Welcome to the Winter 2016 Newsletter for the Department of Economics. I am currently Interim Head of the department and will hold the position until the end of June 2016. Our Newsletter is filled with interesting facts and information on the comings and goings in our department.

Dynamic departments are in a constant state of flux. Ours no less, with two long serving members, Frank Atkins and Ted Hobulyk retiring and moving on to new challenges, and two new members, Dr. Mehdi Shadmehr and Dr. Alexander Whalley joining the department in July of this year. We are still searching and hopeful to hire an additional three faculty members; two research professors and a permanent instructor.

The department of economics is one of the largest departments in the Faculty of Arts with some 6745 undergraduate, 31 MA and 52 PhD students. Our goal is provide a teaching environment that is exciting, challenging and conducive to high-level learning achievement. The key to this goal (and for that matter any goal) is to get incentives correct in both the teaching and learning dimensions and then there is no doubt we will be going in the right direction. I also want to mention our Applied Energy Program, which trains students in all economic components of the oil and gas, electricity and renewal resource industries. Currently, the price of oil has taken the shine off this program but just like the return of the spring rains the price of oil will rise again.

Research is fundamental to our program and our department members are involved in cutting-edge research with current publications in *American Economic Review, Econometrica, Review of Economics and*
Statistics, Journal of Econometrics and other high-level research outlets. Our goal is to be one of Canada’s top economic research departments. To support our research goals we have a strong speaker series with Friday afternoons reserved for top ranked visiting speakers and Wednesday afternoons reserved for both in-house presentations and PhD student research presentations. In addition, we have an annual Distinguished Lecture series that brings to Calgary some of the very best individuals in economics to present their research to a general University audience. We are a high-energy research department. Our graduate students certainly benefit from this environment and have been very successful in finding employment in the private sector, banks, government and academic institutions. We are proud of our graduate student success.

Being Head of department is a challenging position. Often decisions have to be made that support some activities and deny others. Our department enjoys a democratic tradition of decision making with the Head’s duty and responsibility to implement those decisions. I pass this tradition that I fully support to the next department leader.

Undergraduate Student Awards

The Department is pleased to acknowledge the winner of the 2015 Kubinski Prize for the best undergraduate research paper, Edward Broschinski. The 2015 Hortz Betz Prizes for Excellence in Microeconomics and Macroeconomics are Tom Stringham and Scott Woldum respectively. The Copithorne Memorial Scholarship was awarded to Brandon Cave; the Frank Mink Scholarship went to James Conville; the 40th Anniversary Alumni Scholarship was given to Georg Jalkotzy.

Graduate Student Awards

The much coveted Microeconomics and Macroeconomics 2015 Prizes for First Year PhD students was awarded to Fruzsina Mayer and Blake Shaffer respectively. The 2015 Graduate Student Teaching Award was given to Michael Ata and the Teaching Assistant Excellence Prize was given to Razieh Zahedi. The research committee announced the award of the 2015 James D. Gaisford Research Prize for the Best second Year Paper to Safoura Moeeni, for her paper titled "Married Women's Labour Supply and Intra-Household Bargaining Power".
Much Ado about Shale Gas

In Alberta we are all too aware of the dawn of shale oil and gas. In a recent paper titled “The Housing Market Impacts of Shale Gas Development”, published in the American Economic Review 105(12): 3633-59, 2015, Lucija Muehlenbachs, together with coauthors Beia Spiller at EDF and Christopher Timmins at Duke University, looked at whether property owners in Pennsylvania were better off after shale gas came to town. Using transaction-level property sales data across the state, they made comparisons in three different dimensions simultaneously: prices before and after a new well is drilled, prices for homes near and far from a new well, and prices for homes that have access to publicly-supplied piped water versus homes that depend on their own private drinking water wells.

The potential for shale gas development to lead to groundwater contamination from methane and other chemicals is one of the most commonly discussed fears from hydraulic fracturing. Even if these fears are misperceived the authors demonstrate that the perceived risks to groundwater are having real and large impacts on the housing market.

