The Stigler Center is extremely grateful for the generous support provided by Mark and Anita Brickell, ’76; Raph Appadoo, ’82; the Lynde and Harry Bradley Foundation; the University of Chicago Energy Initiative; and other contributions to the endowment.

Nobel laureate George J. Stigler founded the Center for the Study of the Economy and the State at the University of Chicago in 1977. From the beginning, it has been a joint enterprise of economists and legal scholars at Chicago Booth, the Department of Economics, the Law School, and other areas of the university. The center was renamed in Stigler’s memory after his death in 1991.

The Stigler Center is dedicated to understanding the interaction between politics and the economy. To carry out its mission, the Stigler Center supports research by faculty at the University of Chicago and by visitors from other academic institutions. The center publishes a working paper series and promotes the dissemination of research to a wider audience via conferences and lectures.

The Stigler Center is a significant contributor to the continuity and growth of Chicago Economics, which is known worldwide for four attributes:

- A view of economic theory as a powerful tool for understanding the world
- A deep appreciation for the role of private markets in promoting human welfare
- An understanding of the legal infrastructure that facilitates market performance
- Careful empirical testing of the predictions of economic theory

Executive Committee

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The Law School

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Mark Slinger
Director, MacLean Center for Clinical Medical Ethics

Robert Topel
Director, Stigler Center
Isidore Brown and Gladys J. Brown Distinguished Service Professor in Urban and Labor Economics
Chicago Booth

The George J. Stigler Center is a university-wide research center founded by George Stigler in 1977 as the Center for the Study of the Economy and the State. Headquartered at Chicago Booth, the center’s mission is to carry on the intellectual tradition that George Stigler began—promoting research that deepens our understanding of the interaction between the private economy, government policy, and the law. Consistent with George’s scholarly approach and that of the university, the goal of Stigler Center research is not to help formulate policy or even to influence it, but rather to understand its implications and effects. If this understanding helps inform policy formation and debate, then all the better.

The common theme of Stigler Center research is the application of Chicago-style economic analysis to problems that influence, or are influenced by, public policy. The hallmarks of Chicago economics are:

- A view of economic theory as a powerful tool for understanding the world
- An appreciation for the role of private markets in promoting human welfare
- An understanding of the legal infrastructure that facilitates market performance
- Careful empirical testing of the predictions of economic theory

In addition to its traditional research activities in economics and policy described in this report, the Stigler Center also administers the Energy Policy Institute at Chicago (EPIC), which is a joint venture between Chicago Booth and the Harris School of Public Policy. A major expansion of the Chicago Energy Initiative, which was founded in the Stigler Center, EPIC is an interdisciplinary research program devoted to the study of the economic, geopolitical, and environmental impacts of energy use. EPIC, which I codirect with physicist Robert Rosner, leverages the resources of the university and Argonne National Laboratory to create a distinctly “Chicago” research program on energy policy.

This annual report summarizes activities of the Stigler Center and EPIC during the 2011-12 academic year.

Sincerely,

Robert H. Topel
Director, Stigler Center

Codirector, Energy Policy Institute at Chicago

Isidore Brown and Gladys J. Brown Distinguished Service Professor in Urban and Labor Economics

Chicago Booth
Chicago Booth faculty have appeared at key conferences worldwide, representing our cogent, cutting edge academic research and building the Booth brand.

Energy and Enterprise Initiative  
April 2012 | Chicago  
Fixing Market Distortions: A Free Enterprise Solution for Energy and Climate?  
The Stigler Center and EPIC hosted the Energy and Enterprise Initiative moderated by former US Congressman Bob Inglis, featuring a panel discussion with University of Chicago professors Liz Moyer, Robert Rosner, Jim Sallee, Robert H. Topel, and David Weisbach.

60th Annual Chicago Booth Management Conference  
May 2012 | Chicago  
The Future of Transportation  
The keynote panel, featuring professor Robert H. Topel; Bill Reinert, National Manager, Advanced Technology Group, Toyota Motor Sales; and Michael Wirth, Executive Vice President, Downstream & Chemicals, Chevron, discussed foreseeable changes in transportation technology, effects on prices and incentives to innovate by world economic growth, and economic and national security implications of current dependence on fossil fuels.

