

# ECONOMICS UPDATE

A NEWSLETTER FOR ALUMNI AND FRIENDS OF UBC ECONOMICS

Issue 2 Summer 2012



CREDIT: FLICKR / FATSETH

## Examining the forces at work on earnings inequality in Canada

BY LARA KORDIC

Last fall, when Occupy Vancouver tents sprang up on the lawn of the city's main public art gallery, there was a lot of discussion and occasional confusion about what the movement was all about. At its core, the worldwide protest that began on Wall Street was a demonstration against corporate greed, corruption, and the financial sector's culpability in the ever-widening gap between rich and poor. The slogan "We are the 99 percent" united protesters in a cause that was inclusive although, at times, unfocused.

Most Canadians, obviously, are part of the 99 per cent. During the recent recession, countless people in this category have drowned in debt or lost their jobs. Some who once made up the middle class have slipped down a rung or two on the socioeconomic ladder. Others have managed to hold things together; but even those who are fairly secure in their jobs have become more cautious. In Canada, we are lucky that we did not suffer as greatly as they did in

the United States. But our situation is far from perfect.

At the other end of the spectrum, the economic elite—the proverbial 1 per cent—seems to get richer and richer. The popular image of this demographic is that of a small number of high-flying financiers who control an unregulated financial system to their own ends. This caricature, of course, is just that—a caricature. In reality, the top 1 per cent of income earners is far more diverse than a handful of bankers; yet their level of wealth and income is still beyond the reach of most.

In December, about a month after Occupy protesters were evicted from the front lawn of the Vancouver Art Gallery, the *Vancouver Sun* ran a series of articles aiming to clarify the factors that have led to increased inequality in Canada. The series, called "Putting Numbers on Inequality," was written by UBC Economics professors

## IN THIS ISSUE

FEATURE: THE WIDENING GAP <i>Getting to the root of the problem</i>	1
WELCOME	2
OP-ED: THE ECONOMICS OF CLIMATE CHANGE <i>Kyoto failed, so now what?</i>	3
AFFORDABLE HOUSING CRISIS <i>Community-based research</i>	4
NEW AND NOTEWORTHY	5
ALUMNI NOTES	6
ALUMNI PROFILE <i>Chris Fowler</i>	7
RESEARCH DIGEST	8
STUDENT LIFE	12

CONTINUED, PAGE 10 >>



# ECONOMICS UPDATE

## Issue 2 Summer 2012

*Economics Update* is published annually by the Department of Economics at the University of British Columbia. Issues are distributed freely to alumni and friends of the Department of Economics.

Please visit our website:  
[www.econ.ubc.ca](http://www.econ.ubc.ca)

### NEWSLETTER COMMITTEE

Florian Hoffmann, Nisha Malhotra,  
Kevin Milligan, Henry Siu

### COPYEDITING

Lara Kordic  
So Succinct Editorial Services  
[www.sosuccinct.com](http://www.sosuccinct.com)  
[larakordic@yahoo.ca](mailto:larakordic@yahoo.ca)

### DESIGN AND LAYOUT, PROOFREADING

Shana Johnstone  
Uncover Editorial + Design  
[www.uncovereditorial.ca](http://www.uncovereditorial.ca)  
[shana@uncovereditorial.ca](mailto:shana@uncovereditorial.ca)

***Would you like to submit an idea or article for possible publication in *Economics Update*?***

Please email us at:  
[econ.alumni@ubc.ca](mailto:econ.alumni@ubc.ca)

Send to:  
Editor, Economics Update  
University of British Columbia  
997 – 1873 East Mall  
Vancouver, BC V6T 1Z1

**All comments and feedback are welcome.**

# Welcome

BY MICHAEL DEVEREUX, DEPARTMENT HEAD

As head of the UBC Economics Department, I extend greetings to all our alumni, and I'm very happy to present the second edition of *Economics Update*, our departmental newsletter. The aim of this newsletter is to keep our alumni informed about what is going on in the department and to build continuing lines of communication with our former students. We feel that we have an excellent program, with some of the best students in the university, both at the undergraduate and graduate level. We hope that all our alumni, whether in Canada or abroad, continue to think of themselves as part of the UBC Economics family.



MICHAEL DEVEREUX  
CREDIT: MAURICIO DRELICHMAN

The department has recently seen significant change, with the addition of many new faculty and instructors. But we are planning an even greater transformation in the coming years. Our most important new initiative is our transition from a department of economics to the Vancouver School of Economics. This is much more than a name change. In becoming the "VSE," we will be growing considerably, adding new faculty and launching a number of new programs. In September 2013, together with the Sauder School of Business, we will be launching a Bachelor of International Economics. This will be a new four-year direct-entry program for Canadian and international students, to give students an elite undergraduate economics degree of unprecedented quality and depth. The focus on international economics will allow us to take advantage of our strength in this area. We will be providing much more information on the Vancouver School of Economics and the Bachelor of International Economics in future newsletters.

Of course this new program will not affect our current majors and honours programs. In addition, we have a very active and high-quality graduate program, both at the MA and PhD level. They will continue as before, and we see the VSE as an exciting way to improve the quality of all of our programs.

While we have one of the top research departments in Canada, we are far from being cloistered away in our "ivory tower." As you will discover in this newsletter, our faculty have been contributing to the frontiers of knowledge on some of the most important issues facing Canada and the world today. Research by our colleagues covers issues as diverse as the causes of rising income inequality in Canada and other countries, the long-term effects of economic recessions on the labour market, the comparison of health care systems across countries, and the economics of poverty in Canada and abroad.

