Cambridge Economics

News from the Cambridge Faculty of Economics

Issue 7 Autumn 2014

Welcome

FROM PROFESSOR WILLY BROWN

Our 2014 edition reflects the Faculty's contribution to innovation in economics. It leads with Martin Weale, still showing the independence of mind he was once noted for in the Faculty, discussing his experience on the Bank of England's Monetary Policy Committee. We then have Sharon White, one of our graduates who has been breaking glass ceilings at the Treasury. With an international reputation for popularising economic debates, Ha-Joon Chang makes the case for eclecticism. It is echoed by Michelle Baddeley, looking back on her time as a College Director of Studies. We have accounts of set-piece lectures by Alvin Roth and John van Reenen. There is a profile of Richard Smith, who this autumn hands over the Faculty Chair to Sanjeev Goyal. Particularly important for future innovative thinking, we have accounts of the initial progress of both the Cambridge-INET Institute and the Keynes Fund for Applied Economics.

UNIVERSITY OF CAMBRIDGE

Distinguished Alumnus Profile

MARTIN WEALE: A DOVE IN HAWK'S PLUMAGE?

Martin Weale (Clare, 1974-77) worries about inflation. He worries when it goes up. And he worries when it doesn't.

Since becoming an external member of the Bank of England's Monetary Policy Committee (MPC), which oversees interest rate policy, in 2010 he has:

- Voted in a minority seven times in succession between January and July 2011, and once more in August this year for a 0.25 percentage point increase in the official rate ('Bank Rate'), which has been unchanged at 0.5% since 2009.
- Voted in August 2013 in a minority of one against a Forward Guidance statement proposed by the new Governor of the Bank, (Mark Carney) that, subject to caveats, Bank Rate would be held at its present historic low level at least until the rate of unemployment had fallen below 7%.

By the end of the second quarter of 2011, price inflation as measured by the Consumer Price Index was running at an annual rate in excess of 5%, against a government-set target for monetary policy of 2%. In the second quarter of this year the unemployment rate stood at 6.4%. Bank Rate had remained unchanged throughout.

He explains his apparently hawkish stance in terms of needing to balance the risks of waiting too long to take monetary action to contain inflation against those of acting too soon, and so damaging the incipient and fragile growth recovery after the recession. Given that it is not plausible that Bank Rate should remain at 0.5% indefinitely, movements in Bank Rate should be in small steps and should start sooner rather than later provided that seems compatible with the inflation target.

In sharp contrast to his concerns about inflation in the first half of 2011, Martin's

worries when we spoke in August this year were about the absence of the usual inflation signals of rising wages and final prices at a time when numbers in employment were increasing and the rate of unemployment had fallen well below the 7% threshold.

The central concern for policy to contain inflation is the size of the 'output gap' – the difference between actual and potential GDP. As this gap starts to close with the economic recovery, demand and cost pressures will at some point combine to drive up prices.

Martin's interest in the output gap is primarily in terms of the amount of slack in the labour market. As demand for workers increases, wage rates will start to rise, pushing up on costs and price. But when will this happen?

As Martin has made clear in recent speeches, his view is that conditions in the labour market are tighter than conventional analysis suggests. He measures the degree of slack by studying the flows of workers into and across the labour market. Using data from the official Labour Force Survey, he identifies four types of worker (prospective and active):

- Unemployed (job-seeking)
- Under-employed (would like more hours)
- Fully employed (content with current hours)
- Over-employed (would like fewer hours)

As the demand for labour grows, some of the unemployed will enter the market; under-employed workers will get more hours; and the over-employed can reduce their hours. The effect of these movements on labour costs and productivity – and hence on potential output – is much more complex than simple movements in the measured rate of unemployment would suggest.

The evidence indicates that:

- As unemployed people move into that part of the labour market previously occupied by under-employed workers, their output and wage per hour are initially lower than those whose positions they are taking. The loss of skills and opportunities for work experience during unemployment, together with employers being able to offer lower wages on the basis of (reduced) marginal productivity, is a likely explanation of this.

- Similar effects are seen as the under-employed become fully employed.

- But as some over-employed workers reduce their hours and effort, they still command a wage premium, presumably because of their skills and experience that feed superior productivity.

The outcome of all this is that the actual amount of slack in the labour market – and the size of the output gap - may be significantly less than the unemployment rate would suggest. For the last quarter of 2013, Martin estimated the output gap, on the basis of slack in the labour market, to be 0.9% of GDP[1].

Pulling in the opposite direction, very weak wage growth suggests that, for one reason or another, the economy is better than it was in the past at managing with low unemployment[2]. This signal from wages needs to be balanced, however, against the information on hours and employment.

