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Enrollment for 2019 Econ summer courses is now open on MyUCLA! For both summer sessions A and C, the department will be offering a wide collection of courses including Econ 1, Econ 11, and Econ 101. You will have the opportunity to study alongside peers from colleges around the world while making progress toward graduation. If you are a regular UCLA student who is considered out-of-state, the Non-Resident Tuition is not charged during the summer. For a detailed list of courses offered, please visit economics.ucla.edu/undergraduate/course-information/econ-summer-courses/.

Jay Lu Wins Winter 2019 Scoville Teaching Award

We would like to congratulate assistant professor Jay Lu on winning the Scoville Award for best undergraduate teaching in Winter 2019 for his Econ 148 class, Behavioral Economics. This class reviews some of the standard assumptions made in economics, examines evidence on how human behavior systematically departs from these assumptions and explores alternative models of human decision-making in order to help improve economic analyses. This is Professor Lu's third time winning this award.

Denis Chetverikov Named Sloan Fellow

Professor Denis Chetverikov has been named as a 2019 Sloan Fellow, one of eight economists nationwide. Professor Chetverikov is a theoretical econometrician whose work focuses on high dimensional and nonparametric models – an area often referred to as "big data". Among his most important contributions are the high dimensional central limit theorem and the incorporation of machine learning methods into econometrics. Together, these insights have enabled applied researchers to conduct inference using new complex models and estimators.

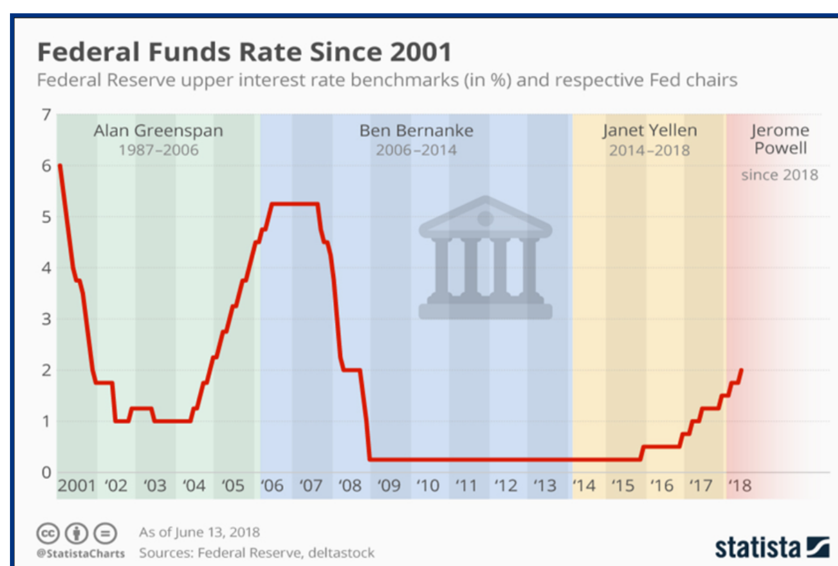
President vs Fed Chair: a Trump-Created Issue or a Historical Tradition of Tension?

Contributed by Andreas Papoutsis, UCLA Undergraduate Economics Student

"We must not forget the lessons of the past, when a lack of central bank independence led to episodes of runaway inflation and subsequent economic contractions."
—Federal Reserve Chairman Jerome Powell

Historians may regard Donald Trump as the most polarizing figure to ever occupy the Oval Office, and his prolonged tension with Federal Reserve Chairman Jerome Powell, whom he appointed himself just a little over a year ago, only adds to the controversy surrounding his presidency.