In the wake of the financial and economic crisis of the last few years, economics as a discipline has come under some criticism. Journalists, pundits, and bloggers have tried to paint a picture of economics as a sterile subject that has little to do with the real world. If you look at the research done in our department, you will quickly see that this is a completely inaccurate characterization of what we do. I believe that economics is an extremely vital and healthy discipline, and our faculty members at UBC are at the forefront of many of the great developments currently taking place in the field. We hope that this newsletter will convince you that UBC Economics is very much on top of the great questions of our time.

# The Economics of Climate Change

We need global collective action, and we can start by leading by example

BY BRIAN COPELAND

In December 2011—in a move that some Canadians welcomed and others strongly criticized—Canada withdrew from the Kyoto Protocol, an international agreement aimed at stabilizing the global climate by reducing greenhouse gas emissions. Why did this happen? What should we do now?

Most scientists agree that the earth's climate is warming in part because of greenhouse gas emissions (such as from burning oil and coal); however, the long-term consequences of climate change are more controversial. Ecosystems will be affected; sea levels will rise; agricultural productivity will rise in some places and fall in others; and many other changes, some unforeseen, will occur. While it is difficult to predict the exact consequences of climate change, damages to humanity and ecosystems could be severe. This is perhaps the most compelling reason for taking action now. We all buy various forms of insurance when our well-being is at risk. So even if we are unsure of the exact consequences of climate change, a rational response would be to take immediate action as a form of insurance to mitigate those risks.

Why has it been so difficult to achieve a global process to reduce carbon emissions? Carbon emissions generate global externalities. Emissions from any given source affect not just the local community but also people around the world and future generations. Government policies driven by national self-interest are not effective in dealing with this issue because any one government does not face the full global cost (or benefits) of its actions. In short, stabilizing the climate is a global public good, and as such it is subject to free rider problems. No community or country can stabilize the planet's climate on its own. Moreover, because countries are linked via international trade, unilateral cuts in emissions by well-intentioned countries can lead to carbon leakage: scaling back carbon-intensive production in one country can cause that production to shift to other countries, leading to increased

emissions elsewhere. Collective action at the global level is required to deal with climate change, and this was what led to the Kyoto Protocol. Unfortunately, the Kyoto Protocol has been unsuccessful. To see why, let's look at a couple of examples where global collective action succeeded.

The World Trade Organization (WTO) is part of the outcome of a successful international treaty aimed at preventing countries from getting into self-defeating trade wars such as those that occurred during the Depression of the 1930s. The WTO is successful because member countries are better off being in the organization and following the rules than not. Being in the WTO gives member countries access to other members' markets. And if coun-

**“In short, stabilizing the climate is a global public good, and as such it is subject to free rider problems. No community or country can stabilize the planet's climate on its own.”**

tries do not follow the rules (by erecting discriminatory trade barriers), they are subject to retaliation. The WTO works because it contains both “carrots” and “sticks,” both of which are quite powerful.

The Kyoto Protocol contains little in the way of either carrots or sticks. Because some major emitters of greenhouse gases (including the United States and China) chose to not commit to emission targets, it is difficult to make the case that the Kyoto reductions would be successful in stabilizing the climate. And crucially, unlike the WTO, the Kyoto Protocol contained no effective enforcement mechanism. By withdrawing from the agreement and announcing its intention to ignore its emissions targets, Canada incurred little cost,



BRIAN COPELAND  
CREDIT: MAURICIO DRELICHMAN

except perhaps damage to its international reputation.

Another example of a successful solution to a global collective action problem was the eradication of smallpox, completed by the late 1970s. This is one of several examples discussed in the book *Why Cooperate?* by Scott Barrett, a UBC Economics graduate (MA 1983; now a professor at Columbia University). Smallpox used to kill millions of people each year. Its eradication was a global public good. The main lesson from this example is not so much that eradication was successful but that it almost failed. By the late 1950s, countries agreed to embark on a program to eradicate the disease. Progress was slow, however, because of a lack of funding. In the end, success occurred in large part because of unilateral action by two countries—the U.S. and Sweden—both of which made large contributions. This prompted other countries to contribute. The benefit/cost ratio from eradicating the disease was huge, arguably much greater than in the case of climate change. And yet global collective action almost failed as a result of the free rider problem. Because solving climate change is more difficult than eradicating smallpox, this example is somewhat sobering.

CONTINUED, PAGE 11 >>

# Crunching the Numbers on Vancouver's Affordable Housing Crisis

## Econ Students Team Up with NICCSS for Community-Based Research

BY LARA KORDIC

Last year's Occupy movement prompted many of us to re-evaluate our assumptions about poverty. At UBC, four students in Dr. Nisha Malhotra's Economics 490 class—Gender, Population and Health—took that evaluation one step further.

As part of UBC's initiative to facilitate community-based learning, this course gave students the option of participating in a research project that helps a non-profit organization gain better understanding of a specific issue. Whereas most undergraduate economic curricula focus on theory or data analysis, Community-Based Research (CBR) lets students use their theoretical knowledge and analytical skills to help people in their own community.

This spring, fourth-year students Tommy Chan, Patrick Devlin, Deyan Ivanov, and Zach Wade teamed up with the Network of Inner City Community Services Society (NICCSS)—a consortium of community-based organizations that coordinate and deliver social services to Vancouver's urban neighbourhoods—to address the economic viability of setting up a rent bank in Vancouver. The rent bank, which was recently approved for funding by Vancouver City Council, is designed to provide

temporary help to people facing unexpected financial hardships that prevent them from covering their living expenses. As the program is aimed at those who are in short-term rental arrears and at risk of eviction, its primary objective is to prevent homelessness.

