UO Economics Club

Inside this issue

Farewell Address .................. 2
New Presidential Address....... 2
Rock, Paper, Scissors!.......... 3
Finding Employment.......... 4
Why Do People Sell Drugs? .... 5
Externalities.................... 6
A Special Thank You........... 8
President Ben Nussbaumer’s Farewell Address

Hello UO Economics Club Members and Supporters,

I am happy to present to your our second edition of the UO Economics Club Review. We have had a great year as a club. With this edition we bring more variety of content than in our debut. Our club members have shown dedication in contributing a variety of interesting material to this newsletter.

I have confidence in our new board to lead the club to continue the momentum of this year and achieve even more next year. Dylan Crownover, our new president, is an intelligent student, capable leader, and fun person to be around. I am happy to turn the club over to him and hope that he is successful in his endeavors. The rest of the board is similarly competent and brings a desire to engage with the field of economics from many different angles. They are committed to making the most of an undergraduate economics education and helping other students to do the same.

As for the graduating members of the club, I thank you for your participation in the club. The club only exists because it has people who want to participate in it. I hope that we have provided a positive experience this year whether through site visits, faculty speakers, or simply free pizza at the meetings. As you move on from Eugene, I wish you the best in whatever you pursue.

To my fellow board members, thank you for a great year. I have enjoyed your professionalism and friendship throughout this experience. The amount of dedication you have demonstrated has impressed me constantly and I am proud of all that you have done.

Farewell, Benjamin Nussbaumer

“The club only exists because it has people who want to participate in it.”

New Executive Committee

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**President**
Dylan Crownover

**Vice-President & Treasurer**
Kimberley Teoh

**Chair of Research**
Jean Ramirez

**Vice-Chair of Research**
Pruthvi Nannapaneni

**Chair of Public Relations**
Patrick McClellan

**Chair of Speakers & Programs**
Michael Enseki

Incoming President Dylan Crownover’s Inaugural Address

Letter From the new President:

This year has been a time of substantial growth for the University of Oregon Economics Club. Given the efforts of the outgoing executive committee we have obtained ASUO recognition, and the many amenities that come with. We were able to consistently have professors, from both within and outside of our department, give engaging presentations of their research interests. The club has made many large strides this year, and we, as the incoming executive board, are extremely excited to begin building, with your help, right where this years committee has left off. As the incoming president I am looking to continue what has worked well for the club, while improving in areas such as community outreach and internal involvement. We have the great privilege of creating an environment in which economic ideas can be freely researched, discussed, critiqued, and debated. It is my prerogative to build upon the hard work of those preceding myself, to help our club be an organization that both we and the department can be proud of. I look forward to growing and developing our club with all of you.

Thank you all, Dylan Crownover
Member of the Term!

This term’s standout club member is **Emilio Chacon**! Emilio was chosen by his peers after his hard work on designing the club’s t-shirts and this newsletter!

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**Rock-Paper-Scissors Tournament: An end-of-term research event** by Jinn Low

For the final meeting of the term, the Economics Club held its first ever Rock-Paper-Scissors Tournament. The tournament began with 16 players. To advance, players had to win two out of three five-game rounds of rock-paper-scissors. Players recorded the results of every game they played. After a number of hard fought games, Anna Bezner emerged as tournament champion. The runners up were Jay Lee and Chong He. Prizes for the winners were UOEC pint glasses and T-shirts.

The tournament served two purposes- having fun and collecting data for research. In rock-paper-scissors, the typical intuition is that one would only have a one-third chance of winning. Game theory, the study of strategic decision-making, indicates that a strategy of randomly utilizing each throw with equal probability is an equilibrium. However, research from Zhejiang University in China has indicated that players may not follow this random strategy to win. The Economics Club used the tournament as an opportunity to collect data with the intention of testing how closely the empirical results match theoretical predictions.

Though this small initial tournament provided only limited data, the club hopes to continue the research initiative under the leadership of the new Chair and Vice Chair of Research, Jean Ramirez and Pruthvi Nannapaneni.
Finding Employment  By: Nick Inouye

**Start Researching Jobs Early**

Seek out jobs, make it a full time endeavor, apply 2 to 3 times a day

Being on a quarter system is a disadvantage because companies will start recruiting in September. When I applied to jobs during senior year, the biggest companies and banks opened recruiting at the beginning of September. This is the time to pursue your top job or industry.