At the center of the feud is the question of whether the Fed should continue to raise interest rates. Since Trump signed into effect the "Tax Cuts and Jobs Act of 2017", significant quantities of money were driven into the US economy, which is widely considered to be already steadily growing. The Fed, seeing the potential threat of long-term inflation, responded by utilizing one of the oldest monetary instruments—increasing the Federal Funds rate—to curb the supply of money and keep the economy from overheating. On January 30th, Chairman Powell announced that the reserve will follow through on its plan to increase its benchmark funds rate from 2.25 to 2.5%, citing concerns of unpropitious inflation forecasts.[1]



Higher interest rates do not bode well for economic growth in the short term. A slower flow of money hampers spending and investment, which are major drivers of GDP growth. This tradeoff between short-term growth and long-term stability is often a source of disagreement between the Fed and the administration, who hurries to claim as much growth as possible during its tenure. Thus, unsurprisingly, President Trump took no time before attacking the Fed's decision. In typical conduct, the president lashed out against Powell's actions on twitter as well as at numerous other occasions. His promise of 4% GDP growth across a calendar year has not reached fruition, and increases in interest rates further threaten his ability to generate the 25 million jobs he promised during his campaign.[2]

The President's controversial antics have garnered considerable backlash from across the political spectrum and among the public and media. The question begs to be asked: are criticisms of Trump's behavior the result of a societal myopia, or are they justified? We can look to history to contextualize the tension.

Truth be told, strain between these two positions of power is nothing out of the ordinary. Lyndon Johnson certainly fought with his Federal Reserve chairman, both figuratively and literally. In 1965, an increase in military expenditures and the simultaneous implementation of tax cuts provoked a predictable response from the Reserve: an uptick in short term interest rates. Johnson responded with profuse anger and invited Fed Chair William Martin to his ranch to imprudently insist that the Fed reverse its course of action. Met with calm rejection, Johnson proceeded to physically push Martin.[3]

The Nixon tapes reveal a similar history of coercive behavior directed towards the Fed. In 1972, President Richard Nixon reportedly insisted that Fed Chairman Arthur Burns engage in certain quantitative easing actions to optimize his prospects in the following election. Despite lingering debates, most economists contend that Burns capitulated to the pressure.[4]

While Johnson and Nixon's exceptionally perverse behaviors might not typify presidential conduct, they still evidence the tension that can arise from political motives. Alan Greenspan, a member of the Fed Board for 18 years, noted an unfathomable amount of occasions in which he received politically charged suggestions on how to govern such an apolitical body.

So, history clearly shows that Trump's conduct is nothing new, but does that absolve him of his mishaps? Put briefly, a history of unjustifiable actions does not excuse the conduct of our current president. The Reserve's members earn their positions through a meritorious process in which their display of economic knowledge culminates in senatorial approval. This process exists for a reason: to deter political influence from a body whose decisions largely impact the world economy.

These threatening political sentiments stem from a business infiltrated with absurd amounts of lobbying, excessive uses of authority, and the occasional (perhaps prevalent) disregard for the common good. Grassroots movements may create inroads into ridding our systems of corruption, but the legislative sector will most likely never be fully exculpated of unjust political interests. That leaves the Federal Reserve as the sole public mechanism to safeguard the national economy when governmental systems go awry, and their decisions should not be susceptible to the mess we know as "politicking".

While Donald Trump has not pioneered presidential criticism of the Fed Chair, a history of disrespect towards the reserve's apolitical etiquette does not justify his sustained reprisal of Jerome Powell's actions. A newfound respect for autonomous institutions would not only salvage what's left of Donald Trump's controversial legacy, but also enable a body of experts to properly place a check on his fiscal policy initiatives. ■

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Want to Find the Next Hot Stock? Consider Listening to the Media

Contributed by Christopher Lane, UCLA Undergraduate Economics Student

Almost 95% of finance professions fail to beat the market over a 15-year period. For individual investors, the percentage is almost certainly lower. To have any chance to join the ranks of the select few investors that outperformed passive index benchmarks, investors need a reliable trend they can act on. Fortunately, researchers Alexander Hillert and Michael Ungeheuer possibly uncovered such a trend. They found that stocks highly covered by the media outperformed, but how and if investors can exploit this trend is a little tricky.

After controlling for the tone of the media's coverage and firm characteristics, Hillert and Ungeheuer found that the 20% of stocks the media wrote the most stories about outperformed the 20% of stocks least covered by 2.76% a year. This outperformance does not diminish over time: the top quintile beat the bottom quintile by 2.76% in the second year and 2.28% in the third year. Why does this phenomenon occur? Media stories that increase the public's awareness of a stock lead to more people wanting to buy the stock, pushing up demand and thus the stock's price.

