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UNION COLLEGE
ECONOMICS DEPARTMENT

NEWSLETTER

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SPRING 2023

Greetings from the Chair's Corner!

by Lewis Davis, Thomas Armstrong Professor of Economics and Economics Department Chair

Dear students, alumni, and fellow faculty members,

It's a great pleasure to greet you as the third year of my chairmanship comes to a close! As I write, the weather has turned nice and our truly gorgeous campus has returned to its summertime glory! More importantly, this past weekend, nearly one hundred Senior Economics and Managerial Economics majors finished up their academic careers at Union! We wish them all luck and success as they move into the world beyond Union!

Below, I catch you up on department news.

Faculty Milestones

The biggest news for our faculty this year was the successful tenure review of Prof. **Kaywana Raeburn**. Prof. Raeburn is the Feigenbaum Assistant Professor of Behavioral Economics, which lies at the intersection of economics and psychology and seeks to understand the complex underpinnings of economic decision making. Prof. Raeburn's research focuses on the role of cognitive biases, particularly ambiguity bias, in the adoption of new technologies in developing countries. She teaches specialized courses in Behavioral Economics and Experimental Economics and provides critical expertise and guidance for senior thesis students doing interdisciplinary work on economics and psychology. Prof. Raeburn also provides leadership as the faculty advisor to UMarketing, a highly active club for students interested in marketing. This fall, Professor Raeburn will be promoted to Associate Professor of Economics and will begin a much deserved two-term sabbatical. We are delighted that Prof. Raeburn will be a permanent member of Union's Economics faculty!

In addition, Assistant Professor of Economics **Alicia Dang** successfully completed a reappointment review. Reappointment, which takes place at the end of a faculty member's third year at Union, involves a comprehensive review of their teaching, research and service activities, and serves as an important milestone on the road to tenure. Prof. Dang specializes in the political economy of development in Asia, with an emphasis on the roles of industrial and trade policies. She developed and offers two courses on political economy and, this winter, co-taught a new course on financial mathematics. Starting this fall, Prof. Dang will enjoy a well deserved two-term sabbatical. We look forward to her return to the Department next Spring!

This Spring also marks the completion of a highly successful first year at Union for the newest members of our faculty, Professors **Zachary Rodriguez** and **Prateek Arora**. Prof. Rodriguez, who specializes in the economics of developing countries, offered a new elective course "Economics of Global Poverty," and is developing an upper-level **Seminar on Economic Development and Public Policy**, which will be offered next fall. Prof. Arora specializes in Macroeconomics, and offered an upper-level course on Monetary Policy this past year and is developing a **Seminar on Open Economy Macroeconomics**, which will be offered next year. Along with **Professor Tomas Dvorak**, Professors Rodriguez and Arora are developing a new, year-long practicum course in **Portfolio Management**, which will investigate investment strategies using over seven hundred thousand dollars of Union's endowment.

Department Awarded a New Tenure Line

As will come as no surprise to the readers of this Newsletter, the Economics Department offers a highly attractive education and, as a result, we are the largest department on campus. Indeed, Economics and Managerial Economics majors regularly make up roughly one-sixth of Union's graduating class! The inevitable downside of this popularity is that we are dealing with a persistent staffing shortage and rely extensively on temporary faculty to teach central components of our curriculum. We are therefore happy to report that the Department was awarded a new tenure line through a recently adopted policy though which departments may submit proposals for some vacant tenure lines. Armed with this open line, we hope to hire a new tenure-track faculty member this coming year, in either Industrial Organization or the Economics of Gender, Race or Inequality.

Bye-Bye Covid

Thankfully, this year I can say that the pandemic is over and life at Union is truly back to normal. Yes, there's the occasional absence due to Covid and the occasional need for social distancing, but these events are no longer central to campus life. So, bye-bye, Covid. You will not be missed!

Signing off and wishing you a very safe and happy summer!

Best regards,

Lewis Davis

Staffing Shortages - Tenure Line Allocation

By Ryan Hayes

Union has faced frustrating staffing shortages over the past several years. As the college has changed there have become different staffing needs for individual departments. In recent years, the Economics and Psychology departments have seen an influx in students without corresponding increases in staffing.

To address long-term professor staffing, the college allots departments with tenure lines. Tenure lines fund the entire career including benefits of a professor. Currently a new line costs about $4 million as the invested returns of the lump sum must fund the yearly cost of the tenured employee. It is the college's responsibility to establish new tenure lines, but they can also be donated. The last line donated to the Economics Department was around seven years ago.

