

# The Visible Hand

Volume X, Issue 1  
Fall 2002



The Stock Market and Investment  
Banking

Economics of Capital Punishment

The World Cup

official undergraduate publication of the  
**Cornell Economics Society**



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# The Visible Hand

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## *From the Editor*

As a long, rocky semester comes to an end, I am pleased to announce the first complete Visible Hand publication in over two years. In this issue, we have articles on issues ranging from Wall Street and behavioral finance to the World Cup.

For next semester, I want to expand the content Visible Hand or possibly produce more than one issue. In order to do this, I will need many more articles. If you are interested in writing for this journal, please contact either myself or Eric Hon. All undergraduate submissions are welcome, with the main criterion being that the article is related to economics. In addition to the economic favorites of international trade and finance, people in the past have also written about such offbeat topics as AOL instant messenger and the economics of frat parties. It is my hope that in future semesters, there will be a high level of enthusiasm and involvement in this publication.

I'd like to thank all who wrote articles and edited for this semester's Visible Hand. Without your help, this publication may have collapsed. Thank you Eric Hon for doing a great job in running the Cornell Economics Society and in helping me stay on track with the Visible Hand. Keep up the good work. Thank you Prof. Wissink for your advice and support. Thank you Shahin Mashhadian and all the folks at the Uris Library Creation Station for providing resources and assistance in laying out the publication.

Abhishek Mistry  
Editor-in-Chief

## *From the President*

The Cornell Economics Society began this Fall 2002 semester with one clear-cut objective: to publish a fresh issue of the Visible Hand after more than a year of absence.

On another note, the Society has continued its tradition of engaging members with Cornell faculty during our weekly roundtable sessions, updating members on job/internship opportunities, and fostering awareness on current events in the economics field. Admittedly, this semester started off slowly, but once the agenda was determined, the pace has picked up. I am eager to lead this diverse group of Cornell undergraduates into a new calendar year because, after a couple months, I already understand how incredibly privileged I am to work with a resilient and creative assemblage of executive board and general members.

To our advisor, Professor Jenny Wissink: a special thank-you for your guidance and energy during the transition process.

To Abhishek Mistry: you have done awesome work. Congratulations on the successful product.

And to those involved in the publishing process and for making this semester meaningful: your involvement and support is much appreciated.

Eric Hon  
President

We encourage letters and comments. To get involved in creating the Visible Hand, please contact the editor-in-chief or send mail to:

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# The Stock Market and Investment Banking

by Philip W. Lee

*Investment banks and the stock market are inexorably linked today. Are investment banks responsible for this bear market?*

## Introduction

Investment banking and the stock market are inexorably linked today. In fact, it is virtually impossible for any private corporation to become a publicly traded company without the assistance of an investment bank. In order to understand the process by which a privately held corporation becomes a publicly owned corporation and the part an investment bank plays, one must understand how corporations are created and how they are managed under federal law.

All corporations, whether public or private, have a group of owners — the shareholders. The body of law governing corporations, known as corporate law, requires that a corporation's owners elect a board of directors to make the company's major decisions. Although the owners of a corporation become owners by buying shares of stock in the corporation, the board of directors decides how many total shares there will be.

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A corporation can either be privately held or publicly held. In a privately held company, the shares of stock are owned by a small number of people who probably all know one another. They buy and sell their shares amongst themselves. In contrast, a publicly held corporation is owned by thousands of people who trade their shares on a public stock exchange. While many corporations remain privately held, the board of directors will often decide that the best way for the corporation to grow is to go public. This process of going public is called an IPO or initial public offering.

Ameritrade tells us that prior to 1929, there was little government regulation of the stock exchanges. But after the Great Depression, in 1934 Congress passed the Securities and Exchange Act. This act formed the Securities and Exchange Commission (SEC), which regulates U.S. stock trading with the help of the exchanges through the rules set out by the act and succeeding amendments.



This act includes overseeing the requirements for a company to issue shares to the public and ensures that the company offers relevant information to potential investors.

The SEC also oversees the daily actions of exchanges and how they trade the securities offered. (1)

The Securities and Exchange Commission (SEC) is in charge of collecting this information and making it available to investors. Shareholders also use a number of other indicators to determine how much a stock is worth. One simple indicator is the price/earnings ratio. This is the price of the stock divided by the earnings per share. (2)

## Initial Public Offerings

The very first sale of stocks to the public is called an initial public

offering (IPO), and occurs on the primary market. This paper will cover the following factors involved in initial public offerings:

### The Process of Issuing Securities

Corporations sell stock to the public as one way to raise capital. Before it can issue new stock, a corporation must first file registration statements with the Securities and Exchange Commission (SEC, www.sec.gov). A twenty-day wait is required before it can sell the stocks.

The issuing company may make their registration statement public with a preliminary prospectus called a 'red herring' that summarizes the registration statement. Basic information about the new offering is also provided, including how many shares are being offered and which brokerage companies will distribute the stock to the public. At the time of issue, a final prospectus is presented. This includes the price of the stock (its offering price).

### The Basics of Underwriting Using an Investment Banker

When a corporation decides to go public it hires an investment bank to help it sell its stock. This process is called underwriting.

The investment banker functions as an intermediary between the issuing corporation and the public. In most cases, the underwriter (investment banker) purchases the stocks from the company for resale to the public. (3)

The underwriting syndicate forms a selling group to sell specified allotments of the issue...The SEC also requires the underwriter to investigate the issuing company - particularly any audits, how it uses proceeds, its financial statements and the management team. This process is called due diligence. (4)

### The Prospectus

The Prospectus is a legal document that explains the financial facts important to an offering. A Prospectus must precede or accompany the sale of a primary offering.

The law requires companies selling primary offerings to send prospectuses to anyone who wants to buy a primary offering.

Prospectuses may also be used to solicit orders. Clients should read a prospectus carefully before purchasing any primary offering. (5)

Prospectuses include but are not limited to the following:

Client offering price, legal opinions about the issue, underwriting method - the history of the company, other costs related to investing in the stock, the management team, and the handling of proceeds.

The prospectus must be provided to clients before they complete any transactions. It must also include the SEC's disclaimers that it does not approve or disapprove of the stock being offered, and that it does not judge the

prospectus' statements for accuracy. (6)

### Investment Banking: Overview

Investment bankers work in conjunction with capital market specialists who are supported by equity research professionals.

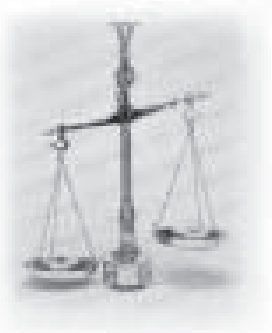
Most investment banking divisions of retail banks provide comprehensive financial advisory and capital raising services to corporations and governments worldwide. Most bankers take an integrated approach to client coverage, organizing bankers into industry, product and geographic groups. This structure allows them to provide clients with bankers that have industry-specific and geographic expertise across all investment banking products.

The investment bankers work closely with various other groups throughout the Firm to assist clients with their needs, such as capital commitments for bridge loans and mezzanine financing, and investments by the Private Equity Division. Investment Banks help companies and governments issue securities, help investors purchase securities, manage financial assets, trade securities and provide financial advice. The leading investment banks including Merrill Lynch, Salomon Smith Barney, Morgan Stanley Dean Witter and Goldman Sachs are said to be in the bulge bracket.

In most firms, there is a sales and trading division which works with owners of securities, an investment banking division which works with issuers of securities (firms and governments) and a capital markets unit which works with between the two groups.

### Discussion: Current Issues in the Investment Banking World

Because the SEC requires that investment bankers be involved in



every Initial Public Offering investment banks have a tremendous influence on which companies receive the benefits of both public and private funds, supposedly, many independent brokerage houses have been unduly influenced by the recommendations of the major investment bankers. Not only has this helped to artificially inflate the values of a few favorite stocks but may be behind the stock market problems we are experiencing today. Whether the failure of a many Internet stocks can be placed on the shoulders of overly ambitious brokers or overly ambitious investment bankers who participated (and thereby profited) in the growth of the market in the overseeing these IPO's of Internet companies is a question that may never be clarified. The massive cover up enshrouding the actions taken by the management of such major corporations as Enron and WorldCom which produced temporarily artificially inflated stock prices may be related to the flurry of deceit that is now rampant in investment banking. The problem exists where investment bankers can and do have too much influence on the recommendations of many stockbrokers to their clients.