The Eighth B. Peter Pashigian Memorial Lecture  
November 2012 | Chicago  
The Media and the State: Historical Evidence from US Newspapers  
Professor Jesse M. Shapiro presented his work with professor Matthew Gentzkow following introductory remarks from professor Robert H. Topel. Using data from the US daily newspaper market in the late nineteenth and early twentieth centuries, Shapiro and Gentzkow explore the interactions between the political market and the media market. They study how newspapers shape elections, how politicians try to manipulate the news, and how consumers respond to the different ideological biases of the press. They use their findings to inform contemporary policy debates about how to maintain a diverse marketplace of ideas free from state influence.

Economic Models in Education Research  
April 2012 | Chicago  
Designing Policies for Educators  
This workshop, organized by professor Derek Neal, provided an overview of basic tools that have been developed in the fields of mechanism design, personnel economics, and organizational economics with the aim of providing the next generation of education researchers with the basic tools required to inform the design of new incentive and accountability systems in education before they are tested in the field.

The Almedalen Policy Week  
July 2012 | Gotland, Sweden  
Who Will Carry the Future? Health, Aging, and Welfare State Policies in the US and Europe  
Professor Robert H. Topel delivered this keynote address during Sweden’s Almedalen Policy Week, a national political forum attended annually by thousands including academics, politicians, representatives of NGOs, and journalists.
Since 1977, the Stigler Center has supported research of great depth, breadth, and impact. The application of Chicago economics to issues of public policy has yielded groundbreaking results while opening new perspectives in multiple fields of study. This past year was no exception, and the following research adds another chapter to the center’s distinguished legacy.

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Jesse M. Shapiro and Matthew Gentzkow
Familial Altruism and Organ Donation

Since 2005, the waiting list for a kidney transplant by donation has grown despite the growth in kidney exchanges and giving by persons other than relatives of the donees. Opt-out systems do not appear to increase donations when live donations are included. Becker, with Julio Elias (visiting scholar, Universidad del CEMA) and Karen Ye (University of Chicago), uses a model of altruism of relatives toward persons needing kidneys to explain empirical findings in their and others’ recent organ donation research.

Human Capital and Labor Markets

In another project with Scott Kominers (University of Chicago) and Jörg L. Spenkuch (University of Chicago), Becker develops theoretical results on the relation between parental and children’s human capital and earnings. That is, as the theory predicts, with perfect capital markets there is a convex relationship between parental and children’s human capital. The authors also determine how well these and other results are consistent with various empirical studies.
Voluntary Job Separations in the Job Market

Charles continues ongoing work on the nature, causes, and distribution of voluntary job separations in the labor market. A key part of this research involves linking the evolution of worker wage profiles both before and after a separation occurs. Charles is especially interested in determining the sensitivity of voluntary quits with respect to wage dynamics, and whether that sensitivity differs by race, gender, and experience, as some models of discrimination suggest they should. In essence, he seeks to answer, “How does lower than expected wage growth prompt workers to voluntarily separate from their job?” and “Does this separation propensity differ for Blacks and women?”
Voluntary Disclosure of Verifiable Information

Gertner and Kamenica are currently working on a project about the voluntary disclosure of verifiable information. A vast theoretical literature presents arguments for why such private information will always be revealed. These theoretical results have played an important role in the discussion of the need for government-mandated disclosure of private information, but to date there has been very little empirical research on whether such information is indeed revealed in practice in the absence of any regulations.

Gertner and Kamenica will examine this question using data on resumes of Booth MBA students. This setting provides the researchers with a rare opportunity to observe both what private information a party had (e.g., the student’s actual GMAT score) and whether this information was revealed (e.g., whether the student reported her GMAT score on the resume).

