DEPARTMENT OF ECONOMICS

Newsletter 2014/15
A Message from the Chair

This past year marks the 50th anniversary of the Department of Economics at the University of Alberta. Although the first economics course—a course in principles of political economy—was taught in 1914-15, six years after the establishment of the University of Alberta in 1908-09, it was not until 1964-65 that the Department of Economics was created out of the former Department of Political Economy.

The Economics degree remains very popular, and this year we had over a thousand Economics Majors and Honors students. With the strong student numbers, it is encouraging that we will be able to hire two new faculty members in the upcoming year. We are also very pleased to welcome a new staff member, Malik Shukayev. Malik joins us from the Bank of Canada, and we have a short bio on Malik in this Newsletter. We also welcome visiting professor Valentina Kozlova.

On June 3, friends and colleagues of Doug West attended a retirement dinner to celebrate Doug’s accomplishments during his 34 years in the Department of Economics. Some of Doug’s career highlights are discussed later in this Newsletter. Denise Young will also be retiring, effective December 2015. We are pleased that both Denise and Doug will be staying on for a few years in post-retirement appointments, which involve a limited amount of teaching.

We also say farewell to longtime instructor Susan Kamp. Susan specialized in teaching large introductory classes and, since 1981, she has taught thousands of students. The administration of Susan’s large introductory classes has been assisted by Chelsi Hudson, the Economics Undergraduate Advisor. Chelsi is expert in ensuring the smooth operation of the undergraduate program, so it was no surprise this Spring when Chelsi received the Faculty of Arts Outstanding Student Service Award.

This year the Newsletter profiles Xuejuan Su. Xuejuan has made significant research contributions on a number of fronts. Her theoretical work on higher education policy has been published in top academic journals, but her research also has a practical side that is aimed at regulators and industry practitioners. One example of her policy-oriented work is a Van Horne Institute-funded project on how economic approaches can be applied to evaluate environmental externalities associated with proposed oil pipelines.

* Newsletter Production Team: Professor Constance Smith, Professor Haifang Huang and Karen Buchholtz
A flavor of the research being done in the Department is provided in the Newsletter piece on Dave Brown and Andrew Eckert’s projects that investigate the efficiency of Alberta’s electricity market. Alberta’s market is particularly interesting to regulators, as it has limited restrictions on a firm’s ability to exercise unilateral market power in wholesale electricity markets.

The precipitous drop in the price of oil in the fall of 2014, and its impact on Alberta government revenue, provided the backdrop for this year’s Hanson Lecture and two Institute for Public Economics (IPE) events. An appreciative audience heard Professor James Hamilton deliver the Hanson lecture on the topic “Energy Challenges for the 21st Century.” The IPE hosted two panel discussions, one on the “once in a generation” Alberta government budget introduced in March, while the second posed the question “Does Alberta Need a Sales Tax?”

I want to congratulate the Department’s Scholarship and Award recipients, whose names appear in this Newsletter. As well, I thank our donors for making the awards possible, and for supporting the Hanson Lecture fund and the Institute for Public Economics. We sincerely appreciate your generosity, and thank you for helping us to promote teaching and research excellence.

Constance Smith

Malik Shukayev

Malik will join the Department in January 2016 as a tenure-track Associate Professor of Economics. He received a Ph.D. in Economics from the University of Minnesota in 2005, and worked for the Bank of Canada before joining the Department. Malik’s research focuses on monetary policy and macroeconomics. He is currently working on research projects analyzing the impact of monetary policy on risk-taking of financial institutions.

Valentina Kozlova

Valentina Kozlova will be a visiting professor here in the 2015-16 school year. She received her degree from the University of Tennessee in 2013. She was previously an assistant professor at the State University of New York at Oswego. Valentina’s research focuses on international trade and selected topics in applied microeconomics. Her work has been published in the Southern Economic Journal.
Retiring Colleagues

Douglas West, Professor

After 34 years in the Department of Economics, Doug West has decided to retire. Doug earned his PhD from the University of British Columbia, and BA from the University of Michigan. He spent two years teaching at Purdue University before coming to the University of Alberta.