Against this background of complexity and uncertainty, he reflects on the weight of responsibility that is on MPC members, who have to vote regularly and frequently on the level at which Bank Rate should be set. With echoes of Dr. Johnson, he says that the prospect of voting in a month (or less), like execution in a fortnight, 'concentrates the mind wonderfully'. The corporate pressures of working in a large, actively-managed, organisation such as the Bank of England are quite different from those in universities and research institutes.

Before joining the MPC, Martin was for 15 years Director of the National Institute for Economic and Social Research (NIESR), foremost amongst the UK's independent think-tanks. Besides his own continuing research, which covers developments in the structure and analysis of economic statistics; banking and finance; pension reform; and education, as well as labour markets, he was involved in macroeconomic forecasting, which forms a significant part of the National Institute's work. Until 2008, the background of almost continuous economic growth with low inflation was very different from the challenges he is now meeting at the Bank.

As an undergraduate at Cambridge, Martin read Mathematics for Part 1A before switching to Economics for Part 2, something which he notes, with a hint of regret, is difficult to do today. He followed this by spending two years in Malawi at the National Statistics Office as a UK-sponsored Overseas Development Institute Fellow. He returned to Cambridge to join Richard Stone's Growth Project in the Department of Applied Economics and also worked with James Meade before being appointed as a University Assistant Lecturer in Economics. He was made CBE in 1999 for services to Economics. In 2013 he was re-appointed to the MPC for a second and final term until 2016.

Martin's quest is for policies that will deliver smooth and sustainable economic growth with low inflation and high employment. His over-riding concern is with promoting economic and social well-being. The hawk's feathers conceal the dove beneath.

Tony Cockerill

22 August 2014

1. Martin Weale (2014a), *Slack and the labour market*. Speech given to Thames Valley Chamber of Commerce, Windsor, 20 March. Available at: www.bankofengland.co.uk/publications/Documents/speeches/2014/speech716.pdf.

2. Martin Weale (2014b). *Spare capacity and inflation*. Speech given to the Confederation of British Industry, Belfast, 18 June. Available at: www.bankofengland.co.uk/publications/

Distinguished Alumna Profile

SHARON WHITE, SECOND PERMANENT SECRETARY, HM TREASURY

Sharon White (Economics, Fitzwilliam, 1985-88) saw her career path take her from an all girls' state school in East London to being appointed as second Permanent Secretary at the Treasury, the first woman in the role. Sharon has responsibility for providing advice on the UK's public finances, including the government's deficit reduction plans.

Sharon's interest in economics was sparked by her A level teacher, an inspirational figure who grew up in the same part of London as her, read Economics at Fitzwilliam College and spoke very positively about his time there.

When she herself came up to Cambridge, the Economics Tripos was still based largely on Post-Keynesian macroeconomics – the quantitative revolution and the emphasis on microeconomics and on game theory were yet to come. Initially, her interests lay in the field of development economics – she had thoughts of becoming an aid worker. But she found herself most engaged by her third year course in Public Economics and the fact that it addressed itself to domestic policy issues such as higher education funding and tax.

Fitzwilliam offered a welcoming environment, and Terry Ward, then in the Department of Applied Economics, was her Director of Studies. After graduating, Sharon spent a year working for a charity in Birmingham before becoming a graduate entry economist at the (then) Department for Education and Science. She moved to the Treasury shortly after and was sponsored on the full-time Master's programme in Economics at University College London. This gave her a better grounding in microeconomics and econometrics, though she doesn't describe herself as a 'technical economist'.

After some time in the Treasury, Sharon was seconded to a post in the British Embassy in Washington D.C., where she studied American welfare reform. This proved useful experience for her next post in London, advising on UK-labour market policy.

She went back to Washington for three years to take a post at the World Bank, working with colleagues at the IMF to support countries in sub-Saharan Africa and South Asia to develop good strategies for reducing poverty, as they benefited by international debt relief. One aspect of Sharon's role was to develop a framework, working in a mixed team of economists and social researchers, for assessing the distributional impact of lending programmes from the World Bank and IMF, and the policy conditions attached to them.

Returning to London, Sharon remained in the field of international development, taking up post as Director of Policy at the UK Department for International Development. She started a family (she is married to Robert Chote, who has been Chairman of the Office of Budget Responsibility since September 2010 and who featured in *Cambridge Economics* as our Distinguished Alumnus in 2012), and returned to domestic policy. She worked first for the Department for Work and Pensions covering employment policy, during and in the immediate aftermath of the 2008 financial crisis; and then at the Ministry of Justice where her role involved action to improve the efficiency of the criminal justice system.

Having worked with many different disciplinary groups, not just economists, Sharon is evangelical about bringing together different perspectives to bear on difficult policy issues. She is also a great advocate of working across many institutions because of the lesson learning and new insights a broad range of experience can bring.

Sharon has taken on a new role recently as gender champion for the civil service. She has seen great progress made during her almost twenty five years in government – and the civil service compares favourably to other occupations in terms of the proportion of women in senior jobs. She is optimistic that the civil service can do even better, while reflecting on the fact that the economics profession has relatively few senior women. This is something she is keen to see change.

