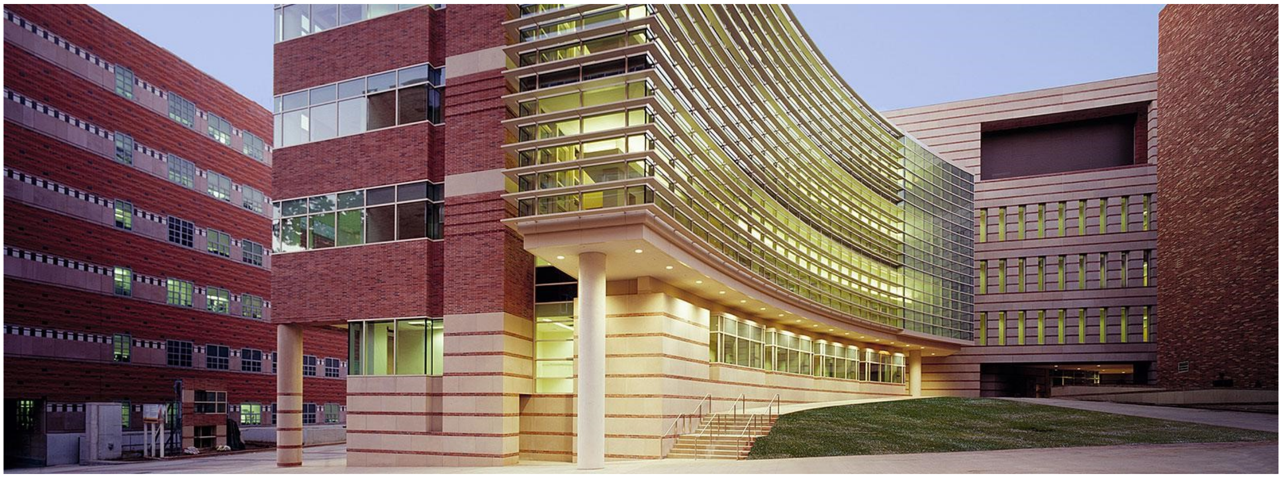
Volume 5, Issue 3 | Spring 2017

UCLA ECONOMICS

Undergraduate Newsletter

Editors: Charles Qian & Adithya Kumar



Econ Summer Courses at UCLA: There's No Better Way to Graduate Early!

Reminder to all students that the UCLA Department of Economics is offering courses during Summer Session A (June 26—August 4) and Session C (August 7—September 15). **Students can still enroll in summer courses at UCLA.** Please visit the link below for a complete list of courses available:
http://economics.ucla.edu/undergraduate/course-information/econ-summer-courses

PROFESSOR JAY LU WINS WINTER 2017 SCOVILLE TEACHING AWARD!

We would like to congratulate Professor **Jay Lu** for winning the **Scoville Award for best undergraduate teaching in Winter 2017** (2nd time) for his class Econ 148 on **Behavioral Economics**, which is a subfield of economics that incorporates insights from psychology and other social sciences.

Featured in this issue ...

Have Questions? Visit our counselors in 2263 Bunche

- UCLA
  Department of Economics
  8283 Bunche Hall
  Los Angeles, CA 90095

Find us at:

- Facebook: UCLA Economics Counselors
- Department of Economics website: http://economics.ucla.edu/undergraduate/

Like and follow us on Facebook for the most up to date information about the department, economics news, graduate school, and career information.

Published by the Undergraduate Economics Society. Email: roundtable@econ.ucla.edu

Breaking Boundaries: Professor Adriana Lleras-Muney

Contributed by Harsh Gupta & Ng Xiang Yang, UCLA Undergraduate Economics

On January 9th, President Obama named Professor Adriana Lleras-Muney (pictured right) as a recipient of the Presidential Early Career Awards for Scientists and Engineers (PECASE), the highest honor bestowed by the United States Government on science and engineering professionals in the early stages of their independent research careers.

Interviewer: Could you please describe the research project for which you received the award?

Professor Lleras-Muney: My project focused on the theory that people growing up in poverty tend to do worse in life with regards to labor market outcomes, health, family relations, happiness, and so on. In the U.S., welfare systems are designed to help the poor and alleviate some of the hardships of poverty. However, nobody seemed to evaluate the effectiveness of transfer payments in improving the lives of impoverished mothers and their children. Most research instead has focused on the "moral hazard" effects of welfare programs (cheating). Are individuals receiving benefits, like poor mothers, less likely to work? Do they have more children? Do they move to states with more generous benefits? Many papers investigate these costs, but none looked at the benefits of anti-poverty programs, particularly for children.

So I designed a study to test whether transfer payments actually benefitted children growing up in poverty. We closely observed two sets of impoverished children (similar socioeconomic status) from very early on in their lives till they died. One set received welfare, while the other did not. This was done using administrative records from the Mother's Pension program, the first welfare program in the US spanning 1911 to 1930. From these records we collected information on all mothers that applied for cash transfers. One set of children received welfare benefits, while the other set of children did not because of certain welfare rules. Some mothers were deemed not poor enough. By observing the lives of these children, we established that children whose mothers received transfer payments ended up having an additional one-third of a year's education, 10% more income, and lived 1.5 years longer, on average, compared to the children whose moth-ers did not receive transfer payments.