A case in point is the current class action suit against Jack Grubman, a former analyst at Salomon Smith Barney. The National Association of Securities Dealers is preparing to take regulatory action against Mr. Grubman in response to growing evidence that Salomon Smith Barney obtained Investment Banking business by agreeing to issue analyst reports in favor of companies they did business with. This marks the first major crackdown by federal securities regulators on the sordid relationship between analysts and investment bankers.

Mr. Grubman helped change the face of Wall Street analysts. Instead of simply assessing stocks, Mr. Grubman and his peers increasingly promoted them, and focused on helping bring in investment-banking deals for

their firms. Mr. Grubman recently told Congressional investigators that his annual pay averaged about \$20 million during the past several years. (7)

The NASD, which last year became one of the first regulatory agencies to look at analysts, is investigating Mr. Grubman's issuing of positive research reports on Winstar during the winter and spring of last year, even as strong evidence began to emerge from other analysts and investors that the communications company was under financial duress, people with knowledge of the inquiry say. (8)

Not only are Investment banks involved in brokering specific stocks but many of them offer mutual fund services. Here, too, is a chance for conflicts of interest to occur.

The author of "The Diary of the Small Investor" warns the public about potential problems with stockbrokers

and market makers, whom he labels, "Modern Swindlers".

He writes that many of the so-called professionals who we entrust our money with have hidden agendas.

For example: Brokerage houses can also be market makers, a brokerage house may hold an inventory of stock of a certain company and want to unload some of it, they may recommend the stock to get rid of some of their unwanted inventory. Mutual fund companies may be investment bankers as well, they may recommend a stock that they hold in a mutual fund, and once the stock reaches their goal they will

sell, after that they will announce their "sell recommendation" to the public. Investment bankers will have analysts who are making recommendations for stocks; since the investment bankers are doing business with XYZ company the investment banker has a vested interest in supporting the company—that is, recommending the company for a "buy." Many recommendations made to "buy" are based on what the salesperson will get from a commission and not the investment itself.

It is now common knowledge

t h a t unfortunately, due to major problems with the true value of Internet Stocks, Wall Street inbreeding as well and some major



mismanagement of major corporations such as Enron and WorldCom combined with the destruction of the World Trade Center on 9/11/2001 bringing about the state of war, the Stock Market's initial drop in 2000 has continued to plummet to become today's Bear Market of the new millennium. Thus, the bear market of the past three years can perhaps be attributed to the bubble in the late nineties and the loss of investor confidence following several high-profile bankruptcies such as Enron and WorldCom. Numerous cases of conflicts of interest arising between analysts and investment bankers have also led to investors being disillusioned by Wall Street analysts.

The major question is: what does the future hold for the stock market? Most analysts have surmised they simply do not know. Although most brokers have a tendency to be bullish despite the fact we are still in the middle of a major bear market.

Most analysts believe that because U.S. stock market has increased in value over the last 100 years for the same reasons that it likely will increase over the next 100 years. Only time will tell whether this is a true axiom or wishful thinking.

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# Market Efficiency, Paradigm Shifts, and the Nobel Prize

by Salman M. Arif

*Though it's no surprise that people can be irrational in real life,  
standard economic models assume that individuals are always rational.  
But, as this year's Economics Nobel Prize shows, behavioral economics and  
finance are here to stay.*

The model upon which modern financial and economic theory is based on assumes that the agents in the economy are "rational". Rationality means that the agent makes decisions according to the axioms of expected utility, and that the agent makes unbiased forecasts about the future.

The assumption of rational agents is akin to constructing the theories of motion assuming a frictionless world - while undoubtedly powerful enough to let us understand how and why things move, the theory is simply unable to capture the full complexity of the real world. The past two decades have witnessed the growing realization that economic agents in the real world are not, in fact, fully rational. This realization recently culminated in the 2002 Nobel Prize in Economic Sciences being awarded to one of the key founders of 'behavioral finance', the study of economic psychology.

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## Market efficiency and the traditional model

In the traditional framework, agents are rational, and markets are efficient. Modern financial economic theory is built on the *Efficient Market Hypothesis* (EMH), which states that the price of a security equals its "fundamental value", the present value of expected future dividends. The EMH implies that all information is reflected in prices immediately; the investor cannot expect to benefit by trading on any information, since that information is already incorporated into the security's price.

The textbook definition of market efficiency states that a market is efficient with respect to a particular set of information if it is impossible to make abnormal profits (other than by chance) by using this set of information to formulate buying and selling decisions (Sharpe et al, 1995).

For example, if Intel announces that it has invented a microprocessor that is ten times faster than current microprocessors, the EMH

dictates that Intel's shares will immediately rise to a new equilibrium level, and investors cannot profit by buying Intel shares after the announcement of its new microprocessor. Thus, stock prices always equal fundamental value, and,



in the words of Barberis and Thaler (2002), "there is no 'free lunch': no investment strategy can earn excess risk-adjusted average returns, or average returns that are greater than warranted for its risk".

Yet the main contribution of behavioral finance is that asset prices do, in fact, deviate from fundamental value, and that this deviation is caused by agents who are less than fully rational. Before turning to behavioral

finance, it is instructive to examine a defense of the EMH.

### The traditional defense of the EMH

For decades, the EMH was left unchallenged because of a blind faith in the forces of arbitrage. An arbitrage opportunity is a trading strategy that yields a riskless profit. Defenders of the EMH argued that if there are deviations from fundamental value – a mispricing in the market caused by irrational traders - arbitrageurs would immediately step in and take advantage of the mispricing, make a riskless profit, and thereby return the security price to its fundamental value.

For example, suppose Intel shares have a fundamental value of \$15, but a group of irrational traders are overly pessimistic about Intel's future business prospects and start selling Intel shares, driving its price down to \$10. Defenders of the EMH would argue that arbitrageurs would recognize this mispricing and immediately start buying Intel shares at irrationally depressed prices. This buying pressure would drive Intel back to its fundamental value of \$15, and would earn the arbitrageurs a riskless profit.

### Market Anomalies and Behavioral Finance

Behavioral finance has grown out of the growing realization that the traditional model cannot explain the numerous anomalies that have been observed in financial markets. While there are dozens of anomalies that have been documented, below some of the major ones are examined.

#### *The Case of the Royal Dutch/Shell Group*

In 1907, Royal Dutch and Shell Transport agreed to merge their interests on a 60:40 basis. Shares of Royal Dutch trade in the United States

and trade on the New York Stock Exchange, while shares of Shell trade primarily in London. Because shares of Royal Dutch are a claim to sixty percent of the total cash flow of the two companies, while those of Shell are a claim to forty percent, a rational model – one that assumes prices equal fundamental value - would predict that the market value of Shell equity would be 1.5 times that of Royal Dutch equity. Amazingly, this is not the case; the actual price ratio has deviated for long periods of time from the expected ratio, and by as much as 35 percent.

#### *The Problem of Excess Volume and Volatility*

Standard rational expectations models suggest that trading volume should be much lower than is actually observed. Fischer Black, in his 1986 presidential speech to the American Finance Association, said:

A person with information or insights about individual firms will want to trade, but will realize that only another person with information or insights will take the other side of the trade. Taking the other side's information into account, is it still worth trading? From the point of view of someone who knows what both traders know, one side or the other must be making a mistake. If the one who is making a mistake declines to trade, there must be no trading on information. (Black, 1986)

Of course, while it is difficult to predict exactly how much trading volume we should expect to see in the real world, it seems likely that the 1.5 billion shares that are

traded daily on the NYSE is more than rational models would expect. Similarly, the volatility we observe in the real world seems hard to explain using the rational framework. When prices equal fundamental value, prices change only when informative news arrive. Yet in the real world we often observe the contrary; prices can jump for no good reason.

For example, Harris and Gurel (1986) and Shleifer (1986) find that when a stock is added to the S&P 500 index, its price rises by an average of 3.5 percent, and most of this jump is permanent. To cite one dramatic example, when Yahoo was added to the S&P 500 index in 1999, its shares jumped by 24 percent in one day even though this news had few, if any, implications for Yahoo's future dividends.