The relevant datasets will be constructed by merging data from various administrative sources (Admissions, Career Services, registrar, etc.) and digitizing all Booth resumes from the early 1980s, the analyses of which should yield novel insights into the nature of equilibrium disclosure of private information.
Public Versus Private Provision of Information Goods: Efficiency, Competition, and Bias in Weather Forecasting

Goolsbee is comparing the efficiency and performance of private weather forecasters against the government-provided National Weather Service forecast to determine if public provision of an information good is different than public provision of more conventional economic services. In particular, his research explores evidence of competitive pressures and a desire to “hype up” extreme weather events for the generation of viewership among private weather forecasters in national or local television stations.

Additionally, Goolsbee’s research reveals the value of weather forecasting as a focal variable, as it allows for objective truths in news coverage to be compared, which in turn allows researchers to test various theories on the economics of media on the impact of competition. Further, the resulting research contributes to an important new literature on media biases and slants that debates how competition between media organizations for consumer attention might affect their incentives to provide the truth or to slant their coverage.

Weather forecasting is a broadly, immediately relevant issue. Many of us have heard the anecdotal argument that private providers, especially local TV networks, have an incentive to hype extreme weather events to drive ratings. Without question, consumer demand rises significantly when there are significant weather events. The work of Zinman and Zitzewitz (2009) shows that at least for the case of ski resorts, they exaggerate the ex post estimates of how much snow they received and they exaggerate more on weekends when the demand is higher.

As such, Goolsbee’s current project seeks to compare the relative efficiency of private versus public weather forecasting to test whether the superiority of private forecasters compared to the NWS is attenuated or reversed for extreme weather events (snow storms, cold spells, etc.). In order to examine the idea of the sensationalizing of the weather, Goolsbee tests various models of media bias, some of which argue that competition should improve the verity of weather reporting in the forecast industry and some of which predict propensity to more sensationalism the greater the local competitive pressures. Finally, using the local stations’ data, Goolsbee conducts analyses on the industrial organization of the local weather industry as the rise of internet data becomes more prevalent, and he considers the impact this may have on the accuracy of the local station forecasts.
Kroszner has been analyzing regulatory reform in response to the financial crisis, focusing on three key questions.

First, does greater financial depth and development increase or reduce volatility? Kroszner’s work is contrary to a large body of research suggesting that a deep and developed financial system is a driving force behind economic development and growth. This line of research, however, generally does not address a fundamental issue: might there be a trade-off with volatility? (See Kroszner and Strahan (2011).) Upon looking across states that deregulated restrictions on intra- and inter-state banking, according to Kroszner, the answer appears to be no. States that deregulated experienced both higher growth and lower volatility of the growth of state gross domestic product and the growth of state employment. International evidence, however, provides a more mixed picture, and Kroszner’s ongoing research is trying to understand in more detail whether there might be a trade-off with volatility.

Second, could high capital requirements for banks provide a false sense of security? According to this work, the crisis revealed that both the quantity and quality of capital held by banking and financial institutions were inadequate to deal with shocks to the system, but raising capital requirements would not be a cure-all. A very high capital requirement, for example, can lead to more off-balance-sheet activity and push risky activities into the “shadow” banking system that may be harder for supervisors and the public to detect. Also, very high requirements can give incentives to channel efforts in financial innovation to create instruments that may evade particular capital requirements but not reduce risks. Thus, rather than conserving supervisory resources and providing greater cushions against shocks, very high capital requirements could paradoxically require greater vigilance by supervisors, generate more fragile interconnections, and thereby potentially reduce the overall safety and soundness of the system.

Third, will so-called macro-prudential approaches to regulation be effective? According to Kroszner, supervisors and central banks around the world are being asked to take on a new “macro-prudential” role to detect potential market disruptions in advance rather than react to shocks. This new macro-prudential approach, however, has at least three challenges. First, it is extremely difficult to determine “early warning” signs that would allow authorities to act early enough to avoid the next crisis. Second, financial economics does not provide a straightforward and theoretically grounded benchmark to assess whether risks are being improperly managed or priced. Regulators thus may face criticism for being arbitrary and attempting to substitute their judgment for those of investors who are putting their own money on the line. Finally, the central bank could get into the political cross hairs if it decides, for example, to try to make it more costly to provide mortgage finance when policies adopted by congress do the opposite. The unelected body of the central bank could be accused of overruling an elected body. Thus, effective macro-prudential policies thus may involve risks for central bank independence and good governance.
Policy, Labor Markets, and Crime

Neal is exploring alternative explanations for recent labor market and crime trends, particularly those that are frequently attributed to the War on Drugs and longer prison terms.

