



*Tradeoffs*

Department of Economics  
University of Toronto

## Winter 1996

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### Message From the Chair

by Nancy Gallini

Welcome to the first Newsletter of the Department of Economics, University of Toronto!

As a new Chair of the Department of Economics, I am looking forward to the opportunity to work with a remarkably talented faculty of 75 economists. Our faculty are first-rate, internationally-known scholars. Critical to the preservation of such high quality is the continual hiring of the best and brightest young scholars. We have succeeded in making seven superb junior appointments in tenure-stream positions over the past two years.

Although its roots go back to 1988, the Economics Department as we know it today has evolved since 1982 when the Department of Political Economy was reorganized into two separate departments--Economics and Political Science. The Commerce faculty that had been in the

previous department were absorbed partly into the Economics Department and partly into the Faculty of Management.

The Department is proud of its excellent undergraduate and graduate programs. We have teaching links with the geography, statistics, mathematics, philosophy, political science and sociology departments through joint specialist programs. The faculty's research crosses over into other disciplines through collaborations with colleagues in Management, Law, the Division of the Environment and the Center for Industrial Relations. While deeply rooted in Canadian issues, our research activity extends far beyond Canada, involving interactions with economists throughout the world. The Department looks forward to continuing its role as a premier economics department in both teaching and research.

To our alumni I would like to say that we want you to be as proud to claim us as your alma mater as we are to claim you as alumni. We invite you to join us by sending, either to me or to the editor, information about yourself or other alumni that you think would be of interest to graduates of Economics and by letting us know which topics you would like to read about in our Newsletter. After all, we want to deliver a product that will be of most interest to you. For now, read on and enjoy!

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## Undergraduate News

by Michael Berkowitz, Associate Chairman

I am pleased to report in this inaugural issue of our newsletter that undergraduate economics is alive and well at the University of Toronto. We are continuing to attract high-quality students on all three campuses, offering high-demand specializations in many areas, including international economics, labour economics, public finance, monetary economics, and industrial organization. The latest enrollment figures for this academic year show that demand for our courses and programs continues to grow. At latest count there are more than 300 students pursuing one of our many specialist programs and over 800 students in the major program. The large majority of our specialists are enrolled in the Commerce and Finance Program. We began this program in 1920 when the Department was a component of a broad-based Department of Political Economy. Over the years, the B.Comm degree has been awarded to more than 8000 graduates. In 1982, with the devolution of the Department of Political Economy, the Faculty of Management assumed joint responsibility with the Department of Economics for the program. We look forward to the continued success of this joint effort.

As part of our commitment to undergraduate education we are constantly examining the relevance of our courses to the educational needs of today's students and looking for ways to improve the learning experience. To this end we are beginning a review of the undergraduate curriculum. During the present year our efforts will focus on the first- and second-year courses. Next year we will turn our attention to the third- and fourth-year courses and Economic History.

The scope for discussion is wide-ranging and includes class size, new course offerings, course content and the role of tutorials. Many of you will have comments and suggestions based on your experience in these courses and in the workplace thereafter. I would like to encourage you to send your comments to me, care of the Department. I look forward to hearing from you and will keep you abreast of developments in subsequent issues of the newsletter.

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## Graduate News

by Arthur Hosios, Associate Chairman

Let me take this opportunity, in the first issue of the Newsletter, to provide some background information on the Department's graduate programs. The goal of these programs is to further our students' capacity for economic analysis through rigorous instruction in theory, history, and quantitative methods. We offer an exciting intellectual environment in which students can participate in a broad range of courses and seminars and interact with renowned scholars in every specialty field area in economics.

Each year we receive about 330 applications, many from outside of Canada. A typical entering class in the M.A. program has 45 students; the Ph.D. program admits about 10 students.