Doug’s expertise is in competition policy, and he has provided advice to policymakers on a wide variety of issues including retail gasoline price fixing, liquor store privatization, proposed bank mergers, grocery store mergers, and airline competition. He also spent a year at the Competition Bureau as the prestigious T. D. MacDonald Chair in Industrial Economics, where he participated in the economic analysis of significant Bureau investigations. Doug has been a very prolific scholar, with over 52 published journal articles, and three books. His research forte is relating economic principles to the real world, and a former colleague and co-author, Balder von Hohenbalken, once noted that Doug had “a very good nose for empirical relationships.”

From 2009-2014 Doug was Chair of the Department of Economics. He steered the Department though a time of expanding student enrollments and declining faculty numbers. During this time Doug worked tirelessly to accommodate increased student numbers while maintaining teaching quality.

Doug will be missed in the Department, but we are very pleased he will stay on for a couple of years in a post-retirement appointment.

Susan Kamp, Instructor

The Department of Economics held a reception on April 8 to mark the occasion of Susan Kamp’s retirement. Susan began teaching in the Economics Department in 1981. She specialized in the instruction of large introductory classes, and over her 34 years in the Department, Susan has taught thousands of students.

Susan’s commitment to student learning was apparent not only in her teaching, but in the operation of the Tutor Centre, which she managed from 1995. She insisted that tutors were well-prepared and up-to-date on the material being covered in lectures – even going so far as to require tutors to write (and pass!) introductory class assignments. Susan views the Tutor Centre as valuable not only for first year students, but also for Honors students, as it gives them the opportunity to develop communication skills, and to hone their ability to explain economic concepts.

Susan’s cheerfulness and enthusiasm will be missed by her Economics colleagues and students, but we wish her well in her future endeavours!
Awards and Recognition

Todd Hirsch (BA(Hons) ‘89) received a University of Alberta Alumni Honour Award, which recognizes outstanding alumni who have made exceptional contributions to the community. Todd is Chief Economist at ATB Financial, and author of The Boiling Frog Dilemma: Saving Canada from Economic Decline.

Economics PhD student Max Sties was the recipient of a Centre for Teaching and Learning graduate student Summer Student Award for 2015. Max will be working with Professor Sebastian Fossati to develop resources for the labs in ECON 299 Quantitative Methods in Economics and ECON 399 Introductory Econometrics.

Professor Andrew Eckert was appointed as the first Dr. Alfred E. Kahn Visiting Scholar in Regulatory Economics at the Alberta Utilities Commission.

The Social Sciences and Humanities Research Council awarded Professor Tilman Klumpp a grant for his project “Regulating Democracy: The Law and Economics of Political Speech.”

New faculty member Dave Brown received the 2015 American Economic Association’s Transportation and Public Utilities Group Dissertation Award in December 2014.

Economics instructors Andrew Wong and Gordon Lee were nominated for the Alumni Relations’ Last Lecture Series. This Series allows students to share their experience and appreciation for education quality.

Economics Undergraduate Advisor Chelsi Hudson, the key contact person for the Department’s over 1000 Majors and Honors students, received the Faculty of Arts Outstanding Student Service Award.

The University of Alberta is ranked 37th in the world in Economics/Business, and second in Canada, according to the 2014 Academic Ranking of World Universities (also known as the Shanghai Ranking).
Selected Research Profiles*

Xuejuan Su, Assistant Professor

Xuejuan’s research field is public economics. She studies the effect of public policies on the incentives of individuals and firms, and their impact on aggregate efficiency and equity.

An important contribution of Xuejuan’s work is in the economics of education. She has examined the policy impact of allocating a fixed amount of the public budget between basic and higher education. A simple rule-of-thumb for less developed economies to avoid the under-development trap and income polarization is to favor basic education for a long period. However, in these economies, a small number of elite individuals may have incentives to pursue policies that favor higher education instead. Such policies come at the expense of basic education but give the elite individuals and their children exclusive access to higher education, thus allowing them to maintain an economic and political advantage over the rest of the population. Her work also adds to our understanding of how discrimination in the labor market—perceived or real—affects individuals’ incentives to invest in their human capital.

Another important area of Xuejuan’s research is regulatory economics. She has examined the restructuring policies of the U.S. electricity market. In the wholesale sector, she finds that strategic considerations play a significant role when incumbents make investment decisions on their transmission grids that are subject to open-access regulation. In the retail sector, she finds that only residential customers have benefited from retail competition but not commercial or industrial customers. Furthermore, this benefit is transitory. Thus, retail competition fails to yield significant improvement in allocative efficiency across the board or in the long run.