I sat down with the Chair of the Economics Department, Professor Lewis Davis to discuss this issue. Our conversation started with the importance of the department having more tenured professors. Currently, about one out of every six graduates of the college matriculates as an Economics major while only one in fifteen professors at Union is in the Economics Department. To offer enough classes to students, the department has had a revolving door of visiting professors who often leave within a year or two of hire as their contracts expire within a few years. This creates two problems, one for tenure-track faculty and one for students. For tenure-track faculty, there is the resource cost of needing to constantly hire and mentor new faculty. In our conversation, Professor Davis detailed how much of his time is spent in the role of recruiter and interviewer rather than as Professor of Economics.

For economics students, some are left feeling like they missed out on many of the things that are supposed to make Union special. With incredible enrollment

pressure in economics classes, students often miss out on faculty-intensive teaching and do not foster the relationships with professors they had hoped to upon enrolling at Union. With many visiting faculty leaving before contracts expire - sometimes in the middle of the academic year- it makes planning diverse course offerings difficult and creates a problem for the student/advisor relationship.

The Economics Department has recently benefited from a new process of allocating vacant tenure lines implemented by the college to address this issue. In the past, tenure lines rarely moved across departments. The open line would be evaluated as to how it would be appropriated within the department. Two years ago, a new process was agreed upon where the department that loses a line makes a bid to keep it. If this bid is rejected, the line goes into an open competitive process where all departments can submit proposals for how to use it. This year marks the first time the new process was put into action, and the Economics Department was awarded one of the two available tenure lines.

According to Davis, there is hope that the new policy for allocating vacant tenure lines will help ease the burden on the department and the recently won line is certainly a step in the right direction. Only time will tell if this process will solve what has been a persistent issue for the department. Besides vacant line allocation, the Department is also working with College Relations to seek funding for new tenure lines, including positions in Financial Economics, Environmental Economics, and the Economics of Gender, Race, or Inequality.

The Impact of the Current Macroeconomic Climate on Student Loans: A Student's Perspective

By Haba Kiiza

This past spring term, I had the opportunity to partake in ECO-242 Macroeconomic Theory and Policy, a course taught by Professor Prateek Arora. Throughout the semester, I delved into the intricate relationship between economic phenomena and their real-world implications. Drawing upon the knowledge gained in this course, I began to connect the dots between the material we covered in class and some of the challenges faced by students today. The most striking parallel I found was between current macroeconomic phenomena and the cost of student loans. Particularly, the impact of rising interest rates, the debt ceiling crisis, and other relevant economic factors. In this article, I intend to provide insight into the challenges and opportunities arising from the economic dynamics covered in my Macroeconomics course, by reflecting on my personal experiences as a college student.

One crucial aspect of the macroeconomic climate that significantly influences student loans is the rise in interest rates. When interest rates increase, the cost of borrowing money becomes higher, which directly affects the interest rates on student loans. As a result, students will face increased financial burdens in repaying their loans. The higher interest rates make it challenging for students to manage their debt, potentially leading to prolonged repayment periods or increased monthly installments.

One group of students that is particularly impacted by the current macroeconomic climate is those with variable interest rate loans. As interest rates rise, students with variable loans experience a direct and immediate increase in the cost of their student loans. This means that the interest rates on their loans can fluctuate over time, resulting in higher monthly payments and a greater overall financial burden. Personally, as a student with variable loans, I am aware that in the future my repayment will be subject to fluctuations in rates. With each adjustment in interest rates, my monthly loan payments have gradually risen, making it more challenging to manage my finances and meet my loan obligations. The unpredictability of variable interest rates adds an additional layer of uncertainty to my financial planning, making it essential for me to closely monitor market conditions and adjust my budget accordingly. The rising cost of my student loans has reinforced the need for careful financial management and has motivated me to explore alternative strategies to minimize the impact of increasing interest rates.

Furthermore, the impact of rising interest rates extends beyond individual students. It can have a broader effect on the overall economy. Higher interest rates discourage consumer spending and can lead to decreased economic activity, which in turn affects employment prospects for recent graduates. With limited job opportunities, students may face challenges in securing stable employment and meeting their loan obligations.

The debt ceiling crisis is another significant macroeconomic phenomenon that can affect student loans. The debt ceiling refers to the maximum amount of debt that the government can accumulate. When the debt ceiling is reached, the government faces limitations in borrowing, potentially leading to reduced funding for federal student loan programs. In such a scenario, students relying on federal student loans may experience difficulties in securing financial aid. The limited availability of loans may force students to turn to private lenders, who often impose higher interest rates and less favorable repayment terms. This situation can further exacerbate the financial burden on students, increasing the overall cost of education and hampering access to higher education for some individuals.

