Message from the Head

The international reputation of Queen's Economics is based on its faculty and students. In the early years it was our honours program that helped build this reputation through the outstanding calibre of its graduates. Many went on to become leaders in business, government, and academics. The Governor of the Bank of Canada, David Dodge, obtained his honours degree in economics from Queen's in 1965. David Card (BAH 1978), another honours graduate is currently Professor at Berkeley. One of the world's leading labour economist, he received the John Bates Clark award for most outstanding US economist under the age of 40. In 1999 Queen's awarded Professor Card an honourary degree. These are just two of the outstanding graduates of what is acknowledged to be an outstanding undergraduate program.

Graduate degrees have been granted since the 1920s, but it was really in the 1960s and 1970s that our Master's and PhD programs came of age. Queen's economics has always had a strong identification with Canadian public policy, and our Master's students in particular were and continue to be in great demand by government. In fact, given the longevity of our programs employers of our students are, more often than not, our own graduates. Many of our Master's graduates, especially in more recent years, have gone on to become leaders in the business community. We also have an outstanding PhD program. More Queen's PhDs are teaching at Canadian universities than the graduates of any other PhD program. And our PhD students have also been in great demand in the United States and elsewhere.

In keeping with the stature of our department, a number of the faculty are holders of chairs and professorships, made possible through the generosity of former students and others who have had over the years an attachment to Queen's Economics. For some time, Robin Boadway has been the Peacock Professor of Econometrics. Both professorships were renewed this year for a five-year term. In 1999, Frank Milne was named to the Bank of Montreal Chair in Economics. More recently, Gregor Smith become the first Douglas D. Purvis Professor, culminating a fundraising effort where students, colleagues and friends of Doug Purvis played a major role. Last year, Ruqi Wang was named to the MacDonald Professorship and Jim Bergin became our first holder of a Canada Research Chair. We are also delighted that this year Russell Davidson received one of only two Queen's prizes awarded throughout the university for Excellence in Research.

Currently we have underway an important initiative to honour David Smith, for many years head of the department and perhaps the person most responsible for transforming Queen's Economics into an internationally recognized department. Once fully funded, the David Chadwick Smith Chair will be the premier Chair in Economics in Canada.

As my term as Head begins, I feel humbled by an outstanding line of predecessors, among them W.A. Mackintosh (Principal of Queen's), M.C. Urquhart, Smith (also Principal of Queen's), Boadway, Purvis, and, most recently, Lorne Carmichael. With your continuing support, I am confident that Queen's Economics will continue the tradition of excellence that these leaders established.

Frank D. Lewis
lewisf@qed.econ.queensu.ca
In the early 1980s, Russell joined forces with QED’s Charles Beach to write a paper on statistical inference for various measures, or indices, of income inequality and especially poverty. In due time the paper had a good deal of influence but this was slow to develop. It was more than ten years later that Russell again took up this topic, this time in collaboration with Jean-Yves Duclos, then fresh from a PhD at the London School of Economics, and now a professor at the Université Laval.

Their work aims to lay solid foundations for doing statistics with sometimes poor-quality data on income distributions, not only in developed countries but also in poor countries in Africa. Russell is content to let Jean-Yves do the dirty work of going to Africa to collect the data! Back in the quiet of their offices they have developed new techniques that allow researchers to have a good idea of just what can legitimately be inferred from income data of various sorts.

Although econometrics is Russell's principal research focus, he has in the past contributed to economic theory. Soon after joining the Queen's faculty, he wrote a paper on investment theory with former QED member Rick Harris, another earlier recipient of a Queen's prize for Excellence in Research. He also contributed to a series of papers, written jointly with UBC colleagues Chuck Blackorby and Bill Schworm, on the arcane topic of separability. These papers, although of interest only to a select few, are regarded as definitive in the field; so much so that hardly anyone has bothered to write on the topic since!

Being in Europe on a regular basis has allowed Russell to be a regular participant at European meetings and study groups as well as at the Canadian meetings. He feels that by attending a large number of meetings he can keep up with the latest trends in research, and let people know about his own work. As well, he finds scientific meetings a great deal of fun. Just this year he has travelled to Belgium, England, Italy, the Netherlands, and Switzerland for meetings, as well as those he attended in Canada and France. Join the QED and see the world!
James Bergin, one of the world’s leading game theorists, was appointed to a Canada Research Chair, effective January 2001. His current research includes work on: “Optimal Monopolistic Selling under Uncertainty: Does Price Discrimination Matter?” (joint with Lin Zhou). This is a study of the production and pricing problem for a monopolist facing uncertain demand and variable production cost. Bergin and Zhou show that, for some cost structures, optimal selling schemes may require discriminatory pricing policies. But for two important classes of cost structure those where the marginal cost of production is either increasing or decreasing, non-discriminatory pricing will be the better option. The results have important implications for pricing policies in industries such as transportation and telecommunications.