Xuejuan has also worked on projects where the intended audience consists of policy makers, regulators, and industry practitioners. She recently completed a project funded by the Van Horne Institute that illustrates how economic approaches can be applied to evaluate environmental externalities associated with proposed oil pipeline projects, and to help alleviate hold-up problems that contribute to significant delays in the regulatory approval process. Her research has been published in top peer-reviewed field journals such as the Journal of Public Economics, the Journal of Development Economics, the Journal of Industrial Economics.

Alberta’s Electricity Market Design

David Brown, Assistant Professor & Andrew Eckert, Associate Professor

David Brown has been working with Derek Olmstead of Alberta’s Market Surveillance Administrator (MSA) on a project titled “Measuring Market Power and the Efficiency of Alberta’s Restructured Electricity Market: An Energy-Only Market Design.”

* Featured Faculty member selected by the Department Chair.
Using hourly data from 2008 to 2014, David and Derek measure the degree of market power and inefficiencies in Alberta’s wholesale electricity market by comparing observed outcomes to a competitive counterfactual benchmark. Unlike other markets, Alberta’s market has limited regulations to restrict firms’ abilities to exercise unilateral market power in wholesale electricity markets. Further, firms rely solely on earnings from these markets to motivate investment in new generation capacity. This study indicates that firms exercise substantial unilateral market power in hours with high (peak) demand. However, while market inefficiencies (productive and allocative) are larger in these high demand hours, the overall degree of market inefficiencies is limited. Comparing the earnings from wholesale markets to the cost of generation investment reveals that firms earn profits that exceed the cost of capacity investment for certain technologies. However, unlike many other electricity markets worldwide, Alberta has been successful at promoting investment in generation capacity. These findings contribute to the ongoing debate over electricity market design and the balance between short-run market power and promoting long-run generation capacity investment.

As well, David, Derek and Andrew Eckert have begun a research project titled “Forward Contracting and Market Behavior: Evidence from Alberta’s Restructured Electricity Market.” The objective of the proposed research is to analyze the impact of forward contracting decisions on firms’ subsequent market behavior in Alberta’s restructured electricity market. Forward contracts are used to manage risks associated with volatile wholesale electricity prices. These contracts allow suppliers to hedge against low market prices and downstream retailers to hedge financial losses associated with high electricity prices. In Alberta, these forward contracts represent a settlement (i.e., a financial swap) where one party pays the other the difference between the agreed upon contract price and the hourly electricity prices.

While there has been substantial effort allocated to the theoretical analysis of forward contracting and there exists an extensive empirical literature examining market power in wholesale electricity markets, there is limited empirical work that analyzes the impact of forward contracting on bidding behavior. Further, a consideration of forward contracting has been slow to work its way into practical competition screening methodologies. Because forward contracts are settled against the prevailing electricity price, generators (suppliers) are less exposed to market prices. It is hypothesized that this will reduce their incentives to exercise market power to elevate the market prices. This project will make use of data on forward contracting to be provided by the MSA (particularly data from Alberta’s Natural Gas Exchange (NGX) and over the counter (OTC) broker’s market), along with the data employed in the earlier project by David and Derek. Our analysis will estimate how a firm’s bid above its marginal cost of production varies with prevailing market and firm-level conditions, including a firm’s forward position. In subsequent work, David and Andrew aim to analyze the factors that motivate firms to participate in forward contracting.
Institute For Public Economics Activities

The mission of the Institute for Public Economics (IPE) is to support informed debate on relevant public policy issues. Since the plunge in oil prices in the fall of 2014, the Alberta government has been faced with a significant shortfall in revenue. The IPE organized two events in 2015 that revolved around the changed fiscal circumstance of the provincial government.