Source: The Motley Fool

While stocks with the highest media coverage perform the best, the amount they outperform their similar sized peers varies by market capitalization. After dividing firms into quintiles based on market size, Hillert and Ungeheuer discovered that high coverage stocks performed better than low coverage stocks by .47% per year for the quintile with the smallest companies. For the quintile with the largest companies, this difference drops to a .17% annualized return. Smaller companies' stock benefits more from media coverage than for large companies because investors know more about large companies, so media coverage is less likely to simulate as much demand. Additionally, since large-cap stocks exhibit less volatility than small-cap and medium-cap stocks, large-cap stocks generally do not move as much on new information such as a media article. Of course, investors must weigh the increased risk of investing in small-cap stocks against their superior returns stemming from media coverage.

However, buying small-cap stocks highly covered by the media does not always result in exceptional returns. Hillert and Ungeheuer found that stocks in the top quintile in terms of increases in coverage outperform the bottom quintile by 10.68% in the first year. However, in the course of the next two years, these stocks underperform by 5.04%. This finding is consistent with the idea that stocks can become overvalued when enthusiastic investors find out about them in the media. As the price soars above the fundamental value of the stock in the first year, several investors will consider the stock overvalued and sell it in the flowing years, resulting in a lower stock price. Consequently, to maximize returns, investors should buy stocks that will likely receive a lot of media coverage in the future before they are everywhere in the media. However, trying to predict which stocks the media will cover frequently in the future as well as which stocks investors are not fully aware of yet are arguable as hard as picking marketing bearing stocks in the first place.

Although media coverage boosts stock returns, media stock recommendations frequently highlight stocks that underperform the market in a positive light. For example, CNBC TV personality Jim Cramer recommends specific stocks on his show “Mad Money.” Cramer also comanages his Action Alerts Plus portfolio, which had a 63.53% return from 2000 to 2015 compared to the S&P 500’s 70.04% return without investing dividends in the same period. Although Cramer’s portfolio consists of different stocks than the ones he recommends on “Mad Money,” he frequently suggests investing in a lot of the same stocks. For instance, Cramer repeatedly recommended buying Allegran PLC (AGN) on “Mad Money” and in his portfolio in 2015 and 2016 as the Stock tumbled about 55% from June 30, 2015 to January 2019. Cramer is not the only media culprit when it comes to losing to the market. Stocks picked by active managers often get highlighted in media articles. However, with 95% of these active managers unable to outperform the market, their media stock recommendations will almost certainly lag the market.

Excluding media suggested stocks, should investors invest in small-cap stocks the media loves mentioning? While these stocks outperform, investors face the risks of buying stocks the media over hyped and of the media converging other stocks instead. With most investments, taking on more risk results in greater expected returns and picking highly covered media stocks is no different. If investors desire riskier investments with a better chance than other stocks to beat the market, highly covered media stocks could be the way to go. ■