Tony Cockerill

The Marshall Lectures 2014

ALVIN ROTH: MATCHING MARKETS AND MARKET DESIGN (REFLECTIONS OF A DESIGNING ECONOMIST)*

Alvin Roth shakes conventional thought in Economics – and beyond:

Why not:

- Offer human kidneys from living donors for sale?
- Rent wombs for surrogacy?
- Use performance-enhancing substances to increase and improve productivity (particularly among academics)?

His Marshall Lectures for this year draw on one part of his wide range of research and teaching in Economics that spans and brings together: choice and market design; game theory; experimental economics; and moral issues. His focus for the lectures is on the theory and practice of market design, the area of his life's work that has been recognised by the award of the Nobel Prize in Economics in 2012.

The first lecture looks at his work on how markets can be helped to work better when both (or more) parties to a transaction need to be matched according to their sets of preferences.

He starts by referring to Jevons' 'double coincidence of wants' which the economist's traditional notion of the market solves by linking together many buyers and sellers anonymously and letting 'price do all the work' in balancing supply with demand. While this model is appropriate for the analysis of many commodity and some financial markets, it is clearly not fitting for situations in which two-sided matching is required. Job search, college admissions and (even) courtship and marriage are examples. Both sides need to choose and both sides need to be chosen. Price alone cannot do the job – and in cases like admissions to undergraduate programmes at Cambridge and Stanford, should not be allowed to do so.

A solution to the problem that Roth and associates have developed, with particular reference to the recruitment of hospital doctors, is the Deferred Acceptance (DA) algorithm. The hospitals that are hiring doctors rank the applications received in their order of preference and make offers to the top cohort. Each doctor receiving an offer can accept it outright; reject it; or hold it for a time to see if a better offer is forthcoming. Hospitals then reoffer. For their part, doctors looking for jobs apply to their top-ranked hospitals and if rejected make further applications. The process goes on for both sides until no further matching can take place.

Roth's analytical work demonstrates that if both sides have strict preference orders, the algorithm will yield stable matching of pairs from which neither will wish to deviate. (In game theory terms, this is a Nash equilibrium). Moreover, the outcome will maximise the utility of both parties.

The general point here is that marketplaces in which two-sided matching is important become unstable unless they are managed. In the case of college admissions, for example, setting binding deadlines for applications to be received and decisions to be made is a first step, but this leads to congestion.
In order for such marketplaces to work efficiently in making matches, the markets they host need to be:

- Thick – that is, having a sufficient number of transactions available at any one time for the market to function smoothly.
- Uncongested – that is, allowing enough time for offers to be made, accepted or rejected and transactions carried out.
- Safe – that is, secure for parties to engage and to disclose relevant information.

In practice, the DA algorithm worked well in matching individual doctors with hospital posts, both by region and by specialty[1]. But changes in American society in the last quarter of the 20th century led to the matching process unravelling: more and more hiring was taking place outside the clearinghouse system. At issue was the job-placement satisfaction of couples – a sharply increasing fraction of all hospital doctors were women; and medics tended to marry medics.

A more complex algorithm was needed, both for efficient allocation of doctors to posts, and for social equity. The Roth/Peranson solution to this problem is to deal with the major match complications by enabling couples to submit their preferences for pairs of jobs, then to match as far as possible to pairs of jobs on offer and, if necessary, to submit supplementary preference lists. Finally, given deferred acceptance, they can revert back to earlier choices if they wish. The important point here is that *both* partners in a couple can select among options without having to compromise. Roth says this satisfies 'the Iron Law of Marriage': you can't be happier than your spouse. He then extends the