Does Alberta Need a Sales Tax?
Alberta is the only province in Canada that does not have a provincial sales tax. Some people view a sales tax as Alberta’s “elephant in the room.” Bob Ascah, former director of IPE and IPE Fellow, organized and hosted the debate that took place on January 12. The panel members included Ergete Ferede, Associate Professor of Economics, MacEwan University; Shirley McClellan, Former Deputy Premier and Minister of Finance of Alberta; Caman McNary, Managing Partner, Dentons and Past President, Edmonton Chamber of Commerce; Gil McGowan, President, Alberta Federation of Labour; Graham Thomson, Provincial Affairs Columnist, Edmonton Journal, and Al O’Brien, former Alberta Deputy Provincial Treasurer, as a commentator.

Ferede and McNary spoke in favour of a sales tax while McClellan and McGowan were generally opposed. Thomson opined that four conditions were necessary to see a sales tax implemented: 1) a majority government; 2) a fiscal crisis; 3) opposition in disarray and 4) political will.

Provincial Budget Post-mortem, 2015
On March 26th, Alberta Treasury Board and Finance Minister Robin Campbell delivered a highly anticipated provincial budget. Prior to its release, according to Premier Jim Prentice, the budget would be a “once in a generation” budget that promised tough fiscal medicine including tax and fee increases and cuts to operating and perhaps capital expenditures. On April 2nd a panel discussion on the 2015 provincial budget took place, with speakers Mel McMillan, Professor Emeritus of Economics; Graham Thomson, Provincial Affairs columnist with the Edmonton Journal; Kevin Taft, former Alberta Liberal Party and Opposition leader and author on Alberta government spending; Mike Dempsey, Alberta Federation of Labour Vice-President; Scott Hennig, Vice-President and Director of Communications, Canadian Taxpayers Federation; and Bob Ascah, IPE Fellow.

Key points made by speakers included the reluctance of the government to raise corporate income taxes or royalties, and the credibility of the expenditure reductions over the duration of the budget period to 2019-20, which implied cuts more severe than under the Klein administration on a per capita basis. Another issue raised was how much resource revenue the government could divert into the Heritage Fund within its framework of taxation and spending policies.

20th Eric J. Hanson Memorial Lecture
The Department was very pleased to have energy expert James Hamilton deliver the Hanson Lecture “Energy Challenges for the 21st Century” on March 27.

Professor Hamilton, who is from the Department of Economics at the University of California, San Diego, has made significant contributions in a number of fields, including econometrics, monetary policy and energy markets. His talk examined how historical oil supply disruptions and oil demand trends help explain the volatile path of oil prices.

The Hanson Lecture was established to commemorate Eric Hanson, a member of the Economics Department at the University of Alberta from 1957 to 1971, and Department Head from 1957-64. The lecture features a distinguished economist addressing an important public policy question.
Administrative Staff News

Valentina Galvani has taken over the reins of the Associate Chair – Undergraduate from Rick Szostak, while Todd Smith continues as Associate Chair – Graduate. Stuart Landon will be Acting Vice-Dean in the Faculty of Arts, after serving as Associate Dean (Student Programs) in 2014-15. We are proud of Undergraduate Advisor Chelsi Hudson’s award this year for Outstanding Student Service in the Faculty of Arts – and Executive Assistant Charlene Hill celebrated her 35th year at the University. We are happy to have Karen Buchholtz back as our shared Administrative Assistant while Brenda Carrier is working in Anthropology as Graduate Advisor/Research Coordinator, while Anthropology’s Graduate Advisor is seconded to the Graduate Student Management System project through to March of 2016.

Economics Students

This section outlines the achievements of our current students and alumni. It also includes letters from our alumni.

Awards And Scholarships

UNDERGRADUATE STUDENTS

David Jones, Dr. Milton F. Bauer Memorial Scholarship

Thi Lan Do, Duncan Alexander MacGibbon Medal in Economics

Frank-Olivier Garane, An Angus Sinclair Abell Memorial Scholarship in Economics

Maxwell Kelly, Economics Society of Northern Alberta Scholarship

David Rybak, Archibald Forster McGoun Memorial Scholarship in Economics

David Rybak, Roger S. Smith Research Award, Faculty of Arts

Daniel Letcher, Balder von Hohenbalken Memorial Prize in Economics

Trevor Breen, Dr Manmohan Singh Prize in Economics

Trevor Breen, Emerson and Tang Family Scholarship

Convocation – Undergraduate

159 Majors ~~~ 10 Honors
Recent Graduates

SPRING 2015
M.A. ECONOMICS PROGRAM


FALL 2015
M.A. ECONOMICS PROGRAM

[7] Bradley Congram, “Does Public School Funding Have an Impact on Student Fitness?”