The Vancouver rent bank will serve Canada's poorest neighbourhood, the Downtown Eastside, along with other areas of Vancouver that have high proportions of renters, reflecting the recent decline of affordable housing throughout the city. According to Kate Hodgson, NICCSS's executive director, the rent bank will provide loans at an average value of \$830, and recipients will have 24 months to pay off the balance. Hodgson anticipates that the program will allocate loans to about 135 households over three years and prevent 530 people from becoming homeless.

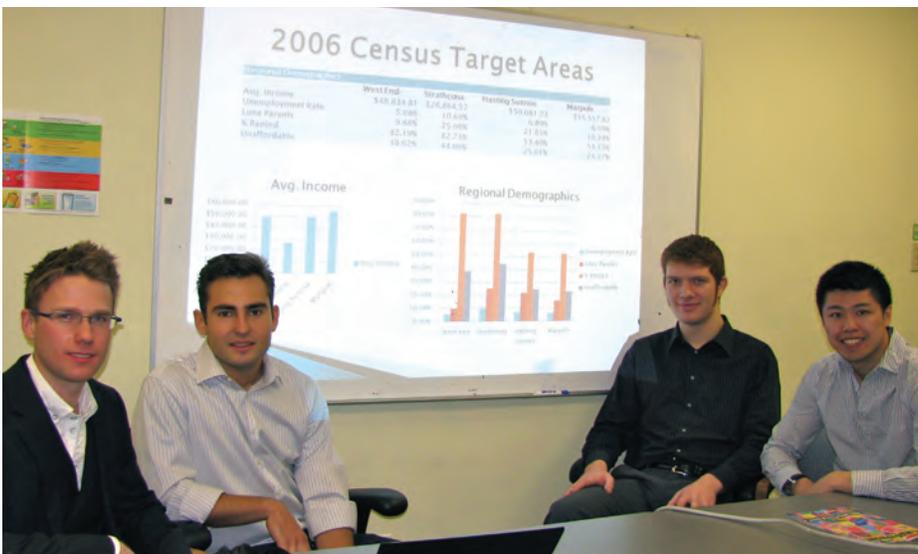
On April 2, the students from Dr. Malhotra's class presented their research findings to NICCSS. Using data related to demographics, income, and debt levels in BC compared with the rest of Canada; assessing the availability and viability of other short-term credit sources, including payday loans; and investigating the cost of



NISHA MALHOTRA  
CREDIT: MAURICIO DRELICHMAN

homelessness in relation to the cost of setting up and operating a rent bank, the students concluded that the rent bank program would be far more economically (not to mention socially) beneficial than allowing people to lose their homes when they are unable to pay their rent. The presentation not only identified which segments of the population would benefit most from the rent bank, but it also analyzed the possible factors that perpetuate the cycle of poverty within certain demographic groups and shed light on the economic sacrifices that people are most likely to make when faced with financial stress. The data re-affirmed NICCSS's mandate of providing a viable alternative to homelessness. By putting the rent bank in an economic context, the students added a new dimension to what is often regarded as a purely social issue.

Seeing his research add value to a real-life community-based project was a rewarding experience for Patrick Devlin, who said he felt motivated to do well on the project "because it actually helps people." Deyan Ivanov added, "It felt good to do something that matters. And the group experience [was valuable] because it offered different perspectives."



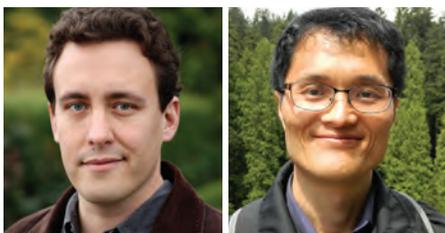
GENDER, POPULATION AND HEALTH, ECON 490  
LEFT TO RIGHT: ZACHERY WADE, DEYAN IVANOV, PATRICK DEVLIN, TOMMY CHAN

CONTINUED, PAGE 9 >>

# New and Noteworthy

## DEPARTMENT WELCOMES THREE NEW MEMBERS

We are pleased to welcome Ryan Oprea and Kevin Song as Associate Professors and Paul Schrimpf as Assistant Professor in the 2011/12 academic year. Ryan, a leading scholar in the fields of experimental and behavioural economics, joins us from the University of California, Santa Cruz, where he was Assistant Professor. Kevin is a widely published researcher in the field of econometrics; prior to joining UBC, he was Assistant Professor at the University of Pennsylvania. Paul recently obtained his PhD from MIT and works in the fields of econometrics and computational economics.



LEFT ABOVE: RYAN OPREA  
ABOVE: KEVIN SONG  
LEFT: PAUL SCHRIMPF



## GOVERNOR GENERAL'S MEDALS GO TO GRADUATING ECONOMICS STUDENTS

At this year's spring congregation, two of our students took home Governor General's Silver Medals, awarded to the top students graduating in their respective faculties. Matthew Lee, an Honours Economics graduate, was awarded the Governor General's Silver Medal in Arts,

while Alexey Pazukha, a double major in Economics and Electrical Engineering, won the Silver Medal in Applied Science. Matthew and Alexey join Wesley Sze, who won the Medal in Arts in 2011. Since 2001, six of the 12 Governor General's Silver Medals in Arts have gone to undergraduate Economics students. It is a true pleasure and honour to have such fantastic students working among us.