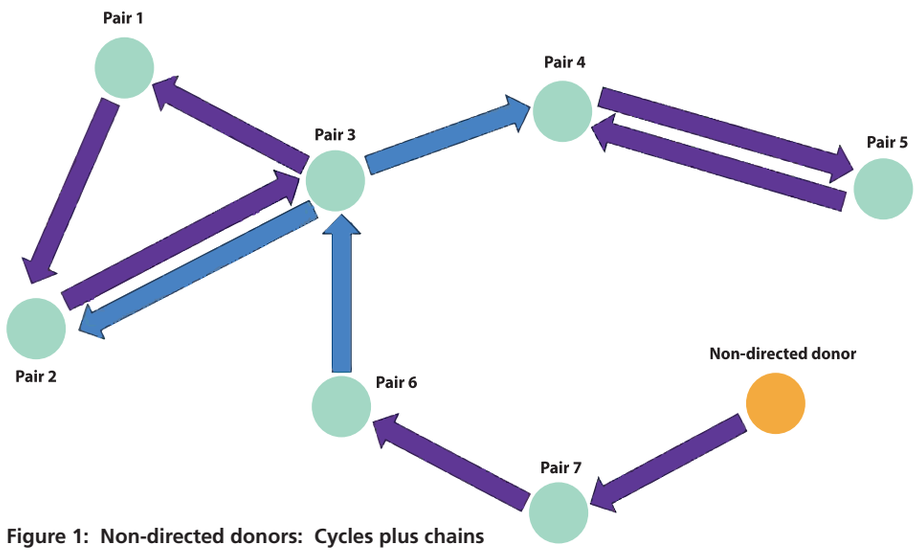
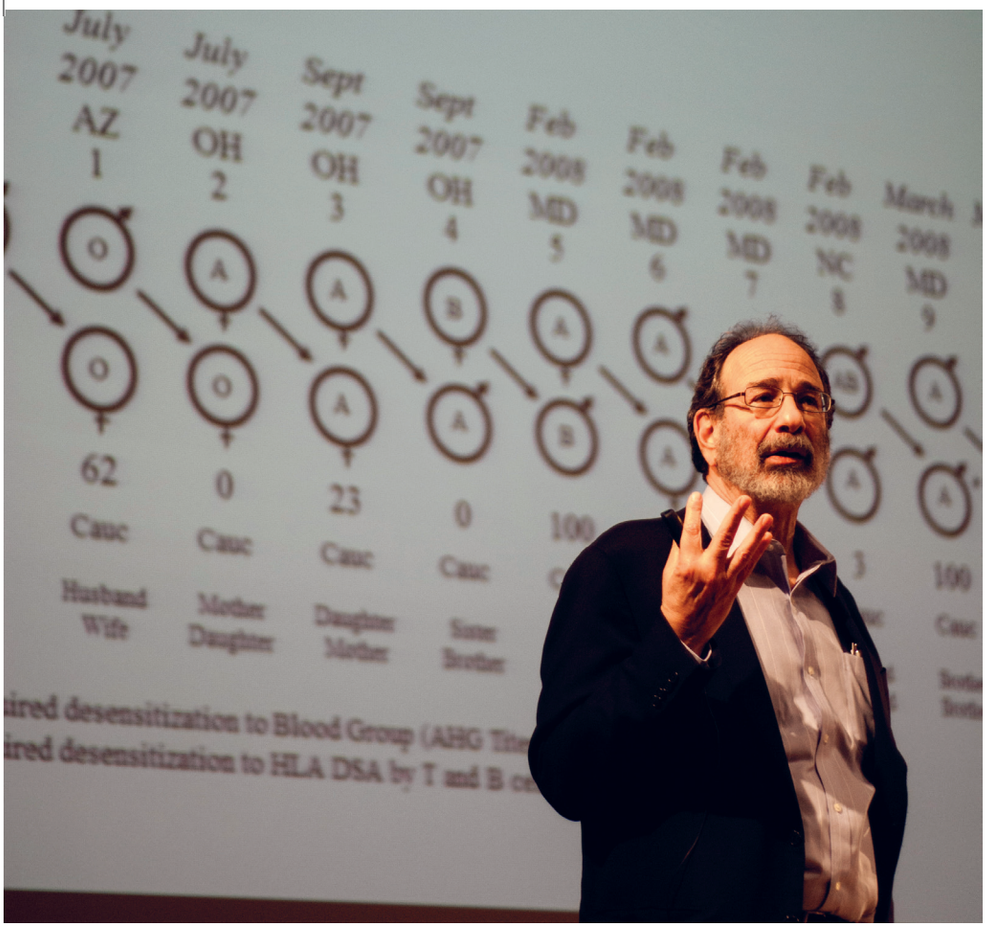


Figure 1: Non-directed donors: Cycles plus chains



analysis to randomised behaviour in markets and allows couples to apply for positions one after another.

In the second lecture Roth expands the principle of two-sided matching to explain his remarkable work on human kidney exchanges, which involve networks of recipients and donors. This work, which is the focus for the Nobel Prize, offers the prospect of significant improvements in the length and the quality of life for increasing numbers of patients requiring and waiting for kidney transplants.

The general circumstances surrounding kidney transplants and donations are well-known:

- Many more people are in need of kidney transplants than there are available organs.
- Kidney donations come from deceased and from living donors.
- Pairs of recipients and living donors are typically relatives or friends.
- Blood type incompatibility is a major constraint on forming pairs.

Roth's insight is that, in any community of potential donors and recipients, the number of compatible pairings can be increased by encouraging the pooling of offered donations to form cycles and, as a further step, by permitting donations from third parties – altruistic non-directed donors – to form chains.

