

The TSEconomist

Student Magazine

2012/13 ISSUE # 4

Campus Edition

THE TSECONOMIST TEACHER AWARDS

Interview with Eric Chaney (AXA Group)

M2 Choice: How to chose your M2



The TSEconomist
Awards

TA of the year
2012 – 2013



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Shape Your Magazine!

The TSEconomist is a magazine by the students and for the students. It is thus open to all, and every contribution is highly appreciated!

Send us your thoughts and feedback, attend one of our weekly meetings, volunteer to cover a Business Talk and interview a speaker, write to us or join the team as a board member, proofreader or designer! All you have to do is write to us at tseconomist@tse-fr.eu.



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A vision for the future

This issue brings an end to an exciting year for the TSEconomist and its team. It could be regarded as a special year-end edition, shorter than usual and with a focus on the "On Campus" section. The reader should expect our future issues to be like our previous one, balanced around the Hot Topic, Academic, Professional and On Campus sections. The happening of many events, regarding the student life, called for such an issue: the TSEconomist awards, the TSE Gala by the BDE, the 25th anniversary of the Magistère program and TSE's participation in the Econometric Game organized by the University of Amsterdam.

Another special aspect of this issue, which I would like to emphasize, is the higher participation of L3 and Master 1 students, notably Andres Salamanca and Daniel Westrik's articles in the academic section. I hope this would be seen as an encouragement to other students, who have an original idea and which they would like to explore and write about: don't forget the TSEconomist is here to help! If you have an idea, and need someone to discuss it with, one of the team members will be happy to discuss it with you, or put you in contact with a PhD student working on the topic! It will also be a good opportunity to contact or interview a researcher from TSE (or outside TSE) about his/her area of expertise.

I would like to take this opportunity to highlight how rewarding the TSEconomist experience has been for me, specially because of the great team that I had the chance to work: I have learnt something valuable from each and every team member that have contributed to the life of the magazine, and I am proud to say that the diversity that we had (not only in nationalities but also) in personalities and interests had made this experience beneficial and pleasant for all of us. On this note, I would like to give special thanks to those who will not be with us in TSE next year, and which I had a great pleasure to work with: Anastasia Ushakova, for her great work on our website, and commitment to always take notes at meetings, Janine Torelli, for all her efforts to organize the successful launch of the TSEconomist awards, and Laura Bermeo, the first member to join this year, and who has contributed in many ways from organization to design. I wish you all the best in your future endeavors, and remind you that you'll always have a place in the TSEconomist family!

The TSEconomist is your student magazine!

I hope that the dynamism that characterized this year will remain the distinguishing feature of the TSEconomist: by the start of next year, the team plans to register the magazine officially as a student organization, and seeks to be an even more dynamic platform of communication in TSE. The TSEconomist is your student magazine, it's up to you, the students, to shape it: come with your ideas of articles, of talks to organize, and the team will be more than happy to make the ideas happen, whether they relate to TSE, it's student life, or an academic/current affairs topic that interests you.

Moreover, summer is here, which means, among other things, that you'll have some free time to write for us! I would like to invite all TSE students who have an idea for an article, it is the right time to brainstorm, read more, and send us your article!

Last but not least, and on behalf of the team, I would like to thank the director of the school Jean Philippe Lesne, the managing director of TSE Christian Gollier, and the director of operations and HR Joël Echévarria for their continuous support and endorsement. The magazine is also highly indebted to the scientific communication manager Jennifer Stephenson, the corporate communication manager Claire Navarro and the web communication manager Valérie Servieres for accepting so kindly to help at various stages of the preparation of this issue. Many thanks also to our sponsor LCL for printing this issue.

Hussein Bidawi
Chief Editor

Shaping a coherent electricity industry in Mauritius

By Selvin Thanacoody¹



Selvin Thanacoody is an Economist at Laiterie de Curepipe, an agrofood firm. Prior to being in this position, he worked as an intern at the Competition Commission of Mauritius where he worked on abuse of dominant position and collusion cases. He holds a Master 2 in Economics of Markets and Organizations from Toulouse School of Economics (2010-2011).

Introduction

The project of CT Power in Mauritius has prompted a passionate debate among environmentalists, politicians and even religious spokespersons, on how power generation and transmission capacity should be expanded in order to satisfy increasing demand. The Mauritian electricity industry is vertically integrated and regulated by the state owned utility Central Electricity Board (CEB). With the constant increase in energy demand, the generation segment of the energy market was partly handed over to private operators, who produce and sell energy to CEB. Nowadays, CEB and the Independent Power Producers (IPPs) produce 40% and 60% of the total energy supply respectively. While CEB uses heavy fuel oil thermal power stations and hydroelectric plants, the IPPs use bagasse (only during sugar cane crop seasons) and coal. In 2010, total energy generation amounted to 2700 GWh and total electricity consumption was estimated to be 2454 GWh². The concern regarding the negative environment and health effects of electricity production using coal arose in 2006,

when CT Power, a subsidiary of a Malaysian group, agreed with CEB to enter the generation market using a coal-fired technology in the Albion area. CT Power's project has been delayed by the authorities due to public pressure, while other local IPPs continue to burn coal.

While some highlight the benefits of competition on cost reduction and efficiency in energy production, others stress the pollution it generates. Should we limit the number of producers in order to maintain a safe environment? Should short term benefits be sacrificed for future generations? Should we provide energy at a lower cost to the detriment of the environment? Thus far, environmentalists, politicians and lawyers have contributed to this debate, while economists have remained silent even though economic incentives are at the core of this problem. This article attempts to fill the gap in this debate by pointing out possible solutions that correct the incentives of electricity users and operators. From a microeconomic perspective, restructuring the industry could be based on three fundamental aspects: market mechanism, market failures and negotiation strategies.

Pricing at cost

In Mauritius, the government sets rates for given levels of kWh consumed and connected loads, with the assumption that richer people consume far more electricity than poor people³. While this assumption is robust, the prices are not set at the right levels for efficient consumption. For prices to signal scarcity, they should be determined by the market through supply and demand forces. That is, prices should be higher at peak times, regulating demand and lifting pressure on

1. The author is grateful to Charmaine Tan Huan Yuen for comments and suggestions.

2. See Statistics Mauritius "Digest of Energy and Water Statistics – 2010", Ministry of Finance and Economic Development, Vol. 13, October 2011.

3. See "The Government Gazette of Mauritius", no110, November 2010.

the network. Customers would respond to peak-pricing and manage their energy consumption patterns more efficiently. Giving CEB more freedom in setting the prices would mean allowing them to charge Time of Use (TOU) or Critical Peak Pricing tariffs⁴ while taking into account practical realities of the Mauritian market. Pricing related to the time of use is already applied in the irrigation sector, and there is no economic rationale to exclude domestic, commercial and industrial consumers. The consortium consultation realized in 2008 was a good initiative by CEB to set tariffs effectively; the consultants proposed a tariff structure encompassing discrimination between high and low electricity usage and TOU tariffs. Somehow this proposition was abandoned. The logic of these tariff structures is to “reward” those who manage consumption efficiently while “punishing” those who are insensitive to the time of consumption.

Internalizing externalities

The state’s actions and inactions in this industry have been most inappropriate - intervening where the market can operate efficiently, and yet remaining passive where market failures exist. Avoiding pollution is costly for polluting firms, and therefore firms do not have an incentive to limit the amount of pollution they are producing. In the face of such a market failure, the state has a role in stepping in to tax a price pollution externality so as to encourage firms to reduce pollution. By the Polluter Pay principle, all IPPs should be charged an environmental tax⁵ on carbon and sulphur production - many advanced countries have already implemented such taxation. This means that sugar IPPs would be exempted from such a tax only when producing energy from bagasse. This will give incentives to investors to increase productive efficiency from bagasse and to put emphasis on the use of other cleaner technologies. In the case of CT Power, the generation accounting cost may be low but the economic cost will be higher as it also includes the cost of environment, health and traffic damage. The carbon tax is likely to be more effective than emission quotas in reducing pollution and will act as a compensation for the Albion inhabitants or provide fiscal revenues for the government to implement environment protection programs.

Several techniques such as epidemiological studies, Life Cycle Assessment and Impact-Pathway Methodology enable the quantification of the amount of pollutants released and assess the impact of emissions on humans and the environment over time and space. Subsequently it will be possible to evaluate the impacts economically through Cost-Benefit analysis (CBA). CBA focuses on the variation of people’s satisfaction/dissatisfaction in monetized terms following a change. This monetary value then gives an idea on the level of compensation and thereby the taxation rate, the polluter has to pay to the people affected. Contingent valuation (CV) has been widely used to give a value to non-market goods. If rigorously conducted, CV is an effective instrument to measure individuals’ willingness to pay in order to maintain environmental quality. In general, it is realized using methods of microeconomic modelling.

Designing contracts

With the constant pressure from lobbyists, negotiations on environmental issues between the authorities and CT Power are set in a gridlock. Setting regulation should be completed by getting the economic incentives right in order to effectively shift to cleaner generation processes. The Ministry of Environment came up with further requirements before issuing the Environment Impact Assessment permit and some are rightly wondering whether the Ministry is as stringent with local IPPs. Nonetheless the negotiation strategy should be reviewed with the option of externalities valuation. The Ministry should propose a menu of contracts as follows:

1. CT Power to operate the coal-fired plant in Albion; imposition of carbon and health taxes. Obligation of conversion into a clean energy plant after 10 years of operation. Otherwise seizure of plant by CEB to proceed to an international tender for conversion⁶.
2. Installation of a coal-fired plant in a remote place. Imposition of a carbon tax. No health tax. Obligation of conversion into a clean energy plant after 25 years of operation with financial help from CEB.
3. Installation of a clean energy plant directly in Albion or elsewhere. No externality tax. Allocation of emission rights to the party. The latter to sell it to IPPs who would have to buy rights in order to pollute.