The analysis found that the impact on property values differs depending on the property’s drinking water source. Homes that are dependent on groundwater and located within 1.5km of a well dropped in value by 13%, while piped-water homes saw an increase of 3%. The increase is most likely from royalties paid from the operators to the property owners (unlike in Alberta, in Pennsylvania property owners receive royalties of at least 12.5% for gas extracted under their land). Importantly, the impact on both types of properties fades with distance; showing that both the benefits (increased royalty payments) and costs (increased groundwater contamination risk) of proximity diminish as one moves further from shale gas development.

Does Generous Unemployment Benefits create slackers?

Many countries grant more generous unemployment insurance (UI) benefits to older job losers. In a paper titled “Extended Unemployment Benefits and Early Retirement: Program Complementarity and Program Substitution,” published in the American Economic Journal: Economic Policy, 8(1), 253-88, 2016, Stefan Staubli (with co-authors Lukas Inderbitzin and Josef Zweimüller) study the impact of extended UI benefits on (i) the incidence of early retirement and (ii) the particular pathways through which workers exit the labor market.

To empirically identify the impact of extended UI benefits, they exploit a policy intervention in Austria that changed early retirement incentives dramatically: the regional extended benefits program (REBP). This program granted regular UI benefits for up to 4 years to
workers aged 50+ living in certain regions. Variation in the maximum duration of UI benefits across regions and age groups allows them to identify the causal impact of extended UI benefits.

They find that extended UI benefits lead to a strong increase in the incidence of early retirement, defined as permanent labor force exit before the retirement age. The probability that an older job loser permanently withdraws from the labor market increases by about 15 percentage points. Extended UI benefits also affect the early retirement pathways. For workers aged 50-54, program complementarity – exit from the labor force by combining extended UI with disability and retirement benefits – is quantitatively important. For workers aged 55-57 both program complementarity and program substitution – higher take-up of UI but lower take-up of disability benefits – are at work. The authors apply the Baily-Chetty formula for optimal UI to account for complementarity and substitution, showing that UI benefits for older workers were too generous.

The Missing Food Problem

Differences in living standards across countries are large. Countless researchers helped us understand why. One factor stands out: in poor countries, most workers are in agriculture and agriculture’s productivity is extremely low. In fact, most international income differences can be accounted for by this observation alone. The problem facing developing countries is then moving workers off the farm. Of course, doing this and still having enough food available is not easy – Schultz (1953) calls this the “Food Problem”.

But, why don’t poor countries import more food? Food imports are very (very) low. This is a puzzle, which Trevor Tombe in a recent paper titled “The Missing Food Problem: Trade, Agriculture, and International Productivity Differences,” published in the American Economic Journal: Macroeconomics 7 (3): 226-258, July 2015, call the “missing” food problem. It matters a lot. Imports would allow workers to transition to non-agricultural sectors without sacrificing food consumption. It also allows the remaining agricultural activities to concentrate on more productive land and crop types. What policy barriers prevent such a shift? What are the potential gains if those barriers were removed? Answers to these questions have been elusive and Trevor in this paper attempts to provide answers.

In the paper, he measures trade costs by sector for a large number of countries and shows that agricultural trade barriers are a significant contributor to cross-country income and productivity differences. Border delays are a particularly large source of trade costs, equivalent to roughly a 400% tariff on food imports in poor countries. To quantify the consequences of such costs, Tombe develops a detailed multisector, quantitative trade model. He finds substantial gains from liberalized food imports. One-quarter of the gap between rich and poor countries can be accounted for by high agricultural trade costs. Eliminating border delays alone could nearly double aggregate productivity and GDP in poor countries. The policy implications are clear: liberalize agricultural trade. Recent agreements by the WTO focused on trade facilitation (i.e., improved border procedures) are also likely to be extremely valuable.
**Graduate Student Research in the Department**

**Why do the rich not vaccinate their kids?**

Yutaro Sakai’s research focuses on the management of infectious diseases. Effective childhood vaccines have been available for a long time, and yet the outbreak of various diseases continues to occur. Vaccination carries with it a personal cost (e.g., money, physical pain) but confers to all a public benefit (i.e., reducing the risk of infection). Consequently, some people would choose not to vaccinate and free ride on the “herd immunity” produced by others. Low vaccination rates are typically linked to low-income people who have limited resources. However, recent reports reveal that high-income people also do not vaccinate their children. An examination of international data from the World Health Organization also shows this pattern. The figure below shows how vaccination rates at first rise and then fall with country income per capita after separating out confounding factors.