## FRANCESCO TREBBI WINS BANK OF CANADA GOVERNOR'S AWARD

Professor Francesco Trebbi has been awarded the 2012 Bank of Canada Governor's Award for his research in financial sector regulation and political institutions. The Governor's Award recognizes outstanding scholars who are at a relatively early stage in their careers. Of the research prizes awarded by the Bank of Canada, a disproportionate number of recipients are UBC macroeconomists. Of the five Governor's Award winners, two are at UBC, with Henry Siu winning the inaugural prize in 2008. And of the six Bank of Canada Research Fellowships, two are held by UBC economists: Paul Beaudry and Michael Devereux.



FRANCESCO TREBBI

## ECONOMIC RECOVERY LEAVES MIDDLE-CLASS BEHIND

New research by Professor Henry Siu has received widespread media coverage, with feature stories in the *New York Times*, *Globe and Mail*, *International Herald Tribune*, *The Atlantic*, *Forbes*, *Boston Globe*, *San Francisco Chronicle*, and *Business Week*, among other news outlets. In a recent working paper, Henry and his co-author, Nir Jaimovich of Duke University, find that as the economy recovers from the 2009 recession, middle-class jobs won't. In fact, this disappearance of middle-class jobs following recessions has been going on since the recession of the early 1990s and has led to the emergence of "jobless recoveries." This phenomenon is a leading factor in the widening gap between the rich and poor, as the middle class is disappearing in many industrialized economies.



HENRY SIU

## CONGRATULATIONS TO KEVIN MILLIGAN

Professor Kevin Milligan was awarded a 2011 UBC Killam Research Prize in recognition of his exceptional work in the field of public finance. Kevin's research is

CONTINUED, PAGE 9 >>

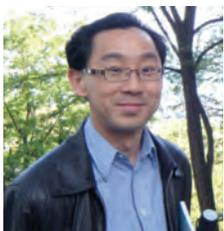
# Alumni Notes



After graduation, **Alesha Porisky** (BA, 2010) completed two internships with the United Nations Development Program (UNDP) — one in Serbia and the other in

Egypt. Her work in both countries' communications departments included producing four short documentary films and working on fact sheets and country reports. Additionally, she wrote, directed, and filmed her first feature-length documentary, *Conversations for Change*, which premiered in June 2011 at the Art Gallery of Ontario.

Alesha is currently completing her PhD in political science at the University of Toronto, with a focus in comparative politics and development. Her research on conditional cash transfer programs in developing countries draws extensively from her development economics background. In her spare time, Alesha plays softball, volunteers with two non-profits in the Toronto area, and remains engaged in photography and filmmaking.



**Marc Law** (BA, Honours, 1996) is an Associate Professor of economics at the University of Vermont. After UBC, Marc obtained an MA from Queen's University and a PhD from Washington University, St. Louis. At Washington University, one of Marc's dissertation supervisors was Nobel laureate Douglass C. North.

Marc's research is in the fields of regulation, political economy, and economic history. Most of his work has focused on the rise of regulation in early 20th century America. He has written about the adoption of food and drugs regulation, the impact of occupational licensing laws, the origins of "truth-in-advertising" laws, and the consequences of revolving-door regulations. More recently, Marc has become interested in issues related to federalism and urban economics. Marc's research has

appeared in the *Journal of Economic History*, *The Journal of Law and Economics*, *The Journal of Law, Economics and Organization*, and the *Journal of Regional Science*. In addition to teaching at the University of Vermont, Marc has been a faculty member at several Ronald Coase Institute Workshops on Institutional Analysis.

In his spare time, Marc enjoys travel, cooking, wine tasting, and classical music. Marc lays claim to being among the most avid consumers of classical music in the state of Vermont, attending over 65 concerts last year.



After graduating from UBC, **Valerie Raynard** (BA, 2005) travelled for three months in the Middle East before returning to Vancouver to work for the Boys and

Girls Clubs of Greater Vancouver. She worked there for a year in fundraising and event planning, then spent six months travelling India, Southeast Asia, and Australia before moving to London to do an MSc in Development Studies at LSE.

Valerie says, "I am currently studying for exams and planning to write a dissertation on slum rehabilitation policy. I'm returning to India at the end of the program with some people I met at the LSE. No concrete plans for afterwards, but looking for a job in development, preferably doing fieldwork for a few years."



**Celene Chan** (BA, Honours, 2008) went to work for the Bank of Canada's Financial Markets Department after graduation. She worked on the *Monetary Policy*

*Report* and *Financial System Review* and contributed to the Bank's monetary policy decisions. In 2009, Celene accepted a position with Central 1 Credit Union and moved back to BC. In her role as a Credit Risk Analyst,

she evaluated risk factors and set exposure limits on the company's fixed income and securitized investments portfolio.

After obtaining her master's degree from Simon Fraser University in 2011, Celene joined Anglemont Financial Services. In her role as economist, she conducts research on medium- to long-term economic and business conditions in various sectors around the globe. Her analysis contributes to the overall portfolio strategy and provides support to the investment committee in evaluating new opportunities. She is currently pursuing her CFA, with a goal of becoming a portfolio manager.

In her free time, Celene enjoys perpetuating the Vancouver stereotype and can often be found reading at Starbucks, hiking the Grouse Grind, jogging around the seawall and walking her Chihuahua through Yaletown.



**Kelvin Chan** (BA, 2006; MA, 2008) started his undergraduate studies in science but was drawn to economics' broad applications in explaining

human activity while maintaining a strong mathematical and theoretical basis. Kelvin is currently working as an analyst in Industry Canada. "Much of my work is on research projects that are not dissimilar to what happens in an academic setting," he says. "This involves manipulating and analyzing large data sets, interpreting results, and writing papers. As a public service economist, a major part of my work is presenting research results to stakeholders in the department, other parts of the government, and externally. The research I do provides insight on how the Canadian economy is faring and how policies affect it."

