramadan effect, there was no effect during the Ramadans of 2007 and 2008, which coincided with the al-Sadr Truce and the demobilization of al-Sadr's Mahdi

Dr. Willard W. Radell

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Faculty Spotlight

THE PYLA-KOUTSOPETRIA ARCHAEOLOGICAL PROJECT

By Dr. Nicholas Karatjas

This past summer I went to Cyprus with Dr. Scott Moore of IUP's History Department. Dr. Moore is one of the leaders of an international team of faculty and students (which included five IUP students) working on the Pyla-Koutsopetria project. Part of this project involves a regional survey of a coastal territory east of Larnaca, Cyprus. I went along to see what an "economist" might be able to contribute. One of my interests is the economics of tourism and I wanted to see how that might integrate into this project. Part of my indoctrination into the project was washing pottery sherds. All of the folks involved with the project were great. They spent a lot of time educating me, and I believe that I may be able to contribute to their project in the future.

Dr. Karatjas washes pottery sherds.

However, there was another reason I wanted to go. When my father passed away a couple of years ago, I lost touch with all of his family. My dad was born in Cyprus and most of his family stayed there. This trip would give me the opportunity to meet some family. As economics teaches us, self-interest is a powerful motivator. This trip was a life-changing experience. I met family (five first cousins!) and saw things I never thought I would see. My family took me to my father's birthplace. I tried to speak Greek but unfortunately while I understand it, my conversational Greek is at the level of a five year old. Hopefully in time I can become more proficient. Even though I was over 5,000 miles from home, so many things reminded me of the United States. The clothing the kids were wearing reminded me of home. Fashion is the word. And the designer sunglasses! Also, there were so many noisy scooters. All of the cars were new or relatively new. Gasoline was not as expensive as I thought it would be. The country was clean virtually everywhere. The people were friendly and the hospitality was everything I had been told to expect.

I also met with George Kouttoukis ('91) for lunch where we had fish meze-calimari, octopus, other types of fish, potatoes, salad, bread, different dips, prawns, and topped off with fresh cherries and apricots (both grown in Cyprus). George is a real estate developer in London and does some financial consulting work in Cyprus. I was amazed at how much of the department he remembered.

I did not get to do everything, but I got to do the most important – meeting my family. The last night I was in Cyprus, I bought some yogurt and went to the beach on the Mediterranean to sit and eat. A group of boy scouts were walking by and as they passed, one of them pointed to me and observed (in Greek) "look at the old guy." Ironically, my only regret was waiting until I was 58 years old to go. It was truly an unbelievable trip. Stay close to your families. Learn about their past. I shall continue to trace my family roots and, in the process, learn more about economic development than I ever imagined.

Dr. Karatjas stands on the stage of the Kourion Greco-Roman Amphitheater.

Iraq War: Some Determinants of American Soldiers' Deaths (cont.)

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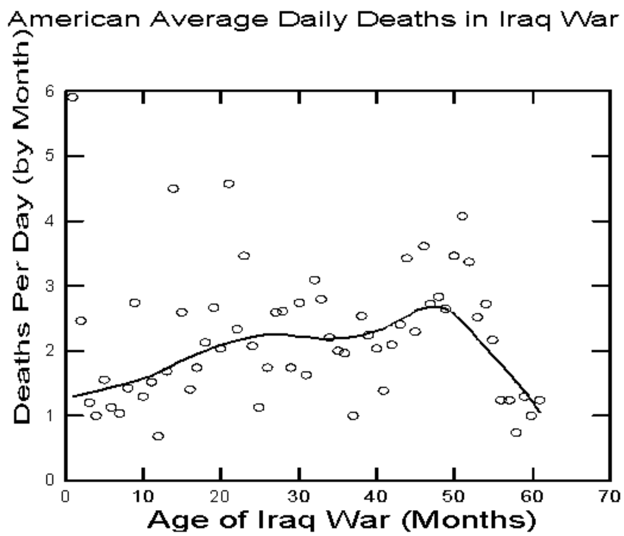
army. Since the al-Sadr Truce continued through Ramadan 2008 there was no spike in American deaths. Although the lower number of deaths in 2007 and 2008 have been widely attributed to the elevated troop levels associated with the surge, the data show no such effect. On the contrary, in a model that accounts for the effect of the al-Sadr Truce, American deaths actually increased with higher troop levels through March of 2008.