“Imitative Learning” (joint with Dan Bernhardt) studies repeated interaction over time when individuals imitate successful past performers. In many environments such behaviour leads to low welfare in the long run because of the negative externalities of copying. For example, if someone copies an innovation the return to the innovator will go down. Bergin and Bernhardt show that this conclusion rests on the assumption that individuals have short memories (one period long). With long memory, outcomes are sharply different. Individuals can come to recognize the destructive consequences of short-term gain at another’s expense: they recognize that matching behaviour of other players leads to a downward spiral in overall welfare. The impact of this assumption is dramatic. If individuals’ memories are sufficiently good, then the unique stochastically stable outcome is one with maximal collusion. And even if memories are quite short, long-run outcomes feature substantial collusion. For example, individuals may find it optimal to collude in a way that prevents them from copying each other’s innovations.

Robin Boardway has been reappointed as the Sir Edward Peacock Professor of Economics for the period July 1, 2001 to June 30, 2006. Robin Boardway had the opportunity, thanks partly to a sabbatical leave, to participate in a number of international public finance events, many of them involving members of QEDs extended international community of former graduate and undergraduate students (S), faculty (F), and visiting scholars (V). In May 2000, he presented a short course to the Centre for Economic Studies at the University of Munich on The Theory of Redistribution, and in June he gave an invited lecture to the Canadian Economics Association annual meetings at the University of British Columbia on the same topic. These were based on work done with Michael Keen (F) of the University of Essex and the International Monetary Fund.

Later that month, Robin organized a conference of the International Seminar on Public Economics at CORE, Belgium on Public Economics and Redistribution. This conference honoured the retirement of Maurice Marchand (V) of CORE, and featured participation by several other members of the QED family, including Vickie Barham (S) of the University of Ottawa, Katherine Cuff (S) of McMaster, Nicolas Marceau (S) of Université du Québec à Montréal, Gordon Myers (S) of Simon Fraser, Motohiro Sato (S) of Hitotsubashi University, and David Wildasin (F) of Vanderbilt.

In August 2000, he gave a paper at the International Institute of Public Finance 56th Congress at the University of Seville in Spain. Other participants included Kelly Bedard (S) of Claremont College, Katherine Cuff, David Green (S) of UBC and Joanne Roberts (S) of University of Toronto. He presented a paper at a conference in January 2001 held at the University of Munich in honour of Richard Musgrave’s 90th birthday. Later that month, he spoke at a conference of the United Nations Economic Commission for Latin America in Santiago, Chile, along with Bev Dahlby (S) of the University of Alberta. At the end of January, he attended a conference at the Malaysian Institute for Economic Research in Kuala Lumpur, Malaysia. This conference was organized by Frank Flatters (F), and represented the wind-up conference for a ten-year collaboration between QED and MIER, financed by the Canadian International Development Agency and administered by Flatters. Other participants included Richard Harris (F) and Nancy Olewiler (F) of Simon Fraser, and Glenn Jenkins (F) of Queen’s.

In March, Robin was in Belgium as an invited scholar at the University of Antwerp and the Catholic University of Louvain (CORE). In June, he participated in the Canada-Japan Conference on Fiscal Federalism and Local Public Finance, Meiji Gakuin University in Tokyo, Japan. This was organized precisely to bring together Canadians and Japanese with a QED connection to pursue joint interests. Finally, he delivered an invited lecture on “The Role of Public Choice Considerations in Normative Public Economics” at the annual conference of the International Institute of Public Finance held at the University of Linz, Austria. Papers were also given by Masayoshi Hayashi (S) of Meiji Gakuin University and Yukihiro Nishimura (S) of Queen’s.

In November, he gave an invited lecture to the Canadian International Development Agency and administered by Flatters. Other participants included Richard Harris (F) and Nancy Olewiler (F) of Simon Fraser, and Glenn Jenkins (F) of Queen’s.
by which these fluctuations affect employment, exchange rate movements and the channels recent research focuses on nominal and real July 1, 2001 to June 30, 2002. Bev Lapham’s of these issues.