As for life in Ottawa, "it's not a big city, but it has its share of fun outdoor and indoor activities. It's a town of young professionals, so I've had many opportunities to meet new friends and enjoy the outdoors."

# Alumni Profile

## Chris Fowler, BA 1982, MA 1985

*Economics Update recently caught up with Chris on life after UBC and where his Econ degree has taken him.*

### How did you choose to do economics at UBC?

Understanding how the economy worked was always an interest of mine, and attending UBC was an easy decision and, I might add, a good one.

### What are you doing now, work-wise?

I am the Chief Operating Officer of Canadian Western Bank Group. The Group consists of six operating companies including Canadian Western Bank (a schedule 1 chartered bank), National Leasing, Canadian Direct Insurance, Canadian Western Trust, Valiant Trust, and Adroit Investment Management.

### Can you provide a brief description of what that work entails?

CWB Group is based in Edmonton, and we operate across Canada, but with a distinct focus for the bank in Western Canada. We have a TSX market capitalization of around \$2B, a balance sheet approaching \$16B, and approximately 2,000 employees in our businesses. My responsibilities include oversight of the senior management team that runs the revenue-generating operations of the bank, the management of credit risk, and the development and implementation of the Group's strategic plan. I also work with regulators, debt and equity investors, and market analysts to



CHRIS FOWLER

explain Group operations, financial results, and business opportunities.

### How has your economics training proved useful to you in your work life?

My economics training has been invaluable from day one in banking. The perspective assists me when dealing with business and economic situations to identify opportunities and challenges and establish sound criteria to evaluate and weigh alternatives. I spent 13 years in credit risk management, directly managing a growing loan portfolio that required insight into macroeconomic risks around industry sectors and credit risks for companies. Statistical and econometric techniques provided tools to create models to evaluate our risks. On top of the perspectives my UBC economics training afforded me, the hard work the program required was great preparation for the workforce.

### What do you enjoy doing when you're not at your "day job"?

My day job often turns into evenings and weekends with required travel and commitments, but I enjoy the challenges. My wife and I enjoy working on our 100-year-old-house, being with our dogs, and playing golf (though it's not year round in Edmonton). My wife is also a UBC grad, and our two children are currently UBC students.

### What are your favourite memories from your time at UBC?

My time at UBC was, of course, extremely formative and provided a solid base for my career. One of my lasting memories is a meeting I had with the head of graduate studies for economics in the July before the master's program was to begin in September. Along with my studies, I also played rugby for the UBC Thunderbirds and the Canadian national team. That year, the national team was to tour Australia in late August and early September, meaning that if I were to go I would miss the first two weeks of classes. While the graduate studies director recognized the opportunity that rugby provided, he impressed upon me that the program was very demanding, and missing two weeks was not advisable. I did not go on the tour, and he couldn't have been more right! The moral of the story is to pick your mentors and listen to advice, even if it's not what you want to hear.

---

**Chris Thompson** (BA, Honours, 2003) is currently completing his law degree at UBC, and working at Thorsteinssons, LLP, Vancouver's largest tax law firm. Over the last few years he worked as a financial advisor, then became a small-time celebrity when he released a couple of YouTube videos about the HST (you can see them on his YouTube channel, Six7Films). Says Chris, "I did a few public debates, and had numerous television and radio appearances, and it gave me the foot in the door to Vancouver's tax law community."

Chris originally became interested in economics through his mother's stories about travel and international development missions, in her work with the IMF. His favourite economics class was Professor Hugh Neary's ECON 387 Economic Reform and Transition, and he still draws on that material in his debates with friends regarding the relative merits of capitalism and centrally planned economies. In the last year, Chris began playing ice hockey after he saw the Vancouver Canucks lose 5-0, and thought, "Hey, I can do that."

**Do you want to share your story with your fellow alumni?** Drop us a line and fill us in on your family, career, interests, and accomplishments.

Don't forget to include a photo!

**Contact us:**  
[econ.alumni@ubc.ca](mailto:econ.alumni@ubc.ca)

# The Research Digest

Brief summaries of research by UBC economists

BY LARA KORDIC

## FROM GAMES TO GAINS: USING COMPUTER GAMES TO PREDICT ECONOMIC OUTCOMES

What would motivate the member nation of an oil cartel to under-produce, when doing so would spell financial loss for all countries involved? Why would competing airlines cooperate with one another over ticket pricing? What would prompt a high-tech company to delay introducing a new product onto the market, even when there is known consumer demand? Traditionally, economists have relied on theories to answer questions about how individuals, corporations, and nations will act under certain economic circumstances. However, these theories are difficult to test, as human behaviour—and by extension market behaviour—is difficult to predict. Historically, the only way to test theories was to observe and evaluate economic phenomena after the fact. This is why some economists have recently turned to more innovative methods to bridge the gap between theory and practice.

Experimental economics is a relatively new subfield that uses controlled experiments to test theoretical predictions and market mechanisms in a laboratory setting. Researchers use computer simulations mimicking real-world scenarios to determine whether participants will react and make decisions that are in line with a theoretical hypothesis. The experiments usually include two or more participants who are motivated by the prospect of real monetary gain or loss. Their reactions and decision-making processes throughout the scenario shed light on human behaviour and often challenge the boundaries of the theoretical framework.