#### *The Equity Premium Puzzle*

This 'puzzle' relates to the fact that one dollar invested in US Treasury bills (T-bills) on January 1, 1926 would be worth about \$13 on December 1, 1995, whereas the same dollar invested in a value-weighted portfolio of stocks in 1926 would be worth \$842 at the end of 1995 (Thaler 1997). This difference in returns – 3.7 percent for T-bills versus 10.1 percent for stocks – is called the equity premium. Although one would expect equities to command

a higher return because they are riskier than bonds, the difference of almost 7 percent per year is too large to be explained by standard risk-based economic models.

This 'puzzle' has been the subject of much debate in the academic community for the past 17 years. One explanation offered is that of 'survivorship bias',



whereby investors are rationally cautious about investing in the stock market because of economic disasters that might have occurred, but didn't. Thus, the equity premium is biased because it is calculated for a survivor. A recent paper by Haitao Li and Yewwu Xu (2002) points out:

There could be serious survival bias in the observed U.S. equity premium. This claim, if proven true, would have profound implications given the central role the equity premium plays in finance practice and research. For example, the equity premium is of fundamental importance for asset allocation decisions, estimates of the cost of capital, and the current debate about investing Social Security funds in the stock market.

#### *The work of Kahneman and Tversky*

Daniel Kahneman and the late Amos Tversky – both psychologists – were pioneers in documenting systematic deviations from rationality that occur when people make decisions under uncertainty. Their work has had a profound impact on behavioral economics and finance, which was recognized when Kahneman received this year's Nobel Prize in Economic Sciences. Among their numerous contributions to economic psychology, they demonstrated that when people are faced with a gamble, they focus on gains and losses instead of on their final wealth. Although we see this in everyday life – people perceive attributes such as brightness and temperature relative to earlier levels rather than in absolute terms – this observation has had a great impact on economic theories that traditionally assumed rational behavior, in which only final wealth should matter.



For example, when subjects are asked (Amos and Tversky, 1979): In addition to whatever you own, you have been given 1000. Now choose between

A = (1000, 0.5) where this represents a gamble paying 1000 with probability 0.5

and B = (500, 1). Here, B was the more popular choice. The same subjects were then asked:

In addition to whatever you own, you have been given 2000. Now choose between

C = (-1000, 0.5)

and D = (-500, 1).

Here, C was more popular.

Notice that in each decision, the final wealth positions are identical – yet people choose differently. Thus, people seem to make decisions based on gains and losses and not on final wealth. This finding, and others from the psychology literature, contradict the predictions of traditional theories based on rational behavior.

#### *Limits to Arbitrage*

As discussed, the traditional defense of the EMH was that rational agents will make riskless profits and return assets to their fundamental value through a process known as arbitrage. Unfortunately, this is only true in an ideal world.

In reality, arbitrage is risky. For example, in the case of irrational pessimism on Intel stock, the arbitrageur (for example, a hedge fund) may buy Intel at \$10, only to see further irrational pessimism drive it to \$5. Investors in the hedge fund may be worried by the decline in their investment and withdraw their funds, forcing the arbitrageur to liquidate his position prematurely and thereby realize a loss. But since the arbitrageur

knows about this “fundamental risk”, he may simply decide not to exploit the mispricing in the first place, and hence he allows the inefficiency to persist.

Another problem with textbook arbitrage is that it assumes that mispricings are immediately recognized in the form of predictability in returns. Shiller (1984) calls this “one of the most remarkable errors in the history of economic thought”; in the real world, large mispricings can be virtually impossible to spot and therefore are expensive to find.

#### **Paradigm Shift?**

In an influential book, “The Structure of Scientific Revolutions”, Thomas Kuhn studies the history and philosophy of science. He asserts that scientific research only proceeds once there is a shared paradigm among researchers, a set of beliefs about how problems are to be understood. A paradigm guides the research efforts of the scientists, and allows scientists to “investigate some part of nature in a detail and depth that would otherwise be unimaginable” (p. 24). In this manner, progress is made.

Yet, Kuhn writes, the typical developmental pattern of a mature science is the successive transition from one paradigm to another. What are the stages of such a transition, or ‘scientific revolution’, as Kuhn terms it?

Sometimes a normal problem, one that ought to be solvable by known rules and procedures, resists the reiterated onslaught of the ablest members of the group within whose competence it falls. In this and other ways besides, normal science repeatedly goes astray. And when it does – when, that is, the profession can no longer evade anomalies that subvert the existing tradition of scientific practice – then begin the extraordinary

investigations that lead the profession at last to a new set of commitments, a new basis for the practice of science (p. 5).

As seen above, the paradigm based on the rational economic agent and efficient markets fails to explain numerous anomalies that have been observed in financial markets; perhaps there will be a shift in paradigms towards the behavioral camp. Are we in the midst of a paradigm shift? It is hard to tell. But we can get some clues by contrasting the predications of Kuhn with the writings of some prominent academics in financial economics.

Kuhn writes that defenders of the existing paradigm will “devise numerous articulations and *ad hoc* modifications of their theory in order to eliminate any apparent conflict” (p. 78) – and indeed, this is exactly what Mark Rubinstein, the Paul Stephens Professor of Applied Investment Analysis at U.C. Berkeley, attempts to do. An ardent defender of rational markets, he writes that the behavioral cure for the numerous market anomalies “may be worse than the disease...It is my thesis that it is too soon to fall back to what should be the last line of defense, market irrationality, to explain asset prices. With patience, the anomalies that appear puzzling today will either be shown to be empirical illusions or explained by further model generalization in the context of rationality” (Rubinstein, 2000).

Similarly, Kuhn also predicts that “when the transition is complete, the profession will have changed its view of the field, its methods, and its goals” (p. 85). Indeed, we see eminent academics echoing this view. Charles Lee, Henrietta Johnson Louis Professor of Management at Cornell University, believes “One’s view about market efficiency will have a profound effect on one’s research agenda. In fact, I believe that what a researcher chooses to study in the capital market area is

largely a function of her level of faith in the informational efficiency of these markets” (Lee, 2001).

Interestingly, academics realize that they are in the midst of a transition. Lee writes:

It might be worthwhile to note the evolving nature of the evidence in this literature over time. Initially, much effort was focused on *documenting* apparent pricing anomalies...More recently, efforts have been focused on *explaining* these anomalies and testing various behavioral models...I believe future studies along these lines will not merely document new anomalies, but will also help to explain them. We are indeed at an early stage of development, but what we know is sufficient to convince many that risk-based explanations are not enough.

The debate over market efficiency and rational behavior continues to rage, but the parallels between the writings of Kuhn and those of the academics are striking. Only time will tell if there will be a shift towards the behavioral paradigm. Many academics prefer to remain neutral; while they acknowledge that many market anomalies exist, they believe the rational paradigm is ‘good enough’ to work with until, and if, the behavioralists can come up with a convincing alternative paradigm. But one thing is for sure: the fact that Daniel Kahneman won this year’s Nobel Prize in economics signifies the realization in academic circles that human behavior is, and will, play an important role in financial and economic theory.

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# Ithaca HOURS: Promoting Localization in a Globalized World

By Eric Hon

*Since 1991, Ithaca has been circulating its own unique currency to buffer the effects of globalization. But can this idea survive in an increasingly globalized world in which the dollar dominates?*

Economic globalization, a term describing the tighter integration of the world economy with increasing mobility of goods, labor, capital and technology across international borders, is an unstoppable process. You see, hear and taste its effects everyday. Living in Ithaca, however, these effects have slowly taken their course.

In response to the 1991 U.S. recession, Ithacan community economist Paul Glover introduced HOURS, localized currency circulated within the city of Ithaca. The concept of HOURS essentially revolves around regaining control of and reinforcing the local economy, hence promoting localization. Being local tender, rather than legal tender, Ithaca HOURS is backed locally by real people, real labor, skills and tools. Amusingly, advocates of HOURS brand the American dollar as “funny money,” backed by a \$5.5 trillion national debt.

Implementing this fascinating local currency system is not so

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complicated. One HOUR equals \$10.00, because the average wage in Tompkins County is ten dollars per hour. The HOUR notes also come in 5 other denominations of 2 HRS (\$20.00), 1/2 HR (\$5.00), 1/4 HR (\$2.50), 1/8 HR (\$1.25), and 1/10 HR (\$1). Businesses and individual participants who agree to accept HOURS as payment for their services are initially paid either one HOUR or two HOURS (depending on the type of job) for one hour work and are listed in the *H O U R T o w n* directory, which is analogous to the *Yellow Pages*. With 1,500 listings in *t h i s* directory, community members can easily connect with each other and facilitate transactions, thus building and strengthening camaraderie and local trading.