There are other costs of the Iraq War: Iraqi lives, dollars, opportunity costs, infrastructure destruction, commodity price inflation, …. The model presented here only attempts to predict one element of cost of the war and does not speak to the objectives of the war. It is possible that the surge that politicians and journalists associate simply with higher troop levels, is a more complex mix of military negotiations with warlords, more adaptive counterinsurgency tactics and a buy-off of Muqtada al-Sadr that has had the combined effect of lowering American deaths. As of mid-October, 2008, American deaths have dropped even more than reflected in this study, as the Mahdi Army has continued its demobilization.



Student Notes

The Department of Economics wishes to congratulate the following award recipients. The awards were presented at the May 2008 Department of Economics Commencement Ceremony.

Bright Dismal Scientist Award – **Mason R. Young** and **Justin E. Eppley**

Dr. Brewer Award – **C. Elizabeth Hall**

Wall Street Journal Award – **Samantha E. Collinash, Jarib G. Misosky,** and **Lauren B. Venturino**

Graduating with Department Honors (Department of Economics Honors Track): **Justin E. Eppley, C. Elizabeth Hall,** and **Mason R. Young**

*This semester, the **Economics Club** hosted the following alumni speakers:*

***Christine Gillock ('06)** – Associate with the Regulatory Administration Department of PNC Global Investment Servicing – Pittsburgh, PA*

***Maria Valero Richards ('04)** – Project Analyst with the Infrastructure Project Management Organization, Coventry Health Care, Inc. – Cranberry Township, PA*

If you plan to be in the area (or live in the area) and would be interested in speaking to the Economics Club, please contact Jim Jozefowicz at James.Jozefowicz@iup.edu.

Student Spotlight

VISITING GHANA: A LIFE-CHANGING OPPORTUNITY

by Chelsea Boser

Editor's Note: Chelsea Boser is currently a senior economics major.

Dr. Yaw Asamoah had recommended the James Madison University Ghana Program to me after he heard of my interest in economic development after taking Dr. Yaya Sissoko's ECON 339 class during the fall 2007 semester.

Consequently, this past June I had a life-changing opportunity in Ghana, Africa. While staying in the capital city of Accra, I took classes at the University of Ghana. These classes were taught by native professors. Each class was taught by a different professor from each department, so my class would get a variety of information ranging from government to religion to culture to history, etc. One of my favorite topics in these classes was learning about slavery. It is one thing to learn about slavery in high school in the United States; it is another thing to learn about slavery from the country who actually suffered it. I got a whole different meaning from it.

During the week after classes, we would have a lunch break at the hotel we were staying at and then we would drive an hour to teach at Glona (a free school for students who couldn't afford to go to school, or for children who had to work during school hours to help raise money for their family). There were five different groups in Glona, the 1st group being the least advanced and 4th being the most advanced. I was in group 5 which was a smaller group with a wide range of ages for kids who had the most difficulty and needed one-on-one help. I had two very gifted boys who were very eager to learn and I appreciated their hard efforts. It was difficult to teach them at first because they didn't have any books or paper. I was not given any heads up on where they were at. After a week of testing them, it got easier. After working with these boys for a month, it showed me how lucky I was to be able to get a good education here in the U.S. As my going-away gift to them, I gave them some notebooks and pencils. They were very grateful.

On the weekends our tour guide would take us out of the city to visit different parts of the country. Some places we saw were the Mampong Center for research into plant medicine, Aburi Garden where we saw the native plants, the Volta Dam where most of Ghana's electricity comes from, a chief's palace, Wli waterfalls, and a monkey sanctuary.

During the last week of our stay we were able to visit different museums, such as the military museum. We stayed in a historical city, Cape Coast. While staying there we visited the Cape Coast castle and Elmina castle where slaves would stay for months before being shipped off to different countries if they survived. This was very emotional.

