

Why the Energy Bill Won't Bring Down Prices at the Pump

Even though President Bush recently signed the first national energy legislation in the past 10 years, don't expect much conservation, lower prices at the gas pump, or a drop in the use of foreign oil, says professor **Austan Goolsbee**.

Americans are wed to their cars, and it doesn't matter how much it costs to fill up the tank. Even the post-Katrina spike at the pump—combined with President Bush's request that people drive less—made no difference in gasoline consumption. In fact, prices would have to rise for about five years before drivers would look for alternatives, such as carpooling or buying a more efficient vehicle, according to Goolsbee, Robert P. Gwinn Professor of Economics. "Practically speaking," he wrote in his column for the online magazine *Slate* in September, consumers' behavior only would respond to "a hefty price increase that lasts."

Goolsbee pointed to the economic rule of thumb that says consumers react to price hikes only when they have another option. Drivers can't opt for a different kind of fuel or give up driving. "They might take one less driving

vacation or check their tire pressure more often when they fill up," he wrote. "But that hardly makes a dent in the total numbers."

Even buying a hybrid vehicle may not provide an economic edge. Toyota's hybrid SUV costs about \$9,000 more than its conventional SUV. Even if gas shot up to \$5 per gallon for three months, the average family would save only \$441, Goolsbee said. "The savings don't add up in the short or medium run," he wrote, noting that, at current gas prices, it would take "decades" of driving the hybrid before they did.

Even if Americans could reduce their dependence on oil, it's unlikely to reduce the country's dependence on foreign sources, Goolsbee wrote in *Fortune* in August. "The costs of pumping oil in the United States are among the highest in the world, and the costs in the Middle East are the lowest. So in fact any significant reduction in U.S. demand would hit domestic sources hard but do little to change the amount of foreign oil we buy," Goolsbee said.

The energy bill that President Bush signed last fall provides more than \$1 billion in subsidies for hybrids and home energy conservation. Some politicians, worried that relying on foreign oil puts the country at heightened risk of terrorism, hoped it would make the United States safer. But according to Goolsbee, the law "ignores the way oil pricing really functions, and put simply, it won't work," he wrote. "Unfortunately, it wouldn't be the OPEC oil we would stop buying if our demand fell."

For the foreseeable future, Goolsbee said, get used to higher prices.—P.H.

ON THE WEB To learn more about Goolsbee's research, visit gsbwww.uchicago.edu/news/gsbchicago/facultylinks.html.



Craving Crude: Rising gas prices and the president's energy bill will do little to curb Americans' oil consumption, according to economist **Austan Goolsbee**.

IN THE NEWS

Religious Marketing a New Practice, Fogel Says



Robert Fogel

American companies like Starbucks and Alaska Airlines are increasingly utilizing religion in their products and marketing, but that wasn't always the case, according to Nobel laureate **Robert Fogel**. Prior to World War I, Fogel said, businessmen didn't need to reflect their religious beliefs in their products; the American public assumed they were religious because they were educated at theological universities or they donated to religious causes. "John D. Rockefeller is a classic example," Fogel told the *New York Times* in October. "All of his life, he gave 10 percent of his income to the Baptist Church." Then, Fogel said, from World War I to the 1950s, the culture grew more secular while

advertising boomed, so to reach a larger market, advertisers avoided religious themes. Fogel, Charles R. Walgreen Distinguished Service Professor of American Institutions, is the author of *The Fourth Great Awakening and the Future of Egalitarianism* (University of Chicago Press, 2000), which integrates the United States' social reforms with its religious history.

Zingales: People Invest in Markets They Trust



Luigi Zingales

Rising interest rates, a flattening yield curve, inflation, trade and budget deficits—all these may help explain why stock markets in Europe, Japan, and emerging markets are outperforming those in the United States. But the *Economist* suggested that a paper by **Luigi Zingales**, Robert C.