Beyond rising interest rates and the debt ceiling crisis, other macroeconomic factors can also impact student loans. These include inflation, unemployment rates, and changes in government policies.Inflation for instance, erodes the purchasing power of money over time. As prices rise, the value of student loans may diminish, making repayment more challenging. Additionally, unemployment rates affect students' ability to secure stable employment and generate sufficient income to repay their loans promptly. And most importantly, changes in government policies, such as alterations to loan forgiveness programs or modifications to income-driven repayment plans, can significantly impact students' loan repayment options. Staying informed about these policy changes is essential for students seeking to effectively manage their debt and plan for the future.

Understanding the intricate relationship between the macroeconomic climate and student loans is crucial for students like myself who are currently studying macroeconomics. Rising interest rates, the debt ceiling crisis, inflation, unemployment rates, and government policies are all key factors that can influence the affordability and accessibility of student loans. By analyzing and relating the knowledge gained in class to my personal experiences as a college student, I have come to recognize the potential challenges and opportunities that lie ahead. It is crucial for students to be proactive, staying informed about the ever-changing economic landscape, and making informed decisions to mitigate the impact of these macroeconomic phenomena on their student loan obligations. As we navigate the complexities of the macroeconomic climate, it is

imperative that students seek financial literacy, explore scholarship opportunities, and consider alternative methods to reduce the burden of student loans. By combining academic knowledge with practical strategies, students can better manage their finances and achieve their educational goals despite the challenges posed by the current macroeconomic climate.

Student Investment Fund Creates Practicum

By: Luke McVeigh

The Student Investment Fund, alternatively known as the "Garnet Group," is taking a leap forward next year with the implementation of a new Portfolio Management Practicum. Labeled as ISC-111 on Self Service, the course will feature weekly meetings on Thursdays from 7–8:05pm. The course will be taught by Professor Tomas Dvorak in the Fall, Professor Prateek Arora in the Winter, and Professor Zach Rodriguez in the Spring. The syllabus for the course states, "Students in this course [will] manage a portion of Union College's endowment known as the Student Investment Fund." While speaking with Professor Dvorak, he emphasized that the new practicum will implement "experiential learning" to the longstanding Student Investment Fund, established in 1986. This is in line with the course syllabus where, in addition to the goal of having students gain more knowledge and understanding in investing, the onus is put on the students to be "responsible for monitoring the fund's performance, asset allocation, security selection, and governance." Professor Dvorak also reinforces the same sentiment, stating that a priority for the course is to maintain the student-run nature that is open to all students at Union College. Professor Dvorak is adamant that "anyone can contribute to [the fund]," as he believes that everyone can bring unique skills to produce a successful learning environment, which can help the long-run health of the managed portion of the College's endowment. Specifically, he cites how economists can help with the investing side of the fund, engineers with the technology aspect, and humanities students with communications. One major part of the new practicum will be for all students to contribute in some way to the communication of the fund's performance, highlighted by the "Annual Fund Performance Report" at the end of the academic year. Students who are interested in participating in the practicum are encouraged to sign up.

Natalia Szumilo '23 Macroeconomic Research Presentation

By: Matthew McVeigh

Natalia Szumilo, class of 2023, recently presented her research to a group of professors and students in Wold House. Over the course of the past year, Natalia has researched the relationship between interest rates and firms' performances. More specifically, Natalia is most interested in studying nations that are members of the European Union, but not in the Eurozone - nations like Bulgaria, Czechia, Hungary, Poland, Romania, Sweden, and other Eastern European countries. Natalia's work, entitled "Effect of Interest Rate on Firms' Performance in Developing European Countries", centers around how variation in interest rates contributes to different business outcomes in these countries of interest.

After contextualizing her research well with a discussion on interest rates and the role of a central bank, Natalia presented a graphic on birth rates of enterprise in Europe. Natalia outlined the methodology of her research as she explained that she considered Panel Data of 18 countries over 24 years from 1995-2019, real interest rates, GDP, and other variables. The most important business variables that she cited were (in real terms): profit, revenue, income, investment, turnover, long-term liabilities, and short-term liabilities.