[18] Christopher Eisen, “Examining the Effects Weatherization Programs Have in the United States: How Subsidies Given to Low-income Households Change Their Optimal Level of Electricity Consumption”

M.A. ECONOMICS AND FINANCE PROGRAM


[20] Xiaoyu Pei, “The Effects of Various Determinants of Female Labor Force Participation”

[21] Yanxi Li, “The Effect of Oil Price on Unemployment Rate in Canada”

[22] Honyu Jiang, “The Determinants of the Inflation Rate: The Case of OECD Countries”


PH.D ECONOMICS PROGRAM


Thanks!

The Department gratefully acknowledges all of our donors for their contributions towards helping the Department pursue its mandate of excellence in teaching. Donations may be designated for a particular purpose. Following are examples of active donation accounts:

A.D. O’Brien Graduate Scholarship in Public Finance ~ Institute for Public Economics
Balder von Hohenbalken Memorial Book Prize in Economics ~ Eric J Hanson Memorial Lecture
Education Endowment in Economics ~ Economics Society of Northern Alberta MA Scholarship

For information on donating to any of these or for further information on giving opportunities, please contact Constance Smith, Chair, Dept. of Economics, economic@ualberta.ca, 780-492-3406
**Letters From Our Alumni**

**Barbara Baker** holds a Bachelor Degree in Physics and a Masters of Arts (Economics), both from the University of Alberta. Virtually all of her career has been spent in the electric power industry, spanning regulatory affairs, risk management, trading and origination, and business development. She has run her own business, worked with large power companies helping them with the power procurement and financial derivative hedging, and helped power companies manage risk and procure power.

“My career path was by design not a methodical upwards climb up the corporate ladder – it was more similar to Sheryl Sandberg’s coined phrase a “jungle gym”. Overall as I look back, I see a really fun, challenging, inspiring, and financially rewarding career that started from my love of math, physics, and economics at the University of Alberta.

Economics uniquely sets you up because you are taught to think more broadly, both in terms of the range of issues and across time. Most fields train people to think very linearly, within narrowly defined tasks and timelines. Economics sets you up for leadership roles, for evaluating business decisions, for identifying and managing risks, for creating strategies, and for creating unique financial and contractual offerings. These are not minor contributions to organizations or your own business. I highlight a few key examples to showcase my journey.

In 2000, the Alberta power market deregulated. It was so exciting to be in electric power. As the power market deregulated, industrial companies had to leave the safe haven of regulated rates and move into the buying power on their own – from physical and financial hedges, building on-site generation, and/or doing nothing. So, I positioned myself in TransAlta to build on my economic modelling and power experience to help industrial companies make these choices.

Electric power remained a great place to grow my career. I joined a strong talented team at ENMAX to help transform it from a regulated city-utility into a multi-billion energy company. My group helped build the energy and price forecasting models to help the trading floor procure power to meet the demand, lead contract management for ENMAX’s major power contracts, and originate long-term power contracts from sophisticated force majeure swaps to simple financial hedges to help ENMAX have the lowest cost of power.

---

**Alumni Please Drop Us a Line...**

We are always glad to hear about our alumni from both our undergraduate and graduate programs. Please let us know what you are up to, and how your education here at the University of Alberta has served you in your life. We are also curious as to how our present students view their experience in our programs. If you drop us a line at bcarrier@ualberta.ca we may profile you in a future newsletter!
My future was so bright, I had to wear shades. Money was great, deals were everywhere, you could do no wrong...then ENRON hit. Suddenly, trading was evil; markets were fixed. It was a professionally challenging time as everyone in electric power was tarnished with the same brush.

You stop, dig deep, review your strengths and weaknesses, you realign. I escaped power to run my own business in home health care. Great business for the future, but it was not my passion – or frankly, my field of strength. This ended up being a very valuable “experiential MBA” that helped me in my next part of the journey.

After the detour...I returned to electric power to lead the business development team at a start-up, Genalta Power. We looked at power costs in industrial companies and helped them build power strategies that would allow them to reduce these costs, including: (i) innovative payment structures, (ii) new power systems and rates with electric utilities, and/or (iii) utilizing their wasted process energy and natural gas to create power generation systems.