McCormack Professor of Entrepreneurship and Finance, and **Luigi Guiso**, visiting professor of economics, might point to another factor: trust. In the paper, written with Paola Sapienza and published by London's Centre for Economic Policy Research, the authors show that investors' trust—in financial data's reliability, in the system's fairness—correlates with their proclivity to buy stock. The *Economist*, which featured the research in October, wrote, "This supports the notion that scandals involving the likes of Enron and WorldCom may have turned off American investors. Indeed, Italy, whose once-tainted Parmalat returned to the stock market last week, is another underperformer."—A.R.

ON THE WEB To read the paper "Trusting the Stock Market" or to learn more about these professors' research, visit gsbwww.uchicago.edu/news/gsbchicago/facultylinks.html.

APPLICATIONS

What Health Professionals Could Learn From Engineers

Engineering strategies and technologies that have revolutionized quality, productivity, and performance in various industries could vastly improve health care but have been neglected by the industry, according to a new report from the National Academy of Engineering and the Institute of Medicine. Coauthored by **John Birge**, Jerry W. and Carol Lee Levin Professor of Operations Management, the report, "Building a Better Delivery System: A New Engineering/Health Care Partnership," looks at how engineers and health professionals can work together to address the quality and cost of health care.

"We describe how widespread adoption of common technologies from manufacturing, such as statistical quality control and lean production principles, could lead to significant improvements in both the quality and efficiency of health care delivery," said Birge, who was dean of Northwestern's engineering school before joining the GSB in 2004. "We

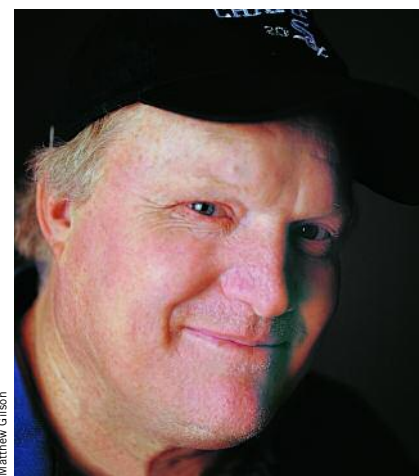
also recommend steps, including increased health care focus at business schools, to facilitate these changes and to develop new methods for even greater improvements."

According to the report, the health care industry's "collective inattention" to engineering strategies contributes to nearly 100,000 preventable deaths per year, a half-trillion dollars wasted annually through inefficiency, and costs rising at close to three times the rate of inflation. But it doesn't have to be that way. "I hope the report will motivate increased interest in academics and industry not only to develop new therapies," said Birge, "but also to discover novel methods and analyses to improve delivery of the best current care options in the most efficient and effective way."—A.R.

ON THE WEB To learn more about Birge's research, visit gsbwww.uchicago.edu/news/gsbchicago/facultylinks.html.

AWARDS

Murphy Wins “Genius Grant”



Kevin Murphy

The John D. and Catherine T. MacArthur Foundation named **Kevin Murphy, PhD '86** (economics), a MacArthur Fellow for 2005. Popularly referred to as a “genius grant,” the fellowship provides \$500,000 in “no strings attached” support over five years. Murphy, George J. Stigler Distinguished Service Professor of Economics, was honored for “revealing economic forces shaping vital social phenomena, such as wage inequality, unemployment, addiction, medical research, and economic growth,” said the foundation. To read an interview with Murphy, turn to “The Economist Next Door,” page 22.

Deutsch’s “Building the New Venture” Honored



Waverly Deutsch

Waverly Deutsch received the award for Innovative Pedagogy for Entrepreneurship Education from the U.S. Association for Small Business and Entrepreneurship for her course “Building the New Venture.” Deutsch, clinical assistant professor of entrepreneurship, developed the course at Chicago GSB to fill a gap she saw in entrepreneurship education. “A lot of universities teach students how to create a business plan and things like that, but not many actually teach them how to execute it,” Deutsch told the *Chicago Sun-Times*. “That’s what this course is all about.” Students experience the process of launching a product or service and executing their business plans and “are essentially running a company the entire quarter,” Deutsch said. The award is given by a committee of past winners who are tenured professors around the country.—A.R.

ON THE WEB To learn more about Murphy’s or Deutsch’s work, visit gsbwww.uchicago.edu/news/gsbchicago/facultylinks.html.