While lab experiments cannot perfectly duplicate the real world—sample sizes are



RYAN OPREA (LEFT) AND YORAM HALEVY (RIGHT)  
CREDIT: VADIM MARMER

limited, and economists acknowledge that people may act differently in the lab than they would in real life—they do reveal some fascinating facts about how people make choices, deal with temptation, and behave under risky circumstances. Drawing heavily on game theory—the study of strategic decision-making through mathematical models of conflict and cooperation—experimental economics has broad appeal for its ability to translate human behaviour into economic impact.

UBC professors and leading experimental economists Ryan Oprea and Yoram Halevy are proving that the subfield is not only valuable for predicting market trends, but it also holds great appeal for students. Students who may be disillusioned by the abstract nature of the overall field appreciate the way that experimental economics makes often-dry theories come to life. Both Dr. Halevy, whose research focuses on individual decision making in the face of uncertain outcomes, and Dr. Oprea, who specializes in market-level changes and strategies that arise within a state of disequilibrium, teach both undergraduate

and graduate courses and supervise graduate students in their experiment-based research.

Experiments are a great teaching tool because they are dynamic and accessible, and use cutting-edge technology. In the words of Dr. Oprea, experimental economists “turn mathematical models into games.” Introducing students to experimental economics, especially at the undergraduate level, allows them to see how pressures at the market level and the individual level can change economic circumstances and ultimately affect how much we earn, spend, and save.

UBC is becoming one of the leading universities in the world to nurture and develop future experimental economists. The Department of Economics is in the process of securing funding for a brand-new computer lab that will feature 17 machines equipped with the latest experimental software. According to Dr. Oprea, the lab is scheduled to be up and running by this summer and fully operational for students starting in the fall term.

focused on Canadian public policy issues including childcare, retirement, welfare, and taxation. In addition to academic research, Kevin is also an influential voice in public policy debate, serving as a regular contributor to the *Globe and Mail's* Economy Lab blog.



KEVIN MILLIGAN  
CREDIT: MARTIN DEE

## DEPARTMENT STAFF CELEBRATE MILESTONES

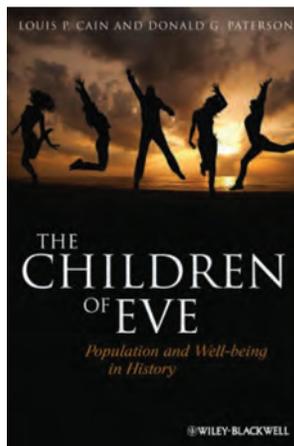
Maureen Chin celebrates her 25th anniversary with the Department of Economics this year. Maureen joined the department in 1987, coming to us from University Hospital. She began as the research grants coordinator and became the administrative assistant for the graduate program in 1988. She has been instrumental in turning our graduate program into one of the best in North America. Tina Marandola celebrated her 25th anniversary last year. Many of you know her as the longtime administrative assistant for our world-renowned undergraduate program. As well, Laura Smith, who came to our department last summer, is celebrating her 35th anniversary at UBC. The success of UBC Economics truly rests on the impeccable work, effort, and passion of our departmental staff, to whom we all owe a hearty "Thank you!"



ECONOMICS DEPARTMENT STAFF  
CREDIT: STEVEN PAI XU

## NEW BOOK PRESENTS FRESH PERSPECTIVE ON ECONOMIC AND DEMOGRAPHIC CHANGE

Professor Emeritus Don Paterson, and Louis Cain of Loyola University, have recently published *The Children of Eve*, a book on the world history of economic and demographic change. Using the tools of economics, demographics, and human biology, Paterson and Cain document the history of the human condition, our evolution from hunter-gatherers to modern society dwellers, and the implications of the urgent demographic issues we face today.



Dr. Malhotra noted that students who participate in CBR seem more motivated to succeed than those who engage exclusively in traditional, theory-based research projects. In addition to challenging and inspiring students by opening their minds to real socio-economic problems in their city, these projects give undergraduates a taste of the type of research they may encounter later in their careers. "You get a degree in econ," said Tommy Chan, "but when you go out into the real world you'll be interacting with real people and using layman's terms. Research should be based on collaboration, and CBR really offers that experience."

At the outset of the NICCSS project, most of the students held certain assumptions about Vancouver's homelessness problem and the rent bank's potential clients. "I thought it would be a niche population, but it's a lot broader," said Devlin, referring to the large number of Vancouverites who cannot afford their rent, often sacrificing food and transportation to keep a roof over their heads. "I was most surprised that one in five children belongs to a single-parent family," said Chan. "If the mother has a low income and low level of education, and she can't support her children, the cycle [of poverty] is just going to keep going." The students were also shocked at how quickly a household can slip through the cracks. "If you go into debt one time and can't pay it back, it's just going to get worse and worse," said Ivanov. "People are using payday loans to pay off other payday loans."

Ultimately, the students proved that applying economic analysis to a social problem does not reduce people to statistics. Quite the opposite. For the students, collaborating with a social organization put a human face on Vancouver's poor population, while their economic insight helped solidify NICCSS's position. "Any way you cut the numbers," concluded Zach Wade, "rent banks are cheaper than homelessness."

Nicole Fortin, David Green, Thomas Lemieux, Kevin Milligan, and Craig Riddell. In addition to exploring the economic forces and changes in the labour market that have caused the widening gap, the articles examined who exactly comprises the top 1 per cent of income earners in this country and who has been hardest hit by recent recessions and shifts in the centres of production. They also looked at proposed solutions to counteract inequality and made recommendations for the most widely beneficial course of action.