Regardless how sketchy this example is, its principle of a self-selection mechanism to induce truthful revelation provides a new direction for negotiations. The first proposition suggests that should CT Power choose the less costly solution in the short run, it will face financial burden and risks in the long run. In contrast, the third suggestion favours costly implementation in the short run but a safer economic position in the future. The introduction of a restricted amount of CO₂ and SOX emission rights puts in place a market-based mechanism. The agents will trade rights among them according to their amount of pollution and will naturally invest in cleaner processes to avoid buying rights from their competitors. In addition, CEB could pay CT Power a fixed capacity charge as paid to local IPPs. It is actually a matter of “carrots and sticks”: rewarding good practices and punishing bad ones.

This article is not the first one advocating marginal cost pricing and environmental taxation but it urges decision makers to redefine public policy in the energy industry and redirect a too narrow-minded debate towards effective solutions. Enforcing an environmental tax will send a strong signal to the international community of the commitment of Mauritius to tackle global warming issues. Yet, implementation of these ideas is likely to face resistance from environmentalists and politicians. Politics obviously have a substantial part to play in this issue, and it is another topic in which microeconomists would have interesting and relevant things to say... ■

For references, please check the article on www.tseconomist.com

4. See for example Celebi, Emre “Models of Efficient Pricing Schemes in Electricity Markets”, Master thesis, University of Waterloo, 2005.

5. See for Example “Do economists all favour a carbon tax?”, *The Economist*, September 19th 2011.

6. See for example “Coal-fired power plant completes total conversion to renewable biofuel energy”, *PennEnergy*, February 2012.

From the “Classical Mechanics” of Economics to the Econophysics

By Andrés Salamanca Lugo*



Economic science has been influenced by physical concepts since its very beginning. A simple but prominent example is the enormous influence the book *Éléments de Statistique*, by the French physicist and mathematician Louis Poincaré, had on Leon Walras's work. In Poincaré we find virtually the whole formal apparatus that Walras later employed in his *Éléments d'Économie Politique Pure*. Walras's formulation of general equilibrium is nothing but a system of simultaneous and interdependent equations *à la* Poincaré with the introduction of an auctioneer- a device that allows the match of supply and demand in a market of perfect competition. Other examples of the use of mechanical concepts and theories in economics have been analyzed by Mirowski (1999): (i) the *lever rule* by Nicolas Canard, (ii) *gravitation theory* by Stanley Jevons, and (iii) the *minimum energy principle* by Francis Edgeworth, among others. Irving Fisher in 1892 established an extensive relation of analogies and metaphors between mechanics and economics. According to Fisher (1991), while economic optimality corresponds to maximum profit, mechanical optimality corresponds to minimum energy.

As economic science is developing, theories and ideas inspired by physics are growing. Recent contributions have introduced in economics the possibility to treat analytically the issue of many heterogeneous and interacting agents and thus to micro-found aggregate behavior without relying on the hypothesis of a representative agent. An example of these developments is the large research work carried out by the Santa Fe Institute, a transdisciplinary research community dedicated to enhancing the scientific understanding of complex social and physical systems. Achievements of this sort have shown that economics must depart from the mechanical equilibrium of the Poincaré-Walras framework to the economics of equilibrium probability distributions, in which agents are constantly driven by disequilibrium forces and the complexity of the system pervades the social behavior. As a complex macroscopic thermodynamic system is described by the “average” behavior of the very large numbers of its microscopic constituents through statistical mechanics, macroeconomic variables must be understood by the result of many interacting individuals.

Complex systems theory analyses the way in which the interaction of a large number of parts of a system gives rise to aggregate behaviors and how the system as a whole interacts with its components. Mathematical tools of complex systems models are developed from statistical mechanics, dynamical systems theory, graph theory, game theory, network theory and computation theory, among others. A fundamental property of complex systems is *emergence*, i.e., aggregate patterns created from “simple” interactions. Other features of complex systems are self-organization, evolution, adaptation, nonlinear dynamics, network structures, nonstationarity and disequilibrium. It has been argued by Saari (1995), that complexity is ubiquitous in economic problems, since (i) the economy is inherently characterized by the direct interaction of individuals, and (ii) these individuals have cognitive abilities so that they form expectations on aggregate outcomes and base their behavior upon them. By contrast, the adoption of the classical mechanics into economics has led to a reductionist approach in the analysis of the difference between micro and macro. Aggregation is carried out by summing up market outcomes; therefore,

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Currently, he is a M1 student in Economics at TSE.

His main research interests are within cooperative game theory and the applications of out-of-equilibrium statistical mechanics to the understanding of economic problems.

the dynamics of the economic system is nothing but a summation of the individual dynamics. Considerations about the interdependencies between the agents and the aggregate properties of the system are driven out. Macroeconomic theory fails to realize the emergence of complex structures from simple individual behaviors.

The application of mechanical statistics to economics has provided important insights into traditional problems of economic theory; one prominent example is the study of the income distribution among individuals in an economy. Empirical research on data for different societies has identified a power-law tail (Pareto law) and a log-normal bulk of the income distribution. The emergence of this “scaling” property in the income cannot be understood from the customary tools of traditional economic analysis. In contrast, for physical systems the fundamental law of equilibrium is the Boltzmann-Gibbs law, which is in a precise mathematical relation to power laws when the measurables are presented on a logarithmic scale. Boltzmann-Gibbs law is obtained by Dragulesco and Yakovenko (2000) for a close economy when the trading process between economic agents is completely random. Regarding the fat tail in the income distribution, several researchers have obtained Pareto-like behavior using approaches such as random savings (Chatterjee et al. 2004).

As much as classical economics imported Lagrangian models from classical physics and financial economics built on the model of Brownian motion imported from physics (the so-called Black-Scholes model), so, *econophysics* wants to model economic phenomena using analogies taken from modern condensed matter physics and its associated mathematical tools and concepts. Also, whereas mainstream microeconomics is based on the rational behavior of individuals, econophysics focuses on interactions between actors that lead to the emergence of statistical macro-laws—typically power laws instead of Gaussian ones as expected in classical economics (Schinckus, 2010). The official birth of the term “econophysics” was coined by Harry Eugene Stanley in 1996. Econophysics presents itself as a new way of thinking about economic and financial systems. ■

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PhD Minds



**Kartika Bhatia, TSE doctoral student,
at University of California, Berkeley**

What is your main research topic?

My research focuses on the political economy of violence in the Naxalite conflict in India. I am attempting to study the causes of the unprecedented escalation of the ongoing conflict in the Indian heartland. Other projects involve (a) studying how land and community rights affect violence in this area (b) identifying the role of information and networks in the rights based approach to development.

Did this visit help you to advance your research project(s)?

I am visiting UC Berkeley for the spring semester this year. The faculty at UC Berkeley is vast and diverse and one has access to people from departments other than economics. Many people here work on India and it has been useful to talk to them. Since my research studies political violence, I have benefitted from the Political Science department a lot. The faculty at the Center for Effective Global Action at UC Berkeley has helped me in my methodological issues. I found my meetings with different professors especially helpful.

Did you like the academic environment there? Is it very different from that of TSE? What are the main differences?

I like the academic and general environment at UC Berkeley. The faculty is very open and friendly. One big difference from TSE is that at UC Berkeley one has access to courses and people from other departments like law, political science, math etc. There are also many RA opportunities available for PhD students here. Most students in their first two years are doing part time RA work for a professor or an institution. The library is phenomenal here with a huge collection of books on economics and related fields. It opens until 2 am on weekdays and 12 am on weekends and one can issue 200 books at a time. The PhD students also get 24/7 access to the department. The economics department is not as big as TSE but each week we have at least 10 seminars. My development group meets every week for a lunch talk where students and faculty present their ongoing work and there is another seminar for finished papers. Similar structure exists for other sub fields also.

Overall, have you enjoyed this experience? Would you recommend to other TSE students to visit another university for some months during their PhD studies? Do you want to add anything else about your experience?

I am enjoying my stay at UC Berkeley. Apart from the academics, the campus also offers many cultural events. I have an interest in western classical music and each week the department of Music offers quality free concerts. UC Berkeley has an excellent sports and recreation center. The bay area in general has many opportunities for music, hiking, good food etc. I would surely recommend other PhD students to visit another University during their PhD studies. ■



Keke Sun from Universitat Autònoma de Barcelona/ Institut d'Anàlisi Econòmica-CSIC

What is your main research topic?

Two-sided markets, venture capital markets.

Does this visit at TSE help you to advance your research project(s)?

Yes.

Do you like the academic environment here? Is it very different from that of UAB? What are the main differences?

Yes, I like the dynamic academic environment here. I am quite impressed to see that PhD students take such active roles in it, organizing workshops, publishing magazines etc. It's quite exciting.

Overall, are you enjoying this experience? Would you recommend to other students to visit another university for some months during their PhD studies? Do you want to add anything else about your experience?

Yes, this visiting term has been great experience, I am all for it! My main research interests focus on Industrial Organization, Toulouse is the best place for me to spend my visiting opportunity. I am very grateful to the highly motivated, inspiring and friendly atmosphere. Also, Toulouse is a very beautiful city, a place to enjoy life. ■

Changing paradigms in economics' education

By Daniel Westrik, M1 Student in Economics



Winston Churchill once quipped, 'The only time my education was interrupted was when I was at school'. While few economics' students are likely to be as displeased with their formal education as Churchill claimed to be, this does beg the question as to the relevance and importance of what we are being taught.

The global financial crisis has cast a dark shadow over the economics profession and the predictive ability of its practitioners to produce solutions when the chips are down. The arrogance shown by many politicians and policy makers, exemplified perhaps in Gordon Brown's message of 'no more boom and bust', has drawn much public disdain. Even within the profession, there has been staunch criticism, particularly around the role of contemporary macroeconomics, from economists such as Paul Krugman.

Unsurprisingly, this has brought together practitioners and theorists to consider how best to educate economics' students so as to handle the complexities of current challenges. In February 2012, a conference organised by the Government Economic Service (GES) and Bank of England attracted professionals and academics from around the world to discuss exactly this question. Diane Coyle has also compiled a collection of work about this issue, *What's the use of economics? Teaching the Dismal Science after the Crisis*.

At the heart of this debate lies the difficulty that many of the assumptions upon which our models are based do not completely hold in reality. Policymaking is profoundly socio-economic and requires an interdisciplinary approach. This is reflected in Jacob Viner's famous point that 'economics is what economists do'. Anand and Leape surveyed professionals at the GES and found that 'two dominant areas of economists' work were the 'production of briefing material' and the preparation of 'policy advice' – tasks performed by 75% and 70% of all our respondents, respectively. But most important was 'synthesizing evidence'... cited by 84% of respondents'.