Obviously, not everyone's hour of labor is worth the same. For instance, local professions like dentists,

lawyers or massage therapists, typically charge more than \$10 per hour. Therefore, participants may apply to collect additional HOURS for one hour of work every eight months, as a reward for continuing participation. This way, Ithaca can gradually and carefully manipulate the per capita supply of the local currency.

In order to encourage immediate spending of HOURS, the local currency cannot generate interest while sitting idle in the bank.

Therefore, those possessing HOURS have an incentive to spend them quickly. People can use HOURS

to purchase local goods and services such as food, eyeglasses, gifts, plumbing, carpentry, electrical work, child care, car and bike repair, and among thousands of other goods and services. Even the best restaurants in town accept HOURS, as do movie theaters, bowling alleys, and 300 other



local businesses. Since HOURS can only be accepted within the Ithaca area, Ithacans believe they can regain control of the local economy and reinforce local trading and business. So, the popularity of the local currency has grown significantly since its inception just a decade ago with over 8,500 HOURS already issued.

Glover initially conceived the HOURS system because he saw the disgusting way in which corporate money would “come into town, shake a few hands and leave again without leaving many positive residual effects, except maybe a few below-subsistence jobs.” Implementing a local currency system provides certain community benefits, including raising the minimum wage, adding spending power to Ithaca, reducing dependence on imports and providing zero-interest loans. But the most important benefit that the system promotes is a high local multiplier: statistics indicate that HOURS provide for a minimum multiplier of six, as opposed to the national currency’s typical multiplier of three or four. The local multiplier acts as a measurement tool showing the overall impact of spending money in the local economy. A large multiplier translates into more exchanges of the local currency before the currency

leaks out of Ithaca, thus indicating greater local economic viability. But can the concept of local currency stand the test of time? Can localization really compete with globalization?

Given that the HOURS is a community-controlled monetary system, its fate rests in the hands of community members. In other words, this system depends on community responsibility, accountability and trust among each participant. Apparently, the system garnered many supporters for the first three years after its implementation; however, from 1995 through 2000, the number of sign ups and renewals declined dramatically, hitting rock bottom in 1998 (see Figure 1). Since then, the number of new issuances of HOURS has remained relatively constant. It should be noted that during the same time span, globalization truly took off. Computer technology and the Internet allowed globalization to run its course in a more efficient and speedy manner.

If you haven’t noticed, Ithaca’s business landscape has also changed dramatically over the past five years, coinciding with the decline in new issuances of HOURS. Just observe the economic disparity between Pyramid Mall and the Ithaca Commons. Despite being in the middle

of desolate New York and despite the local currency system, Ithaca cannot dodge the tidal wave of economic globalization. The Ithaca HOURS is a wonderfully creative idea to restore and strengthen community pride and economy, but they seem helpless in stopping monster corporations from colonizing Ithaca’s business landscape. The reality is simple: corporations practice DOLLARS, not HOURS. If this is reality, then the system of local currency may find itself in troubled waters.

But hope for the success of HOURS should not wither. Although more and more ma-pa shops are disappearing, HOURS can remain effective through the service sector. Perhaps the system’s flexibility has diminished since HOURS are not as easily exchangeable as they once were, but creativity and innovation in the system is not lost. Several key questions, however, remain: Can the system survive in a globalized economy? Will Ithacans continue to believe that localization is still worth pursuing? Will corporate stores ever accept local currency as a legitimate means of payment? Hopefully, these questions can be answered within the next decade.

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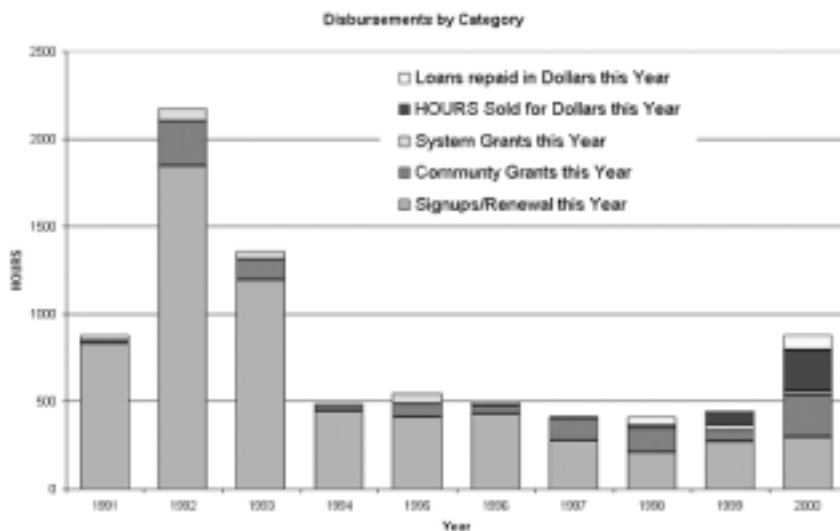


Fig. 1: Declining Participation in HOURS (Source: Ithaca Hours Online)

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# More Than a Sport: The World Cup

by Christopher Kan

*When it comes to the World Cup, most Americans might as well be from another planet. To everyone else, the planet comes to a standstill.*

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Earlier this year, from May 31-June 30, soccer fans all around the world got a glimpse of heaven, a heaven that only comes around once every 4 years. Yes, I'm talking about the World Cup. I remember tuning on ESPN Center one morning after waking up at 2 am and watching 3 straight games. Luckily, it was a Saturday, and I still had a little stamina left to tune into Sports Center, knowing that sleep would come soon. Although I was pretty much zoned out by that point, I wasn't going to let a striking point go in one ear and out the other. One anchor had apparently decided to take notice of the Spanish-language commentators of the Univisión Channel. Apparently, the anchor remarked something along the line that the commentators were too animated, that "it's not like it's the Super Bowl."

You're damn right it's not like the Super Bowl. Not even close. It's not just one big game between two cities fielding teams that have played for 4 months to get there. There's no

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big halftime show that features a celebrity sucking all the life out of the main event. For soccer fans and ardent patriots of their countries, this event is a culmination of all their aspirations. For most countries, making it to the World Cup is just a little more than a 4 month process. Try maybe...2 years. That's right. Countries play through campaigns with other countries from their soccer continent for the right to play in this tournament. What's even more impressive is that out of the 180+ countries in the world, 32 will get to show their best in front of the world.

However, that's not all there is to soccer. In America, soccer has never caught on. Economically put, the utility of soccer for Americans is nowhere as high as it is for the rest of the world. Whereas the world demand curve for soccer could be argued to be inelastic, Americans, on the contrary, seem to have a perfectly elastic demand curve, as if it would take more than a federal law requiring soccer viewership to get Americans to watch soccer. Supply and demand seem as if they might almost never meet, as supply is almost non-existent. MLS what? Domestic soccer has had a tough time catching on, and the low rates of utility

from the MLS are translating into scant American audiences for the World Cup.

If you picked up any big newspaper like the *New York Times* or any big magazine like *Time*, there was bound to be an editorial-styled article that would make apparent how America isn't anywhere near as enthusiastic about the World Cup as the rest of the world. To the writers, there are quite a few reasons. These include other sports competing for the same audience. In the hot summer months, baseball is usually the preferred spectator sport, as the three other major sports have ended by that point. Typically, if you tuned into MTV during the one month that the World



our blood.” It is hard to find a year when soccer drew the nation’s attention away from the other sports in America’s rich sports history, let alone when soccer raked in more profit than any of the four dominant domestic sports.