The case study country for Natalia's research was Poland. In her commentary on Poland, Natalia asserted that "changes in interest rates affect business owners' expectations and firms' performance." Natalia also opened up a group discussion as she commented that "size, age, information management, education and training are important in firm performance." Leading into her main findings from her research, Natalia remarked that restrictions on finances can diminish firm growth.

The main finding, that Natalia concluded her presentation with before taking questions from the audience, was that there is a negative relationship between interest rates and firms' performances in the EU not in the Eurozone.

The US Debt Ceiling

By: Fatima Javed

The House of Representatives voted 314 to 117 on the debt limit bill and passed it on Wednesday night. Next, the bill will be sent to the Senate to be passed before it can reach President Joe Biden to be signed into law. Timing is of the essence in this process as the Secretary of the Treasury has given a deadline of June 5 for a possible default of the U.S. economy.

This bill was needed to extend the debt ceiling for the economy as the U.S. Treasury Department has had to borrow more money to pay for government spending. When the Treasury Department spends the maximum amount authorized under the ceiling, Congress must vote to suspend or raise the limit on borrowing. In case an agreement is not reached on the ceiling, the U.S. economy may face a default. This scenario will include the government not being able to pay its debts, the economy entering into a recession, and global financial instability. As of May 2023, the debt amounts to $31.4 trillion due to the continuous deficits the government has been running since 2001. During the latest press conference, Chairman of the Federal Reserve Jerome Powell was asked about the negotiations and said, "No one should assume that the Fed can really protect the economy and the financial system and our reputation globally from the damage that such an event might inflict,".

If the bill passes through the Senate, it would allow the federal government to borrow money until after the next presidential election in November 2024. This will give them enough room to pay for several programs such as federal employees, the military, Social Security, and Medicare, without the next debate on raising the debt ceiling interfering with the upcoming presidential election. This deal outlines a defense budget of $886 billion and allocates $704 billion for non-defense spending for the upcoming fiscal year. Additionally, the pause on student loan repayment which began at the start of the pandemic will come to an end in the final days of August. The deal also includes an agreement to cut $20 billion from IRS funding over the next two years and diverts it to other non-defense funds. Furthermore, the bill would rescind approximately $28 billion in unspent Covid relief funds, including unobligated money from various federal programs that received assistance. The White House assures that the bill would fully preserve the climate and clean energy provisions of last year's Inflation Reduction Act and leave Biden's executive action on student debt forgiveness in place. It also includes strict work requirements for Supplemental Nutrition Assistance Program and Temporary Assistance for Needy Families benefits for people up to 55 years old. Lastly, the bill would require the National Environmental Policy Act to streamline permitting for projects. Agencies will be given a year to complete environmental reviews, whereas two years will be given to more complex projects.

This agreement diverts a major global catastrophe and achieves many significant goals for the current administration. As the Senate currently prepares to vote on the bill, the magnitude of the crisis continues to loom overhead.

Endowment (Mis)Management?

By Ryan Hayes

PHOTO BY TYLER PRAHM ON UNSPLASH

College and university endowments follow complex investment strategies that are critical to funding the long term goals of their respective institution. Institutions grow their endowments from donations, often from financially successful alumni as well as generating investment returns on these donations. Union has long relied on a generous donor base, just three years ago receiving its largest one-time donation in history, a $51 million dollar gift from Rich & Mary Templeton focused on expanding the college's engineering offerings and increasing opportunities for women in STEM. According to Union's Board of Trustees Report, the current value of the endowment is a hair over $500 million. The board devoted just a single sentence to the endowment in the report saying,

> *"The financial health of the College is strong. Despite a highly challenging investment environment, our endowment is at nearly $502 million."*

The report signals financial strength but fails to acknowledge that the endowment sat at ~$600 million just one year prior. No mention is made of the $97 million decline in value. Professor Eshragh Motahar's interest in the performance of the endowment was piqued after taking a look at the management fees being paid each year for sub optimal performance. Through significant private research conducted using his personal time, Motahar assembled a plethora of resources for the Investment Committee to consider. In examining what the results would have been if the college pursued a passive investment strategy, using the S&P 500 as a benchmark, Motahar finds the endowment tells a story of under performance. If this passive strategy were adopted in 2006, the money the college would have saved in management fees and accumulated in excess return would have totaled $189 million by 2019 Other than a short presentation to the Investment Committee, Motahar says no request was made to take a look at his extensive compilation of data and to engage with his findings point by point. Scott Jones, VP for Administration & Finance disputed this claim writing,