However, these features of professional practice are unlikely to perfectly correspond to what postgraduates may actually be taught on their courses and there is an implication that further education and training on the job are required. Particular areas found to be lacking included a 'good awareness of history, practical knowledge of data handling, the ability to communicate technical knowledge to non-economists, understanding of modelling or of economic methodology and an ability to synthesise different types of evidence from diverse resources' (Coyle, 2012).

Dave Ramsden, Head of the GES, points out that 'economists will be made worldlier and less arrogant by studying aspects of economic history, particularly by focusing on approaches that highlight the shifting of perspectives and the many past mistakes of economic policy'.

However, the teaching of economic history requires some subtlety and may have dropped out of many mainstream curricula because of the difficulty of conveying such delicate appreciation. Simply learning dates, facts and figures, solely as a means to an end, will achieve little. Firm understanding comes from the weaving of a powerful narrative and through grasping the full implications of specific actions in multi-dimensional contexts.

It must be acknowledged that not all economics students will progress to a PhD and therefore may need to be taught other key skills within a more professionally orientated perspective. Taking this into consideration could have a significant impact, particularly at undergraduate level.

Paul Seabright, a Research Fellow at the CEPR and member of Toulouse School of Economics, believes 'the most powerful improvement in economics education might be to find a way of teaching the subject that does not present it as an ever-more-successful approach to the truth about how economies work, but rather as an investigation into a phenomenon that evolves as fast as we can keep up with it'.

Wendy Carlin, Professor of Economics at University College London (UCL), points out the importance of students having a sound knowledge of the technical issues, but also observes

that such a heavy concentration on 'mathematical areas to the exclusion of others' has resulted in a generation where some are unable to 'think like an economist' and can't apply 'simple principles to economic problems'. She further suggests that it is even more disappointing to see that many students 'do not even really fully acquire the technical skills: instead, they know just enough to get through the assessments'.

Some of our readers will possibly concede that, at points in their own education, they may also have been guilty of such an instrumental attitude. But we are not studying merely to pass exams, rather to engage authentically with the subject matter and to develop the ability to think independently. Unfortunately there is no magic short cut to such outcomes; it takes hard work and dedication, which some students are perhaps disinclined to accept.

As J. M. Keynes once commented, 'the master-economist must possess a rare combination of gifts. He must be a mathematician, historian, statesman, philosopher – in some degree'. It may be unrealistic to expect to acquire all of these aptitudes from our formal education and we must remember that our academic degree is only one element of an education in economics. Students of the subject may need to accept a wider responsibility to broaden and deepen the range of their interests and skills.

Do we therefore need to take stronger control of our education in consideration of Gandhi's injunction to actually 'be the change that you wish to see in the world'? If so, perhaps those who follow us will not need to suffer those grievances and inefficiencies sometimes experienced by the current generation. ■

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Interview with

Eric Chaney

By Hussein Bidawi and Philine Schuseil
MI Students in Economics

In the Business Talk on the 15th of February Eric Chaney addressed the most important macro-economic issues in 2013 at both European and global level. We had the opportunity to ask him in more detail about the current topics in macroeconomics and about his work as an economist.

Philine: We would like to ask you as specialist in macroeconomic risk, looking ahead for 2013, what is your biggest concern regarding the euro zone?

Chaney: Well, the first thing I'd like to mention is that the euro zone is in a better shape now than it was in 2012. So before talking about risks, let's talk about the good things. 2012 ended with a contraction of GDP in Europe and the US, which was bad for everything. However there are a lot of signs that there is a recovery on the way. We are still in the beginning of 2013, so it's still early to say anything about GDP growth, but we can already see that the systemic risk associated with the euro zone has been reduced, due to better financial market conditions. This is also related to a real acceleration of global trade, since Europe in general, and the euro area in particular, is highly sensitive to global trade: even though it is a relatively closed economy, it responds highly to global trade conditions. Back in 2009 the collapse in global trade led to a very deep recession in most of the world's developed economies, deeper in Germany than in anywhere else in Europe, seeing the sensitivity of Germany to global trade. Currently, Germany is showing signs of recovery, precisely because global trade is recovering. Concerning risks, there are still risks linked to the management of the euro crisis, the way I would formalize it is that the ECB sent a very strong signal to the financial markets in 2012 saying we are the "insurer" for the euro in case of problems. With some conditionality on the governments, the ECB has committed itself to buy government bonds in an unlimited fashion and that has convinced the markets that the ECB was pretty serious about keeping the euro alive. But that was then. And this kind of nuclear deterrent that the ECB has invented, has never been tested. So the ECB said things, but did nothing, which is a perfect example of expectations theory at work, whereby expectations were fulfilled because the markets saw them as credible. So if progressively the political set-up does anything that lowers the credibility of the commitment of the ECB, the euro zone systemic risk could rise again. And this is a political issue, not an economic one. Let me mention the example of Spain whose risk is related to the political structure of the country and not only to its economy: During the good years (2000-2007), the country has moved from a centralized political system to a decentralized one with more autonomy to the regions such as Catalonia, the Basque country or Andalusia. This was great because this was what the Spanish people wanted, however it was not perfectly negotiated in terms of the fiscal arrangements between the central gov-



Eric Chaney is the chief economist for the AXA group since 2008, in addition to being a member of the executive committee and the head of research at AXA Investment Managers. Before joining AXA, he was the managing director and chief economist for Europe at Morgan Stanley from 2000 to 2008. Since 1997, he is a member of the French Economic Council of the Nation, the French Tax Council and the executive committee of the French Economic Association. Eric Chaney is a former professor of Mathematics and editor of a mathematical journal of the University of Strasbourg, and a graduate from the Paris Graduate School of Economics, Statistics and Finance (ENSAE ParisTech).

ernment and the regions, for the obvious reason that: there was a lot of money coming from taxes on properties and if you have a lot of money you don't negotiate under realistic conditions. This does no longer work since the construction bubble is over and Spain is struggling to reinvent its political structure, notice that this is not economics per se but this very difficult situation has a lot of impact on the country risk, because of all the agreements needed between all the people. This is a risk that is highlighted by the fact that there will be a referendum not far from Toulouse, in Catalonia in 2014 about the possible independence of the Catalan country. We see that the political risk, which to some extent is linked to the euro crisis, could fuel again the euro crisis and I do not really see how monetary decisions could change that.

Philine: One heavily discussed topic last summer was the so-called Grexit, the possible exit of Greece out of the euro zone. Do you think this is still a risk?

Chaney: It could become a risk if the Greek people decided that enough is enough, that they are not happy with the contraction of income and the conditions under which they are getting help from the euro-zone countries. This could happen, if there are new elections in Greece leading to a new government that decides to leave the euro-zone. The euro is an extremely peculiar system that is based on freedom. Nobody asked anybody to join the euro, so forget all the legal points made by a lot of specialists: the essential thing is the freedom of the member states. So if the Greeks decide to leave, they will leave. My view is that they will not leave. As long as the Greek government has a primary deficit they cannot leave without being lent money by their partners of the euro area. Once the Greek government has managed to generate a primary surplus excluding interest payment on the debt, the decision could be taken. But I have come to the conviction that the other euro area countries such as Germany, France and Italy will never kick Greece out of the euro area because after the PSI (Private Sector Involvement), i.e. the restructuring of the Greek debt, we had a big crisis in Italy and Spain. So nobody wants to take any risk again with Greece. The risk of contagion was totally underestimated. Germany asked for a restructuring of the Greek debt and the points made by Germany were understandable. They said "Look, we, the German, French and Italian taxpayers are going to lend money to Greece, and we want private investors to have their fair share of the efforts. We need to restructure the Greek debt, and private investors will have to pay. This is what actually happened. There was a negotiation about the so-called PSI, and investors have lost 70 percent, but that is not a big deal, they are still "alive". However, immediately afterwards, investors considered that there was risk on Italy (Italy has the largest bond market in Europe) there was a risk on Spain, there might be a risk on France, on Ireland, on Portugal, risk everywhere. This was a really painful lesson to learn. If you do that, then contagion comes immediately in the form of much higher interest rates.

What you have to understand is that the contagion was not through the exposure to Greek assets. The contagion happened because in this PSI private investors have lost 70 percent of their holdings of Greek debt (not the ECB, which did not lose anything). Investors drew the conclusion that holding the Italian debt was like holding a subordinated debt. You are not number 1 if there is a default, there is a super number

1 which is the ECB. This is why, suddenly, the spreads on Italy and Spain went up, because if you thought that you were a normal investor and you discover that you are subordinated investor you sell. This is exactly what we observed.

Philine: You said during your talk that the fear of inflation is not reflected by market prices. Do you think that all this discussion about inflation is unfounded or is there, nevertheless, a risk on the long run?

Chaney: There might be a risk of inflation in the long run. What is totally unfounded is this idea that because central banks are expanding their balance sheets to the size of their assets, this will automatically generate inflation. This assumption is totally unfounded from a theoretical standpoint. According to the monetary theory, there is a link between the supply of money and the level of prices in the long term. Monetary theory says: look at the amount of money created by banks (which includes of course money created by the central bank). As far as the euro area is concerned, money supply has been growing at a snake pace since the bankruptcy of Lehmann. Even at a lower pace than nominal GDP growth. If there is a risk in the euro area, according to monetary theory the risk is more deflation than inflation. People are thinking of the U.S. when making this assumption. In the U.S. money supply is growing at a rate slightly above the trend of savings and I see that as an insurance policy against the risk of deflation. The Fed considers that inflation is easier to fight than deflation. When we look at the example of Japan, a very modern economy, we realize that they have not managed to get out of deflation. So the Fed has taken the risk of going a bit too far in terms of stimulating money supply in order to be sure that the risk of deflation will be avoided.