For example, prison populations continue to grow as crime rates fall. Explanations favoring the War on Drugs as a causal factor for this trend will report that, as an effect of the War on Drugs, drug crimes have been underreported. Neal’s analysis of confidential data from the National Corrections Reporting Program, however, reveals that the boom in prison populations has been far too large to attribute to the War on Drugs. In states with reliable data, prison populations would have expanded over the past 20 years even if no individual had been imprisoned for drug offenses.

Similarly, employment rates are down and imprisonment rates are up. This is often attributed to inmates serving longer prison terms since the War on Drugs began. However, the NCRP data show not only that admission rates into prison are higher now than in 1990, but also that larger increases in admission rates tend to be seen at higher ages. Longer sentences do not directly lead to higher admission rates among 40 year olds.

After controlling for criminogenic effects of incarceration, Neal continues to work with several models and computer simulations that point to an important policy change involving justice officials incarcerating more people given the number of crimes that are committed. There is no evidence that the distribution of sentences given imprisonment has changed substantially, but it is apparent that more people are serving time for fewer crimes. It may be possible, then, that by deciding to lock up those who would have received probation in the past, officials have interrupted life-cycle processes through which many young men transition from part-time criminal to full-time legitimate work.
Duration Dependence in Unemployment: A Field Experiment

Notowidigdo conducted a field experiment exploring the possible causal relationships among duration dependence, unemployment, and other related variables. Duration dependence predicts that the longer someone is out of a job the more difficult it is to find a job. While this theory has influenced both economic models and public policy, there is little credible evidence demonstrating its empirical relevance. Recent recession and labor market struggles have brought into focus the issue of long-term unemployment. For most of the past 50 years, the long-term unemployed made up relatively little of the total unemployed. Defining the long-term unemployed as those without a job for 27 weeks or more, the long-term unemployed representation among the total unemployed has remained relatively low over the past 50 years, never going much above 25 percent. However, the long-term unemployed currently make up more than 45 percent of the total unemployed population (levels not seen since the Great Depression).

Duration dependence is commonly assumed in models of the business cycle and underlies the analysis of optimal insurance programs (Ljungqvist and Sargent (1998), Shimer and Werning (2006)). Moreover, this idea underscores policy attempts to alleviate long-term unemployment. For instance, policymakers have experimented with re-employment bonuses which provide newly unemployed workers with financial incentives to enter the workforce quickly, presumably due to the recognition that individuals could get “trapped” in a long spell of unemployment the longer they are out of work. Despite the central role of duration dependence in influencing economic models and public policy, there is little credible evidence demonstrating its empirical relevance. As Ljungqvist and Sargent observe: “It is fair to say that the general evidence for duration dependence is mixed and controversial.”

As such, Notowidigdo conducted a large-scale resume audit to empirically estimate the effect of length of unemployment spell on callback rates. Sending randomly generated fictitious resumes to help wanted ads across the country helped measure how the callback rates vary across hypothetical individuals who differ only in their length of unemployment spells. Notowidigdo also measured both occurrence dependence (how the number of unemployment spells affect callback rates) as well as the standard duration dependence (how the length of a current or most recent spell affect callback rates). In addition to estimating the average effect of unemployment history on callback rates, the randomized experimental design will allowed estimation of heterogeneous effects by demographic characteristics. These heterogeneous effects were important in allowing the investigation of the importance of firm-level inference about unobserved individual heterogeneity.

This field experiment closely follows the experimental design and protocols of Bertrand and Mullainathan (2004) to generate fictitious resumes, find help wanted ads, and measure callback rates. The main methodological innovation of this paper is in combining the experimental results with a model of asymmetric information (between firms and potential employees) as well as an econometric methodology bound the importance of unobserved heterogeneity by using the large variation in other observable characteristics which are visible to both the potential employer and the econometrician.