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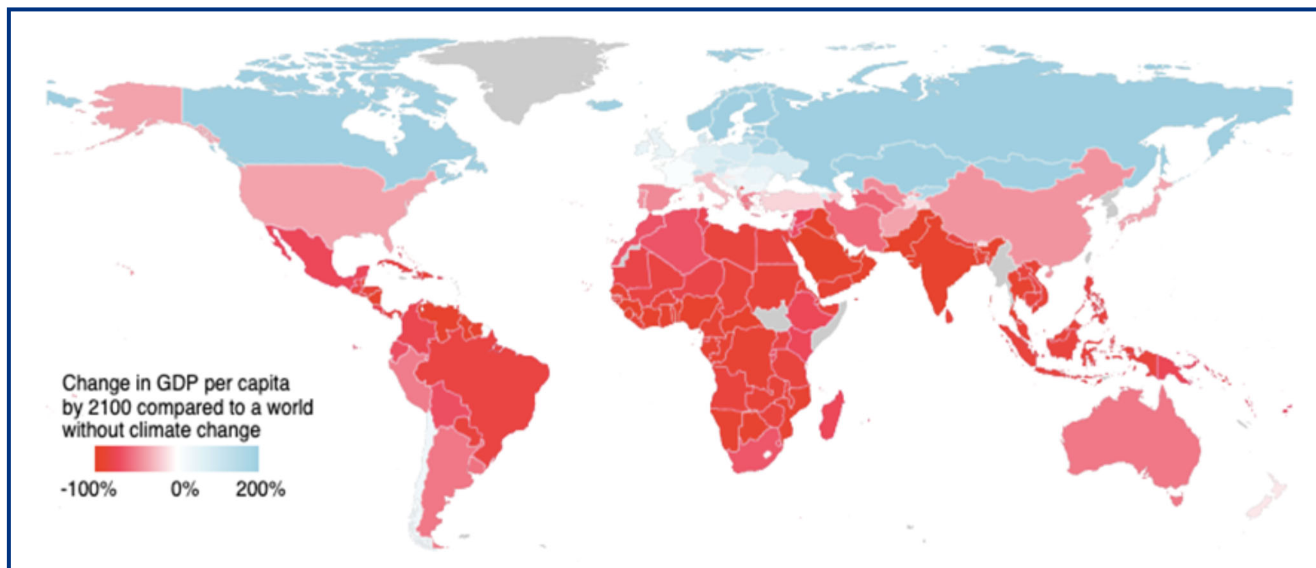
Investing in Green: The private economy must bridge the gap through climate-friendly investments

Contributed by Yashwini Sodhani, UCLA Undergraduate Economics Student

In the wake of Earth Day, economic policy makers have reiterated their commitment towards combatting climate change, focusing specifically on its impacts on key factors that impact economic growth. The Federal Reserve recently decided to include the impacts of climate change in its economic outlook, especially on indicators such as demographics, immigration, government finances and income inequality. Since the Trump administration's controversial U-turn from the Paris Climate Accord in June 2017, the outcry for policy combatting climate change has been hard to silence. Even with prominent economists and financial policy makers joining the tirade for carbon taxes that would help reduce the greenhouse gas emissions, the Trump administration has stood its ground to protect carbon producers.



Source: stanford.edu

The economic costs of the short-termism in their climate policy have been largely reflected by the projections for a 36% loss in United States' GDP per capita due to climate change. Furthermore, government reports like the National Climate Assessment recognize that unhindered climate change could eventually cost damage in the hundred billions, and that the pace of these damages is determined by human activity.

However, the data is not all disappointing – the greenhouse gas emissions trajectory for the United States has been revised to reduce by 2030 – with credit being given to lower level policy makers and the private sector. While the federal commitments have been deemed highly insufficient, the private sector is covering the gap – mainly due to the impacts of climate change on capital investments and financial stability that have been predicted. The recommendation lies in increasing investments in companies that promise long-term sustainability, as green asset classes become a significant portion of all investments and the climate impact criterion becomes more regarded by financial asset managers. An emerging asset class, deemed 'green' bonds, are helping raise capital for projects with environmental benefits and are often tax-free investments. The green bonds that were issued by the World Bank in 2008 now form 2.5% of global bond issuance, with $170-billion worth issued annually, according to *The Economist.* Climate Investment Funds are predicted to issue $500 million in green bonds to rise finances for 300 environmentally friendly projects in 72 countries.

But does the proliferation of green bonds mean they should be a private or institutional investor's priority? While many environmentally focused investors seek to increase their environmental impact by investing in these companies, their opaque bond issue terms mean that there lies the risk of information asymmetry. The lack of a set regulation framework also poses a threat towards investments, and the undeveloped markets spell liquidity issues. However, global data on climate change risks is growing and requirements on companies to insure against them is incentivizing them to be more eco-friendly. Plenty of sustainable energy companies remain undervalued, and are bound to grow in the face of current climate outlooks and a privately driven turn towards decarbonization. Priorition of infrastructure development, preparations for more frequent natural disasters, and a more sustainable resource distribution are the most important approaches to combat climate risks, and to do so, the focus must be on institutions and companies that are paving the way. ■

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