It's hard to choose one thing that I loved the most from that trip. Experiencing the everyday life in Ghana was probably what I loved the most. There were some parts that were hard to get used to in the beginning, such as the many different languages they speak in the country and the food, but overall it was more than I could ever ask for. I gained many friends and opportunities from my trip to Ghana. I hope to go back again soon.

Chelsea poses with two of her students.

Faculty Notes

"The Effects of Environmental Factors on Cancer Prevalence Rates and Specific Cancer Mortality Rates in a Sample of OECD Developed Countries," co-authored by **Dr. James J. Jozefowicz** and **Shannon M. Stare ('07)** was published in the September 2008 issue of the *International Journal of Applied Economics*.

Back row (left to right): James Dyal; Yaya Sissoko; James Jozefowicz; Todd Potts.
Middle row: Nicholas Karatjas, Chair; Willard Radell; David Yerger; Jack Julian.
Front row: Sarah Jackson; Stephanie Jozefowicz.

"Income Inequality and Educational Attainment Rates: The New York Story," co-authored by **Dr. James J. Jozefowicz** and **Ali R. Cannoni ('07)** was published in the Fall 2008 issue of the *New York Economic Review*.

"The Effects of Immigration on Regional Unemployment Rates in the Netherlands," co-authored by **Dr. James J. Jozefowicz** and **Rebecca M. Galloway ('06)**, was published in the August 2008 issue of *International Advances in Economic Research*.

"New Release: An Empirical Analysis of VHS/DVD Rental Success," co-authored by **Dr. Stephanie M. Brewer Jozefowicz**, **Dr. James J. Jozefowicz**, and **Jason M. Kelley ('03)**, was published in the June 2008 issue of the *Atlantic Economic Journal*.

Dr. Stephanie M. Brewer Jozefowicz and **Dr. James J. Jozefowicz**, Co-Directors of the First Commonwealth Center for Economic Education, attended the National Council on Economic Education Annual Conference in Biloxi, MS, in October 2008. Stephanie serves as Secretary of the Executive Committee of the National Association of Economic Educators (NAEE). Jim serves as Co-Chair of the NAEE Professional Development Committee and is a member of the NAEE Task Force on Membership. In addition, Stephanie was nominated to run for President-Elect of NAEE.

Dr. James J. Jozefowicz was elected President and **Dr. Stephanie M. Brewer Jozefowicz** was elected Secretary of the Pennsylvania Economic Association at the Annual Conference held at Slippery Rock University of Pennsylvania in June 2008.

"Rural Pennsylvania Underemployment and Its Determinants," and "Estimating Core Unemployable and Workforce Non-Participants: A Study for Rural Pennsylvania's Labor Force," both co-authored by **Dr. Jack Julian**, **Dr. David Yerger**, and **C. Elizabeth Hall ('08)**, were presented at the *International Business & Economics Research (IBER)* Conference in Las Vegas, NV, in September 2008. Dr. Julian also served as a session chair and discussant at this conference. These papers extend from the previous work of Drs. Julian and Yerger in their 2006 study "Assessing Rural Underemployment and Unemployment in Pennsylvania" funded by a grant from the Center for Rural Pennsylvania.

Dr. Yaya Sissoko presented "Optimum Currency Areas and Synchronization of Business Cycles in Sub-Saharan Africa" at the Thirty-First Annual Meeting of Northeastern Association of Business, Economics and Technology (NABET) in State College, PA, in October 2008. This paper investigates the Theory of Optimum Currency Areas in Sub-Saharan Africa (SSA).

IUP Professor Emeritus Dr. Robert Stonebraker gave a presentation on teaching the economics of religion at the Society for the Scientific Study of Religion/Religious Research Association/Association for the Study of Religion, Economics, and Culture Conference held in Tampa, FL, on November 1-4, 2007.