The M.A. program is a one-session (eight month) course of study with no written thesis requirement. Most students in this program aim to upgrade their skills for the job market. Our new collaborative programs in Environmental Studies and International Relations allow students to pursue an interdisciplinary program with faculty members from other departments. Graduates of the M.A. program traditionally pursue careers in both the public and private sectors.

The Ph.D. in economics is a research degree which requires two years of course work and the submission of a dissertation that usually takes an additional 2-3 years to complete. Joint programs with other faculties have been created to allow students to gain credentials outside of economics, and to specialize in law and economics or financial economics. Graduates of the Ph.D. program typically take up academic positions at other universities or research positions in international organizations, government or the financial and investment services industry.

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## **University Professors**

### **LARRY EPSTEIN**

Larry is world renowned for his seminal contributions to the study of preference structures of economic decision makers. His efforts have enabled economists to model individual preferences using much less restrictive assumptions than those required in earlier work. These ideas are opening up many exciting new possibilities in other areas of economics such as growth theory and asset pricing. Since Larry joined the Department in 1977 he has published over forty articles in major economic journals. In 1994 he was awarded the Frisch Medal by the Econometric Society for one of these articles. He is a Fellow of the Econometric Society, a Fellow of the Royal Society of Canada and is listed in Who's Who in Economics.

### **SAM HOLLANDER**

Sam has been teaching here since 1963 and is one of the world's leading scholars of the history of economic ideas. He has been a Fellow of the Royal Society of Canada since 1976. In addition to many scholarly papers, his work includes *THE ECONOMICS OF ADAM SMITH* (1973), *THE ECONOMICS OF DAVID RICARDO* (1979), *THE ECONOMICS OF JOHN STUART MILL* (1985) and *CLASSICAL ECONOMICS* (1987). The Ricardo volume received the Social Science Research Federation of Canada's 50th Anniversary Award in 1990. Sam also has two forthcoming books: *THE ECONOMICS OF THOMAS ROBERT MALTHUS* (University of Toronto Press) and *RICARDO--THE NEW VIEW: COLLECTED ESSAYS I* (Routledge), which reprints twenty of his papers written since 1973 interpreting Ricardo.



*Professors Epstein and Hollander*

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## **Retirees**

### **ALBERT BRETON**

Albert came to us from the London School of Economics in 1970. Previous to that he was at the Universite de Montreal where he collaborated with his brother Raymond, Pierre Trudeau, Marc Lalonde and others in publishing a manifesto against separatism in Quebec. He has contributed extensively to both the academic and the popular literature on problems of public choice, the economics of nationalism, public goods and federalism, the economics of bilingualism, the theory of bureaucracy, and economic aspects of the theory of representative government. Albert

also served as a major advisor to the Prime Minister of Canada during the 1970s. He became a Fellow of the Royal Society of Canada in 1976 and an Officer of the Order of Canada in 1984. Though retired, he has continued lecturing and remains active in research.

## **ABRAHAM ROTSTEIN**

Abe has been active and well known in Canadian public policy discussions throughout his career, taking a traditional Political Economy perspective. He was Managing Editor of THE CANADIAN FORUM for many years and has published three books and edited several others. Noted both for his independence of judgment on current topical issues in economics and public policy and his wit, he continues to teach on a stipend basis and, as Senior Southam Fellow, to administer the Southam Fellowship Program.

## **ANDREW WATSON**

Andy has been on faculty for 38 years, serving as Director of the Graduate Programme in Economic History for 8 years and convener of the Economic History Workshop for 10 years. He has also served as Supervisor of M.A. students and Supervisor of Ph.D. students. Although his teaching interests have been mainly in European Economic History from late-Roman until early-modern times, Andy's research efforts have concentrated largely on the middle east. He has been a Ford Foundation consultant on economic development to the Kingdom of Jordan, Economist for the International Centre for Agricultural Research in the Dry Areas, Aleppo, Syria, and Senior Regional Programme Officer for the International Development Research Centre.