**Go to Bill Sherman for advice**

Take EC 407 it in the Fall or Winter, this will prepare you for recruiting and interviews

Do Bill’s mock interviews multiple times to get practice. The first interview can be rough, but you will develop good stories and situations for any question

**Have a face to face meeting with Tina Haynes from the UO Career Center**

More opportunities for job searches and current opportunities

Reference at the job fair

She knows a lot of recruiters and can help you get a leg in the door

**Make 3 or 4 different versions of a resume or cover letter**

Create a template with your dream job or industry in mind

Tailor different versions to different industries

Avoid writing a cover letter each time, you can change the words around

**Apply to an opening right away**

Your email can become buried amongst hundreds of other resumes.

A recruiter may only look at resumes for the first few days

**Dream Job: Get someone at HR, call them, and send them your resume**

Your best bet at landing an interview

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**Quick Points**

- Start the process early
- Ask for help! The UO Career Center and Mr. Bill Sherman are excellent resources!
- Tailor your resumes and cover letters
- Don’t wait to apply!
- No opening available? Talk to Human Resources
As long as drugs have been prohibited, there have been ways of obtaining them illegally. If caught by the police, drug dealers could face mild to severe punishments, depending on the circumstances. If they get in trouble with the wrong people on the street, they could get injured or killed. Yet despite the risk of a fine, jail time, or personal harm, drug dealers still deal and are able to prosper from this black market. In light of the risks of selling, why do people still sell drugs?

The short answer to this question is that the benefits outweigh the costs, but there is more to it than that. To understand the rationale of selling drugs, it is important to know that illicit drugs have extremely high demand. This is evident in our society: hundreds of thousands of citizens are incarcerated for, or addicted to, illicit drugs.

As time goes on, drug users continue to use, and can become severely dependent; the more addicted all drug users are, the more they are willing to pay for drugs as a whole. This inelastic demand for drugs places a great incentive on selling them. As customers are less and less responsive to changes in price, the dealer is able to raise prices well above their costs of production (the cost of obtaining the drugs from intermediary or wholesale dealers). Drug dealers are able to extract economic rents, particularly when dealers exist in limited numbers.

Many drug dealers consider the tradeoff between selling drugs and working a low-paying job. A study by journalist Jeff Winkler showed that a drug dealer selling marijuana only a few hours a day could make $1,200 a month. For perspective, $1,200 each month is more than someone with a minimum wage job would earn working 40 hours a week for a month. Assuming a potential dealer has little education beyond high school, the income they could make in the drug market would be far more than any legal job they could find.

Something that drug dealers may not factor into their decision to sell, however, is the plethora of negative externalities that arise as a result of drug trade. In this context, the social cost (how the community is affected by drug trade) far outweighs the private cost of drugs to the drug dealer. Drugs are associated with crime and gangs, because of this, people who do not necessarily participate in the market for drugs can absolutely be affected by drug-related crime. These criminal externalities span from violent gang turf wars which negatively affect entire communities, to petty theft by addicts looking for drug money. These externalities lead to the spending of public funds on law enforcement and in the justice system to address drug-related crime - which affects everyone in these communities, regardless of whether or not they participate in the market for drugs.

Drug dealers face many risks and costs to selling drugs, but ultimately find that their private cost is less than their benefit. Although the negative externalities add up, the private cost is essentially all that matters to people who sell drugs; they don’t take into account the great social cost. While the existence of an illegal drug market may be highly detrimental to society, for many drug dealers, crime does pay.

“Although the negative externalities add up, the private cost is essentially all that matters to people who sell drugs; they don’t take into account the great social cost.”
After 79 months of near zero interest rate policy (ZIRP) and the unprecedented monetary experiment of quantitative easing (QE), unintended consequences of Federal Reserve’s actions are emerging in both asset and commodity markets. Similar policy maneuvers by the European Central Bank (ECB) and Bank of Japan (BOJ) are provoking market responses as well.

First, there is little doubt that QE juiced markets to new highs. Reducing interest rates and further inducing them toward the lower bound with QE has allowed large amounts of margin debt to become cheap. The fitting metaphor here is that the Fed not only increased the size of the punch bowl, but also spiked it. After each announcement of QE, the markets continued their climb from 2009 lows. As a source of comparison, Japanese and European markets have both been buoyed once QE in each market area was announced. Additionally, there is more circumstantial evidence, obtained by simply looking at FOMC announcements of QE superimposed on the market, that QE has actually driven markets since the financial crisis and not merely induced them to rise.