This says nothing, however, about whether the mothers cheated or not and about the ultimate cost-effectiveness of the program. Furthermore, we cannot conclude if alternatives to cash payments such as the provision of food or housing would have made these children even better off. That said, we can conclude that there were substantial benefits for the children whose mothers received transfer payments. Moving forward, we are collecting data on the lives of the mothers and attempting to measure the impact of welfare on their lives. Eventually we hope to create a comprehensive picture of how theses cash transfers affected the recipients and their families, to establish whether this policy was cost-effective, and whether it is preferable to other policies also aimed to alleviate poverty.

Interviewer: Why did you decide to work in the field of Economics?

Professor Lleras-Muney: I've always been intrigued by the big picture questions posed by the field of economics. From abstract propositions, like why some nations are rich, to more specific and pragmatic issues, like what a government should do with foreign aid. I was drawn to the fact that economics tackles such important questions.

I was always interested in multi-disciplinary problems, and economics is a confluence of interesting ideas brought from many different disciplines. Economics allows me to test my theories against data and argue about these ideas in a more constructive way. To properly answer these questions, one requires a combination of rigorous mathematical tools and theories from a multitude of social sciences. We constantly use statistics and mathematics to design and test models, but that's not all. We also must know the underlying political theory, psychology, and sociology to understand the core of social problems. Economics has been very successful at incorporating knowledge from various fields.

My interest in public policy stems from that fact that I always cared about these questions. I studied macroeconomics in graduate school because I felt that this field held the most challenging questions. However, the field was also too deeply focused on theory. I found myself doing a lot of data and empirical analysis. I wanted to analyze the data and see what the data showed in terms of how the economy functioned. Even though economics is a social science and we cannot perform precise experiments, I wanted to approach the problems of economics by creating empirically valid models. So I became an applied micro-economist.

Interviewer: What influenced you to go into academia? If you had to choose an alternative career, what would it be?

Professor Lleras-Muney: I realized fairly late in life that I wanted to be involved in economics. However, in retrospect, I was always an inquisitive child, an avid reader, and a good student. I also was never interested in making a lot of money, so my career choices were driven by my passion for big questions, my interest in many disciplines, travelling, and discovering new perspectives.

As for an alternative career, I once contemplated becoming a lawyer, possibly a defense attorney. However, the threat of violence that was prevalent in Colombia when I was growing up deterred me from doing so. I wanted to leave Colombia and travel the world, but a career in law is not transferable across borders so I did not pursue that option. Even so, my husband is a lawyer and I still am intrigued by the deep questions the law poses. These questions resonate with problems economists seek to tackle such as how societies and institutions should be organized.

Interviewer: What advice do you have for undergraduates?

Professor Lleras-Muney: It is okay to be lost. You just need to have faith in yourself and believe that you will find something you like. I struggled a lot in my career. I thought getting a Ph.D. was hard and I definitely thought about quitting and calling it a day many times. However, it is important to persevere.

The Assault of Automation

Contributed by Vishal Tummala, UCLA Undergraduate Economics

A key feature of the current socio-political climates in most advanced economies is a fear of structural disruption due to automation. Indeed, many acclaimed experts attribute a range of pertinent issues – employment polarization, income inequality, cultural isolationism, etc. – to the disproportionate rise in returns on investment in capital relative to labor. A recent report by McKinsey estimates that 45% of the U.S. workforce stands at the risk of technological unemployment over the next two decades. The World Bank places the same figure at 57% for all OECD countries combined. To what extent is such alarm justified? What role does continued globalization of supply patterns play in this context? To generate a conclusive response, I will consider recent studies on the effects of 'robots' on local labor markets as well as general macroeconomic trends.

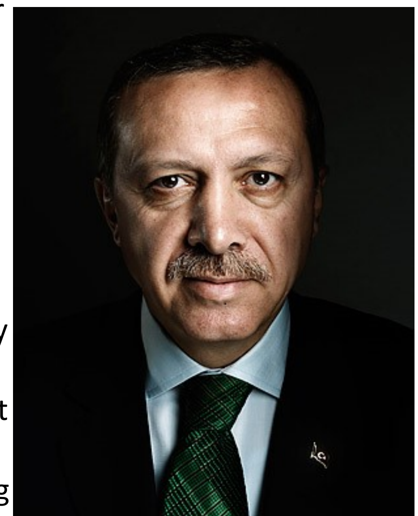
Traditionally, automation of industrial production is expected to have the twin consequences of raising per capita productivity while directly displacing workers. This is because both quantity and quality of tasks associated with remaining factors of production are enhanced by technological aid. Thus, robots not only substitute, but also complement, labor. In fact, the advent of personal computers and mass digital connectivity during the late 1990's (1996-2002) saw a sharp increase in average annual growth of capital investment (5.1%) correspond to a proportionately large rise in labor productivity growth (3.3%). Although millions of workers were displaced, even more were able to find new jobs, thereby resulting in lowered unemployment measures during the same period of time. Other industries and sectors expanded to absorb newly freed labor, i.e. the economy was able to adjust for job loss adequately to reach a new equilibrium state. If only such selectively chosen data was considered, one could argue that the existing plight of stagnant wages, and decreased labor participation rates, are a consequence of failed government policy. Renewed investments in education to improve accessibility, stronger minimum wage standards, and other labor protections, would then feasibly redistribute gains from mechanization in a fairer manner.

