Bill Neilson Appointed as New Head

Dr. William Neilson

William “Bill” Neilson, J. Fred Holly Chair of Excellence, became head of the Department of Economics at the University of Tennessee, Knoxville, College of Business Administration on January 1. He succeeded Robert Bohm, who retired December 2012 after being department head for 10 years.

“As we celebrate the college’s 100th birthday, it is an exciting time to become head of the department,” Neilson said. “Bob left the department in wonderful shape, and I am looking forward to joining the leadership team of the College of Business Administration.”

Jan R. Williams, dean of UT’s College of Business Administration and Stokely Foundation Leadership Chair, said that the college is fortunate to have a faculty member with Neilson’s background and talent to assume the department’s head position.

“Bill follows Bob Bohm’s successful time as department head and has two former department heads, Matt Murray and Bill Fox, to advise and support him,” said Williams. “I have coordinated this appointment with incoming dean, Steve Mangum, and we are both looking forward to working with Bill as he assumes this important position.”

Neilson joined the UT economics faculty in 2006 after teaching at Texas A&M University for 18 years. He earned his doctorate in economics from the University of California, San Diego, and his bachelor’s degree in both mathematics and economics from Rice University.

Neilson is an economic theorist; he uses mathematical tools to answer questions relevant to economics. His primary research areas include game theory (the study of interactions among small numbers of individuals or firms), behavior toward risk, and the now-popular field of behavioral economics. He also is interested in issues related to pricing, collusion, social networks, education and law.

Neilson has published more than 40 papers in academic journals. He has also published two textbooks, including the recent Personnel Economics, which discusses how compensation structures can be used to motivate workers, maximize profit, and attract the right applicant pool. He currently serves as editor-in-chief of the Journal of Economic Behavior and Organization, which handles more than 700 academic papers each year.

At UT, Neilson teaches macroeconomics, international economics and the economics of strategy in the Executive MBA for Strategic Leadership program. He also teaches game theory and mathematical economics in the economics doctoral program.

UT Econ Club Wins National Competition

The Winning Team

Several members of the UT Economics Club competed in the national collegiate iOme Challenge last fall and won the event! The team consisted of Jessica TenBroeck (team leader), Jonathan Sessions, Davis Fry, Kayla McMurray, Chelsea Pedgham, Thea Aub, Margaret Ross, and faculty adviser Ken Baker. As a result of their victory, they were awarded a $10,000 cash prize and an expense-paid trip to Washington D.C. to present their entry to members of Congress at the Women’s Institute for a Secure Retirement conference this April.

iOme (I-Owe-Me) is a non-profit financial literacy organization focused on challenging college students to change the world by investing now in their lifelong financial security. This year’s challenge asked the entrants to pretend they worked for the President’s Council of Economic Advisers and develop a policy proposal to be introduced in Congress that would create incentives and remove barriers to financial savings for the millennial generation. Teams had to submit an essay that was well researched as well as economically and politically feasible, and a short video to support the essay.

The UT team developed a three pronged approach, entitled Think, Plan, Save. The Blue-Ribbon panel of judges this year included several top economists and political scientists, a Pulitzer-Prize winning journalist and a former Special Assistant to President Clinton. This year, the fourth year of the challenge, saw a record number of entrants. To visit the teams winning essay (and supporting video), follow this link.
Research With Staying Power

Academic research has a shelf life. As time goes on, new topics of study emerge and old ones become stale. Some ideas manage to stay relevant for longer periods of time, though, and this column considers some long-shelf-life papers written by UTK economics faculty. These papers are still being cited by other academic researchers, and the work continues to influence thinking on the subject.

In 2004 Professors Bill Fox and Matt Murray published “Do Economic Effects Justify the Use of Fiscal Incentives?” in the Southern Economic Journal. Occasionally large businesses decide to relocate or open a new major center of operations. States and municipalities then try to entice the firm to locate by offering tax, infrastructure, and other economic benefits to entice the firm to locate in their communities. But do these new businesses generate net benefits for their communities? More specifically, do the winners experience gains in income and employment larger than those in communities that did not attract new businesses? This is the question addressed in Fox and Murray’s paper.