The primary contribution of the project is the experimental evidence on how callback rates vary with a worker’s unemployment history. While a large literature has attempted to credibly estimate this causal effect using standard labor force surveys, Notowidigdo argues that the primary weakness of these studies is that the survey data do not contain all of the characteristics that employers observe when hiring, promoting, or setting wages. Therefore, it is impossible to completely rule out the concern that workers with different unemployment histories are not otherwise similar from the perspective of the potential employers.

The field experiment is designed to explicitly address this weakness. Fictitious resumes are matched in all respects except the variable of interest: a worker’s unemployment history. In other words, the time that the individual has been out of a job (or his/her “employment gap”) is randomly varied across resumes. Each resume will contain an email address and phone number, enabling the tracking of callbacks. By design, the econometrician is able to observe all of the information that each potential employer can see. So, again, while recent audit studies in the economics literature correlate callback rates to race, gender, education, and immigrant status (see, e.g., Bertrand and Mullainathan (2004) and Dreps (2003)), one of the novelties of this study is its focus on varying the individual’s employment history.
An Analysis of Whether Higher Health Care Spending in the United States Versus Europe Is “Worth It” In The Case Of Cancer

With Michael Eber (Precision Health Economics), Darius Lakdawalla (USC), Mitra Corral (Bristol-Myers Squibb), Rena Conti (University of Chicago), and Dana P. Goldman (USC), Philipson completed a paper published in Health Affairs exploring possible explanations for higher US health care expenditures, generally, than European countries without achieving increased longevity. After considering costs and survival conditional on cancer diagnosis and asking whether the larger cancer spending in the US is of greater value for US patients, who typically live nearly two years longer than their European counterparts, the authors found that the level and growth of the cost of cancer treatment in the US was higher than such care in ten European countries from 1983 to 1999. However, they also found that for most cancer types investigated, US levels and growth of longevity conditional on cancer diagnosis were also higher. According to the data, cancer patients diagnosed this period on average lived 11.1 years after diagnosis in the United States, compared to just 9.3 years from diagnosis in Europe. Using standard metrics that value additional years of life in dollar terms, Philipson et al. investigated the value of US cancer patients paying more but obtaining higher longevity. Their findings show that, even after considering higher US costs for treatment, the extra value in the US was worth an aggregate of $988 billion—an average of $61,000 for an individual cancer patient. The aggregate value of additional survival gains was highest for the most prevalent cancers, prostate cancer ($627 billion) and breast cancer ($173 billion), while some other cancers have a negative impact. In conclusion, the researchers suggest that the higher-cost US system of cancer care in particular, and overall care generally, may be worth it in terms of the longer survival it delivered, although further research is required to determine what specific treatments are driving improved cancer survival in the United States.

Endogenous Cost-Effectiveness Analysis in Health Care Technology Adoption

Phillipson’s paper with Anupam Jena of Harvard titled “Endogenous cost-effectiveness analysis in health care technology adoption” is now forthcoming in the Journal of Health Economics. This paper is motivated by increased health care spending across developed nations, including the US; the pressure on both public and private budgets; and existing evidence that attributes this growth in spending largely to medical innovation. So called cost-effectiveness analysis is the main tool used by private and public third-party payers to prioritize adoption of new technologies, essentially measuring health impacts relative to spending impacts. The paper analyzes the economic incentives behind such analysis and what it implies for the efficiency of resource allocation, stressing that cost-effectiveness analysis by payers invariably reflects prices set by producers rather than resource costs used to produce treatments, and reporting the implication that the “costs” in cost-effectiveness assessments depend on endogenous markups which are, in turn, influenced by demand factors of patients, doctors, and payers. In other words, the cost-effectiveness analysis used to set reimbursements determines the cost-effectiveness levels observed. This is why choosing from efficient technologies based on costs does not occur and reimbursement policy based on endogenous cost-effectiveness levels may bear little relationship to efficient use of scarce medical resources. The paper also discusses the conditions under which endogenous cost-effectiveness may lead to adoption of more inefficient treatments in terms of resource use, testing for these conditions using data on technology appraisals in the most influential CEA system in the world, that of NICE in the United Kingdom, for the years 1999–2005.