> *"In the spring of 2021 there was extensive review and discussion of Professor Motahar's data and hypotheses. His information was reviewed by the Planning and Priorities Committee (P&P), the Faculty Executive Committee (FEC), the Investment Committee of the Board of Trustees, and the full Board. My predecessor in this role, Michelle Gibson, also was actively involved and pulled together an extensive set of materials in response which were also reviewed by these same groups. At the conclusion of these numerous reviews and discussions it was formally acknowledged and communicated that Union's endowment is soundly managed and that our investment strategy is justified."*

Jones additionally claimed that the fundamental disagreement between Motahar and the College is over the decision to maintain an actively managed portfolio. The suggestion of a passively managed endowment was labeled inappropriate by Jones citing that fewer than one percent of higher educational institutions choose this approach.

After Motahar's meeting with the Investment Committee, the college made the decision to stop publishing management fees paid. Jones defended the move saying the Financial Accounting Standards Board determined publishing management fees not to be useful information. Additional justification came from the added cost of having auditors calculate fees paid, which according to Jones is very complex and time consuming.

From the perspective of a current student, Professor Motahar's research and efforts into the endowment's performance signal a deep love for the institution he has taught at for more than 30 years. Regardless of investment strategy and performance the larger Union community would benefit from more transparency around the management of the endowment. Although publishing fees may not be beneficial for comparing performance, any multi-million dollar expense of the college should require more transparency and justification, especially when the financial health of the institution is on the line. I deeply respect the efforts of Professor Motahar in ensuring the college is on the best financial trajectory.

Professor Motahar's latest update on the endowment can be found here:

https://tinyurl.com/4xfkk98x

Special thanks to Professor Motahar and Scott Jones for their comments

Name: **Sean Regis**

Major: Economics

Campus Involvement: Member of Men's Basketball Team, Winner of SparkLab Business Competition (2022), SparkLab Advisor, Student Investment Club, Participant of Union's Got Singing Talent, Union College Choir.

Previous Internships: Equitable Advisors (2022), Lord Abbett - Advisor Consultant Role (2022)

Thesis Advisor: Bradley Lewis

Thesis Topic: My thesis is to uncover the relationship between win percentage amongst MLB teams and whether or not pitching or hitting have more of an effect on said winning percentage.

What inspired you to choose this topic?: I chose this topic because baseball has always been fascinating to me due to its different outlook on how statistics should be evaluated.

Let's Talk Thesis

Describe your thesis: I chose 4 offensive (hitting) sabermetrics to test their effect on win percentage within a regression and I did the same regarding 4 defensive (pitching) statistics. What I found was that both hitting and pitching were significant. Both have an effect on an MLB team's win percentage, but pitching did have more of an effect, slightly. This was due to the adjusted stats that I used, that deliberately omitted externalities such as ballpark dimensions and opposition. Pitching is more reliant on external factors due to a particular pitcher only being available once every 5 games during the regular season, so factors that can affect a pitcher are more determinant of a team's win percentage as compared to a position player that bats everyday. This is called the scarcity principle.

What has been the most challenging part of your thesis?: Being able to describe the advanced statistics to a casual fan of the game. Since I am well-versed with the MLB and its stats, sometimes I take people's knowledge for granted on topics that I am very passionate about, which does create a schism between the audience and myself, if I am not careful.

What advice would you give a current Union economics student?: For ANY student, I would suggest utilizing the Becker Career Center more often. Roger Woolsey and his team are fully invested in the well-being of the students here at Union. Bob Soules, Rog's predecessor, was also an incredible and caring mentor. Also, don't be afraid to network and spark conversation with anyone. AND READ BOOKS!

How has the economics department prepared your internship experience?: The department has helped me become comfortable with the technical skills needed to thrive in the financial industry. Additionally, there have been programs offered by Katy Yocom, such as Envestnet Institute on Campus, a program invested in helping students become acquainted with financial instruments, the market as a whole, public sentiment concerning the market, and personal finance, among other things. Learning about regressions and the relationship between certain variables can be indicative of the relationship between public opinion and banks or other financial situations that one might find themselves in. Also, learning about economics on a micro and macro level has helped me understand people's decision making skills on an individual level as well as a market-wide level.

As a side note, do you have any hidden talents or interests?: I guess singing was a hidden talent that I didn't discover until I was 18. Also, being able to remember dates and numbers from years ago can be considered a talent. For example, going back to baseball, if you ask me to name every stat of a player from ten years ago, I can give you their exact stats to the decimal point.

WRITTEN BY LUKE MCGARRITY