Looking at the numbers confirms what many of us have either witnessed or experienced first hand: the income gap is widening, recessions increase inequality, and people who earn the least amount of money are hit the hardest in times of economic strife. Over the past 30 years, Canadian



OCCUPY VANCOUVER PROTEST, 2011

CREDIT: FLICKR / DAVECLENENAN

the pack, and what forces are keeping the bottom earners down.

The top 1 per cent of Canadian income earners make at least \$173,000 a year. Despite the popular image of high-flying financiers and ambitious executives, the reality is that senior managers and CEOs account for only 15 per cent of top income earners, while less than 10 per cent work in the financial sector—roughly the same percentage as doctors and dentists. The vast majority is male, and most have a post-secondary education. In some cases, their incomes are as large as they are because so many of Canada’s top skilled workers have been lured to the United States, so Canadian employers have had to offer more lucrative compensation to keep their most valuable people here.

It’s easy to see that the rich are getting richer, but this is only half the equation. Why are the poor getting poorer? One reason is the increasing importance of post-secondary education. University degrees have become practically essential in many sectors of the workforce, leaving those without degrees quite limited in terms of career options and earning potential. The wage gap between degree holders and non-degree holders has grown wider since the 1980s, reflecting not only the value of a university degree, but also a shift in what drives our economy. Manufacturing jobs, once plentiful in Canada, have been

on the decline. Companies are now more likely to outsource production to countries that provide cheaper labour. The reduction of these positions coincided with rapid advancements in computer technology, creating a need for more highly educated workers. Nowadays, many university graduates find that a degree has become virtually indispensable, though it is not necessarily enough to secure a job that pays an upper-class wage.

Some politicians have suggested that raising taxes on the top 1 per cent and reducing the burden on those in the bottom income ranges would help reduce the gap between rich and poor. However, this strategy could prove less effective than it sounds. There are several legal loopholes that top earners could use to avoid the higher tax burden, and the bottom 15 to 20 per cent of income earners don’t pay income taxes, so lowering their tax rates would not make much of an impact. To truly alleviate poverty, enhance employment prospects, and improve the overall well-being of low-income Canadians, the government must also develop its system of refundable tax credits. Transfers such as the HST/GST credit, the Canada Child Tax Benefit, and provincial family bonuses already go a long way in helping Canadians. If well designed and strategically targeted, other credits for childcare, education, or employment in certain

earnings inequality has risen significantly. The income gap has in fact been increasing steadily since the 1980s, but until the mid-’90s federal and provincial taxes and transfers offset disparities in total earnings, making inequality less apparent than it is today. The tax cuts that emerged in the late ’90s translated into greater inequality in disposable income, not just in total earnings. Raising taxes on the rich would lessen the disposable income gap, but it would not solve all of our country’s poverty issues. To get to the root of the problem, say the UBC economists, we must look directly at earnings inequality, and to do that we need to determine who the top earners are, what sets them apart from the rest of

**“To get to the root of the problem...we must look directly at earnings inequality, and to do that we need to determine who the top earners are, what sets them apart from the rest of the pack, and what forces are keeping the bottom earners down.”**

professions and industries could make a positive impact as well.

Canada is recovering from the 2008-09 recession; unemployment is slowly decreasing. Yet apprehensions regarding the recovery still loom large. Recently, protests calling attention to inequality have been replaced by real concerns over cuts to public service jobs and labour disputes in the education, healthcare, and transportation sectors. In this climate, it's easy to become disillusioned about the future. Yet, all things considered, we live in a place of strength and stability on the global economic stage. Moreover, we live in a country where things like inequality can be debated in an open forum, where established institutions can be protested and public spaces "occupied," and where politicians and economists—even when they don't agree on the best methods—display a desire to create greater opportunities and growth for generations to come.

*Lara Kordic is a professional writer and editor and the founder of So Succinct Editorial Services.*

Where should we go from here? We need to work towards a treaty that commits all countries to either carbon taxes or emission targets. The treaty will only be successful if all of the major emitters participate and if it is enforceable, most likely through a system of trade sanctions. Such a treaty will likely be some time in coming.

In the meantime, there is a strong case for Canada unilaterally adopting a carbon tax. Such an idea is difficult to sell politically, but it is in the national best interest for several reasons. First, a carbon tax can be viewed as a form of tax reform. It should be introduced as part of a package that includes major tax reductions. That is, governments should reduce taxes on good things (such as labour supply or investment and savings) and increase taxes on bad things (carbon emissions). The package of tax reforms should be revenue neutral—the policy should be designed so that the average Canadian pays no more in taxes than before. Second, many other types of pollution are associated with carbon emissions, so taxing carbon will reduce these as well. For example, there is

increasing evidence that emissions from gasoline-powered automobiles increase infant mortality and worsen respiratory problems for people of all ages. Taxing carbon will therefore yield health benefits. Third, the world will have to proceed down a less carbon-intensive growth path sooner or later. New technologies will be needed. Countries that start developing those technologies now will be well positioned to export them to international markets in the future. A carbon tax will create incentives for Canadian entrepreneurs to innovate.

And finally, as the smallpox eradication program showed, in the end success in dealing with global public goods problems requires international leadership. Canada should be one of the leaders. And leaders need to lead by example.