Financial Health Economics

Phillipson completed the paper “Financial Health Economics” with Ralph S.J. Koijen (Chicago Booth) and Harald Uhlig (University of Chicago). The paper is being submitted to a journal and to NBER as a working paper. It is a response to many analysts stressing medical research and development (R&D) and innovation as central to the expansion of the US health care sector, given the lack of explicit analysis of the relationship between financial markets determining the returns for those investing in medical R&D and the real health care sector expanding as a result of such investments. The paper provides a theoretical and empirical analysis of how the financial returns of investments in medical R&D are related to the growth of health care spending by documenting evidence of a “medical innovation premium” (a significant risk premium of about 3–5 percent for firms engaged in medical R&D that is higher than predicted by standard asset pricing models) by stressing that any future projections of the size of the health care sector need to incorporate how this premium affects the medical R&D investments underlying the sector’s growth, and in interpreting this premium as compensating investors for bearing government risk to markups on developed innovations and analyzing its quantitative implications for the growth of future health care spending. This calibration implies large effects of the premium on future health care spending. According to these calculations, removing government risk would almost triple medical R&D spending and thereby increase health spending further by 4 percent of GDP. The authors conclude in discussing the implications of the analysis for valuation of the large share of future US liabilities comprised of Medicare and Medicaid spending.
Rajan and Rodney Ramcharan continue to build upon their extensive work examining the political economy of the development of banking in the United States. In a current project, they collect data on farm productivity changes to examine how they are related to credit availability in order to examine whether productivity improved during the boom and how productivity was affected during the bust. They aim to relate findings to the importance of credit in reallocating assets into more efficient hands, as well as use the local nature of bank lending in the period under study to identify the effects of the size of the credit markets on asset liquidation values. Specifically, Shleifer and Vishny (1992) argue that asset values in markets with many well-funded buyers should experience only a small discount from fundamentals when sold, while in markets where there are few buyers, the discount should be large. Given forcing events (bank failures) that cause assets to be sold, estimates at the time of failure of loan recovery values and realizations of recovery over time, the size of the banking sector in the county of interest, the size in neighboring within-state counties (where banks can lend across county borders), and the size in neighboring out-of-state counties (where banks cannot lend to the county of interest because of the difficulties in inter-state lending), Rajan and Ramcharan examine whether the depth of neighboring banking markets mattered for the value recovered from failed assets. Preliminary evidence is promising.
fuels is stationary. That is, when the price of diesel fuel rises relative to gasoline, that relative increase is not permanent. Furthermore, Sallee’s regression analyses show that when the prices diverge, the data are consistent with convergence coming equally from changes in both prices. Sallee’s results are necessary to motivate the analysis of vehicle prices. They show that consumers should not react to increases or decreases in the relative price of diesel as if those changes are permanent. His preliminary regression results support the hypothesis that consumers react rationally to relative fuel price shocks. He explains that the main specification regresses the difference in prices of the diesel versus gasoline version of the same vehicle (e.g., a 2008 Volkswagen Jetta diesel or gasoline version) on the average fuel price level (diesel plus gasoline) and the fuel price differential (diesel minus gasoline price). The resulting regressions show that increases in the overall level of fuel prices cause a shift in demand towards diesel vehicles, which are more fuel-efficient. But, an increase in the difference between diesel and gasoline prices leads to a small or zero increase in demand for diesels. These results are consistent with consumers viewing changes in the average fuel price as permanent but differences in fuel prices as temporary.

Energy Prices, Durable Production, and Local Labor Markets

In another project, Sallee shows us that stickiness of production implies that changes in the demand for specific models will impact production levels and employment at particular factories, noting that gasoline price fluctuations drive changes in the relative demand for different automobile models, that automobile assembly plants typically build one or two models, and that the costs of retooling a factory to build a different model are significant. His related research project leverages these facts in order to identify how gasoline price changes affect the local labor market of counties that have automobile assembly plants, as well as the surrounding counties that have upstream automobile suppliers. Preliminary results show that when gasoline prices rise, employment in the automobile assembly sector rises in counties that produce high-MPG vehicles, relative to counties that have automobile assembly plants that produce lower-MPG vehicles. Furthermore, Sallee’s regression results show that these employment shocks spill over into the local economy (total employment is affected in similar ways) and they spill over into the upstream suppliers, who tend to locate near the factories that they supply. Specifically, upstream suppliers that are located very close to a factory with an unfavorable gasoline price shock experience employment reductions relative to factories further away, or factories near an assembly plant hit with a favorable gasoline price change.