But while America doesn’t necessarily seem to care for the sport, the rest of the world does. In some places, it challenges religion as the largest audience attractor, and often it is seen as a wonderful opportunity for commerce, business, and tourism. In America we just don’t understand the idea of fans loving a team to the point that they’d cry for them after a loss. Try using that argument in Italy or Mexico after their respective World Cup losses, and you’d think you were transported to a different world. When South Korea eliminated the Italians on a header in extra time, fans turned the lively summer streets of Italy into a sullen gathering of mourning fans. Where fans watched on giant screen TVs in Milan and Rome’s Piazza del Popolo, bottles were hurled at the screen after each questionable call that went South Korea’s way. The defeat even prompted Italy’s minister for public offices to speak out and find a scapegoat in the referee. Likewise, after the United States upset rival Mexico in its second round game, Mexicans who were prepared to celebrate 90 minutes from the match’s start burst into tears and let out tirades against the Americans. One fan put it best: “It hurts because it’s Mexico, but it also hurts because it’s the United States.” What was lost on most of America was that the magnitude of the game. While many Americans would’ve probably believed it to be just another match between the border rivals, Mexicans awaited the game for its symbolic, political nature. The opponent was the United States, a resented neighbor that was wealthier, more powerful, that often treats them with disrespect. The one thing Mexico had going for it against the United States -soccer- was now just another thing that the United States had superceded Mexico in.



Away from the emotional and symbolic aspects of the game, the business aspect of the game is something that Americans miss out on. While one wouldn’t be wrong in identifying the World Cup as a tournament of 32 of the world’s soccer countries, it’s not the only answer. Corporations, host countries, apparel makers, and airlines are only a handful of the groups that look forward to the month-long celebration of soccer that comes around only once every 4 years. For example, in one of the numerous World Cup-related articles I had clipped and saved, I noticed astounding numbers related to the tournament. Japan, one of the host countries of 2002’s Cup, was projected to haul in \$2.1 billion dollars in profit. The country spent \$10.6 billion in preparation, the bulk of that carried by the \$2.4 billion it spent on 10 stadiums. In return, the country was looking to haul in \$12.7 billion in revenue, aided by \$211 million in ticket sales, \$564 million in foreign tourist expenditures, and over \$97 million in aid from FIFA, the world soccer governing body. South Korea, the other host country, didn’t do too shabby either. It was expected to rake in a profit of \$1.4 billion, with roughly the same numerical breakdown as its co-host, such as erecting 10 stadiums at a cost of \$1.8 billion.

However, the two hosts weren’t going to be the only financial winners in this game of goals and profits. Economic forecasters released reports that estimated that almost 350,000 jobs would be created by the Cup alone. TV rights were sold for an eye-jumping \$972 million, corporate sponsorships went for \$211 million, and merchandising went for \$423 billion. On top of that, the airlines looked to rebound from the September 11<sup>th</sup> aftermath and pick up \$3.4 billion in revenue, and bookmakers looked to get an estimated share of \$210 million. And this analysis hasn’t even touched upon the domino effects of this event, such as increased domestic production, an enhanced status for the hosts in the world’s eyes, free glamour advertising for the tourism industry, and potentially increased investment.

Just when the future of American soccer support seems bleak, there is hope. As a country founded on capitalist and profit-maximizing ideals, the World Cup offers opportunities that fit both criteria. The large amounts of revenue raked in by the host nations are only the tip of the iceberg for potential American profiteers. Advertising has a great number of opportunities, especially for a world where globalization allows for TV and radio messages to be broadcasted

everywhere. Numerous foreign markets could open up to new American products, especially in the context of an ever-evolving, international political economy. Hopefully, in future World Cups, I might actually watch the new commercials, as the ubiquitous commercials of McDonald's, Coca-Cola, and other classic American corporations have become quite dull, and one could argue ineffective. This advertising could especially help American corporations involved in monopolistically competitive industries, where any sort of advertising could help distinguish their products. Even within the domestic market, with effective promotion of soccer, domestic companies can score a goal for both themselves and American soccer by marketing themselves as tied to the World Cup, i.e. through being an official sponsor. As mentioned earlier, however, this is, at most, a hope for the future.

On June 30, the day of the finals pitting South American powerhouse Brazil against perennial European contenders Germany, it was estimated that over 1 billion people, or 1/6 of the world's population, tuned in to watch the game live. There aren't even 1 billion households in the world with TVs. Yet, they all found a way to catch a glimpse of The Beautiful Game. I can proudly say that I was part of those 1 billion. As a matter of fact, I can also claim to be one of the soccer fanatics who woke up in the wee hours of the morning and altered my sleeping schedule to catch the games as they were being played live on the other side of the globe. I also caught each and every moment of the U.S.'s historic run to the quarterfinals. And although I didn't see any public celebrations after my country's victories or public viewings of the game, I know that anywhere else in the world, they'd probably be ecstatic after their own nation's victories. Someone would be taking note of the political implications of Senegal's victory over their former

colonial masters, France, or the dreams of Irish fans to play England in the finals. Someone would be recording and projecting the enormous profits to be had from this special event.



The World Cup is more than just a tournament; it's an opportunity for tremendous emotional outpouring, dramatic plays, settling political disputes in 90 minutes, and raking in comfortable profits. Yet my

most vivid moment from that month of soccer bonanza was someone randomly asking me, "When is the World Cup?" Are you from another planet?

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# Economic Consequences of Capital Punishment

by *Shahin Y. Mashhadian*

*Is the death penalty an economically feasible solution to serious crime? Despite the lack of concrete economic figures many still argue both sides of its viability.*

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Capital punishment continues to be used in the United States despite controversy over its merits and over its effectiveness as a deterrent to serious crimes. Since the 1970s almost all capital sentences in the United States have been imposed for homicide. There has been intense debate regarding the constitutionality, effect, and humanity of capital punishment; critics charge that executions are carried out inconsistently, or, more broadly, that they violate the “cruel and unusual punishment” provision of the Eighth Amendment. There have been numerous empirical studies attempting to link the death penalty to crime rates. They have produced mixed results, with some studies indicating the death penalty is a deterrent and others finding no such effect.

The economic argument in favor of the death penalty is rather simple. Economists assume that individuals weigh the expected costs and benefits when deciding to undertake any activity. Thus, rational

individuals considering criminal activities would weigh the expected benefits against the expected cost of the criminal endeavor. The expected cost of any given crime is affected by the probability of being detected, the probability of being convicted given detection, and the expected penalty that results from a conviction. Since the death penalty provides a higher cost than alternative punishments, it is expected to generate a larger deterrent effect.

The opponents of the death penalty argue that it is economically inefficient and morally wrong. Several factors are considered when arguing against capital punishment. Critics of capital punishment believe that those who contemplate criminal activities do not rationally weigh the benefits and costs of their actions and that they may not respond in a utility-maximizing fashion. Opponents to capital punishment use this argument when describing a ‘crime of passion’ when offenders react spontaneously in any given situation and do not appropriately consider the benefits and costs of their actions. In fact, these critics also point out that the costs associated with obtaining a death penalty conviction are greater than the costs associated

with obtaining a sentence of lifetime imprisonment. In addition, in a world of imperfect information, innocent individuals may be convicted and executed before any exonerating information is discovered. Another major point that the opposition brings forth is how the death penalty is often used in a discriminatory fashion. These critics assert that the penalty has been disproportionately applied in cases in which the defendant is nonwhite or when the victim is white.

Since the United States’ inception, capital punishment has been used as a form retribution, incapacitation, and restitution against society’s most vicious criminals. In the course of analyzing the economic efficiency of capital punishment, both the benefits and costs of the death penalty must be evaluated. Since the death penalty has been implemented for centuries, many people believe it is an acceptable deterrent, that is to say, that its benefits outweigh its costs. It is important to note that from an economic perspective, the marginal benefits and the marginal costs are the most meaningful when studying efficiency. Marginal benefits are measured by difference between the total benefits of the death penalty and

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the total benefits of life imprisonment. Marginal economic cost of the death penalty to society is the difference between the costs of a trial where the maximum sentence is life imprisonment and the costs associated with the capital trial process.

There are several factors that are taken into account when considering the benefits of capital punishment. Proponents of capital punishment believe that the most significant benefit is deterring potential criminals from committing a serious crime such as murder or rape. Society benefits from fewer murders because overall protection costs may decline as the murder rate decreases. In addition, there will be less crowding in prisons given that capital punishment is an effective deterrent of serious crime in the sense that potential offenders won't commit the crime and those already in prison will be put to death creating more space. Another benefit of capital punishment lies in the retribution it provides those damaged by the crime. Retribution, or emotional relief, can be categorized as a benefit because these parties are willing to pay for the execution of the guilty party.