*Brian Copeland is a professor of economics at UBC, and teaches courses on environmental economics and international trade and does research on the interaction between globalization and the environment.*

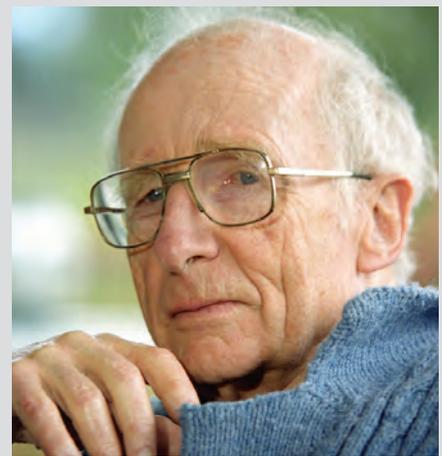
## GIDEON ROSENBLUTH MEMORIAL LECTURE SEPTEMBER 19, 2012

In August of 2011, we lost Gideon Rosenbluth, a highly respected member of our department, the Canadian economics community, and, more broadly, the community of economists around the world.

Gideon was a professor of economics at Princeton, Stanford, and Queen's before joining the UBC Economics department in 1962. He was a distinguished academic who held high standards for himself and his students. He taught and wrote about economic theory and its application for the analysis of individual behaviour, corporate organization, and government policy. His rigorous approach to scholarship and community involvement was guided by his commitment to social justice. At various times, he was president of the Canadian Association of University Teachers, president of the

Canadian Economics Association, editor of the *Canadian Journal of Economics*, an elected member of the UBC Senate, and a Fellow of the Royal Society of Canada.

On September 19, we will honour Gideon's memory with a lecture in his name, co-sponsored with the Canadian Centre for Policy Alternatives, an organization to which he devoted considerable energy. The lecture will be given by Oxford University professor Robert Allen, one of the world's leading economic historians. As a former member of the UBC Economics department, he formed a close friendship with Gideon. Bob's lecture will be based on his book *Global Economic History: A Very Short Introduction*, which is a tour-de-force explanation of the factors that have guided economic growth.



Admission is free, and the lecture will take place at UBC's Robson Square (800 Robson Street), Room C150, 7:00-8:30pm. UBC Economics alumni are invited to a reception at 6:30pm, and a reception for all attendees will follow the lecture at 8:30pm. Further details will be posted on our website ([www.econ.ubc.ca](http://www.econ.ubc.ca)) in the coming months. To get more information, please email us at [econ.alumni@ubc.ca](mailto:econ.alumni@ubc.ca).

# Student Life

## News from the Economics Student Association

BY RUOSONG GU, ESA PRESIDENT, 2011/12

The ESA seeks to foster camaraderie between the Economics department's student population, provide exceptional experiences to economics students, and strengthen relationships both inside and outside of UBC. Throughout the year, an array of academic, social, and career-related events are organized by the ESA team. These events reveal the beauty and the real-world application of the information that we learn in class. Here are some of this year's highlights.

The **ESA Career Night** is one of the ESA's signature events. It invites UBC Economics alumni to talk to current students about their experiences and provide post-graduation career-planning advice. This year for the first time, ESA Career Night included both a panel discussion and a speed networking session. The panelists addressed some general inquiries during the panel discussion and then allowed students to ask more specific questions during the quick one-on-one sessions. Guests from the fields of law, forestry, engineering, banking, accounting, and financial services were present, demonstrating the diversity of career paths available to economics graduates. The discussions were both inspiring and practical for students preparing to enter the job market.

Two months prior to Career Night, the **ESA Career Workshop** was led by Karly Pinch, an advisor from UBC Career Services. Tailored specifically to economics students, the in-depth workshop included résumé- and cover letter-writing skills, interview skills, networking skills, and even job-searching skills. Student response to the workshop was very positive.

The **ESA Year End Celebration** is a formal dinner that celebrates the graduation of economics students. This year's event took place at the Law Courts Inn, located in downtown Vancouver. The department head, Professor Michael Devereux, gave a speech and delivered his wishes to the class of 2012. With over 130 people, including nearly 20 professors, in attendance, it was



CAREER NIGHT



DINNER WITH PROFS

a great night that many of us will never forget.

**EconCafe** is a new initiative derived from the (Talk)onomics series, a weekly discussion session where people talk about the philosophy behind economics and analyze current economic events. EconCafe is an "open house" for (Talk)onomics, allowing more people to join the discussion. This

year's EconCafe featured Professors Brian Copeland and Patrick Francois from the Economics department and Professor Sumeet Gulati from the Faculty of Land and Food Systems. They sat with students from the Economics, Political Science, and International Relations departments in small groups, engaging in interesting conversations about different aspects of public good and free rider problems. This forum let students engage in in-depth discussions with professors, generate some great ideas, and gain a better understanding of the practical applications of economics.

As a growing student club, we are always interested in hearing suggestions on how we can serve the economics student community better. If you have any ideas on how we can improve our work, please email [econesa@interchange.ubc.ca](mailto:econesa@interchange.ubc.ca). We welcome your input anytime. For prospective students, the ESA is a good place to ask questions before joining our community. For current students, getting involved in the ESA will help you gain experience working with people and planning events. For alumni, the ESA is one of the best ways to keep in touch with the student community and to help economics students reach their potential. Please visit our website, [www.ubcesa.com](http://www.ubcesa.com), or find UBCESA on Facebook and Twitter for more details on our events.

# We want to hear from you!

**Do you have an idea for a future article in Economics Update?**

Please send us your suggestions, or submit your own article for potential publication.

**Do you want to share your thoughts on something featured in Economics Update?** Send along your comments, reactions, or opinions.

**Are you interested in learning about opportunities to support the Department of Economics?** Drop us a line, we'd love to hear from you!

**Do you want to get involved in alumni events or volunteer your time with current students?** Please let us know and we'll help you connect with your old classmates or the Economics Student Association.

**Contact us:**  
[econ.alumni@ubc.ca](mailto:econ.alumni@ubc.ca)