Yet the impact of automation can be subtler and more significant. Daron Acemoglu and Pascual Restrepo recently published a paper for the National Bureau of Economic Research examining the ramifications of 'exposure to industrial robots' on local wage levels and employment within commuting zones in the U.S. from 1990 to 2007. Their analysis accounted for not only 'adjustment' of labor markets but also corporate costs of substitution, and the impact of imports from China and Mexico. By regressing employment and wages on the national penetration of robots into each industry and the local distribution of employment across industries, they were able to estimate that the introduction of one more robot per thousand workers reduces the employment to population ratio by about 0.18% – 0.34% and wages by 0.25% – 0.5%. If the most conservative estimates provided by McKinsey were to materialize, over 6 million individuals would become unemployed by 2025, and wage levels in neighboring areas would decline in a lasting fashion.

This poses an immensely complex problem for government. A number of industry leaders and economists have called for a universal basic income (UBI) to uphold a decent standard of living, as automation via artificial intelligence continues to replace human labor. However, the efficacy of such a policy is subject to multiple currently untested variables. More importantly, for a society that lends paramount importance to people's ability to make their own living, the sociological impact of a jobless future is expected to be grim. Will humanity be able to tactfully confront the oncoming assault of robots? For now, we may have to wait and see!

Turkey's Troubling Rise of Nationalism

Contributed by Ng Xiang Yang, UCLA Undergraduate Economics



Recently, populist groups are favoring left wing politics that advocate for nationalism and protectionism, promising better accountability and prosperity. However, reality is not what they promised. The British made a strong decision to exit from the European Union, which was unthinkable before the referendum. Although Britain's economic outlook still looks optimistic, critics argue that this is because Brexit is not officially executed yet and that there are signs that a storm is brewing in the economy, as business confidence is declining and rising trade deficit in certain sectors as reported by the BBC news on March 28. CNN Money reported that the economy grew at 0.7 percent in the first 3 months of 2017, which is the slowest in any quarter in 3 years. This testifies against President Trump's promise of a 3 percent growth for the year. President Trump's advocating for a wall built at the U.S./Mexico border, and calling for U.S. companies to bring back jobs, is off to a bad start. Now the majority of 'Yes' votes on the recent Turkish referendum on April 16th further propagates the idea of protectionism, as the referendum was about abandoning the Turkish parliamentary system for an executive presidency.

Recep Tayyip Erdogan is the current president of Turkey and leader of the Justice and Development party (also known as AK party). Before the referendum, Mr. Erdogan and his party brought many positive changes to Turkey, such as ushering positive economic growth and establishing peace talks with Kurds. However, the country later was plagued with a myriad of problems, such as Kurdish militants waging campaigns against the state in the wake of the Syrian civil war and the rise of the Gullenist cult that opposes Mr. Erdogan. He thus retaliated by ruling with an iron fist. He silenced his critics and opposers by arresting thousands of detractors and shutting down media outlets that did not support him and his party. The referendum result strengthened his rule as a dictator, but since the "Yes" vote only constitutes about 51% of the total vote, there is a vast majority of people who voted "No". This phenomenon thus could stem further political instability for years to come. How will this turn of events transpire in the economy? In short, not good. Any sound investor would stay away from a country that is beset with social and political complications. President Erdogan's wish of joining the EU might also be void, since he wants to restore the death penalty which goes against the values of EU. If Turkey ends up not being part of the EU, it will consequently diminish Turkey's economic backing, which is bad to the Turkish people who are already facing an authoritarian rule. Turkey's slow economic growth at 1% last year, large trade defi-cit at $372 billion, consumer and producer inflation at 11% and 18% respectively, low credit ratings, un-employment rate at 13% are all bad omens and could be exacerbated if President Erdogan fails to convince to take measures to improve these economic conditions.

Although the authoritarian rule in Turkey is not the same as Brexit or the rise of Donald Trump, these are signs that populism is favoring left wing politics, advocating for closed borders and nationalism. If these change of events could really bring benefits to the economy and people's lives, then it is encouraging to allow them to happen. But if not, maybe we should start doing something about it.

Photo Credit:
http://content.time.com/time/specials/packages/article/0,28804,1984685_1984864_1985464,00.html

Note: The views expressed in this newsletter are those of the authors and do not necessarily represent or reflect the views of the UCLA Department of Economics.