Faculty

Dr. James A. Dyal
James.Dyal@iup.edu

Dr. Sarah Jackson
Sarah.Jackson@iup.edu

Dr. James J. Jozefowicz
James.Jozefowicz@iup.edu

Dr. Stephanie M. Jozefowicz
Stephanie.Jozefowicz@iup.edu

Dr. Jack D. Julian, Jr.
Jack.Julian@iup.edu

Dr. Nicholas Karatjas
Nicholas.Karatjas@iup.edu

Dr. Todd B. Potts
Todd.Potts@iup.edu

Dr. Willard W. Radell
Willard.Radell@iup.edu

Dr. Yaya Sissoko
Yaya.Sissoko@iup.edu

Dr. David B. Yerger
David.Yerger@iup.edu

Faculty Emeriti

Dr. Arthur H. Martel
amartel@auxmail.iup.edu

Dr. Robert J. Stonebraker
stonebrakerr@winthrop.edu

Dr. Donald A. Walker
dawalker@iup.edu

PENNSYLVANIA BUDGET CUTS WILL ONLY ADD TO ECONOMIC WOES

By Willard W. Radell

Editor's Note: The following appeared in the November 12, 2008, issue of the Pittsburgh Post-Gazette's Letters to the Editor.

From an economist's perspective, the *Post-Gazette's* November 4 editorial *"Cut the Budget*" advocates policies that accelerate economic decline. By advocating government spending cuts during the worst economic crisis since 1929-33, the *Post-Gazette* recommends a path that transforms financial crises into severe recessions.

The path begins as the recession decreases state tax collections (revenue). Without the financial crisis, Pennsylvania easily borrows. But the liquidity crisis makes state borrowing more difficult (without federal help). Legally unable to run deficits in their agencies and accounts, states choose between temporarily raising tax rates to replace lost revenue (depressing the economy only if the increased tax rates swell tax collections beyond 2007 levels), or cutting state spending, which certainly depresses economic activity. Governors and legislators choose spending cuts, amplifying the recession. This happened in 1929-32 and 1980-83, and it's now a consequence of "Meltdown '08."

What Pennsylvania politicians should do to mitigate the crisis would take much courage. They would maintain current levels of state spending, even if tax rate hikes were necessary to accomplish that. If politicians cut spending in a recession because state tax collections drop, they are part of the problem instead of being part of the solution. If tax rates were temporarily raised, sufficient to maintain current state revenues and spending, then Pennsylvania would have a fiscally neutral stance. That would be preferable to the current contractionary policy of cutting state government spending in a recession, which makes Pennsylvania government a big part of the problem.

THE ECONOMY

Financial Markets in Crisis (cont.)

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Other factors affecting the economic downturn were that banks were hesitant to lend to each other and charging very high interest rates when they did decide to do so. And while there are plenty of reasons to be critical of Fannie and Freddie, they didn't create the problem, according to Yerger. Another important part of the crisis, he said, are the changes in rules for investment banks like Lehman Brothers and Bear Stearns issued in 2004 by the Securities Exchange Commission. Afterward, the investment banks' debt-to-equity ratios rose dramatically, he said, and as a result, small losses in the value of their assets placed them under great financial stress. That caused Lehman Brothers, Bear Stearns and other companies to collapse. And while the stock market is troubled, it's certainly not as bad as it could be, according to Camp. It hasn't fallen to 7,000 points because when prices go down, people start buying in, but when their confidence is low, they get out. "You're going to see this day to day," he said.

As for what's next to happen, no one can say for sure, but most agreed that something needed to be done in the way of a bailout, as long as there is oversight. "The actions taken to date have kept us from a near-death experience," Yerger said. As part of the $700 billion bailout plan, the government plans to use $250 billion to purchase stocks of nine private banks, to create capital in the hopes that banks will resume normal lending activity, he said. The plan also calls for buying massive amounts of short-term debt and mortgages. "Something had to be done to shore up the confidence level of the public, and the government is the only one with the clout to do that, the oversight to that," Dolan said.

Indiana University of Pennsylvania
Department of Economics
213 McElhaney Hall
441 North Walk
Indiana, PA 15705-1087

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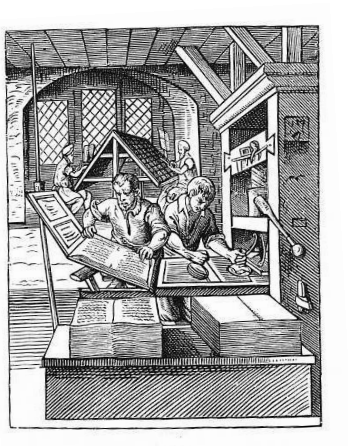

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