If you want to talk about a risk of inflation (even though it is limited at this stage), it is coming much more from the policy of the Federal Reserve Board than from the ECB. But there is a bigger issue, which is the uncertainty about future prices: could be inflation, could be deflation. Central banks will have to reduce at some point the size of their balance sheets. If they don't do it, we will have very high inflation. If they do it too quickly, we will have deflation. And this will happen in either 2, 3 or even 4 years from now. We do not know when they will do that. The theory is clear, but implementing the strategy will be tricky. What markets reflect is the uncertainty about future prices: the truth is that we could have deflation. The risk is higher than before the crisis.

Philine: You were talking about the future of the euro zone and the need for a fiscal union with a common budget. Do you think that within a reasonable amount of time this will be possible?

Chaney: I think that if the euro is to survive, which has not yet been demonstrated, there will be a minimal budgetary or fiscal union. Certainly not to the extent of Federal States like Germany or the U.S. or even Confederations like Switzerland, but a minimum will be required to make the new instruments that have been created such as the ESM (European Stability Mechanism) and the Banking Union work well. If we don't do that, all these decisions that were taken during this crisis will unwind at some point. But this is a political decision and since it is a political decision and since we fortunately live in democracies, it will have to be explained to the peoples and underwritten by the peoples through votes at elections or referendums. But if there is no democratic support for this

minimum fiscal union, I'm afraid that some countries will back up, saying "No, this is not what we wanted."

Philine: A Banking union is theoretically constituted of four elements (single banking supervision, single regulator, common resolution schemes, and a unified deposit insurance) Do you think a banking union should include all these four elements?

On the Banking Union: the lesson we have learnt from the banking crisis in several countries (the Netherlands, Spain, and maybe Italy) is that what really matters is a clear idea of who takes the decisions regarding supervision, restructuring and resolution. Money is a different issue. When it comes to recapitalizing banks, especially in big amounts, the issue is linked to the issue of a fiscal union.

If we are talking about pooled or common insurance deposit schemes, it is a fiscal union issue, it is not a banking issue. I think we need to separate these two things, which are unfortunately not separated. But the key point is: who takes the decision? Take the example of the Netherlands. There was a big property asset bubble, which is now, in 2013, starting to deflate. This is implying a lot of risks for the Netherlands, an in particular for its banks. Many Dutch banks failed during the crisis. Was it for a lack of supervision? To some extent, but what the Dutch National Bank is saying is that "Well, we knew that things were wrong, but the government decided that it was ok. If the supervision had been at a supranational level, there would have been no political resistance to ask the Dutch banks to be much tighter in their loan behavior. Now look at the Spanish situation. We basically know how to solve banking crises because Sweden gave us the lesson in 1992. They had to learn it the hard way, but they know how to do it: you nationalize the banks; you separate the "good" bank and the "bad" bank. The good banks are immediately given back to the private sector, and then you have to deal with the bad assets. This is very painful because there are a lot of losses. When there are losses there are people who loose money and these people might be connected to the political system. Why has Spain failed to follow the Swedish model? It is because of the political connections that we are discovering now between the construction sector and the political parties of the regional level. Now again, if the supervision came from a supranational body, you don't have this political connection, so you have a much higher probability of having a "good" supervision. This is why I think having a single supervisor in the euro zone is a great achievement. But if it is only supervision, it is not enough. If for instance the supervisor in Frankfurt or wherever decides that bank X in Germany has a lot of bad assets and should be restructured but the decision is left to the lender, who might be connected to this bank, then the lender has the choice to refuse to implement the decision of the supervisor. Then, the supervisor is totally powerless, so to say toothless. So that is why it is very important that the decision on restructuring and resolution is taken at the same supranational level to avoid the political interactions which hinder progress. Recapitalizing banks and insurance deposit schemes would make the system more resilient, but it cannot be done for the sake of a banking union. It is a political issue linked to the fiscal union and this has to be decided by the peoples.

Philine: Could this break the vicious circle between sovereign and banking risk?

Chaney: I think there were some illusions in the market, because on the 29th of June the Council of the Head of States expressed the need to cut the vicious link between sovereign risk and the difficulties of banks to have access to funding. Some people thought this to be a blueprint for a fully-fledged fiscal union containing deposit insurance schemes, and a super-ESM to recapitalize banks.

This was an illusion because this is a political decision. The decision to move to a fiscal union was not taken, and has not yet been taken. In reality, what has contributed the most to cut this vicious link is the decision by the ECB to intervene in the market to correct the price perceived on the probability of a country leaving the euro, i.e. the convertibility risk. It amazes me that this decision was taken by the ECB directly after the decision taken by the heads of states concerning the move toward a banking union. The ECB came to the view that now they had enough commitment from the policy-makers, the parties responsible for the taxpayers' money, to take a step further.

In the markets' viewpoint, the decision by the ECB (the Out-right Monetary Transactions weapon) complemented the decision of the head of states. And we can say that the vicious circle has been partially broken, but not totally because a lot of banks still have to be restructured in Spain and in Italy.

Philine: How do you measure political risk practically (e.g. elections this year in Italy in February or in Germany this September)?

Chaney: If you are talking about quantitative measures, I don't think it is possible with an internal model to put numbers on these kinds of risks. So it is better to look for quantitative measures coming from the markets. One very important market is the people: you have polls. You look at the polls; this is what we all do. Regarding the elections in Italy, we know what the platform of the PDL is, we know what the platform of the Central Left is, and of Mario Monti... We look at the polls and we don't pretend to be smarter than the polls. So this is a quantitative measure, this was important in many elections, polls aren't always predicting the right results, but you know, this is the best thing that we have. We don't try to be smarter than that. An alternative way coming from the markets themselves is the information you can extract from the bonds market (particularly the CDS market), which is a measure of the credit risk for a given country. If you believe a political event such as an election might have an implication on the risk on a sovereign debt, you'll find a quantitative measure of the risk in these kinds of markets. The market might be right or wrong, I'm not claiming that markets always reveal the truth, but it's a good tool, since it's aggregating the decisions of thousands of people buying and selling, so it has information that we can use.

Philine: During your talk you said that you always have to "respect the market". What exactly did you mean by this?

Chaney: Working in the financial sector, and advising investors, you have to keep in mind that what matters most to investors is the return on their investment. They are not investing to lose money. This is especially the case of institutional investors, like pension funds, sovereign wealth funds and insurance companies who are investing the savings of people.

Investors want to have positive results. If you advise them to

buy U.S. assets, because your theory implied that the dollar should go up, but the dollar goes down, contrary to what your theory has predicted, the investors will never listen to you again, because you have helped them lose money. Your theory might be sound from a technical point of view, but it was wrong in the real world, and you have to respect the market, especially when it goes in the other direction of your analysis. This is not a full proof that your analysis was wrong, but if you don't listen to the market, is equivalent to writing an academic paper and not listening to your peers when they point out to a mistake you've done. The markets tell you something. But the market is not someone who tells you "This equation is wrong", the market just tells you "You're wrong", so you have to try to understand why. This is why I emphasize that you have to respect the market. Otherwise you should find a job elsewhere but not in the financial sector.

Hussein: Going back to the U.S., you spoke of the risk of inflation and linked it to the policy of the Fed, and the timing of its deleveraging, do you think that having Mr. Bernanke at the head of the Fed (as Mr. Obama promised in his campaign) is a good sign for the financial markets?

Chaney: It is always good to have continuity when things are working well. The situation gets more complicated once the U.S. economy is in a better shape, and once the money supply starts accelerating again. The Fed knows that they will have to sell assets, and expect to make losses. It's not a big deal; the central bank can afford to make losses. The risk however is the reaction of the people and of Congress, who might tell the Fed: "You have wasted the taxpayers' money". Recall, there was a lot of critics against the Swiss National Banks, the decisions taken by Philipp Hildebrand to prevent the Swiss Frank from appreciating. In particular, the SNB made losses, which brought a lot of criticisms by the newspapers and politicians.

The Fed will anticipate this: they know that on some of the assets, they would make losses. One could say that to some extent it is fully internalized. But they might shy away from selling these assets due to political pressure, and, honestly, I don't think it depends on whether the Chairman is a very distinguished economist, which is the case for Ben Bernanke or somebody more pragmatic. It depends on the power to resist the pressure from politicians, which is going to be quite strong. Note that during the crisis, the Fed (like the Bank of England and the ECB) became much more powerful than before, deciding on everything from regulation and supervision, and a lot of things that they were not doing before. You have to keep in mind that these persons are not elected, and there is always a risk that Congress (in the U.S. and the parliaments in other countries) tells the central bank that you became too powerful, and we need to restrict your powers. This risk cannot be neglected, and will be taken into account by the central banks, in order not to have their wings cut by the parliaments.

We live in democratic countries, and for the reasons pointed out above, taking the decisions on deleveraging will be very difficult. My hope is that they will take the right decisions at the right time, but I want to stress how difficult this will be.

Hussein: Do the central banks have the right tools to take these decisions or is there always a risk?

Chaney: The modern tools that the central banks were us-

ing before the crisis were DSGE models, very sophisticated Monte-Carlo simulations, except that there was no significant financial sector in these models. This was a big flaw. It was considered ex ante so difficult that it would have been stupid to try to put it into the model. Now we know that if you want to have a model-based approach, without the financial sector including the shadow banking system, you might miss the most important event which happens once every four years, but which leads to five percent contraction in GDP and the loss of welfare over 20 years.

They have to reinvent the models; there are a lot of people working on that.

Maybe in ten years time, the central banks will have new tools and they will discover that something totally unexpected happens that was not taken account of in their tools. Monetary policy is much more a question of taking decisions. With the information that you have -statistics are very important in this regard - you need to have a good knowledge of all the financial transactions. This is why it is important to have a lot of financial transactions done in a single compensation system so that you get information from the central bank. That is very helpful, but in the end it is a question of taking decisions.

Let me illustrate that. Before the crisis, a lot of people in the academic world but also in the hedge-fund industry were telling the central banks "what you do is silly": there is a credit bubble, you should go against this credit bubble, you should lean against the wind. You have no theory on that, no mathematical approach, but when you feel that there is something wrong, you need to go against it and Ben Bernanke was against that.

In my opinion it was not a question of tools, of models, it was a little bit more a question of will, of political will and the ability to take decisions that cannot satisfy to everybody.

Philine: You hold a degree in pure mathematics. How did your academic career unfold to become an economist?