AWARDS

Tsay Wows IBM

Ruey Tsay, H. G. B. Alexander Professor of Econometrics and Statistics, received a 2005 IBM Faculty Award. The \$20,000 prize recognizes Tsay’s new method of building econometric models for business forecasting, which is used by IBM’s business group. “The new method simplifies the modeling process by identifying details of the dynamic dependence,” Tsay said. “It also extends its applicability by relaxing strict conditions commonly imposed by other methods.” The award is meant to foster collaboration between academic researchers and IBM’s research, development, and service organizations.

Madansky Wins Founders Award

Albert Madansky, AB '52, SM '55, PhD '58 (statistics), H. G. B. Alexander Professor Emeritus of Business Administration, won the American Statistical Association’s Founders Award. The award recognized his development of statistical methods and applications in business administration, his work in academia and in the industry, and his service to the ASA. Madansky has been a member of the association for more than 50 years and has served as an editor, chair of the publications committee, president of the business and economics section, and most recently treasurer.

ON THE WEB To learn more about Tsay’s or Madansky’s research, visit gsbwww.uchicago.edu/news/gsbchicago/facultylinks.html.

AWARDS

Frazzini Wins with “Disposition Effect”



Andrea Frazzini

Andrea Frazzini, assistant professor of finance, received the first prize of \$2,000 in the Crowell Memorial Prize Competition for

his paper “The Disposition Effect and Underreaction to News.” The competition, held by PanAgora Asset Management, an affiliate of Putnam Investments, aims to provide a forum for new research in quantitative investing that bridges theory and practice.

The paper considers the disposition effect, or the tendency of investors to show off their success by selling winners while holding on to losers so as not to admit defeat. This practice, Frazzini found, induces underreaction to corporate news, leading to stock-price predictability.

“Frazzini’s research has fascinating implications,” wrote *SmartMoney* in August, noting that investors can beat the market by 12 percentage points if they “buy on good news when others are irrationally selling (if today’s price is well above the average purchase price) and sell on bad news when others are irrationally refusing to sell (if today’s price is well below the average purchase price.)”

The paper, based on Frazzini’s dissertation work at Yale, where he earned his PhD in economics last year, will appear in a forthcoming issue of the *Journal of Finance*. In addition to the Crowell prize, Frazzini also won the 11th annual academic competition of

the Chicago Quantitative Alliance, a professional organization for quantitative fund managers.

ON THE WEB To read the paper “The Disposition Effect and Underreaction to News” or to learn more about Frazzini’s research, visit gsbwww.uchicago.edu/news/gsbchicago/facultylinks.html.

PROMOTIONS

GSB Announces Named Professorships



John Birge

Chicago GSB gave two faculty members named professorships last summer: **John Birge** was made Jerry W. and Carol Lee Levin Professor of Operations Management—a new chair (see “Birge Is Named First Levin Professor,” page 12)—and **Austan Goolsbee** was named Robert P.

Gwinn Professor of Economics. Birge joined the faculty in 2004 as professor of operations management and Neubauer Family Faculty Fellow. Prior to that, he was dean of Northwestern’s Robert R. McCormick School of Engineering and Applied Science. His research focuses on methods and models for optimal decision making under uncertainty with an emphasis on relationships between operations and finance. He recently coauthored a report on how engineering strategies could improve health care (see “What

Health Professionals Could Learn From Engineers,” page 17).

Goolsbee joined Chicago GSB in 1995 and has been professor of economics since 2001. He also is a member of the U.S. Census Advisory Committee, a research associate at the National Bureau of Economic Research, and a research fellow at the American Bar Foundation. His research interests include the Internet, the new economy, government policy, and taxes. He recently has been in the media speaking on Social Security reform and U.S. oil consumption (see “Why the Energy Bill Won’t Bring Down Prices at the Pump,” page 16).

ON THE WEB To learn more about Birge’s or Goolsbee’s research, visit gsbwww.uchicago.edu/news/gsbchicago/facultylinks.html.