Figure 1 shows the processes in a simplified form:

- Donor-recipient Pairs 1, 2 and 3 and, separately, Pairs 4 and 5 are incompatible on account of differences in blood group and/or tissue antibodies.
- If they exchange donated organs (purple cycles), five transplants can be achieved that would otherwise not have been possible. These transplants require ten simultaneous surgical interventions (one for each donor and one for each recipient). Exchange has overcome pair blocking (recall married doctors' job preferences). So far so good.
- But Pairs 6 and 7 both remain incompatible. This is where the altruistic donor can make an exceptional contribution to human welfare. By voluntarily donating a kidney that is blood group compatible with the recipient in Pair 7, the donor now starts a (blue) chain that enables all seven transplants to be carried out.

In the U.S. this framework has resulted in chains of up to 60 donors and recipients – that is, 30 transplants – providing a replacement kidney to patients who otherwise would never have received one or who would have had to wait for a long time.

One limitation on the length of the chain in the model as described is the need for *simultaneous* surgery when organs are donated and received among multiple participants. Roth's next step forward has been to develop an algorithm for a non-simultaneous donor chain: for example, the recipient in an incompatible pair may receive a kidney from a third party while, in due course, when medical circumstances are appropriate, the donor in the pair will give to another recipient in another pair.

Roth brings the Marshall Lectures to an end by reflecting on how more altruistic donors can be identified and encouraged. A striking feature is that, already, strangers are willing to offer their organs without anticipation of direct financial reward. This leads Roth to ask whether 'price should be allowed to do its job' by repealing laws against the buying and selling of kidneys, subject to appropriate regulatory safeguards.

Recognising that such a proposal may be found repugnant, he goes on to look at some transactions that in the past have been regarded as repugnant. He cites among others: interest on capital (usury); same-sex marriage; and aspects of religious observance. But attitudes change: old repugnancies wither away while new ones are found. As he says: 'the arrow of time points both ways'.

Tony Cockerill

* Alvin Roth holds the Craig and Susan McCaw Chair in Economics at Stanford. Previously he was Professor of Economics and Business Administration at Harvard. Videos of the Marshall Lectures are at: www.econ.cam.ac.uk/events/seminars/Marshall_Lecture/AlvinRoth.html

1. Roth, A.E.(1984) 'The Evolution of the Labor Market for Medical Interns and Residents: A Case Study in Game Theory', *Journal of Political Economy*, Vol. 92, 991-1016.

Professor Richard Smith Ends Term as Chair of the Faculty of Economics*

Reflecting on his three-year spell as Chair of the Faculty of Economics, which he completed at the end of September this year, Richard Smith says wryly that the experience was like being the full-time Chief Executive Officer of a lively and highly-opinionated co-operative. Sensitive management skills are needed in guiding colleagues to a consensus – but eventually, decisions have to be made. Stimulating and enjoyable as all this has been, his research interests in theoretical and empirical microeconometrics have inevitably had to take second place.

But forming and embedding a Faculty-wide framework and strategy for world-class applied policy-relevant research, publication and dissemination has been a major ambition and hopefully at least in part an achievement of his term as Chair. He is quick to acknowledge and praise the contributions and support that have been given to this initiative by academic and administrative staff alike.

At the start of his term as Chair, Economics in Cambridge was best known for its work in theoretical microeconomics, game theory and econometrics - perhaps to the surprise of some alumni of more mature years who recalled the great controversies and debates in macroeconomics. With Richard's guidance and encouragement, two main pillars have been established so far building on the Faculty's existing research foundations.

The Cambridge-INET Institute is a collaboration between the Faculty and the New York-based, George Soros-funded, Institute for New Economic Thinking. INET has provided an initial five-year endowment of $3.75 million, which is being matched one-for-one by the University and other donors. It was initially led by Professor Sanjeev Goyal who on his taking up the role of Faculty Chair is due to be succeeded by Professor Giancarlo Corsetti. Its motivation is to reassess conventional doctrines and models in Economics, many of which the global financial crisis has exposed as deficient, so as to find paradigms and policies that will lead to better solutions. The current work of the Institute gives the flavour of its purpose and aims: the economics of individual behaviour; networks; financial markets; and the transmission mechanisms between the financial system and the rest of the economy.

Alongside Cambridge-INET stands the research work supported by the Keynes Fund initially led by Professor Giancarlo Corsetti, a macroeconomist, who on becoming Director of the Cambridge-INET Institute will be replaced as Keynes Fund Director by Professor Hamid Sabourian, a microeconomist. The focus here, as might be anticipated, is on the economics of (classical) market failure. The first annual Research Day, in May this year, reported on projects covering, among other topics: business cycles and economic recovery; banking crises; experiments in economics; stock market trading processes; natural resource exploitation; and political reform.

Initiatives such as these expand the Faculty's research capacity through support for post-doctoral research fellows, distinguished visitors, and seminars and conferences, so providing an intellectual and financial environment that aids the research activities and output of the Faculty's teaching officers. Underway at present are arrangements for a third major initiative – the Cambridge Institute for Development and Sustainability (CIDS) – which is to be an important collaboration linking the Faculty with other Departments within the School of Humanities and Social Sciences and beyond. Here the aims are to investigate important issues of economic growth and development, including environmental awareness.