Chaney: I wanted to do some business. And I was involved in a project aimed at launching a scientific journal targeting non-mathematicians, and having as a goal to make mathematical tools accessible to the other scientists. For physicists it is relatively easy because (even though they don't like mathematicians and vice versa), they are more or less in the same bucket. But if you think of biologists, economists and so on, they have no idea what is going on in mathematics. I realized how difficult the task was. I discovered then that there are some interesting mathematical models in economics, and so I decided to switch to economics. This in the end led me to the real business world: investment banking back then and insurance and asset management now.

Philine: What economic tools do you use in your daily work life?

Chaney: Can I tell you the truth? The most important tool is Excel. You don't necessarily need to have things that are especially sophisticated, but I think what is important in my line of work as a business economist, is to have a very wide array of theoretical tools that you take from monetary theory etc. There are a lot of houses in the economic city. The wider is your understanding of basic models, the more nimble you will be because things will never turn out as you have been expecting. So when suddenly something unexpected is go-

ing on, as with the example of the depreciation of the yen, and people didn't expect that, you need to recall what tool is the appropriate one to use in terms of ideas. I'm not talking about a fully-fledged model, but what kind of idea could be helpful?

Philine: Would you recommend students in economics to specialize or to rather stay generalized?

Chaney: Apart of being very proficient in Excel and in EViews, I would recommend having a good understanding of a broad range of economic theories, and to avoid belonging to a school of thought. The world is too complex to be explained by one line of thought. Maybe belonging to an approach has advantages when doing research; it's different when doing

practical economics.

In addition, I think it is very important to have a good understanding of the basic financial instruments, not necessarily the very sophisticated things. You need some understanding of the financial markets to be able to extract information.

Philine and Hussein: On behalf of the TSE students, thank you for your time, it has been insightful. ■

Alumni

Interview with Florence Krowicky

By Augustin Lagarde, M1 Student in Economics



1. Could you present yourself and tell us about your education?

My name is Florence Krowicky, I'm a former student of TSE and am currently an environmental economist at ACTeon. I did my undergraduate studies in Lyon and it was during my Erasmus exchange in Guelph University (Ontario, Canada) that I discovered environmental economics. That's why I came to Toulouse where I followed the M1 in Economics and the M2 in Environmental Economics. Now I am doing my final-year internship in ACTeon, since January 2013, about the ecosystem services approach to the decision process for Parc Naturel Marin des Estuaires Picards et de la Mer d'Opale.

2. Can you describe briefly what ACTeon is and what they do?

Founded in 2003 by Pierre Strosser, ACTeon is a consulting group which works on issues like: water, agriculture, environment, climatic change, energy, biodiversity, ecosystem services of marine resources and coastal zone management.

Comprised of agronomist, engineers, territory management specialists and environmental economists, we work mostly for public institutions at different levels: local (municipalities, associations, water agencies), national (ministries), European (European Commission) for a better integration of environmental issues in public policies with our recommendations and research facilities.

3. In few words, can you describe the difference between an agronomist engineer and an environmental economist?

It depends on the engineer's training. In ACTeon, there are some people who specialized in economics so their knowledge is quite similar to that of an environmental economist. Otherwise, both of them bring a critical point of view –the engineer more in scientific way and the economist more in the area of incentive processes and working with economic tools. ■



Business Talk: ACTeon

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The TSEconomist Launches...

The TSEconomist Teaching Awards

By Janine Torrelli, M1 Student in Economics

Being a teacher can be a profession like any other or it can be a passion. It involves an interaction with young people, helping them to evolve their ideas and shaping their future. Teaching on university level is particularly demanding for a professor. On the one hand students appreciate the academic excellence and great skills and successes in research of their professors and are honoured to be taught by great thinkers. But on the other hand what does academic excellence mean if the professor is not able to share her or his passion with the students? Being an excellent professor entails the ability to transfer knowledge in a way that makes students really want to get more involved in the topic. A good teacher's enthusiasm is contagious and inspiring. We are glad to have many motivated people at Toulouse School of Economics who are not only great researchers but also motivated teachers. In addition, it is also important to recognize the effort teaching assistants exert and the time they spend to help students understand difficult problem sets.

In this way we wanted to thank those who make an especially great effort for their hard work and their inspiration. This wish created a new project this year: The TSEconomist Awards.

The awards are "thank you" trophies by the TSE students for the teachers and teaching assistants. To make it possible for all students to participate in the voting for which, in their opinion, is the best teach and teaching assistant, we organized an online vote. All students from L3, M1, M2 and DEEQA were invited to vote and therefore to support their favourite teacher and teaching assistant. By giving the whole TSE student community the chance to vote for who they think deserves the most recognition, the result is representative. The winners were then selected based on the number of students that voted for them. The TSEconomist team believes that it is a good way to say "thank you" and we hope these awards will become a tradition at TSE. Since this initiative has just started, any remarks or suggestions on how to improve the voting procedure or other comments are highly welcome. It is our belief that the characteristics of the "teacher of the year" are not fixed, and of course that many different styles of teaching exist, however, this should not be seen as an obstacle to acknowledge the efforts of one teacher and one TA that have strongly influenced the students during the academic year. It is a fun way to acknowledge outside the pure academic field and we hope to have created a positive interaction between the students and the professors.

We received really nice comments from the students! And here is a small selection of them:

"STEPHANE STRAUB SHOULD WIN BECAUSE HE IS A VERY GOOD TEACHER AND A VERY POLITE PERSON. HE HAS DONE REMARKABLE WORK WITH DEDICATION AND STILL IS VERY DOWN TO EARTH. I FIND HIM VERY SUPPORTIVE AND FRIENDLY. THERE ARE SO MANY THINGS TO LEARN FROM HIM :)"

"ACADEMIC EXCELLENCE; INTERACTIVE TEACHING; INCENTIVISING EFFORT AND INTEREST IN AND FOR THE TOPICS CONCERNED" (A M1 STUDENT ABOUT P. SEABRIGHT)

"MR GOMES IS A "NICE MAN" AND ON TOP OF THAT IS DOING A VERY GOOD JOB WHEN IT COMES TO EXPLAIN AND SO ON!" (A STUDENT ABOUT RENATO GOMES)

"ANAYA SEN FOR ENCOURAGING TO ASK QUESTIONS ABOUT THE FIRST LINE EVEN AT THE END OF THE TD"

"I THINK THAT THESE 2 PROFESSORS SHOULD WIN THANKS TO THEIR COMMITMENT TOWARDS THEIR STUDENTS AND THEIR DESIRE TO TEACH. (A STUDENT ABOUT N.PISTOLESI, B. OLIVRARD)"

"A GOOD PROFESSOR, TA IS ONE WHO MAKES A CLASS DYNAMIC, MAKES STUDENTS PARTICIPATE, NOT JUST TALK AND TALK DURING LONG HOURS; IS A PROFESSOR WHO PREPARES HIS/HER CLASSES, TAKES THE TIME, SETS HOMEWORK AND GIVES FEEDBACK FOR THEM." (A STUDENT ABOUT M. KYLE AND G. LUKYANOV)

"BRILLIANTLY ORGANISED AND STRUCTURED COURSE, EXCELLENT LECTURES AND EXPLANATIONS." (A STUDENT ABOUT J.P. FLORENS)

"JEAN PAUL AZAM IS THE HEART OF MASTER STUDENTS SINCE HE IS THE PERSON WHO IS ALWAYS HAPPY TO FIND THE TIME TO RESPOND AND GIVE USEFUL ADVICE OR SUPPORT. THE LECTURES ARE ALSO FULL AND RICH OF FACTS AND INTERESTING STORIES WHICH HE DELIVERS WITH THE GREATEST ENTHUSIASM AND COURAGE TO THE STUDENTS"

This year's winners of The TSEconomist Teaching Awards are:

Teacher of the year L3: André Grimaud

TA of the year L3: Benjamin Ouvrard.

"I am at the same time very happy and very proud to have received this reward. That means that my course was appreciated by the students, which is very important for me. I hope that, in the future, it will contribute to their professional and personal success." (A message from André Grimaud)

"I would like to thank my students for their votes and for this award. I was really happy and surprised to receive it. I hope you enjoyed the time we spent together (I did so!). I always enjoyed your group. Now, I wish you all the best for your studies, and I hope you will succeed! Thank you again!" (A message from Benjamin Ouvrard)

Teacher of the year M1: Yassine Lefouili

TA of the year M1: Elodie Alet.

"It is a great honour and a huge pleasure to receive this award. I would like to thank The TSEconomist for this nice initiative, and my past and current students for making it so exciting to teach at TSE. Their eagerness to learn and their challenging questions have been crucial for my development as a teacher and I look forward to interacting with more students at TSE over the next years. When I was myself a student, I was deeply marked by some of my professors (a couple of whom are currently colleagues of mine) who not only presented organized and insightful lectures, but whose enthusiasm for their subjects also made the class come alive. They were definitely instrumental in my desire to be a teacher and a researcher and I can only hope to become as inspiring as they were." (A message from Yassine Lefouili)

"I want to express my sincere appreciation and thanks to TSE students for recognizing me with the TSEconomist award of TA of the year for the M1 level. I am truly honored to receive it. It means a lot to me to know that you have enjoyed my classes; I had great pleasure teaching you econometrics. I have learned a lot from you and I only hope that you will take what you have learned this year and build on it as you continue your studies. The beautiful crystal award is proudly on display on my desk and will remind me of you all. Thank you for making my year really special!" (A message from Elodie Alet)

We, the students of TSE, are fortunate to have many distinguished professors, and these awards are our way to thank all professors for their dedication and motivation. The awards were presented during the TSE Gala and we were honoured to have the president of Université Toulouse 1, Bruno Sire, as a special guest to present the awards.