John Hartwick is participating in the technical support for the work of the Round Table on the Environment in Ottawa, chaired by Stuart Smith. The Smith Round Table, among other things, has contracted with Statistics Canada to come up with indicators of environmental sustainability, including measures of “natural capital.” Oil, for example, is one type of natural capital. If stocks are being drawn down, net of current discoveries, one says that this type of capital is being depleted; but one needs proper measures of this depletion.

When one moves to the issue of sustainability, one can think about adding to other types of capital — human capital, machine capital or possibly forest (timber) capital — in order to balance off the loss of oil capital. One is interested in having an economy not losing its capital over time so that future generations do not end up with so little capital to work with that they cannot maintain a reasonable consumption level. Tricky valuation issues abound in this work and the committee that John Hartwick is serving on will try to sort out some of these issues.

Bev Lapham is the new Associate Head for the Department of Economics for the period July 1, 2001 to June 30, 2002. Bev Lapham’s recent research focuses on nominal and real exchange rate movements and the channels by which these fluctuations affect employment, firm size, and the number of firms operating in an industry. Her work in this area with Jeff Campbell presents empirical evidence that exchange rate movements have significant effects on both employment and the number of establishments for selected US industries operating near the Canada-United States border. Future work includes developing models of industry dynamics to study the relationships between exchange rate movements and industry structure. Using these models in conjunction with the data, the research will seek to quantify the costs and benefits of different exchange rate regimes. Bev attended the ASSA meetings in Boston in January 2000 and at New Orleans in January 2001, the CEA meetings in Montreal in June 2001, and the Canadian Macroeconomics Study Group Meetings in Hamilton in November 2000 and in Vancouver in November 2001. She served as a member of the editorial board of the Canadian Economics Association and is currently an Associate Editor of the Journal of International Economics.

James MacKinnon was reappointed as the Sir Edward Peacock Professor of Econometrics for the period July 1, 2001 to June 30, 2006. In June of 2000, he became President of the Canadian Economics Association. In that role, he organized the 35th annual meeting of the association at McGill University, at the beginning of June 2001. James was also the Chair of the SSHRC Selection Committee, which evaluated research grant applications in Economics and related disciplines in 2000.


Gregor Smith is the holder of the Douglas D. Purvis Chair in Economics. Funds for this chair were raised through the generous support of numerous QED alumni and other donors, to recognize Doug Purvis’s many contributions to economics in Canada. Gregor spent the 2000–2001 academic year on sabbatical at the University of Toronto.

Gregor’s work in 2001 has been eclectic. He has written on forecasting (in the Journal of Business and Economic Statistics), portfolio theory (in the Journal of Monetary Economics), econometric methods (in the Journal of Econometrics), and on the ways fixed exchange rates may collapse (in the Canadian Journal of Economics). His current work (funded by SSHRCC) is on international interest-rate differentials (with Allen Head, Queen’s University) and on the economics of international transfers (with Michael Devereux, UBC).

Gregor also acted as a commentator at a Bank of Canada conference on maintaining Canada’s flexible exchange rates and served as a consultant to the Bank. He served on the SSHRCC doctoral fellowships committee and completed terms as Co-editor of the Canadian Journal of Economics and as an Associate Editor of the Journal of International Economics.
Equilibrium Models of Marriage and Divorce
By Shannon Seitz

Shannon Seitz, who received her BCom in honours Economics from the University of Saskatchewan, and her MA and PhD from the University of Western Ontario, joined the department in the summer of 2000. A labour economist, Professor Seitz’s work has dealt mainly with the economics of the family. Professor Seitz uses large data sets and structural models of the family to address a range of important questions. Here she discusses a few of those issues.

Since the 1960s, many industrialized countries have witnessed unprecedented changes in the composition of the labour market and the family. The labour supply of women, especially married women, has risen dramatically alongside an increasing trend towards delayed marriage and a rise in divorce. At the same time, many countries have experienced an increase in alternative forms of households, as illustrated by a rise in cohabitation, out-of-wedlock childbearing and single-parent families.

What accounts for these trends? How do employment and marriage decisions interact? What are the implications of government policy for marriage decisions? A goal of my research is to provide answers to some of these questions. To guide my analysis, I construct and estimate models of marriage formation that have two key features. First, men and women search for spouses and form partnerships in a “marriage market” that works in much the same way as a labour market, where workers and firms form matches. Second, husbands and wives have a mechanism for distributing income and other resources among themselves within the household. Both features play important roles in explaining some of the trends that have been observed in family structure and employment.