My economics training helped me in each of these opportunities – and importantly, allowed me to do fascinating work, help companies grow, and have a rewarding career.

Finally, I can tell you that, like me, you will leave school, launch your career, and watch life and the world around you take you in directions you cannot possibly imagine now. Your economics training, lifelong learning, and passion can set you up to capture opportunities in any market.

- Be BOLD and BRAVE. My finest hours were times of the boldest steps.
- Things change. Be flexible and adapt.
- Do not stop learning or the world will pass you by. Read challenging articles and books that take you out of your comfort zone. Get people to stretch your thinking.
- Create value to everyone around you. Leave the people you work with better having known you.
- Add a unique perspective...if you only agree with your boss, one of you is irrelevant.
- Have passion for whatever you do!

BARBARA BAKER
M.A., ECONOMICS, 1988
Donavan Lowtan holds a BA (Honors) from the University of Alberta Department of Economics. After completing his undergraduate degree, Donavan served as a commissioned officer in the United States Navy for five years. He then graduated from the Massachusetts Institute of Technology with an SM in civil engineering before obtaining his law degree from Columbia University in New York and his LLM from the University of London. Donavan then worked as a corporate attorney in Los Angeles at an international law firm before setting out to build startups.

I remember when studying at the University of Alberta economics department, one of the most rigorous academic programs I have experienced, the primary unifying theme between the various courses went something like this: how do you allocate limited resources in the face of unlimited wants?

Working in the startup world, I quickly discovered that this maxim is truer than ever. A startup is like a spendthrift consumer with a no-limit credit card. A startup demands virtually all of your limited resources (time and money), and even when you give it everything, the startup is often an unsatisfied customer demanding more.

Of the five direct-to-market motion pictures that my startup film company released, the first two flopped so badly that their failures almost sunk the entire venture. The film company survived because we went for broke and eventually achieved reasonable market traction with the next three films. But this success came about while standing on the ashes of other failed startups, including a failed e-commerce website, a failed publishing company, a failed online professional network, and a failed fitness franchise.

Yet these failed ventures never once bothered me in the way that some of my other investments of time and money did. The creation of a new product or service is the driving factor when working in startups. The process is akin to creating wealth out of thin air. Obviously there are inputs, such as raw materials, personnel time and development costs, but the end product is something brand new that began with nothing more than an idea.

Creating something new brings an enormous amount of satisfaction, whether in a startup or in another capacity such as a writer, inventor, or researcher publishing a new paper. That explains why, even though several of the products I brought to market were complete failures, the time and money spent were well invested. Something new was created, despite the market not positively responding as much as I had originally hoped.
For graduates in Economics at the University of Alberta that choose to enter a graduate degree program, writing a thesis affords you the chance to create something new. This is very similar to working in the startup world, and you can gain satisfaction in the process of creating new knowledge.

For those joining the workforce or pursuing a different profession, there is the option of creating new wealth or competing for a share of already existing wealth. In the business of acquiring previously created wealth, you will contend with scarcity, much like you would in the world of startups.

Some of the most stressful professions today are attorneys, investment bankers, management consultants and big firm accountants. One of the unifying elements of these professions is that they fight to get their portion of a finite amount of already created wealth. For example, competing attorneys will pitch to the same client. The winning attorney captures business from the others who did not sign the client. Now the attorney has to prove that she was the right choice for her client. This entails working long hours, being on call and responding to client needs. There is ongoing work to keep clients, because they may go elsewhere if they are unhappy.

I have been involved on both sides of the equation, working as a big firm attorney in Los Angeles, and building startups that create new products. Fighting for existing wealth as a lawyer is a very stressful endeavor, but can also be rewarding when you achieve a satisfactory result for your client. Creating new wealth in the startup world has its own, but different stressors, especially if you bet big on a dud project.

When deciding your own career path, the most important and most limited resource is your time. You will inevitably face the decision of whether to spend your finite time creating something new, or servicing something already in existence. Both choices have their advantages. The direction you choose should ultimately be the one that is best for you.

DONAVAN LOWTAN
B.A. (HONORS), ECONOMICS, 1997