Richard is keen that research developments should feed directly into teaching. During

his term as Chair, the strong growth of student numbers has come almost entirely from the expansion of one-year taught Masters' programmes, in particular the MPhil in Economics and the MPhil in Finance and Economics. Student numbers on the MPhil in Economic Research, designed as an introduction to the doctoral programme, have been limited recently by the study and subsistence costs associated with a four or five year full-time period of postgraduate study. Richard stresses the importance of doctoral work for the development of our discipline and for the strength and vitality of not only the Faculty but the Economics profession more generally and sees the increased provision of studentships as critical to achieving these ends.

And noting the pressures for curriculum reform (from undergraduates at Cambridge and elsewhere) including economic pluralism – that is, new dimensions in analysis and a greater emphasis on empirical and policy applications - Richard views as essential that the Faculty's research methods and findings are firmly and increasingly represented in the Economics Tripos. He is pleased that some progress has been made already in this direction in the final year (Part 2B) of the Tripos.

Finally, Richard shares his thoughts about a substantial and continuing challenge – academic staff recruitment in an intensely competitive international market for Economists. The demands placed on doctoral candidates, he says, continue and are increased in intensity for early-career academics, who are expected to research and teach to very high standards with little security of job tenure and with limited institutional research funding and support. To help with this, he has enabled the Faculty to provide some limited non-project specific financial research support to teaching officers, especially to those at the start of their careers, but is aware that increased support is needed but that it will require additional funding.

But recruitment and retention issues do not stop here. Enabling distinguished senior academics to come to Cambridge requires remuneration packages that match those of the world's leading Economics departments, most of which are in the United States. For our recruitment to be successful means that recognition and support must come – as it does – from the University. Recent appointments at Chair and Readership levels illustrate the success of the Faculty in attracting top-calibre senior scholars.

As for his personal research, he is about to start on a much-deserved period of Sabbatical leave that will include spells at Yale and Berkeley in the US and at Melbourne in Australia. His smile is warm as he sends his very best wishes to Sanjeev Goyal, his successor as Faculty Chair.

Tony Cockerill

Tony Cockerill talked with Richard Smith on 20 August 2014

The Cambridge-INET Institute

The Cambridge-INET Institute was set up in 2012, through a substantial grant from The Institute of New Economic Thinking (INET) of New York. This was matched with funding from the Keynes Fund for Applied Economics, Dr Mohammed El Erian, the Cambridge Endowment for Research in Finance, the Isaac Newton Trust, and the Faculty of Economics. The aim of the Institute is to consolidate the status of the Faculty as a world leading centre for fundamental and innovative research in economics.

Under Director Sanjeev Goyal and Deputy Director Giancarlo Corsetti, the Institute is organized around four research themes:

- Networks, Crowds and Markets, led by Kaivan Munshi
- Transmission Mechanisms and Policy, led by Vasco Carvalho
- Information, Uncertainty and Incentives, led by Hamid Sabourian
- Empirical Analysis of Financial Markets, led by Oliver Linton

In its first two years of its life the Institute has grown rapidly in the range of its activities and in its intellectual scope. It supports doctoral research through PhD studentships and provides seed funding for research projects. The Institute has been especially stimulating for the intellectual life in the Faculty through its appointment of post-doctoral fellows, of which there were 11 in place by September 2014. In the past year the Institute hosted over 60 scholars as visitors and organized a number of major international conferences.

Three events reflect the range of its activities. The May Gala combined in one week the Review of Economic Studies Tour, a workshop in Microeconomics, and a conference on Stabilization Policy in Macroeconomics. Some of the finest talents were engaged on key issues in contemporary economics. The Institute organized a sequence of well attended Master Classes in Econometrics and Finance, delivered by leading academics and practitioners. The Summer School in Social Economics in June 2014 was organized in collaboration with the Human Capital and Economic Opportunity research group of Chicago. It brought together leading international researchers on networks, identity, human capital, experiments, and behavioural economics to lecture to over fifty young researchers from all over the world.

For more information visit our website:

www.inet.econ.cam.ac.uk

Sanjeev Goyal

Sir Richard Stone Annual Lecture

The sixth in the series of the Centre for Research in Microeconomics (CReMic) **Sir Richard Stone Annual Lectures** at the University of Cambridge was held on 27 February 2014 as on previous occasions in the Bateman Auditorium at Gonville and Caius College. The Lecture provides an opportunity for a leading scholar to present and discuss issues of particular current research interest. The Lecture also honours Sir Richard Stone, the founding Director of the Department of Applied Economics in the University of Cambridge.