In “Employment and the Sex Ratio in a Two-Sided Model of Marriage” (Queen’s, 2001), I develop a dynamic, equilibrium model of marriage that is consistent with the trends in labour supply, marriage rates and divorce outlined above and apply the model to an issue of great concern to policymakers: the marked differences in family structure and employment behaviour across blacks and whites in the United States. Blacks are less likely to marry and are more likely to divorce than whites. Black men have lower labour force participation rates than white men, whereas black married women are more likely to work than white married women. Married black women are also more likely to work than their single counterparts, while the converse holds for white women. This divergence in employment and marriage behaviour across blacks and whites is consistent with differences in supply and demand conditions in the marriage market. The “sex ratio,” the ratio of single men to women, has been consistently lower for blacks than whites. There are several reasons for this difference, including high rates among black males of homicide, accident, and infant mortality. As a result, the marriage market conditions faced by black men and women differ considerably from those faced by whites.

To what extent can supply and demand conditions in the marriage market account for the differences in employment and marriage behaviour across race? I attempt to answer this question by considering two mechanisms through which conditions in the marriage market influence decisions. First, marriage market conditions can affect the distribution of resources among members of a household. Spouses who had better marital opportunities may receive larger transfers within the household, making them less likely to work. This feature of the model is consistent with the high employment rates of white men as compared to black men and the opposing relationship for black and white women. White males are in excess supply in the marriage market, which leads to large transfers to white women within marriage. These transfers, in turn, reduce the incentive of white married women to enter the labour force. In contrast, black females, who are in excess supply in the marriage market, receive smaller transfers within the household and are, therefore, predicted to have higher employment rates.

Search friction is a second channel through which conditions in the marriage market influence marriage and employment behaviour. Normally, marriage opportunities are not immediately available; it takes time to find a potential spouse and form a match. However, for individuals who are in excess demand, finding a spouse is relatively easy, since the number of competitors relative to the number of prospective spouses is low. Those in excess demand may be very choosy regarding whom they will marry and may be more willing to divorce. This feature of the model is important in explaining the relatively high divorce rates of blacks as compared to whites.

In “Cohabitation, Marriage and Divorce in Equilibrium,” co-authored with Michael Brien (Arthur Andersen) and Steven Stern (University of Virginia), we develop and estimate an equilibrium model of match formation that is able to account for recent trends in cohabitation and fertility. Our model helps explain why some individuals choose to live together rather than marry, why cohabitations tend to be shorter-lived than marriages and why cohabitation often leads to marriage. Many of these trends can be explained by examining the effects of uncertainty. There is uncertainty about the initial quality of a relationship, about how the quality of a relationship will change over time, about future children, and about the likelihood of divorce. In the model, individuals observe the quality of their relationship when they meet. If that quality is sufficiently high, individuals will marry, which offers greater benefits than cohabitation but is much more costly to dissolve. But if the initial quality of the relationship is low, individuals will be more inclined to cohabit. Once in the relationship, the quality of the match may change, inducing individuals either to separate from their current matches if the quality of the match deteriorates over time or to convert a common-law relationship into a marriage if the match quality improves. The model helps explain the features outlined above, and has a variety of policy implications, including those involving divorce laws.
I was really glad that I took economics at Queen’s. I’m currently doing an MBA at Carnegie-Mellon and because of my economics background I was one of the only students who was allowed to exempt out of the econ courses. Everyone else had taken econ courses before, but they didn’t use any math. They didn’t have a clue what was going on in the classes. Economics is widely used in all my other courses too. For example, one of my softer courses, Human Behaviour in Organizations uses economic concepts to describe corporate organizational structures. Take my advice. If you are thinking about doing a high quality MBA, you’ll be well prepared if you have a Queen’s economics degree.

James Milne
BAH, Mathematics/Economics, 1995
MA, Economics, 1996
In my job, the thorough understanding of option theory and pricing, the understanding of other financial instruments, and the better than average insights into macro theory, provide a significant competitive advantage over other programs that do not provide such deep insights. The Queen's undergrad and especially the graduate program force the development of a logical and critical thought process that is superior to the one of colleagues coming from less rigorous programs. It is the strong analytical skill set of Queen's students that shines the brightest. Having lived through a 20% headcount cut at a leading Wall Street investment bank, I can confirm that people having a solid foundation in Mathematics, Logic, and Economics were the survivors of Wall Street's butchering of the Junior levels. Queen's is without doubt a superior deliverer of these necessary qualities. Most important, since the majority of the Queen's student body is from out of town or from abroad, Queen's students develop a strong sense of team play, solidarity, loyalty and openness — character traits that become most important in today's business environment. In summary, most top North American universities send away their students with one or some of the mentioned skills and traits but Queen's Economics students are among the few that have all of them.