This is a surprising result, and Sakai’s work attempts to understand what is driving it. He begins by investigating this relationship using individual-level data in U.S. county- and found the same pattern. Sakai then constructs a simple vaccination choice model and examines why it may be in the interests of both low and high income individuals not to vaccinate. The model shows that low-income people do not vaccinate because vaccination is too expensive for them while high-income people may not vaccinate because they can self-insure by using their access to medical interventions. Both types of agents have an incentive to free ride on the actions of others.

Sakai’s ongoing research is now considering the implications of these findings for the management of disease outbreaks across countries. It is difficult to know beforehand how the world should respond to infectious outbreaks, and how countries should share the burden of containing them once they occur. Sakai hopes to answer some of these questions in his future research.
**A world without blood diamond**

Ian Heffernan's research investigates the causal effect of an international certification scheme for rough diamonds whose aim is to reduce conflict by eliminating trade in diamonds that are sold to finance conflict against legitimate governments. The certification scheme, known as the Kimberly Process (KP), is an import-export scheme in which member countries agree to purchase and sell rough diamonds exclusively from other members. To gain access to the KP countries must pass into law a system of controls that ensure all diamonds being exported were not used to finance conflict against a legitimate government.

Heffernan finds that the KP caused a 14.3% drop in the probability of conflict in countries with diamond deposits. A fundamental challenge to obtaining this causal estimate is in identifying an appropriate control group—a set of countries that accurately reflect how conflict would have evolved in the absence of the policy. He obtains such a control group using a synthetic control group. The synthetic control is a treatment country-specific weighted average of countries that are unaffected by the policy, where the weights are chosen so that the control group provides an appropriate counterfactual to the treated country. The benefit of using the synthetic can be seen in the below figure which plots the average incidence of conflict in countries with diamonds (treatment group), without diamonds (control group) and the synthetic control group. As seen in the figure there was a large drop in conflict in countries with diamonds once the KP came into effect, which is marked by the vertical line at 2002. We can also see in the figure that the trend in average conflict in the synthetic control group looks very similar to the trend in the treated countries prior to the KP where as the trend in the control group (all countries without diamonds) looks very different. This suggests that the synthetic control group represents an accurate counterfactual for how conflict would have evolved in the treated countries had the KP not been implemented. This counterfactual enables me to obtain a causal estimate of the effect of the KP.

Heffernan's work also explore the mechanism by which the KP reduced conflict by examining the effect of the policy on the probability a new conflict begins and the probability an ongoing conflict comes to an end. He provides evidence that the effect is driven by a reduction in the duration of conflict and find no evidence of an effect on the onset of new conflict. Overall, the results suggest that policies that restrict resources available to rebel groups can effectively shorten ongoing conflict. However, he find no evidence that such policies are sufficient to prevent conflict from initiating.
EVENTS IN THE DEPARTMENT

The 2015 Empirical Microeconomics Workshop

The second edition of the Banff Empirical Microeconomics Workshop, hosted by the Department of Economics, was held on August 28-30. The workshop brought together about 50 researchers, who spent three days discussing reduced form and structural empirical papers, and networking over meals, beers, or hikes on the Rocky Mountains. This year’s keynote speakers were Matthew Shum, from California Institute of Technology, and Chris Taber, from University of Wisconsin Madison. In order to enhance graduate students’ participation, prizes of $250 were awarded to the best three graduate student submissions. The organizing committee looks forward to the third edition of the workshop on August 20-22, 2016.