Teacher of the year M2: Patrick Rey

TA of the year M2: George Lukyanov

"Dear M2 students, It is a great honour to receive this award, and I am very grateful to you for this. This distinction goes to my heart, for two main reasons. Firstly, this student initiative is a very good sign for a future where TSE will rely on its students as much as on its faculty and staff. That TSE students decide to embark on this journey – and other interesting initiatives – is very promising. Secondly, research and teaching are two closely related activities: researchers must explain their findings – and sometimes the lack of them... –; and conversely, teaching a topic is the best way to ensure an in-depth understanding of the literature. Moreover, teaching is a two-way street; teachers must reach out to the students, and in my experience good students bring a lot to the teacher as well as to the researcher. I very much enjoyed the interaction with TSE's M2 students. I am all the more pleased to see that this pleasure was – at least partially – shared by you." (A message from Patrick Rey)

"It is a great pleasure for me to receive the award for the best TA, I think especially because I enjoy this kind of activity very much. This was a wonderful experience..! I had a nice audience, consisting of many bright students who actively participated during the sessions and asked interesting questions; once it actually happened so that a question made me discover my colleagues' research project, which I got interested in and joined subsequently. I would like to thank my students and wish them successful advancement of their academic careers." (A message from George Lukyanov) ■

Once again, this is a way for us, the students, to reward all the teachers, winners and not winners. **Thank you and congratulations to all.**



M2 Choice

The worry of choice - Which Master 2 program should you pick?

By Eva Raiber, M1 Student in Economics



The second semester is over and, after the exams in May, the first year of graduate studies will be complete. Now all that is left for those not taking a year off is to choose the Master 2 program. Seven different master programs are available for those who successfully complete the Master 1 at the Toulouse School of Economics. On top of this, the student has to decide if they want to do the doctoral or the standard track. So simply deciding on your preferences might be harder than it sounds.

Question 1: Doctoral or standard path?

If you want to do a PhD at the Toulouse School of Economics, and you have good grades, this question is easily answered. Also, if you are sure that you want to start your professional career right after your masters and you do not want to do a PhD later on, you can also skip this section.

However, what if you are not sure if you want to do a PhD, if you are uncertain you will be able to make it into the PhD program here or if you want to do a PhD but not at TSE?

The doctoral path is very competitive and average grades are lower than in the professional track. Only 15 to 20 students are selected each year on merit criteria. Yet, advanced general economic courses in micro, macro and econometrics prepare you best for further research studies.

When deciding, you should keep in mind that completing the doctoral path will not keep you from successfully entering a professional career afterwards. Conversely, you can still enter a PhD program at another university if you complete the professional M2. In fact, a lot of universities outside of France will ask you to (re-)do one or two years of general economic classes when entering in their PhD program. However, a research oriented Master 2 might give your application an advantage despite the possible lower grades that you might have when choosing the doctoral path.

Students are allowed to change from the doctoral path to the standard track after the first semester. However, some directors from the standard track discourage students to do so. Therefore, students should be prepared to work a lot and to accept lower grades.

If you are indecisive these questions might help you: Am I looking forward to having only specialized classes in the Master 2? Are all the classes offered in the standard M2 of interest to me? Am I interested in doing general economics classes for another year? Am I ok with only having three specialized classes? Do I think I need to further expand my general economic knowledge?

Students doing the doctoral track are aware of the higher workload they are having. In a small survey conducted among Master 2 students, they indicated that the high workload is an advantage and a disadvantage at the same time as it provides the students with rigorous economic training but can also be too much in such a short time. Next year, the semesters are

supposed to start and end earlier than this year. This should give students more time to work on their thesis, a point that was criticized last year. Yet, the workload will stay the same or might even increase since the semesters will be shorter.

Question 2: Which Master 2 program?

The M1 TSE student can choose between seven different specializations that may or may not overlap and can have very different objectives, asking for different skills and interests.

The Master 2 in Statistics and Econometrics is a very applied master; no doctoral path is possible and an internship at the end is mandatory. However, a few students do continue with a research degree in other institutions. While in previous years this master was mainly in French, starting from this year it will be mainly in English. The aim is to attract more international students and to give the graduates a competitive edge. The size of the master varies usually from 25 to 35 students per year and it is jointly organized with the Math Institute of Toulouse (IMT) but most of the courses are taught at the Manufacture. For this master, strong prerequisites in economics and in statistics are demanded. In general, M1 students in economics can also be admitted to this specialization but they should be able to show interest in this area through their M1 options or through an internship.

Non-completion of the program is rare and students do not have major problems finding an internship at the end of the year. Not only good academic performance, but also personality and a "bonne sense" (good instincts) are important for successfully completing this master 2, Christine Thomas, one of the directors, points out. She also stresses that "student should be able to project themselves into the position they may work in afterwards". Students should have a realistic view what it means to work as a statistician. Therefore, Mrs. Thomas recommends doing an internship in this area before choosing this master. Concerning the internship at the end of the M2 program, students find places mainly in marketing, banking and insurance but also in the pharma industry, the public sector, consulting firms and others.

The Master 2 program in Environmental and Natural Resources Economics aims to provide students "with the analytical skills to assess, analyze and recommend economic policies and strategies to tackle environmental issues and manage natural resources". It combines research and application concerning natural resources management and environmental issues. Around 15 students have done this master in previous years, around one third of them start and finish in the doctoral path, the rest in the standard track. Generally, the program is very international even though last year French students were in the majority. Around half of the students in the stan-

standard track are doing an internship at the end of the program. As Henrik Andersson, who became director of this master in 2012, points out, the master program and its researchers are “well connected” so that there are many internship offers for students. This year, students received internship offers from the government ministries, private consultancy firms, OECD etc. However, many in the contacts are in France, which means that for students aiming at doing internships abroad it might require more work to find a place. Other than the public sector, graduates also work for consultancy firms, big companies, etc., after this M2 program. Besides an interest for environmental issues and natural resources management, Mr. Andersson stresses that student should also have an interest in public policy, decision making processes, and interest in societal issues in general. Students should be able to see the big picture even though they need to be able focus on one particular question.

The Master 2 program in Public Policy and Development

“aims at equipping its students with the tools required to become part of the quest” to find answers to developmental problems on different levels. Students should show an interest for the real world and be able to connect economic theory with problems that are encountered outside of academic research. Openness, both mental and emotional for the sick and poor is a crucial quality, stresses Jean-Paul Azam, director of the Public Policy and Development (PPD) master. Students are asked to read and work through applied work and be able to use



Jean-Paul Azam

data to test hypothesis. The program is quite new and most of the students successfully complete the standard track. Due to the small number of students it is hard to predict what share opts for an internship at the end of the year. However, some students manage to get prestigious internships.

The master prepares for a career in applied research which can be done in international organizations, government institutions in developing countries, NGOs and more.

When making their Master 2 choice, Prof. Azam asks the students to “make your passion become true”. In line with the positive attitude of their director, PPD students generally seem to be satisfied with their Master program, the choice of the courses and the teachers according to the M2 survey.

The Master 2 in Economics of Markets and Organization is the most established professional master at Toulouse School of Economics and therefore is well known. It looks at markets, firms and demand and cost structures. According to Farid Gasmı, director of the Master program, the students should have an interest in three areas: First, industrial organization is the most evident one which deals with the functioning of markets and the strategic interactions but also with the public economics side in how to regulate markets. Then, econometric methods are the most important tools. To address questions students will need to evaluate data on sector or firm basis. And third, students should bring an interest in certain industrial sectors that they want to have a look at.



Farid Gasmı

Around 35 students are usually admitted, last year around 25 of them were in the standard track. The master is selective such that not every M1 student who indicated the master program as their first preference will get in. Students are selected based on the grades available (M1, but also undergraduate), performance in related classes, CV and references. It is recommended to students

in the professional track to look for an internship at the end of the year, except in the case that he or she want to pursue a PhD at another university. Due to the good reputation of the program, most students find good internships with private firms, for example with Nokia and Orange, consulting firms, or at public agencies like the competition authorities in Paris and similar authorities in other European countries.

The Toulouse School of Economics is known for Industrial Organization so Mr. Gasmı recommends students in the M1 to strongly consider this program.

M2 students in this program like the high level of the program and are satisfied with the teachers according to the M2 survey. They would all choose the same program again. They only would have liked more courses to choose from in the second semester.

In **the Master 2 in Financial Markets and Intermediaries** students receive training in finance and insurance economics. This year, the focus of the master is going to change towards providing more courses in regulation. Students should be able to gain valuable skills in the area of financial and market regulation and the banking sector. This change is also due to the fact that it was difficult for Master 2 students from this program to find internships except for in the area of regulation. If students want to do a Master that works more in the area of trading, they should consider changing to the IAE business school. Students from last year indicated in the survey that they were missing applied and practical classes in this program and would have liked to have more choice of courses. Also, some students recommend that the internship search should be well prepared and started early.

The Master 2 program in Economic Theory and Econometrics offers the most general economic training. Most of the students in the doctoral track choose this master. Besides the core courses that are offered in the doctoral track, students can select options from the different fields of economics. Even though the choice is the largest among the programs, not all courses are offered in this program that you can find in the other specialized tracks. This program might be ideal for a student that is unsure about his or her specialization. However, the courses offered contain a high level of theory and less application. Therefore, not that many students select this Master if they are not doing the PhD track and around 50% of all students in the doctoral track are taking this Master program. In the M2 survey, students doing the professional Economics Theory and Econometrics track were less satisfied than their doctoral track counterparts. One of these students is pragmat-

ic and advises “to reserve this program for doctoral students”.