## **JOHN WINDER**

John has been here, in body and/or spirit, since his student days. He has worked on a number of problems in Canadian public policy and co-authored, with Harry Johnson, a well-known study of the lags in the effects of monetary policy in Canada. As one of the builders of the TRACE ECONOMETRIC MODEL OF THE CANADIAN ECONOMY, he ranks among the founders of the Policy and Economic Analysis Program of the INSTITUTE FOR POLICY ANALYSIS. John was also M.A. Supervisor in Economics for many years.

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## **Institute for Policy Analysis**

On January 5th, 1996 the Institute for Policy Analysis, in conjunction with the Faculty of Management, held a conference entitled ISSUES IN THE REFORM OF THE CANADIAN FINANCIAL SERVICES INDUSTRY. The purpose of the conference was to provide input into the revision of the Canadian financial services legislation that is scheduled for 1997, and for which the preparation of draft legislation is imminent.

Although most can agree that the purpose of legislative initiatives should be to promote competition, and thus benefit the consumers of financial services, there is disagreement as to whether the specific proposals--such as permitting banks to sell insurance through their branch networks--will enhance or retard competition. Of particular importance, as well, are the implications of current and emerging technological innovations, such as the smart card and the internet, for financial services regulation. In light of the importance of competition issues, two of the four commissioned papers focused explicitly on this issue. The conference proceedings, to be edited by Jim Pesando and Jack Mintz, will be published by the C.D. Howe Institute.

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## **New Colleagues**

### **MARTIN BOILEAU**

Martin is a Ph.D from Queen's University who specializes in International Macroeconomics with particular reference to growth and business cycles. He does his undergraduate teaching at Scarborough College.

### **KAREN CLAY**

Karen specializes in economic history and industrial organization. A recipient this year of the Polanyi Prize, she is a member of the Erindale Group. Her Ph.D. is from Stanford University.

### **HUW LLOYD-ELLIS**

Huw does his undergraduate teaching at Scarborough. His research interests are in economic development, technological change, occupational choice and wage inequality. He has his Ph.D. from Queen's University.

### **ABIGAIL PAYNE**

Abigail is a member of the Scarborough Group. Her research interest lie in the areas of public finance, law and economics and industrial organization. Her Ph.D. is from Princeton.

### **MICHAEL SMART**

Michael is a Ph.D. from Stanford University who specializes in public and corporate finance and the economics of information and uncertainty.

### **MATTHEW TURNER**

Matt is a Ph.D. from Brown University. He specializes in economic theory and environmental and resource economics.

## **MIKE TSIONAS**

Mike specializes in econometrics, macroeconomics and financial economics. His Ph.D. is from the University of Minnesota.



*New Faculty*

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## **What's Happening in the Department of Economics**



## **ST. GEORGE CAMPUS**

On October 19-23 a conference entitled NEW DIRECTIONS IN THE THEORY OF MARKETS AND GAMES was held here at the University in honour of the distinguished game theorist Robert J. Aumann. The conference was organized by Professor Myrna Wooders of this Department, herself a well-known game theorist, and sponsored jointly by the Fields Institute, recently relocated here from the University of Waterloo, the Department of Economics, the Institute for Policy Analysis, the Hebrew University of Jerusalem, and the Canadian Friends of the Hebrew University. In addition to a public lecture by Professor Aumann, over 80 papers were presented by a distinguished group of participants that included Birgit Grodal (University of Copenhagen), Egbert Deirker (University of Vienna), Bob Anderson (University of California at Berkeley), Ehud Kalai (Northwestern University), John Weymark (University of British Columbia) and David Schmeidler (Ohio State University and University of Tel Aviv).