Consumer Valuation of Energy Efficiency: Evidence from Diesels and Hybrids

Sallee brings our attention to the vehicle market, noting that a growing literature correlates changes in the price of fuels to the market price of fuel economy in durable goods. His research tests whether or not consumers appear to fully value the private benefits of energy efficiency. While research on this topic is not infrequently attempted, results from prior research have diverged. Some find evidence that consumers significantly undervalue the fuel economy of vehicles (Allcott and Wozny (2011)), but others find evidence that valuation is complete, or nearly so (Busse, Kritett, and Zettelmeyer (2012); Sallee, West, and Fan (2009)). The precise aim of this research project was to bring new evidence from the market for diesel vehicles and hybrid vehicles, which offer different empirical advantages. The preliminary results of his research are available, and they confirm prior hypotheses about the time-series properties of diesel and gasoline fuels. He reports that standard tests (of co-integration) showed that the difference in prices between gasoline and diesel fuels is stationary. That is, when the price of diesel fuel rises relative to gasoline, that relative increase is not permanent. Furthermore, Sallee’s regression analyses show that when the prices diverge, the data are consistent with convergence coming equally from changes in both prices. Sallee’s results are necessary to motivate the analysis of vehicle prices. They show that consumers should not react to increases or decreases in the relative price of diesel as if those changes are permanent. His preliminary regression results support the hypothesis that consumers react rationally to relative fuel price shocks. He explains that the main specification regresses the difference in prices of the diesel versus gasoline version of the same vehicle (e.g., a 2008 Volkswagen Jetta diesel or gasoline version) on the average fuel price level (diesel plus gasoline) and the fuel price differential (diesel minus gasoline price). The resulting regressions show that increases in the overall level of fuel prices cause a shift in demand towards diesel vehicles, which are more fuel-efficient. But, an increase in the difference between diesel and gasoline prices leads to a small or zero increase in demand for diesels. These results are consistent with consumers viewing changes in the average fuel price as permanent but differences in fuel prices as temporary.
Shapiro and Gentzkow, along with Nathan Petek (Chicago Booth) and Michael Sinkinson (Wharton), continue to disseminate findings for their paper “Do Newspapers Serve the State? Incumbent Party Influence on the US Press, 1869–1928,” in which the authors estimate the effect of party control of state elected offices on the entry, exit, circulation, and content of Republican and Democratic daily newspapers between 1869 and 1928. A differences-in-differences design allows the authors to exploit changes over time in party control of the governorship and state legislatures. They also present regression discontinuity estimates based on the outcomes of close gubernatorial elections and state legislatures with small majorities. Main estimates show no evidence that incumbent governments influence the press and are precise enough to rule out modest effects. Estimates for politically significant times and places where we would expect the scope for government intervention to be relatively large also show little evidence of influence. One exception is the post-Reconstruction South, an episode that the authors discuss in detail.
Thought Leadership
Faculty in the News

Erik Hurst
“Inequality Has Increased in Income and Consumption, Economists Argue”

The Wall Street Journal spotlighted Hurst’s research examining inaccuracies of consumption data.

Wall Street Journal | June 8, 2012

Robert H. Topel
60th Annual Management Conference

Topel discussed the future of transportation with keynote panelists Bill Reinert (National Manager, Advanced Technology Group, Toyota Motor Sales) and Michael Wirth (Executive Vice President, Downstream & Chemicals, Chevron).

Live Event | May 11, 2012

Randall S. Kroszner
“Federal Reserve Stands Firm on Interest Rates”

In a National Public Radio interview, Professor Kroszner suggested that the Federal Reserve, concerned about “false dawns,” will act carefully and see how economy the evolves.