When executing a convicted murderer, the state incurs a variety of costs. Costs associated with capital punishment begin with the costs of the police investigation of the crime and end with the costs of burial. Investigations in capital trials must be more thorough because faulty evidence or police incompetence are grounds for a preclusion of the death sentence or perhaps even grounds for acquittal as a result of reasonable doubt. High trial court fees are another component of the



costs of the judicial process. Generally, jury selection in a capital trial takes a long time. As the trial begins the defense usually makes a vigorous effort at acquittal through the use of expert witnesses. Furthermore, capital trials take last a very long period of time. It is important to note that these costs are being compared to non-capital cases. After the original trial and sentencing trial have been completed, a capital case must then proceed through a series of appeals. The Supreme Court requires all cases where the defendant is sentenced to death to be directly

appealed to the state supreme court. The appeal is made to the state court in order to make sure that there is no random or arbitrary imposition of the death penalty as prohibited by the Eighth Amendment. If the appeal is lost at the state level, at least six other levels of appeal

are available to the defendant. One of these six appeals permits the defendant to file a writ of certiorari with the United States Supreme Court at a very high cost for both sides. The carrying out of the execution is costly as well. First, there is a fixed cost in building the execution chamber. A second cost involves the round-the-clock watch of an inmate once their death warrant has been signed. Other minor costs include a lavish last meal and the fee paid to the executioner. After the execution has occurred, a medical professional is required to pronounce the person legally dead at a fee. Next, the state must pay for the funeral and burial of the body since the state is the one who killed the person.

The cost incurred to society by the death penalty also includes

intangible factors. Enforcement of the death penalty presents opportunity costs because resources can be employed in other more potential efficient areas. Inmates often work while they are in prison in various capacities. The output from prison labor is decreased when these criminals are executed when compared to life imprisonment. As mentioned before, capital trials are lengthy, and the extra time that jurors spend in these trials must also be accounted for. The willingness to pay by third parties to stop the execution by those who oppose the death penalty is also a cost. Lastly, there is possibility that convicted was falsely charged, referred to as 'false positives.' This is a moral cost to society and creates apprehension. Taking the life of an innocent person can also undermine the confidence the public has in the judicial process.

A team of economists from Emory University believe that they have a robust case in favor of capital punishment because where previous cases were established on psychological and sociological platforms theirs is based on economics and data. Moreover, they feel that their data analysis is extremely efficient and accurate because it overcomes data and econometric limitations for several reasons<sup>1</sup>. First, they have collected disaggregate data which permits them to obtain the demographic, economic, and jurisdictional differences among United States counties. By using panel data, they have controlled for some of unobserved heterogeneity across counties which helps avoid the bias that arises from the correlation between county-specific effects and judicial and law enforcement variables.

The overall result of this team's study suggest that since 1977, when executions were legalized by the Supreme Court, there have been significant decline in the number of homicides<sup>2</sup>. The system of equations used in their study is a linear model considering variables within a given county such as the number of people

residing there and the murder rate. These models almost unilaterally rejected the “no deterrence” hypothesis<sup>3</sup>. These economists also explain how the application of non-premeditated murders to the overall murder is inappropriate when calculating the deterrence effect of the death penalty. However, the problem here lies within crime reports. Crime data include all murders without a detailed classification that could allude to its level of ‘deterability,’ which would require the subjective judgment of an investigator<sup>4</sup>. Dissecting this data set would be close to impossible and even if possible the judgment of the investigator would raise concerns about the objectivity of the analysis. Nonetheless, the team has an econometric response by coming up with an equation considering variables such as passion crimes, a stochastic term, and a variable for unknown parameters. They concluded that any inference about the deterrence effect of the death penalty is “unaffected by the inclusion of the non-deterrable murders in the murder rate.”<sup>5</sup> The authors of this article are confident that their results are robust and show the deterrence effect of capital punishment.

The central principle of the economic approach to criminal law is deterrence and if capital punishment is, in fact, a deterrent of crime than it is a substantial element of criminal law. With respect to economic principles, one feels it is acceptable to assume that offenders will behave in accordance with rules of optimizing behavior. The reasoning for assuming this is that it is often the case that criminals take into account their costs, such as risks and expenses, when choosing what crime to commit based on a profitable outcome or benefits that outweigh the incurred costs.



The greatest problem standing in the way of the death penalty’s effectiveness lies between the sentencing and the execution, namely the appeals process. The appeals process poses too many delays and too many costs. The complex appellate system surrounding capital cases exacts huge deadweight losses on society. In fact, only about 300 people out of over 5000 sentenced have actually been executed since 1976<sup>6</sup>. The opportunity cost of the state and federal courts when considering how much time is devoted to the appeals process. There are three alternatives to improve deterrence in crime. The appeals process can be shortened in certain cases if the number of appeals available to the defendant is reduced. A way to shorten the appeals process without increasing erroneous convictions would be to repeal the federal habeas corpus exhaustion requirement. Another possibility could be to reduce the number of cases that qualify for the death penalty. This would be done in the case

of increased DNA usage in evidence. The last solution to the current death penalty problem is to simply abolish the death penalty altogether. Capital punishment is a very sensitive topic of discussion. There are numerous economics-based arguments in favor as well as opposed to the death penalty. In this paper we have analyzed only a few of those. In order to make a clear decision regarding the viability of capital punishment to be beneficial part of the justice system, its marginal costs and benefits were established. The two sides of the argument have been put forth each proposing their arguments through econometric system of equations or a benefit-cost analysis. However, each argument focused predominantly on their respective beliefs while discounting the other. Many contend the severe sanction of

death is theoretically justifiable through the economic approach’s emphasis on deterrence. Nevertheless, the abysmal way in which America is currently carrying out the death penalty destroys any deterrent effect and undermines the economic approach’s logic. There still remains to be proved that the death penalty is a definite deterrent to serious crime. The Supreme Court of the United States upholds the current death penalty law, however, until they feel a sufficiently concrete argument is made against it.

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- <sup>2</sup> Dezhbakhsh, Rubin, and Shepherd, p. 28.
- <sup>3</sup> Dezhbakhsh, Rubin, and Shepherd, p. 10. It should be noted that using linear specifications is less likely to find a deterrent effect than is a logarithmic model. This note builds even a stronger case for the Emory team.
- <sup>4</sup> Dezhbakhsh, Rubin, and Shepherd, p. 11.
- <sup>5</sup> Dezhbakhsh, Rubin, and Shepherd, p. 12.
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# ILO Model of Project Planning, Formulation, Realization, and Evaluation

by *AtanasGueov Tzenev*

*The International Labor Organization (ILO) is an important international organization in today's world. It deals with labor issues worldwide. But how does the ILO go about doing its many projects?*

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In order to achieve something, we must have a way of going about it. Usually, people and organizations create a program or a project to attain this goal. Organizations that have specific project planning models include the International Labor Organization (ILO), World Bank (WB), International Monetary Fund (IMF), other International Financial Institutions (IFI), European Union (EU), and many firms. In this paper, we will consider the ILO model of project execution, which has four main steps: planning, formulation of model, realization and monitoring, and evaluation. Many argue that this model cannot only help ILO succeed in its projects but also help businesses succeed in their daily and overall activities. We will see one way of going about a project, and, through extended study, we can compare it to other methods of project development. Also, we will examine how and why the ILO model differs from a basic economic model of a firm.

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The project document is an important document that embodies the ILO way of going about a project. It links three partners: host country, ILO, and sponsors. Questions in planning the model include the ILO three main and important norms: keeping international labor standards (which exist in areas such as basic human rights, employment, social policy, industrial relations, working conditions, and social security), gender equality in employment, and protection of the environment. Other institutional goals of the ILO are to improve the working environment and the connection between the working environment and the rest of the world. It also attempts to increase the role of workers' and employers' organizations. In planning the project, ILO evaluates the positive and negative effects that the project may bring on the surrounding environment, including people. The basic elements of the ILO model, which we will discuss, include the environment or background, identifying and analyzing the problem, finding strategies, targeted groups, institutional frame, development and direct goals, results (which we get from invested resources through activities), and monitoring and evaluation,

embodied in work plans, reports on completed work, self-evaluation, and independent evaluation. We will further examine the suggested guidelines the project manager should follow in going about the project.