## **SCARBOROUGH CAMPUS**

Half of the Department's newly hired faculty this past year are part of the Scarborough contingent. Abigail Payne teaches the undergraduate courses in public finance. Her research concerns the degree to which government funding of non-profit institutions crowds out private donations. Martin Boileau teaches advanced macroeconomics and international finance. His research focuses on growth and real business cycles from an international perspective. The College also was able to hire Walid Hejazi on a five-year contractual basis to offer courses in macroeconomics and international economics. Three of the contingent's senior faculty are on secondment to the St. George Campus for administrative duties. Jon Cohen is Dean of the School of Graduate Studies, Sue Howson is Associate Dean of that same faculty and Sue Horton is Acting Associate Dean of the Faculty of Arts and Science. Al Berry, in association with the Center For International Studies, has recently organized a successful conference on labor market policy in Canada and Latin America.

## **ERINDALE CAMPUS**

The Erindale economists have been working hard to maintain their undergraduate specialist program in the face of substantial funding cuts to the University and are hoping to be able to replace Uzi Segal, who was lost to the University of Western Ontario. Efforts are underway, in cooperation with the political Science and philosophy groups, to develop a Philosophy, Politics and Economics specialist program. A similar initiative is being made to join with the mathematics, statistics, computer science and management groups in developing a joint Mathematics and Economics undergraduate specialist program, with particular emphasis on Financial Economics. Both of these programs will draw almost exclusively on existing course offerings. Congratulations are due to a number of Erindale colleagues: to Karen Clay for winning the John Charles Polanyi Prize, to Myrna Wooders for her successful game theory conference, to Scott Eddie for obtaining a Connaught Transformative Grant, and to Mike Hare and Arthur Hosios for obtaining project grants from the Donner Foundation.

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## Research Notes

Loren Brandt came to the U. of T. in 1988 from the Hoover Institution and Stanford University. Since then he has generated a lot of research activity, including collaborations with four Departmental colleagues on projects dealing with China's contemporary and historical economy. In these endeavors, Loren's many talents have been complemented by those of his colleagues in microeconomics, macroeconomics, development and labour economics.

Loren's initial and ongoing collaboration was with colleague Arthur Hosios. Drawing on a unique set of data at the household-level collected by Japanese investigators in Northeast China in the 1930s, Loren and Arthur are analyzing the incentive and reputation issues underlying the design of land, labour and credit contracts. Loren has also joined forces with Dwayne Benjamin to examine a wide set of issues that include the economic organization of activity within the household and the economic contribution of women, and the impact of market development and structure on income distribution.

In the past two years Loren has also been working with Zhu Xiaodong who joined the Department in 1992 after completing his dissertation at the University of Chicago under 1995 Nobel Laureate Robert Lucas. This effort has culminated in a paper which models formally the behaviors of enterprises, financial institutions, government and households that have given rise to the highly cyclical growth process observed in China since the early 1980s. Their analysis answers questions regarding the interaction between political institutions and inflationary cycles, the sustainability of China's current reform course, and the applicability of China's reforms to Eastern Europe.

Loren's most recent collaboration is with Yehuda Kotowitz. Working with members of the Shanghai Economic Research Center, they are studying the effects of technology transfer and foreign direct investment on local enterprises. In recent visits to China, they have designed and tested an extensive enterprise questionnaire that is now being administered in Shanghai to a sample of 250 enterprises drawn from five key sectors. The results of this survey and the follow-up interviews will enable Brandt and Kotowitz to provide an analysis of alternative forms of technology transfer including foreign investment, licensing alliances, purchase and indirect and informal transfer mechanisms in the Shanghai area.

Brandt's research complements research on China-related projects by other members of the Department, including Richard Bird, Jack Mintz, Peter Pauly and Tom Wilson.

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## From the Editor

In the next issue we will be featuring Dale Poirier, who has recently been elected a Fellow of the Econometric Society, and Gerry Helleiner, in whose honour a festschrift is about to appear. We will also be running a story on the extensive on-going research program of Dwayne Benjamin and Mike Baker. Communications, suggestions, and information about alumni and other matters should be addressed to me:

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