NPR | March 13, 2012

Raghuram G. Rajan
“Chicago Booth Economics Professors Join the G30”

The Financial Times noted Rajan’s appointment to the Group of Thirty, an international body that examines the impact of economic decisions around the world.

Financial Times | January 16, 2012

Rajan named the Indian government’s Chief Economic Adviser

The Chicago Tribune noted Rajan’s appointment as the Indian government’s chief economic advisor.

Chicago Tribune | August 30, 2012
The Energy Policy Workshop Series
The Energy Policy Workshop Series is a component of the Energy Policy Institute of Chicago (EPIC) and the Stigler Center’s commitment to research and training. It is a forum for faculty, post-docs and graduate students across disciplines whose work focuses on energy, energy policy and energy economics. The workshop hosts faculty speakers from inside and outside of the University of Chicago, and provides a forum for the University of Chicago energy research community to present work in progress.

Ryan Kellogg (University of Michigan)
What Do Consumers Believe about Future Gasoline Prices?
October 15, 2012

Lutz Kilian (University of Michigan)
The Role of Inventories and Speculative Trading in the Global Market for Crude Oil
October 25, 2012

Cynthia Wu (Chicago Booth)
Risk Premia on Crude Oil Futures Prices
November 8, 2012

Erin T. Mansur (Dartmouth College)
Vertical Commitments and the Price Effects of Mergers: Evidence from Electricity Markets
December 6, 2012

University of Chicago–RFF Conference on Energy Policy
Market and Behavioral Responses to Energy Policy
June 2011 | Washington, DC
This event brought together an esteemed group of senior policymakers, leading researchers and academics, and representatives from numerous federal government agencies as well as international and US nonprofit organizations. The conference covered a breadth of subjects from offshore oil drilling to the impact of gasoline price changes on automobile purchases to electricity generation efficiency.

The Future of Transportation Fuels Initiative
Dissertation Support Award
For research proposals with particular relevance to energy policy, the impact of oil consumption on economic activity and welfare, and the evolution of transportation fuels, as well as much promise to make a distinct contribution to the literature.

Michele Davies
PhD Candidate in Energy Policy
Michelle Davies, a Fuel Freedom award recipient, is a third year PhD student at the Harris School of Public Policy Studies. She is interested in using the tools of economics and game theory to understand the causes and effects of the natural gas production boom. Her projects include examining the implications of the Energy Policy Act of 2005 on the practice of hydraulic fracturing, studying the conditions under which conversion from gasoline or diesel to natural gas as a motor fuel is viable, and developing a model of national energy security. Davies brings a background in engineering and energy sector experience to bear on her exploration of these subjects. She has previously attended Dartmouth College and Oxford University.

Avihai (Avi) Rapaport
PhD Candidate in Finance and Economics
Avi Rapaport, a Fuel Freedom award recipient, is a fourth year PhD student in Finance and Economics, a program jointly offered by the University of Chicago’s Booth School of Business and Economics Department. His research interests include macro-finance, asset pricing, banking and financial intermediary, and risk analysis. His thesis offers a new way to identify supply shocks in the oil market—prominently due to wars in the Middle East—by the strong empirical tendency that they lead to negative correlation between changes in the price of crude oil and returns in the stock market. He demonstrates how episodes of an adverse supply shock, which lead to an increase in the price of oil, precede declines in real economic activity and are associated with a rise in the aggregate risk premium in the equities market in the United States.
George J. Stigler joined the faculty of the University of Chicago Booth School of Business and the Department of Economics in 1958. His efforts helped make an extraordinarily fruitful cooperative research enterprise between the university’s Department of Economics, Law School, and Booth. Together with the arrival of Merton Miller in 1960, Stigler is widely recognized as having established Chicago Booth as a world leader in academic research.

Stigler was one of the great economists of the 20th century. He made seminal contributions to the economic theory of information and oligopoly and to the economic analysis of government regulation and the public sector. Stigler received the profession’s highest honors, including the presidency of the American Economic Association and the Nobel Memorial Prize in Economic Sciences. His 1982 Nobel Prize was the first awarded to an economist whose primary appointment was in a business school.