Interestingly, the same has been observed and applied to stock buybacks. Companies have been incentivized by the relative cheapness of borrowing to buy back large amounts of stocks, the most on record, in order to concentrate the stock outstanding and therefore give the appearance of increased earnings. When in reality, earnings have not changed, simply the amount of stock outstanding has. Under normal conditions, stocks buybacks are theoretically supposed to occur when a stock is undervalued. It is difficult to see how the current wave of buybacks is supported by this theoretical interpretation of stock buybacks. In fact, the S&P 500 is up over 250 percent since its low in 2009. The S&P 500 has even approached an all time high valuation, only surpassed on the Case-Shiller PE index by the years 1929, 2000 and 2007. It is plausible that the causal source of stock buybacks has become cheap debt rather than cheap stocks.

In Europe, large investors and investment banks appear to have to front run the bond buybacks, the actual quantitative easing, by the ECB. If this has been the case, as supported by the recent spike in certain German Bund prices to become a negative interest bearing notes in late April, followed by a decline in price by late May, then this would suggest that the ECB will buy back negative yielding bonds to the boon of large investors. Bill Gross, the former PIMCO manager now with JANUS capital, has gone so far as to have called this opportunity with the Bund, “the short of a lifetime.” Currently, Bund yields are on the rise, which might suggest that they are beginning to return to their historical average, while also beginning to reflect risk inherent in the Eurozone. Nevertheless, their volatility was likely due to ECB actions as investors sought a short with assurance due to the ECB telegraphing its future QE actions. >>>
It is difficult to imagine that a negative yielding bond would rally further negative, as the Bund did in April, in a normal clearing market with accurately priced risk. That is, if it had not already been earmarked for purchase by the ECB—or any central bank for that matter. The only plausible condition for a rally in a negative yield bond would likely play out from it becoming the only source of good collateral—a very safe asset—if other assets were to become unstable and uncertain. Perhaps this is the more ominous revelation as the Eurozone crisis reaches a new crescendo. However, the increase in the price of good collateral could also be an externality from the new BASEL III requirements mandated by the ECB in an effort to shore-up European bank balance sheets. A combination of the two, explaining the Bund prices, is plausible as well. It must also be noted with the new BASEL III collateral requirements that the ECB is encouraging, more precisely mandating, that banks increase their quality of good collateral while also removing the good collateral from markets with QE, a perplexing set of contradictory policies that may be removing traditional liquidity; specifically the liquidity in the secondary markets associated with US treasuries and other government bonds that serve as the building blocks of balance sheets.

QE’s effect on commodities should also be considered. In oil markets QE has been surprisingly deflationary. QE, a tool of ZIRP, has served to reduce the interest rate—“yield” from an investor’s perspective—on all financial assets, even risky ones. Since the drop in oil prices, oil company corporate bonds, specifically those conducting more expensive horizontal exploration (fracking), embody risk. Yet, in a market that offers low yield because of the low interest rates, it appears that this actually has led to an increase in the desirability of oil company bonds because they are high risk, and thus high yield. A search for yield regardless of risk has ensued. This means that struggling oil companies can finance themselves by hocking their risky, nevertheless desirable, debt while running in the red. Rig counts have dropped by more than half from a year ago, but few companies have actually defaulted as of yet. The market for corporate oil bonds has been changed and cannot clear away those companies that are not profitable. This has led to a price war arising from excess production at long-term unprofitable levels, exacerbated by geopolitical complications, causing a drop in the price of oil from a year ago without numerous bankruptcies.

As the intended and unintended effects of QE become more clear, the question that remains unanswered is: what will happen when QE stops, markets clear and inflated assets and deflated commodity values return to their historical mean? Will oil exploration company bankruptcies ensue when the easy funding dries up? And perhaps the most pressing question, how do central banks now unload their balance sheets without crashing the price of bonds as they flood the market with those they have purchased? This in turn could change the calibration of all other assets because of the way relative assets prices and yields affect all interest rates. Couple this dilemma with an economy stalling in the first quarter and it becomes increasingly likely that if the central banks wish to stay the course in an attempt to stimulate the economy there is no clear end in sight for a QE policy that is causing many unforeseen externalities.

Sources
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