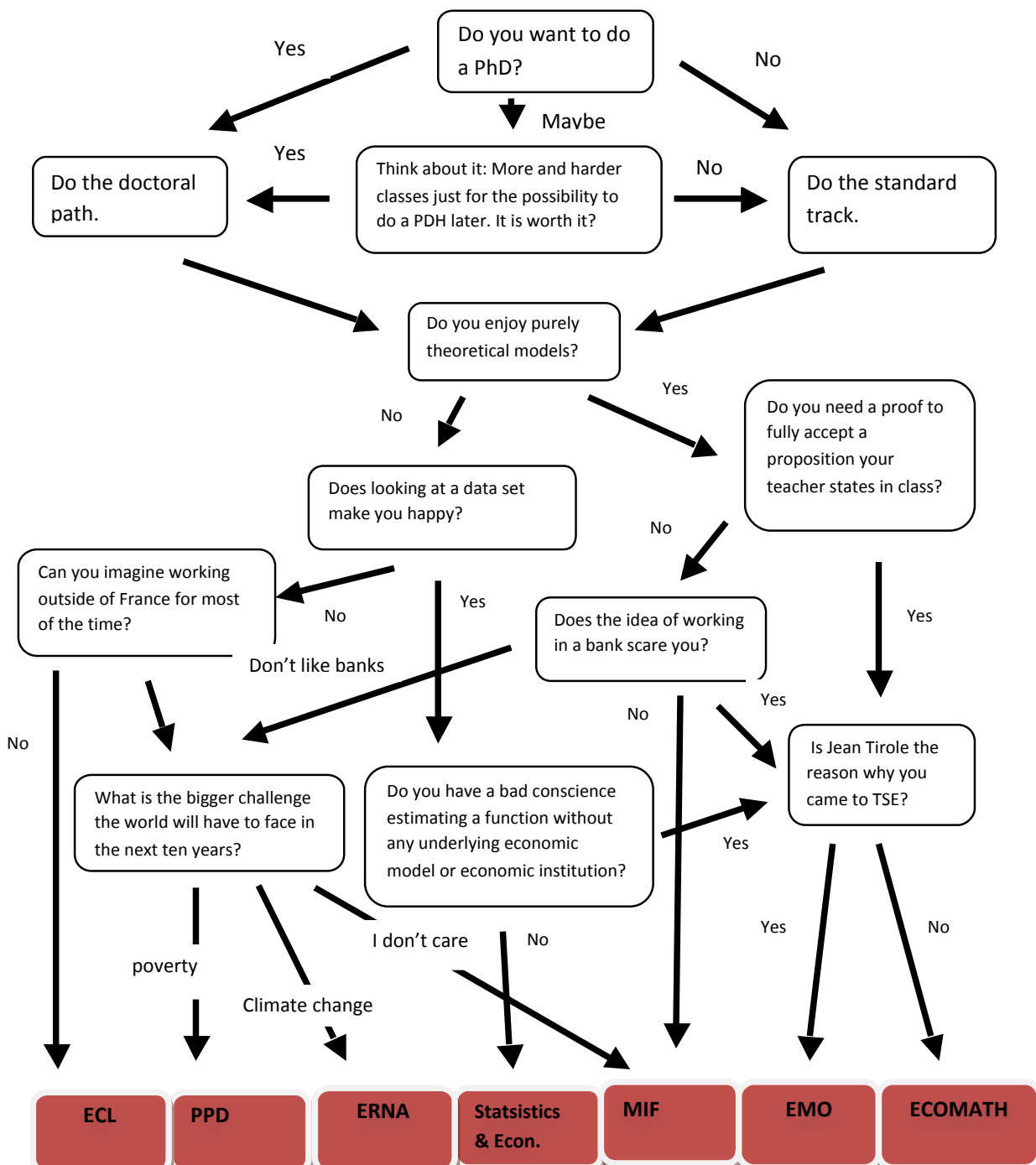
Last but not least, **the Master 2 in Economics and Competition Law** is a professional program that aims at providing the students with training in “economics and law in order to fully understand and enforce competition rules”. Students need to have a solid background in law for this program. Mainly students that were in the Master 1 in Economics and Law choose this program. Students from the general master program can enter this master if they can convincingly prove a background in law.

For the internship, students find places in law firms or in public

regulatory agencies. Finding an internship is not especially difficult, the students in this year’s master 2 program all found an internship.

All directors encourage the students to contact them in case they are unsure about which program to pick. More information does not necessarily make the choice easier but economically speaking the probability of choosing the wrong program should decrease with the amount of accurate information. With this, I wish all TSE students a good vacation. ■

The fastest but not-so-serious way to choose your M2 program:



Magistère

By Benjamin Blaye and Simon Corde

The 25th Anniversary of the Magistère Économiste-Statisticien

Jean Philippe Lesne (director of Toulouse School of Economics) talks about the Magistère and its 25th anniversary:

As the director of the School, I am glad to participate in the celebration of the 25th anniversary of the Magistère Economics and Statistics. This program relies on the high level curriculum provided by the school and broadens its scope by adding courses given by researchers from University Paul Sabatier, mainly in math, statistics, data mining and computer science. By selecting highly motivated students, the magistère programme was since its beginning, a pioneering idea, launched by Jean-Jacques Laffont (UT1) and Henri Caussinus (UPS), and managed for more than 20 years by André Grimaud, with his well-known enthusiasm and open-mindedness. All this echoes today in the foundation of the School and in the growing cooperation between universities in Toulouse.



The celebration took place on March 18th and 19th.

The first day's celebration mainly took place on the Paul Sabatier Toulouse III campus and was aimed on focusing more on statistical matters. It started with a round table discussion about research in statistics.

The main idea of this talk was to promote research work in an extensive way. The contributors were: Mr. Caussinus (co-founder of the Magistère, distinguished professor in statistics at UT3), Mrs. Ruiz-Gazen (professor and researcher in statistics at UT1 Capitole), Mr. Desjean (research engineer at Toulouse Mathematics Institute), Mr. Besse (professor and researcher in statistics at INSA) and Mr. Florent (specialist in statistics and econometrics). The talk provided many insights and real world examples in which statistical research has played a large role. Eventually, fundamental research is always applied research from a certain point of view and vice-versa. This contributes to a wider sense of multidisciplinary- even more in statistics- a field of study largely needed in many disciplines. The discussion made clear that there is a bright future for statistics.

In the afternoon, the organizers of the anniversary celebration of the magistère programme had the honour to greet Paul Champsaur and then Roger Guesnerie.

Paul Champsaur was introduced by a short speech from Jean-Philippe Lesne. Champsaur is the current director of Statistical National Authority, and the former general director (1992 to 2003) of the INSEE (National Institute of Statistical and Economic studies). He graduated from Polytechnique and ENSAE in the late 1960's.

Champsaur's talk focused mainly on the job market and wages inequalities, discussing his experience as a former president of the INSEE and his views on the possible reasons of inequality.

After a brief introductory summary of the economic context of the last thirty years, Mr. Champsaur discussed the arrival of a breakthrough in modern big data: microeconometrics. Thanks to developments in this field, particularly in terms of data obtained by INSEE, new phenomena have received quantitative analysis and explanation. For example, Mr. Champsaur explained that a great part of unemployment of less qualified people is due to the high level of minimum wage in France. As empirical proof for this statement, he provided a precise figure: unqualified work has an elasticity of -1.5%. This follows from another simple figure: at its creation, the minimal wage represented half of the median wage. Today, it is two-thirds of it.

Roger Guesnerie was introduced by André Grimaud. He is a French economist who has published in well-known journals such as *Econometrics* and the *Review of Economic Studies*.

Guesnerie talked about a very "hot" topic: climate policy. There are tensions between ecology and economics. In many cases, the ecological long-run view lacks compatibility with the short-run economic vision when it comes to public decisions. Therefore, we might end up just evaluating the price of the damages we cause. But then the economic computation leads to a terrible conclusion: the price for ecology is overwhelming. Are we advocates for a generational selfishness? While environmental goods are not private goods, they also are not necessarily destroyed by prudent use. The economic reasoning may still have a place in this debate.

In the evening, the gala of the magistère took place in the Natural History Museum. This was the occasion for current students of the magistère programme, former graduates, guest speakers, and TSE's professors to meet and engage in conversation.

Henri Caussinus (professor in Statistics) was one of the first to make a speech. He made a great praise to Jean-Jacques Laffont who created the programme in 1985. Then, Grimaud spoke, reflecting on his position as a director of the magistère programme for over 20 years. The gala was an opportunity to thank him for his enthusiasm, his passion and commitment for the programme. At the end of his speech, students and professors presented him with a signed book thanking him for his dedication to the programme.

On Tuesday morning, the event began with a round table conference on professionalization.

Unlike the previous talk, each contributor spoke about one subject, mostly describing their professional experience. Our first contributor was Mr. Hibon, CEO of Cahors, a multinational company dealing with gas, water and telecommunications. His main point was the importance of promoting foreign languages. In his opinion, foreign language ability is often the distinction between two candidates. TSE and the Magistère programme are both strong qualifications, but adaptability in foreign countries is a crucial skill in today's marketplace. Then Mrs. Le Gall, a Magistère alumna (1999) spoke about her experiences in quite different sectors: first, telecommunications and then in biostatistics. She was followed by Mr. Bergeret, another Magistère alumna (1991), who formerly worked with Mrs. Le Gall before the creation of his company, Ippon Innovation, which currently provides employment for dozens of people. They gave many practical and insightful examples of how Magistère alumni can be successful.

In the afternoon, the Magistère organization committee had the pleasure to welcome Eric Maskin (Professor at Harvard, 2007 Nobel Prize Winner- you can find an interview with him in the 3rd edition of *The TSEconomist*). In the beautifully renovated amphi Cujas, Maskin was introduced by Jean Tirole and spoke on the topic of "Why haven't global markets reduced inequalities? For more information on Maskin's lecture; refer to the article in this issue of the *Economist*.

The topic of the talk was chosen in memory of Jean-Jacques Laffont, a good friend of Mr. Maskin, who did a lot of research in development economics. Mr. Maskin showed that global markets, instead of having a positive effect on poor countries as could be predicted, had some secondary effects on the most destitute population of the poor countries. Indeed, the opening of borders permits the qualified workers of poor countries to work more efficiently with the lesser qualified from the rich countries. Therefore, the unqualified populations of poor countries are left to themselves and reach rock bottom. There are solutions to this problem, one of which would be to allow low-skill workers to share benefits by investing in their training. But stopping globalization is definitely not one of them.

The Gala

At the end of the first day, contributors, alumni, professors and students gathered in the museum for a gala. This was the opportunity to meet more casually, and to exchange with many people all linked in some way through the Magistère programme. After a brief welcoming speech, the guests were given the chance to a private visit of the museum led by the museum director. Meanwhile, alumni and students could wander across the elephant room and listen to the speech of our president, Mr. Bitola. He assured us, as we could see with our own eyes, that the entire event was a success. In the open-

ing speech to this gala, Mr. Caussinus spoke in memory of Jean-Jacques Laffont, his partner in founding the magistère programme and he presented a tribute to the era of economics in Toulouse. A great part of what we can see today here at TSE and within the magistère programme is largely due to a man's devotion to this great city that we live in. Laffont almost started from scratch when he arrived in Toulouse in the early 1980's and met Mr. Caussinus to suggest him the idea of the formation of the magistère programme in 1985. From there, the goal of achieving high-level economics research was pursued with well-known researchers such as Mr. Saint-Paul, Mr. Landier and Mr. Tirole paving the path.