2016 Distinguished Lecture – Nathan Nunn
March 4 – MacEwan Ballroom – 4:00 p.m.

After the success of the 2015 Distinguished Lecture, delivered by Professor John List, the Department of Economics is excited to host another world’s top researcher, Professor Nathan Nunn from Harvard University, for the 2016 edition of this annual appointment. The Department of Economics Distinguished Lecture Series brings some of the world’s top economists to Calgary to lecture on an important public policy topic to a mixed audience of undergraduates and graduates students, university faculty, and alumni. Its purpose is to enrich the undergraduate and graduate experience at the University of Calgary, raise the Department’s international profile, and share thought provoking lectures with the University community.

Professor Nunn was born in Canada, where he received his PhD from the University of Toronto in 2005. Professor Nunn’s primary research interests are in economic history, economic development, cultural economics, political economy and international trade. He will talk on how variation in historical formal state centralization affects cultural norms in 17th Century Central Africa. One stream of Professor Nunn’s research focuses on the long-term impact that historic events have on current economic development. His other stream of research examines economic development in a contemporary context and the importance of contracting institutions for international trade. The event will be held on March 4th, and plenty of opportunities for interaction with Professor Nunn will be available to faculty and students during the day.
2015 Melissa Road Race

A non-trivial delegation of students, staff and faculty from the Economics Department and The School of Public Policy participated to the **Melissa Road Race in Banff** in September. Surrounded by the breath-taking beauty of the Rocky Mountains, 20 colleagues and family competed friendly in the 10km race. There were no losers, and the only real winners were healthy life-style and good company.

The 2015 Rocky Mountain Empirical Trade (RMET) Conference

Every year since 2010, the Department of Economics has hosted the Rocky Mountain Empirical Trade Conference (RMET). This is an important international economics conference that attracts leading researchers and top PhD students from around the world to get together to present cutting edge research in the field of empirical international economics. We are proud to host the 7th annual empirical trade conference in Banff Alberta, Canada at the beautiful Banff Centre May 20-22, 2016.

The program is special because it is a collaboration of colleagues from the University of Calgary, the University of British Colombia, University of Victoria, University of Alberta and the University of Toronto. Moreover, the conference is part of a broader network of researchers conducting research at the frontier of empirical international trade. The network is called the *Forum for Research in Empirical International Trade* (FREIT). FREIT is an international organization dedicated to furthering research in the field of empirical international economics (http://www.freit.org/index.html).

This conference will brings together 25-30 researchers for 2 1/2 days of discussion and consideration of papers that will be circulated and presented at the the Banff Centre. We operate the conference like a series of seminars where everyone attending the conference gives full attention to each paper presented and each presenter gets to spend one hour presenting and discussing their paper. This focused format means presenters get very good comments and discussion on their work and it advances their work considerably. One of the most important aspects of our conference is that we always pick the top graduate student paper and we cover that student’s expenses for attending the conference. Come out and join us – you can register on the FREIT web site.
Annual Christmas Party

Thanks to the generous effort of Curtis Eaton and Members of the Economics Graduate Student Association (EGA), the Economics Department had an early and fun celebration of Winter Festivities at MacDonald Hall on the SAIT campus in November. Along with excellent food, the night was lightened up by an “awards ceremony” that saw the graduate students awarding humorous prizes to the faculty, and small but meaningful gifts to anyone attending the party.

Consider Supporting the Department of Economics

With the support of alumni, friends, and benefactors the Department of Economics has successfully established a number of scholarships and student prizes over the last few years. These include: (1) The Economics Alumni Graduate Scholarship, (2) the Stephen G. Peitchinis Memorial Graduate Recruitment Scholarship, (3) the Horst Betz Prizes for Excellence in Economics, and (4) the 40th Anniversary Undergraduate Alumni Scholarship in Economics.

Gifts to the Department of Economics Annual Fund and Contributions to the endowment for the Stephen G. Peitchinis Memorial Graduate Recruitment Scholarship can also be made by credit card at the department website: http://econ.ucalgary.ca/home/giving or by contacting the Department Head.
Alumni We Want To Hear From You!

We want to get in touch with you. If there are any special events and news that you wish to share with us and fellow alumni, or if you want attend any of our events please drop us a line. Send us your news together with your contact information at econ@ucalgary.ca For other ways of staying in touch, please check out our alumni website: http://econ.ucalgary.ca/node/1003

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