Tobias Schraven
Credit Suisse Frist Boston, New York
BAH, Applied Economics, 2000
MA, Economics, 2001

As a management consultant at Price Waterhouse Coopers, one of my main roles is to provide decision analytics, supporting strategic recommendations for our global Financial Services clients. My education in Queen's Economics has allowed me to make a seamless transition from an undergraduate student to a successful and value-added member of one of the world's premier consulting firms. I strongly believe that the analytical and conceptual skills that I developed during my time in the QED have enabled me to digest abstract concepts and attack complex business problems, giving me a distinct competitive advantage. Above all, I am able to approach each new challenge with the confidence gained through graduating from one of the country's most difficult and recognized academic programs.

Robert P. Galaski, Consultant
Management Consulting Services
PricewaterhouseCoopers
BAH, Applied Economics, 2001

Births

Irene Henriques (PhD 1990) and Perry Sadorsky (PhD 1990) are happy to announce the arrival of their twin girls, Michelle and Victoria, October 11, 2001.

David Chadwick Smith Chair in Economics

David Smith, who was Head of the Department for thirteen years and Principal of Queen's for ten years, died in May of 2000 after a short illness. During his term as Head, he transformed a small but distinguished department into a major internationally-recognized centre for economic research and teaching. To commemorate David's accomplishments, we are trying to establish the David Chadwick Smith Chair in Economics. This will be the premier chair in Economics in Canada, and we intend its first occupant to be an economist of the very first rank. If possible, we would like to bring back to Canada an outstanding Canadian economist who is currently teaching outside the country, just as David himself did when he brought Richard Lipsey to Queen's some thirty years ago.

Just weeks before his death, Professor Smith completed two important reports for the Council of Ontario Universities. The reports, entitled “Will there be enough excellent profs?” and “How will I know if there is quality?” represent both a plea and perhaps the strongest argument yet presented for adequate funding of higher education. In his reports Professor Smith makes the compelling case, these from the summary:

“Faculties are the crucial factor in determining quality of education and research contributed by universities.”

“The greatest challenge lies in whether there will be the necessary funding and determination to seek out enough professors of very high quality for teaching and research.”

Our efforts to raise funds for the David Smith Chair are being spearheaded by two distinguished graduates: David Dodge, Governor of the Bank of Canada, and Robert Foster, Chairman of Capital Canada Limited. A number of individuals, many of them QED graduates, have already contributed generously.

If you would like more information about the David Smith Chair or any of our other initiatives, or if you would like to make a contribution, please contact Juanita Dennie at 613 533-3122 or denniej@qed.econ.queensu.ca.
Electronic Mail for Economics Alumni

The Queen's Economics Department is now able to provide e-mail accounts for all alumni. Anyone with any Queen's degree in Economics (including medials) is eligible for an account on our alumni server.

At present, you will need to sign onto the alumni server (using Telnet or, more securely, SSH) to send and receive e-mail. However, we hope to have Web-based e-mail available shortly.

If you would like an account on the alumni server, please contact

Juanita Dennie
dennie@qed.econ.queensu.ca
(613) 533-3122

As an example, if your name were John Smith and you had an alumni account, your e-mail address would normally be smithj@alumni.econ.queensu.ca. However, we can be quite flexible. If you want to be John_Smith or Smith_J instead of smithj, we can probably arrange it.

Institute for Economic Research (IER)

The IER supports a wide range of activities in the department. Our discussion paper series, with IER support, makes the research of our faculty and students immediately available to the wider community. The IER provides funds for our active visiting speakers program and indeed contributes to nearly every aspect of the day-to-day running of the department. If you would like to know more about this important institute within the QED please get in touch with Juanita Dennie or Frank Lewis.

We want to hear from YOU

In each QED newsletter we plan a section on the activities of our graduates. If there has been a special event that you wish to share with your friends from Economics, or you would just like to let alumni know what you’ve been up to, please drop us a line. We’ll be sure to include your item in our next issue.

Messages can be sent to:

Juanita Dennie
Career Resources Assistant / Alumni Coordinator
Department of Economics
Queen's University
Kingston, Ontario K7L 3N6
Tel.: (613) 533-3122
Fax: (613) 533-6668
dennie@qed.econ.queensu.ca