They found that the answer is no. Communities that attract large businesses do no better than communities that do not. To get this answer, Fox and Murray used econometric techniques to compare growth paths in communities that attracted new businesses with more than 1000 employees to similar communities that did not. The econometrics lets them hold everything else equal in a statistical sense, so that they could determine whether adding a new large business leads to a growth path with higher employment and higher income. They were unable to find any statistically significant effect for the attraction of a large business to the community.

Their explanation of the result is that even though the new businesses add new jobs and new income, their presence may raise local labor and input prices in ways that hurt other businesses, and attracting the new businesses in the first place may actually lead to lower public services for the rest of the community. The net effect is a wash.

Their findings also match how one would think about the problem using other, newer modes of analysis, particularly auction theory. The problem becomes one of bidding in a common-value auction. As an example, consider the (strange) problem of bidding for a dollar. All the bidders think that it is worth a dollar, and the only equilibrium bid turns out to be a dollar. No one wins, because the winner gets a dollar but pays a dollar for a net gain of zero. In the problem considered by Fox and Murray, the bidders are communities and they bid on the business by offering it incentives to locate there. To the extent that all the communities value the presence of that business the same, the problem reduces to bidding for a dollar. All communities bid the full value of hosting the business, and the net gain to the winner is nothing. The only true winner is the business.

A surprising implication from thinking about the Fox and Murray paper is the tension of auction theory is that communities are sophisticated bidders. Determining the value of a new business is a lot more complicated than determining the value of a dollar, but communities get it right on average. If they had overestimated the value of the business then Fox and Murray would have found a negative impact on growth, and if communities had underestimated the value of the business Fox and Murray would have found a positive impact on growth. They found no impact, which suggests that these communities are good economists.

Bob Bohm Retires

It is truly bittersweet that we bid a fond farewell to Dr. Robert Bohm. Last December, Bob officially retired from our department after 44 total years of service to the University. Bob arrived at UT in 1968 as an Assistant Professor in the Finance Department, eventually becoming Full Professor in 1978. During this time, he also served as the director of the Appalachian Resources Project, which later led him to serve as Associate Director and acting Director of the Energy, Environment and Resources Center in the early 1980’s. He then switched to the Economics Department, where he worked until his retirement. From 1996 – 1998, he served as the Director of Graduate Studies, and from 2000-2002, the Director of Undergraduate Studies, and eventually Department Head from 2002 – 2012.

Throughout this journey, he made a positive impact on literally thousands of people, from students both undergraduate and graduate, to faculty to staff and administration. He imparted economic knowledge to countless undergraduate students, guided research and dissertations for untold numbers of graduate students, and guided, supported, mentored and influenced numerous faculty over those years. During his tenure as Department Head, his main priority was rebuilding. The department was in a transition period, with only around 12 faculty members. Today, the department stands on a solid foundation, with 23 full-time faculty and staff members (with a dynamic mix of younger and mid-career faculty), plus several part-time and affiliated faculty members.

Bob had such a positive influence in the department that members of the Economics Advisory Council decided to honor him. Spearheaded by Dr. Sam Carter, who was Bob’s first doctoral candidate, the Council created the Robert Bohm Economics Faculty Award Endowment. “We want Bob’s successors to have the tools they need to recruit and retain exemplary faculty,” said Carter. “This endowment allows us to honor Bob and creates a way for other to honor him moving forward.” Those wishing to contribute to this newly created endowment in Bob’s honor may contact the Office of Development and Alumni Affairs at (865) 974-6803. We here are all extremely grateful for his many years of service and he will certainly miss him. We wish him a long, healthy and happy retirement!
Meet the Faculty

Mohammed Mohsin, associate professor of economics, only had one name growing up in India. He was just Mohsin.

When he applied for a passport, the Indian Passport officer said they needed more than one name for his paperwork, so he added Mohammed on the spot. Now he has two first names.

It was just one step along his journey.

“I’ve been moving my whole life,” he said.

It was exciting, he said, to grow up in a small village and not know where life might lead him. His father helped him pursue his education, but it wasn’t always easy. He had to walk three miles every day to get to his high school.

As for studying economics?

“That happened by accident,” he said. He was interested in math, but friends told him economics had more practical applications. “At that time I had no idea about economics in a real-life sense. Now I am happy that I studied economics. I can do both.”

He initially studied at the University of Hyderabad in India. He then received a scholarship from the Commonwealth Scholarship from the Canadian government to go to York University in Toronto, where he earned his doctorate.