The first step in the model is to figure out the problem and whom it affects. We (or the ILO, which we will use interchangeably) get data on the concrete situation that gives start to the project (a group of connected activities intended to achieve certain goals within a given budget or period of time) or program (a unified frame of activities for achieving certain global goals; it may include several projects) and determine how the data fits in with our development priorities, specifically of the ILO. We must also consider whether the data is enough (if it is not, gather more) and what the viewpoint of government(s), national organizations, and nongovernmental organizations (NGOs) is.

Next, we must go through a problem analysis. Here, we determine what the socio-economic roles of actors are and how they play out. We also figure out the positive and negative effects on the surroundings (including people). From the problem we must get to a strategy, which must comply with

international labor standards. The program/project (we will use project to mean both from now on) must also be OK with the environment and the surroundings. It must keep gender equality in employment, meaning that roughly equal number of males and females must be employed and affected by the project.

The strategy includes what, for when, with whom, and how to do the project. The effects of the strategy in the project are either those of Direct Support or Institutional Development. Direct support is a type of ILO intervention that provides direct help to beneficiaries (people, e.g. workers) by giving them services such as education programs and employment. Institutional development is another type of intervention, which reaches people indirectly by educating ILO or other institutional employees, who in turn educate others. Thus, institutional development has a multiplicative effect in that it reaches more people.

Next in the project is a consideration of the targeted groups, people who benefit from the project. There are two groups of beneficiaries: Expected Beneficiaries (people, e.g. workers) and Direct Beneficiaries (institution employees specially trained by the ILO). This is directly related to direct support and institutional development. It is important to describe the demographics, socio-economic situation, and laborers, as well as other characteristics of the goal groups and their most urgent needs. The ILO must also determine the differences in the goal groups, such as sex, age, education, abilities, income, ethnicity, and social origin. We must pay special attention to the socio-economic role of women and determine whether there is a necessity for special activities oriented towards women to ensure gender equality. Also, we should make sure that the project gets to its beneficiaries and involve the goal groups in the different stages of the program cycle (the main components of the project, namely planning,

formulation, realization and monitoring, and evaluation).

A given project involves a number of partners, such as government agencies, cooperatives, firms, organizations of workers and employers, expected beneficiaries in projects of direct support, and direct beneficiaries in projects of institutional development. The Institutional Frame is a description of the partners' institutional structure, managing, financial, and technical abilities and what they are supposed to do in the project. The ILO may also create a control or consultative committee to coordinate the activities of partners.

After the institutional frame, the ILO determines its goals. There are two types of goals: development goals and direct goals. The direct goal describes the direct result of the project, i.e. the change in the goal groups' position. If the project includes both institutional development and direct support, separate the direct goals. The key to the direct goal is to achieve results. Compared to the direct goal, the development goal invokes a more long-term result. To get to the development goal, we must pass through the direct goal. Thus, the key to the former is to help get us to the final result.

Next come the results of the project. The results are the products of activities surrounding the project. They can be educational materials, reports, educative programs (for institutional development) or educated people (for direct support). Describe the results as exactly as possible (for example, 100 workers, 25 of whom women, have learned to do a particular task). Again, women should often be included in the results to secure gender equality.

The activities are what get us to the results, where the key is "to do". There can be a number of activities and they are to be described in a logical sequence. Again, point out how many males and females will participate in each activity. Examples of activities include determining the needs of education of the workers, developing

education programs, and teaching courses and seminars to the workers.

Invested resources are needed to do the activities and to get the results. There are sponsors, mainly international (finances for experts, consultants, machinery, education, and evaluation) and local (finances for local supports people and offices). They use resources "to provide". Before completing the model, we must ensure that all used resources are clearly stated, that each is sponsored by part of the budget, that the budget is thus determined, and that gender equality is kept in the determination of used resources.

We can now proceed to the rest of the model. Next are indicators, which are checkable proof of the ongoing progress towards the achievement of the direct goal. In cases of projects for institutional development, the indicators are what the institution can do. In cases of projects for direct support, they show to what degree the goal groups have improved. The indicator thus determines how beneficiaries are using the results of the project.

Prerequisites are external factors. They must have either a positive or a negative effect on the project. One must clearly and exactly determine the effect of the prerequisites, knowing that they must have a great probability of happening. Do not include resources and target groups as prerequisites because they are under the control of the project's leadership, and prerequisites are external, independent factors.

The next step in the project is the preliminary obligations, the actions that must be taken by the partners (executive agency, sponsors, etc.) before the start of the activities and the realization of the project.

Perhaps the most important part of the model from a theoretical point of view is that of monitoring, evaluation, and reporting since they are used to improve the process of realization and the people involved in

it by evaluating it, including backwards. The working plan, the report on completed work, and the report of self-evaluation are all governing instruments, planned and carried out by the leadership. We may also include an independent evaluation for a better or more objective viewpoint on the project. All of the preceding terms and ideas will be discussed in the remainder of the paper.

Monitoring is a process during the execution of the project. It is the continuous or periodic review of the realization of the project. It gives up-to-date information on the working process (planned and completed work) and helps improve the efficiency of the realization as the project moves along. It also helps to check that used resources get results through activities. Monitoring's important instruments are the working plan (done before the start of the project: describes results, activities, planned dates of beginning and completing the project, responsible organizations or persons) and report on completed work (checks whether resources, activities, and results are achieved according to schedule, whether there are changes and difficulties, and how they could be resolved; it improves on the working plan since it takes on the changes during realization).

The evaluation of the project checks whether the goals of the project are met and how well. It helps the governing of the project, the preparation of new projects, and the building of more consolidated programs. It includes the following: effectiveness (are goals met and does the project reach its goal?), efficiency (are costs reasonable?), public importance (is the project still meaningful and useful to the goal groups?), validity (is the model logical?), causality (specific factors that affect the project), unexpected consequences (of the project), alternative strategies, and persistence (are the benefits of the project going to continue when the project ends?).

Evaluation can happen during the project (intermediate evaluation), at the end of the project (end evaluation), or some time after the project (ex-post evaluation).

The leadership of the people or organizations that are directly involved with the realization of the project is self-evaluated. Self-evaluation includes most of the aspects of evaluation, such as progress towards goals (effectiveness), usefulness of results for satisfying the needs of the goal groups, whether results justify costs (efficiency), whether there are alternative models, persistence (of results after the removal of external help), difficulties and problems and how they are resolved, and reached conclusions.

Self-evaluation may be supplemented by independent evaluation, which can be internal (by active agency but not by people doing self-evaluation, namely the leadership) or external (by external consultants). The ILO must give a technical explanation of which factors or aspects should be evaluated independently. Independent evaluation should include the following factors: concepts, ideas, model realization, performance on activities and specific questions that ILO asks. At the end, ILO should arrive at specific final conclusions on the various aspects of evaluation and how ILO can improve on future projects, given the experience it has gained from the process and the evaluation of the project.

Evaluation: The ILO model is somewhat of a bureaucratic model, where the ILO looks after its self-interest as projected by the interests of the groups it represents – labor, women, and the environment. It does that partially because it gets its support from them. In addition, the structure of the model appears to be somewhat mechanical, and more freedom might be needed in an individual project case and the differences that might come up. Also, it is not quite clear, as is done in economics, where the ILO *directly*

evaluates costs and benefits. I believe that the ILO, as should be apparent from the description of the project cycle, has a different culture and way of looking at the world as well as projects.

From the problem, we get to the strategy, and the actors are an essential part of the project system. From the viewpoint of economics, it might be a lot of work to determine the actors, beneficiaries, and other effects of the project, and it might aid a further bureaucratization of the process, but it is also a more social framework, not so much an independent decision as group work. In other words, the ILO would try to work together with the actors, not play game theory games. The World Bank, on the other hand, would be more requirement-oriented when it goes about offering project financing.

Therefore, the goals may differ: here, they are gender equality, labor, and environment aid. It is different from the economic profit maximization motive, and it is closer to the institutional maximization motive. That may well explain why all the additional elements, beyond plain costs and benefits to a business or the ILO in this case, are included in the project planning cycle.

Conclusion: We can put the whole structure into perspective. We will use the project document and put the elements in order. The elements are: basic situation and the environment, target groups, institutional frame, direct and development goals, indicators, results, activities, invested resources, prerequisites, preliminary obligations, monitoring, evaluation and reporting, and budget. We go in the above order for planning purposes and in the opposite order for carrying out the project. Now we have learned about the ILO model of project planning and we can, through further study, compare it to other such models.