APPOINTMENT

Skinner Joins GSB



Douglas Skinner

Douglas Skinner joined Chicago GSB last July as professor of accounting and Neubauer Family Faculty Fellow. He previously was KPMG Professor of Accounting at the University of Michigan Ross School of Business. His research interests include corporate financial reporting, disclosure practice, and payout policy.—A.R.

ON THE WEB To learn more about Skinner’s research, visit gsbwww.uchicago.edu/news/gsbchicago/facultylinks.html.

BOOKSHELF

From Dr. Seuss to *Don Quixote*: What Faculty Are Reading

GSB faculty read more than research in their areas of expertise. Here's what three professors had on their bookshelves lately.



Nicole DeHoratius
Assistant Professor
of Operations
Management

And to Think That I Saw it on Mulberry Street, Dr. Seuss (Vanguard, 1937)

"This is one of my daughter's favorite stories and I love reading it to her. She never tires of the tale and is riveted by the illustrations. I personally like it because it's all about the power of imagination—the excitement and joy of creating a story and the effort one boy goes through to make his story better and better. I think there is a lesson in this book for parents: do not squash the imagination of your children—allow their minds to explore yet help them to distinguish between what is real and what is imagined."

Applied Longitudinal Data Analysis: Modeling Change and Event Occurrence,

Judith D. Singer and John B. Willett (Oxford, 2003)

"This book has not left my side at home or work in recent months. It is one of the best-written statistics books I have discovered—certainly not surprising given how effective Singer and Willett are in the classroom. My focus has been on understanding their description of multilevel modeling techniques, as this is a methodology I am currently employing in my own research."

Until I Find You, John Irving (Random House, 2005)

"I have read nearly every John Irving book and have enjoyed most of them immensely—particularly *The World According to Garp*, *A Widow for One Year*, and *A Prayer for Owen Meany*. What appeals to me about his writing is that the world of the protagonist is one so far removed from my own and yet the characters often seem so familiar. *Until I Found You* is his latest publication and so far there are many similarities to his earlier works, but I haven't read enough of it to say whether it ranks among my favorites—check back with me in a few months. Thus far, I have been learning of the strange childhood of Jack Burns as he travels with his mother from one European city to another."



Milton Harris
Chicago Board of Trade
Professor of Finance and
Economics

Absolute Friends, John le Carré (Little, Brown, 2004)

"John le Carré is a recognized master of the spy novel genre and, in my humble opinion, the best practitioner of the craft working in the English language today. *Absolute Friends* is one of his best. It has all his hallmarks: complex characters, intricate plot,

and current politics. To be perfectly honest, however, I have to say I did not like the ending. Still, if you're into spy novels or just good novels, don't miss *Absolute Friends*. It will be hard to get your nose out of it."

Incompleteness: The Proof and Paradox of Kurt Gödel, Rebecca Goldstein (Norton, 2005)

"Gödel was one of the towering intellects of mathematical logic. I know this subject sounds about as entertaining as a root canal, but Goldstein manages to make the reclusive philosopher—and his work—fascinating, partly by putting him in the context of his time (think Einstein, Heisenberg, von Neumann, Wittgenstein, Hitler). Gödel was a member of the famous Vienna Circle in the 1930s, then fled Nazi persecution by emigrating to the Institute for Advanced Study in Princeton, New Jersey, where his best (indeed only) friend was Albert Einstein. Goldstein, a philosopher of science and novelist, does an excellent job of explaining the issues confronted by logicians and the proof and implications of Gödel's famous incompleteness theorem. (In the interest of full disclosure, I have to admit that I was a math major in college and took a year of mathematical logic.)"



Robert Topel
Isidore Brown and
Gladys J. Brown Professor
in Urban and Labor
Economics

Abraham Lincoln

"Instead of three books, I did three themes, and the first is Abraham Lincoln. I'm a fan of political biographies and I recently picked up three volumes that give different perspectives on Lincoln's life and presidency. Stephen Oates's novel-like *With Malice Toward None* (Harper & Row, 1977) is probably the best of the Lincoln biographies, and it serves as a good introduction to the other two. William Lee Miller's *Lincoln's Virtues* (Knopf, 2002) carries the odd subtitle "An Ethical Biography"; it tracks the development of Lincoln's character and principles using the crises of his political career

and presidency as a template. Last, Geoffrey Perret's *Lincoln's War* (Random House, 2004) is a history of Lincoln as commander in chief during the Civil War, focusing especially on his frustrations with military commanders who trained much and fought little."