Mohammed Mohsin makes for a great story,” said Jan Williams, dean of the College of Business Administration. “He grew up in India and, unlike most of us, experienced both extreme inflation and extreme deflation. This almost certainly influenced his interest in how inflation affects the functioning of an economy, and he is becoming an expert in this topic. He has published more than 20 articles in books and journals since joining our faculty.”

Mohsin has been at UT for twelve years. He teaches and researches international economics, macroeconomics, and monetary economics.

What he teaches is technical, and it’s easy for students to get confused, he said. He does classroom exercises to help them understand the concepts and assigns papers and projects to keep them engaged.

On the weekends, he lives in Asheville, North Carolina. He’s been an American citizen for several years, and his son was born in the United States.

“My son can’t imagine living anywhere besides Asheville,” he said.

Dr. Mohammed Mohsin

The Sports Column

William Neilson is The J. Fred Holly Professor of Economics and Department Head at UT and also the editor of the Journal of Economic Behavior and Organization, an academic journal that receives more than 700 new submissions per year. Many of them involve sports data, and he has decided to share some of the more interesting tidbits with the newsletter.

The basketball game is coming down to its final minutes, and although close, one team has some ground to make up. It needs a big swing in points, and it has two options. It could go for high-percentage 2-point baskets, or it could shoot 3-pointers. Which is better is, ultimately, an economics question because it has to do with the allocation of a scarce resource among competing uses, specifically the allocation of scarce remaining possessions to 2-point or 3-point attempts.

This question is answered in a paper entitled, “Live by the Three, Die by the Three? The Price of Risk in the NBA,” by Justin Rao and Matthew Goldman. Dr. Rao is an economist at Microsoft Research and also an adjunct associate professor of economics at the University of Tennessee.

The first consideration that goes into the analysis is how teams’ risk attitudes change during the course of the basketball game. As time winds down, the team that is behind becomes more risk seeking because it is willing to take more chances in order to get a bigger point swing. At the same time, the team that is ahead becomes more risk averse. These considerations suggest that the team that’s currently behind should attempt more 3-pointers near the end of the game and the team that’s ahead should attempt more 2-pointers.

The second consideration is that if one team adjusts its offensive strategy, the other team adjusts its defensive strategy. The team that’s ahead becomes more risk averse, which means that it guards especially against the 3-ball. Conversely, the team that’s behind becomes more risk seeking, so it guards more aggressively against high-percentage 2-point shots.

These two considerations generate a very strong prediction: as the end of the game nears, the team that is behind makes a smaller percentage of its 3-point shots. It takes more of them and they are defended better, both of which make the shots less likely to go through the hoop. Dr. Rao and his coauthor test this prediction using five years of NBA play-by-play data, and they account for point differences, time remaining, and even which players are playing at the time.

They find two interesting results. The first is that their prediction is confirmed: 3-point shots are less productive the more risk-seeking a team becomes at the end of a game. The second result is that there are some teams for whom the prediction is not true, and they tend to be among the worst in the league. This is counterintuitive because despite maintaining their 3-point shooting percentage at the end of the game, these teams still tend to lose. The conclusion of the paper is that these teams tend to lose precisely because their 3-point percentages do not fall. In other words, they do not shoot enough threes at the end of the game, which is why their 3-point percentages do not fall. Because they are not shooting enough threes, they tend to lose games when they are behind at the end, and this leads to a poor winning percentage. Game theory and winning games go hand-in-hand.
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Continuing the Economics Department’s 1913 Campaign!

In 2014, the College of Business Administration celebrates its 100th anniversary, making it the second-oldest business school in the Southeastern Conference. To commemorate this milestone, the College will launch its “Century Campaign” to raise funds for the Business School. As mentioned in a previous newsletter, the origin of our department is slightly more ancient, and thus we are having our own Economics Department “1913 Campaign.” This campaign will direct funds to the same Economics Program Support Fund that has been used to collect donations in previous years. Your donations to the department will go towards the funding of scholarships and fellowships for our students, as well as serve as the base for research and travel grants for our faculty. We have grown immensely in the last century and with your help we will continue to grow. Please give as much as you can to support the department in its continued pursuit of excellence. You can donate in one of three ways detailed below.

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