John van Reenen, Professor and Director of the Centre for Economic Performance at the London School of Economics, presented the Lecture entitled "Boss-onomics: Taking the Measure of Management". To motivate the Lecture indicative evidence was provided to illustrate the extensive productivity differences among firms and plants over the last 10-20 years. The foci of the Lecture were that some management practices should be viewed as a technology, that productivity heterogeneity is related to certain core management practices and management practices are important in explaining productivity differences across countries. Since the scientific evidence on management is limited mostly being in the form of case-studies and ad-hoc surveys an important aspect of any research into the effectiveness of management must involve systematic measurement. John therefore set out a survey methodology which would account for monitoring practices, incentives and allow for the control of the idiosyncratic effects of interviewees, interviewers and time. Using a highly stylized model with management as a technology (MAT) a number of overall conclusions were reached, *viz*. performance in various metrics increases with management, increases in product market competition raise average management quality and in a model with endogenous management the association between management and size is lower when market distortions are higher. John observed that internationally average management scores across countries are strongly correlated with GDP per capita with a huge variation across firms within countries. In general multinationals appear to achieve good management practices no matter the location whereas family-run firms typically have the worst management. In the empirical analysis assessing the effect of management on performance based on the MAT model, sales and total factor productivity increase with management and performance is generally robustly correlated with management with the link between productivity and management holding true across different countries. Reallocation to better managed firms seems beneficial only where markets are generally less distorted with the effect stronger in countries with lower labour and trade restrictions and for industry-country pairs hit hardest by the Great Recession. There also appears to be evidence that competition improves management suggesting an endogenous relationship. The Lecture was concluded with a discussion of the linkage of education for both non-managers and managers with better management and an exploration of the effect of distance to a university on management and skills.

Further details may be found at www.econ.cam.ac.uk/events/seminars/Stone/

Richard J Smith

Faculty News and Successes

The University of Cambridge **Alumni Festival** took place over the last weekend of September. The Faculty of Economics held an event entitled 'Economic Perspectives', which consisted of 3 mini-lectures presented by Dr Jane Cooley Fruehwirth, Dr. Vasco Carvalho and Professor Oliver Linton.

Dr Jane Cooley Fruehwirth has been promoted to a Readership and recently awarded the Philip Leverhume Prize, which recognises the achievement of early career researchers whose work has already attracted international recognition and has an exceptionally promising future career.

Dr. Vasco Carvalho has been awarded the 2014 British Academy Wiley Prize in Economics, which rewards achievement in research by an outstanding early career economist.

At the 5th World Congress of the Associations of Environmental and Resource Economists, held in Istanbul this year, **Professor Sir Partha Dasgupta** received the European Lifetime Achievement Award in Environmental Economics.

The Keynes Fund

A generous contribution of an anonymous donor established the Keynes Fund for Applied Economics at Cambridge University in 2012. It provides support for innovative research and teaching in economics and finance. In its first two years the Fund has developed into a major engine of research. It supports Cambridge researchers who are addressing fundamental questions in economics and finance with empirical and policy relevance. A central interest is the sources and consequences of failures of market efficiency, particularly as a result of agency costs. An important objective is overcoming the institutional and financial constraints that often discourage the design of projects at the frontiers of disciplines. Projects vary in size and methodology, spanning different themes, such as market volatility, individual risk over the business cycle, social networks and economic outcomes, natural resources and development, experiments in economics and finance, economics and politics, and financial history, as well as health economics.

The Fund's initial Director has been Giancarlo Corsetti, to be followed in September 2014 by Hamid Sabourian. It calls for project proposals twice a year and they are reviewed by the Fund managers, drawing on internal and external refereeing. Sponsored research is presented in an annual research day. The first in March 2014 was particularly successful, with eight extremely lively sessions attended by a broadly based audience. The Fund has quickly established its presence. Together with the Cambridge-INET Institute, it has opened a new era of intense and interactive research in economics and finance, enhancing the University's success in attracting new world-class Faculty members.

For more information visit our website:

www.econ.cam.ac.uk/keynes-fund/index.html

Giancarlo Corsetti

Royal Economic Society Junior Fellows



Three of our doctoral candidates are to be congratulated on winning Royal Economic Society Junior Fellowships for 2014–15.

Two are working on theoretical econometrics with Andrew Harvey.

Ryoko Ito came to us from Canterbury, New Zealand followed by Part III in Maths at Cambridge. **Stephen Thiele** came from Queensland, via Monash and the Humboldt University of Berlin. **Laura-Lucia Richter**, who is working with Melvyn Weeks and Michael Pollitt on energy economics, was previously at Heidelberg and UCL.

Gabriel Palma retires in September 2014, having joined the Faculty in 1981, teaching development economics and econometrics. He has published widely on the economies of Latin America and says he has particularly appreciated the quality of his doctoral students.

Ha-Joon Chang - interview

Has there ever been a more important time for economic issues to be open to public debate? Ha-Joon Chang feels passionately that economics has suffered by becoming exclusive to specialists. This has, he considers, been bad for economic policy and bad for democracy. Economists have a moral duty to make their subject accessible to a broader public. His recently published book, *Economics – a User's Guide*, following his massively successful *23 Things They Don't Tell You About Capitalism*, a monthly column in *The Guardian* newspaper, and an international electronic following, all reflect his determination to do something about it.