Harold Bloom and *Don Quixote*

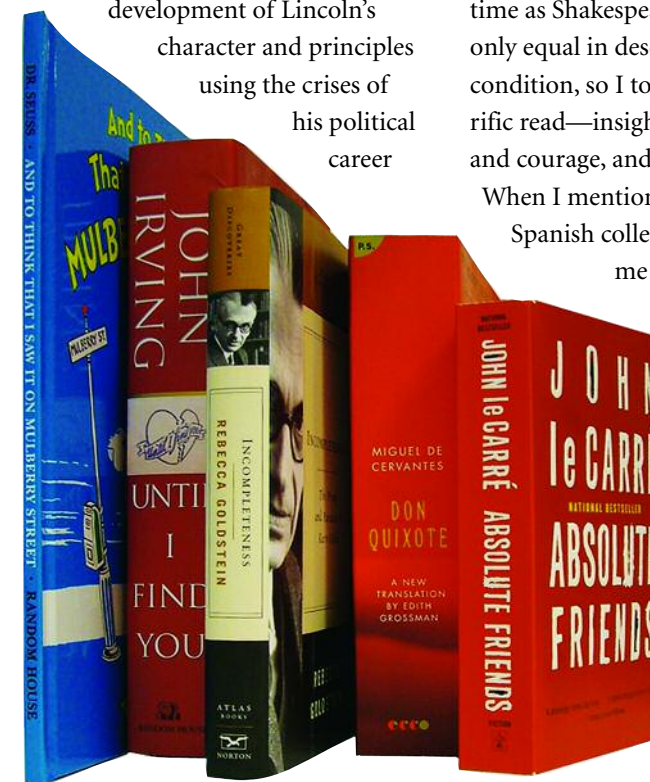
"I think Harold Bloom's views on literature are thought provoking and entertaining, though not entirely convincing. Take a look at his *The Western Canon* (Harcourt Brace, 1994) or his *Shakespeare: The Invention of the Human* (Riverhead, 1998), which elevates the bard to a deity. In a recent review of Edith Grossman's new translation of *Don Quixote* (HarperCollins, 2003), Bloom ranked Miguel de Cervantes, who wrote at the same time as Shakespeare, as Shakespeare's only equal in describing the human condition, so I took the bait. It's a terrific read—insightful of human frailty and courage, and hilarious to boot.

When I mentioned it to one of my Spanish colleagues, he surprised me by deciding to read it too. Why, when he could read the original in Spanish? Because *Don Quixote* is written in old Castilian, and

modern English is easier going even for a native speaker. Maybe we should read *King Lear* in Spanish."

Baseball

"For lighter fare I read about sports, especially baseball. My latest are Leigh Montville's *Ted Williams* (Doubleday, 2004) and Jane Leavy's *Sandy Koufax* (HarperCollins, 2002), which chronicle the careers of the best hitter (Williams) and pitcher (Koufax) in baseball history. The interesting parallel between them isn't their physical talents, which are unsurpassed, but their focus on technique and perfect mechanics. Koufax studied the physics of pitching, turning his body into the perfect fulcrum to deliver the ball, and Williams considered himself the world's authority on hitting a baseball—his *The Science of Hitting* (Fireside, 1970) is a fun read for the baseball obsessed, and largely correct. For those who want a better understanding of the game, I like Tim McCarver's *Baseball for Brain Surgeons and Other Fans* (Villard, 1998) or George Will's *Men at Work: The Craft of Baseball* (Macmillan, 1990). And for MBAs, the best read has to be Michael Lewis's *Moneyball* (Norton, 2003) about the use of modern statistics and finance in building a team. Just don't listen to what other faculty say about it!"—A.R.



ON THE WEB To learn more about these professors' research, visit gsbwww.uchicago.edu/news/gsbchicago/facultylinks.html.