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# The International Relations Concentration

by Yin Chen

*For those looking to expand their horizons with courses on multinational issues, Cornell offers the international relations concentration.*

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A college education without a course with a global outlook is incomplete. Whether pursuing a degree in government or horticulture, a college graduate cannot claim to be an informed citizen without an understanding of current international issues. Since the end of the Cold War, the international system has become increasingly complicated and events in the international sphere increasingly impact our daily lives. The accelerated development of Asian countries, instability in the Middle East, and recent terrorism all remind us of the role that modern global events play. An awareness of the growingly interconnected and interdependent global landscape is necessary for any educated person.

The International Relations Concentration is an interdisciplinary field of study open to all Cornell University students in the seven colleges. However, the most popular IR concentrators are government, economics, and anthropology majors.

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*Yin Chen '05 is an economics and international relations major in the College of Arts and Sciences.*

The International Relations Concentration fits especially well in the Economics majors' curriculum. It combines the wide range of classes offered in the fields related to International Relations. The 8 course requirements expose students to a wide range of international issues. The four groups of classes are International Economics and Development, World Politics and Foreign Policy, Transnational Processes and Policies, and Cultural Studies. Many of the courses overlap with the courses that can be used to fulfill the Economics major. For instance, Econ 361, 362, 322, etc.

For an Economics major, the IR concentration adds a dimension to the understanding of the global political economy. In addition to courses about international trade and the monetary system, other courses expose students to the political, social, and cultural background of the international system, proving how economic models can be applied in the real world. While economics uses models that simplify behavior, international relations raise complex issues to the decision-making process. We are no longer living in a simple closed economy, but a diverse and complicated world where the



actions of one state dramatically affect the status of others.

For more information about the concentration, contact the administrative coordinator Eugene Kim at [yk224@cornell.edu](mailto:yk224@cornell.edu) or at the Einaudi Center for International Studies in Uris Hall.

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# Working for Farmers in the Summer Heat

*By Jay Parekh*

*A summer internship can be a great bridge between your college classes and a real post-Cornell job. It's always important to keep in mind what you are looking for, be it getting paid, trying to make contacts for future plans, or simply trying out something new. My internship at the Department of Agriculture was nearly all that.*

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The USDA. Yeah, that's where I worked this summer. And if you think like most of my friends, that phrase conjures up a curious association with prime cuts of beef. Fortunately, though, my internship with the Department of Agriculture in Washington, DC had very little to do with meat inspection. As I worked for a branch of the USDA called the Economic Research Service, my internship actually had a lot to do with economics, which made me feel for at least a summer that my economics education was actually getting put to some use. Looking back, I probably didn't have enough advanced education to make the most of the internship, but it was nevertheless rewarding and eye opening, especially for a Long Island boy like me whose previous notion of the USDA was that of "the last plantation".

I found out about the internship through Monstertrak, the online job search engine that Cornell uses, which was somewhat surprising

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given the limited success that people have had in using it. After a phone interview, which was more of a "tell me when you can start" rather than a "give me your analysis of the new farm bill," I made the decision to accept the internship after weighing a few other offers. I began working around June 3<sup>rd</sup>, after I'd been in DC a week and had time to orient myself.

Technically, I was employed by the Asian American Pacific Islander Advisory Council, which basically worked to address Asian American employment issues within the USDA. The great part, however, was that I didn't have to work at the decrepit old buildings by The Mall that resemble some of the decaying parts of the Ag school. Instead, I got to work at the Economic Research Service (ERS) office, a leased space in the heart of downtown DC. Not only did I have many more options in terms of food, a modern gym, and shopping, but I also had my own private office with my name outside!

The main project I worked on for the Advisory Council was an analysis of the Asian American employment situation within the USDA, both in terms of a comparison between various sub-agencies as well

as an exploration of overall glass ceiling issues confronting Asians. My supervisors had a tough time getting me access to the data I needed; in fact, it took over a month and a half just to get this information from the USDA internal employment database. Once I was able to get this, I did basic statistical analyses of the differences in employment between various agencies in the SAS statistical computer program. Then, I ran a few basic regressions that expressed a given person's current government employment grade (which is a standardized level from GS-1, the lowest, to GS-15, the highest) as a function of their length of government employment, the time they've spent in their current grade, their age, and their education level. Writing pages of statistical code in SAS to analyze the dataset was tough at the outset, considering I haven't taken any advanced statistics courses (i.e. Econ 321 or 319-320). However, it was easy to pick up with the help of my co-workers and a library of resources. I would recommend that those interested in this type of internship have at the minimum classroom experience with multivariate statistics. The end result of this project was a comprehensive

report presented to the Advisory Council and Secretary of Agriculture Ann Veneman. It consisted of statistical analyses, buried in the Appendix for those managers who hate seeing numbers, a qualitative report based on a set of interviews I conducted with Asian American employees, and a set of recommendations for future change.

The secondary project I worked on was for an Ag Economist at ERS, and is still in the process of reaching complete fruition. Our research examined the results of the most recent Agricultural Resource Management Survey (ARMS). I worked specifically on determining the set of demographic and farm-level characteristics that influenced whether a given farmer would adopt a new variety of corn (called Bt corn) that is resistant to a pest called the corn borer. For this project, I did a lot of work that gave me amazing experience in overcoming the kinds of challenges that come up in trying to transform raw numbers in a dataset into something usable for analysis. When you read an empirical article that uses some dataset, you almost take it for granted that the researchers just have access to the numbers they need. Little do you realize that multiple conversions often have to be made (in my case, from pounds to bushels of corn) or that significant decisions have to be made about calculations with missing values or possibly erroneous outliers.



Though it seems the work could have been dull at times (and it was, what with programming in SAS and poring over questionnaires), my supervisors gave me a lot of independence and made sure I was working on something that interested me. They made an amazing effort to make sure I was always busy and getting the most out of my internship. Even though my contributions to the Bt corn project were minimal, they recognized my work by giving me an award at a departmental meeting. I actually felt embarrassed that I, a lowly intern, was getting an award along with econ Ph.D.'s that had just finished yearlong projects. In addition, there was always an opportunity to take up some kind of training to sharpen skills (in SAS, for example), or learn something new. With respect to social opportunities where the interns could bond, the USDA also had a farmer's market every Friday that we visited regularly to buy fresh strawberries and other produce. Towards the end of the summer, ERS also held a film festival that would show movies vaguely related to agriculture, like *Chicken Run* and *Field of Dreams*.

What amazed me most about ERS was how many smart, hard-working people worked around me. There were at least 175-200 Ph.D.'s in the office, with concentrations either in economics or agricultural economics. As the summer wore on, I was startled by how these government employees worked as if they were in the private sector, with a sense of drive and motivation. People wanted to put out publications and serve the needs of American farmers. Though there was inevitable bureaucracy, it seemed at least here it was kept to a minimum with a significant amount of academic and research freedom allotted to

researchers. This alone made it a great place to work.

Another thing that made the summer great was the other interns that worked around me. Most of them were graduate students or recent college graduates, which made me the youngest intern there. To give you an idea of the kind of different projects we worked on, they ranged from looking at the implementation of snacks in the food lunch program to issues concerning Native American farmers to constructing a database of all meat recalls in the past decade or so. A lot of them took initiative in organizing social activities for the group, going to bars after work and checking out museums together.

The internship was great in that I got paid well, had a lot of independence, worked with great people, and really took a lot away in terms of sharpening my analytical abilities. Despite this, I realized that pursuing an economics Ph.D. or a career in Ag Econ is not for me. The topics are kind of dry and not especially relevant to me. Some of the other interns, who came from families that owned farms, saw a greater relevance to their own lives. Government service also demonstrated its pros and cons to me. Though there is good job security and a great sense of purpose, there's also a sense of apathy, bureaucracy, and limit on career advancement. I'm also not sure I want to do statistical analyses and econometric modeling for the rest of my life. However, it's definitely for the better that I did this internship at the USDA and was able to get a better sense of what I like and what I don't like. I would advise most of you econ majors out there looking for an internship to approach it in the same way.



The Cornell University logo, a blue interlocking 'C' and 'S', is positioned behind the text. The text 'Cornell Economics Society' is written in a red, italicized serif font, centered over the logo.

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