Currently a Reader in the Political Economy of Development in the Faculty, Ha-Joon first arrived in Cambridge as a graduate student in 1986. Seoul National University had equipped him technically but it had certainly not prepared him to challenge established authorities and to think for himself. After initial confusion he came to thrive in the critical debates that characterised the Faculty. Having a training in mathematics, he particularly valued the supervision of Bob Rowthorn who, an outstanding mathematician himself, taught him that it was just another language, sometimes appropriate and sometimes not. Ha-Joon's doctoral work, influenced by the experience of growing up through South Korea's extraordinary economic transformation of the 1970s, was on the role of the state in industrial development. His analysis drew on politics, history and institutional economics in exploring the tension between markets and state intervention. He was to go on to write *Kicking Away the Ladder*, and *Bad Samaritans*, which were highly critical of the way that the developed world has harmed economic development elsewhere by advocating free trade. These policies, he argued, have been both historically hypocritical and crudely self-serving.

Pragmatic is the word Ha-Joon uses of his approach to economics. This comes partly from his experience working for, among others, the World Bank, the Asian Development Bank, Oxfam, and UN agencies. His approach is also, as his *User's Guide* makes clear, theoretically tolerant and eclectic. He argues that all the different 'isms' have useful light to shed on reality – but that exclusive reliance on any one is 'liable to lead to tunnel vision, arrogance, and possibly brain death'. He identifies with the dissatisfaction of Hayek, Marx and Schumpeter with the essentially static conception of competition embodied in neo-classical economics, and its neglect of the political context within which markets are made. Neither the extremes of free markets nor of central planning are effective; it is the great variety of approaches in between that deserve our attention.

The narrowness of current university economics education bothers Ha-Joon. The great majority of students are not going to become academics. The emphasis on maths and econometrics is misplaced. They have no more need to learn how to derive theorems than a driver needs to be skilled at car maintenance. It is more useful for them to understand the insights of different approaches to economics, and to appreciate the historical and cultural contexts that shaped them and their assumptions. Above all, students should appreciate the unavoidably political nature of economics if they are to use it wisely. With his succinct style and (he says) British-acquired use of humour, Ha-Joon will find a growing audience.

Willy Brown and Tony Cockerill

Comings and goings

Michelle Baddeley has moved from being Director of Studies at Caius College for 18 years to become Professor of Economics and Finance of the Built Environment at the Bartlett School, University College, London. She recalls:

When I arrived in Cambridge as a graduate student in 1992, I had a passion for Keynes. *The General Theory* is one of the only books I've ever read more than twice in its entirety and I learnt new things each time. I still link much of my behavioural economics research to Keynes's original ideas. Fellow Australian Geoff Harcourt generously supervised me. I relished the diversity of approaches on offer in Cambridge. Gay Meeks's MPhil course on Philosophical Issues was one of the most useful courses I studied because it helped me deeply to understand the foundations of economic theory. From joint teaching the MPhil lectures in Behavioural Economics. I learnt a lot from Chris Harris about areas I hadn't thought about before, particularly behavioural games and present bias. I've also learnt from the Cambridge neuroscientists and psychologists.

As the Caius Economics DoS, teaching talented and enthusiastic students was one of the great pleasures. Persuading them that applied econometrics could be useful - enjoyable even - was very rewarding. Macro supervisions were good fun too and were the catalyst to some very engaging discussions. The students could see that what they were learning connected directly with what they read in the newspapers each day. Using Petra Geraat's lecture notes as the inspiration, I could show that global recession was not so unpredictable; just that the people with the power and influence had no incentive to listen to pessimistic predictions. The range of the Economics Tripos is special – rigorous analytical methods alongside lectures illuminating the importance of history, politics and sociology – this gives students a unique and powerful perspective.

It has become fashionable to knock economics but it offers a great deal. One of my new research projects is an industrial collaboration analyzing the supply chains of the UK's major infrastructure companies. It's like supervisions all over again – seeing the eyes of directors of big companies light up as they see the links between their supply chain management problems and the lemons principle or efficiency wage theory. They are used to hearing a lot of management-speak but economic insights offer something more as they re-think their working practices in order to reduce the costs of building big infrastructure projects.

I will treasure the memories of my time at Cambridge. I hope that I inculcated in my students broad-mindedness and an interest in truth rather than intellectual fashion. Economics' analytical rigour is powerful if it is combined with an open-minded approach to fundamental insights from other disciplines – not only the social sciences, psychology, sociology, politics and philosophy, but also the natural sciences and humanities. Cambridge, with its rich intellectual history in economics, is the ideal place to develop new enriched and pluralistic approaches to economic principles and problems.

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