The organizational team felt quite honored that many alumni from several countries came to attend our reception, especially numerous researchers from Zurich. One of those, Julien Daubanes introduced the main event of the evening: the great thank you speech for Mr. Grimaud. After having spent over 20 years in service of the magistère programme, Mr. Grimaud will leave the school for a well-deserved retirement this year. It is the duty of anyone involved with the programme to thank him before his departure with a *Livre d'or*. Many colleagues, alumni and students wrote in it which deeply moved him. Afterwards, it was Mr. Grimaud's turn to speak. When Mr. Laffont idea's of the magistère programme became reality

25 years ago, he managed to gather the best teachers he could find in order to deliver the best degree he could. Mr. Grimaud was one of them. Unlike many researchers, Mr. Grimaud has the ability to fascinate his audience in a classroom. Many alumni mainly came to see him before he leaves, assuring him that he was the best teacher they ever had. He has a passion for teaching and you could almost say that he lives for his students. This passion for teaching also made him win his most recent award, the *TSEconomist* teaching award. On behalf of

numerous students and alumni, the magistère programme wanted to add one last thank you.

Mr. Grimaud was busy all night long receiving congratulations and taking pictures: he was definitely the man of the magistère celebration.

That night became a memorable one for all participants. It showed the benefit added by the magistère programme and the strong links it forms between graduates and new students. Therefore it is not surprising to notice that the majority participating in the TSE Alumni Initiative are alumni from the programme. Let us hope now that the magistère programme will keep up the good pace and continue to bring fresh ideas to TSE. ■



Groupe Magistère organized the event

Eric Maskin lecture: Why global markets haven't reduced inequalities



On a warm Tuesday afternoon, the 19th of March, Eric Maskin gave a lecture in celebration of the 25th anniversary of the magistère. As an introduction, Jean Tirole, who wrote his thesis at MIT under the direction of Maskin, gave a brief history of the Magistère programme and paid tribute to Jean-Jacques Laffont, one of the Magistère's creators.

Then Tirole provided the audience with some background information on Maskin and his work. Maskin received his PhD at Harvard in the 1970's and is currently a professor at Harvard University. He has received many awards, most notably the 2007 Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobe for his research in the area of mechanism design. He is currently a member of the TSE Scientific Council.

Maskin justified his choice of the conference topic by referring to one of Jean-Jacques Laffont's main fields of research: development economics. The goal of the lecture was to present a model which explains why global markets have not reduced inequalities- particularly in poor countries. Over the past few decades, globalization has changed the face of the world; Maskin made specific note of increases in foreign exchange of goods and services, larger diversity of goods available in markets, and an internationalization of production processes. He cited declines in transportation costs, communication costs and the removal of trade barriers as the main causes of this phenomenon. Proponents of globalization often argue that it has allowed some countries to experience rapid economic growth (for instance China and India) and should decrease inequalities in these countries, but empirically, this is not the case.

Maskin briefly reviewed David Ricardo's theory of comparative advantage. He argued that this model worked well to explain international trade and global exchanges during the 19th and 20th centuries, however, since globalization's onset, the model has struggled to describe reality. Indeed, according to Ricardo's theory, inequalities should have been reduced within poor countries.

Maskin illustrated this through an example of Heckscher and Ohlin's modern form of the theory. First, according to this the-

ory, differences in production patterns are due to different endowments in labour and capital inputs. Let's suppose that there are two countries- one rich and another poor- and two types of workers- low-skilled and high-skilled. The rich country is wealthier than the poor country due to its human capital advantage. As a result, the poor country has a comparative advantage for producing labour-intensive goods (for example, rice) whereas the rich country has a comparative advantage for producing capital-intensive goods which require higher worker skill levels (for example, software).

In the first scenario, the trade is not possible. In order to respond to the demand for both rice and software, the two countries themselves have to produce the two kinds of goods. However, the poor country is more suited to produce rice and the rich country is more suited to produce software. In the poor country, the demand for low-skilled workers decreases due to the software sector's need for high-skilled workers. Consequently, the wages of low-skilled workers are artificially low.

In the second situation, let's suppose that now trade is possible between the two countries. The poor country specializes in rice production and the rich country in software production. In the poorer country, the level of wages of low-skilled workers will increase as a result of the higher demand for their labour, whereas the level of the salaries of the high-skilled workers will fall from decreasing demand. Thus, the model predicts that inequalities in wages should decrease due to trade in poor countries. This theory also predicts that countries which have completely different skill advantages



should increase trade between themselves to decrease inequality. But as mentioned, this theory does not seem to hold true- one only needs to look at the relatively low levels of trade between Africa and Europe.

In order to move past this difficulty and explain the recent globalization, Maskin introduced an alternative model (a simplified version by Michael Kremer) which focuses on labor



rather than on capital. His goal was to show that the Ricardian theory's predictions about the cut in inequalities cannot be proven right in real life. The main point is to focus on the internationalization of the production process.

Let's suppose now that we have four levels of skills for workers (A, B, C, D, the skill level declining from A to D) and the output is defined by the following production equation: $Y = M^2 S$. Here, M is the level of managerial skills which are more important in the output process and S is the skill level of low-skilled workers, which proves less important for the final output level.

The rich country is composed of solely A and B-workers, while the poor country is composed of solely C and D-workers. We have different possibilities of matching the workers. Let's say that we have two C-workers and two D-workers. There is the crossing pattern (a matching of different-skill workers) and the homogeneous pattern (a matching of same-skill workers). A maximization of output level determines the pattern the firm will choose.

In general, the cross-matching pattern is better because man-

agerial skills have more influence on output level than the low skills. However, if the differences in skills are too big, the homogeneous pattern can be shown to be more suitable for the situation.

Maskin intended to compare the situation before and after globalization became possible. Initially, it is not possible for companies to hire workers from foreign countries. The A and B-workers remain in the rich country and C and D-workers in the poor country. Thus, to produce maximum output, workers would be cross-matched patterns in the pre-globalization scenario.

In the post-globalization era, the situation has changed. The A-workers and D-workers will homogeneously be matched whereas B-workers and C-workers will be cross-matched. The productivity of high skilled workers increases the productivity of low skilled workers. Consequently, the wages of C-workers will rise whereas the D-workers will find their salaries stagnate or even fall which in the end will enlarge the gap between the two types of poor country workers.

One of the solutions to solve this problem is to develop education and training of the lowest-skilled workers. Nevertheless, it has a cost and we have to ask ourselves who will pay. Maskin suggested that ideally, companies could pay, but questioned this idea's practicality, as firms have no real incentives to behave like this. Indeed, if they invest in training programmes for their workers, firms will have to pay higher wages to the better educated workers. Another mentioned solution would be to ask A-workers to share the benefits of the globalization with the D-workers.

Here, we have to be careful. As a matter of fact, even if globalization has not reduced inequalities in poor countries, it has increased the average income in these countries. Therefore, Maskin sees the responsibility for education lying in the hands of governments and organizations like the UN which have stronger incentives to train the workers. ■

Interviews with Paul Champsaur and Roger Guesnerie



Interview with Paul Champsaur

Paul Champsaur (born in 1944) is a high-ranking French civil servant. He first graduated from the Ecole Polytechnique in 1963 and then from ENSAE. From 1992 to 2003, he was the director of the Insee (National Institute for Statistics and Economic Studies) and he was in charge of the Arcep (the French Telecommunications and Posts Regulator) from 2003 to 2008. Since March 2009 he has been the director of the L'Autorité de la statistique publique (the supervising body of public statistics in France). In 2009, he was nominated by the French Prime Minister to be the head of an expert group on the SMIC (French minimum wage).

How long have you known about the magistère économiste-statisticien programme?

In fact, I had known Jean-Jacques Laffont (one of the two creators of the magistère) for many years.

As a teaching assistant at ENSAE I taught Jean-Jacques Laffont and Guy Laroque and I have to say that they were brilliant students. One day, Jean-Jacques Laffont told me about his project of creating a degree combining economics and statistical matters.

You have worked for many public institutions such as Insee and the Arcep, do you have some advice to give to students who want to work in these kind of organizations?

First, you have to know that public institutions make their recruitment by competitive entry tests. For instance, at the Insee, there are two ways to enter: the “administrator examination” and the “attaché examination”. Besides, you have the opportunity when you are already working at Insee to take the internal competition. During my term as director of the Insee, I met some students who came from the University of Toulouse. However, I don't remember if they had graduated from the magistère programme but they must have studied both economics and mathematics. Indeed, if you only study economics it will be difficult to work for such institutions. Finally, you have to be aware that there are only a few vacancies every year.

Do you know the other guest speakers? Have you ever worked on economic or statistical studies together?

I have known Roger Guesnerie for a long time when he was at the research center CEPREMAP (Centre Pour la Recherche EconoMique et ses APplications).

I know Eric Maskin very well. I had the opportunity to have a dinner with him and Collette Laffont yesterday.

Do you have something to say about André Grimaud, the former director of the magistère, who is retiring this year?

As a matter of fact, I left the instruction profession about 30 years ago. Thus, I am not aware of the current educational matters. Nevertheless, I have already talked to him and I know that he took a great place in the life of the magistère.

Interview with Roger Guesnerie

Roger Guesnerie is a French economist whose papers are published in well-known economic journals (Econometrica, Review of Economic Studies,...). His research fields mainly concern general equilibrium models, public economy, incentive economics and climate change. He has taught in many prestigious universities such as the LSE (London School of Economics), Harvard University and University of Pennsylvania. He received many prizes such as the CNRS (Centre Nationale de la Recherche Scientifique) silver medal and he has been declared to be a “Chevalier de l'Ordre National du Mérite” (Knight of the National Order of Merit) and “Chevalier



de la Légion d'honneur” (Knight of the Legion of Honour). He co-created the DELTA research unit in theoretical and applied economics with François Bourguignon, former chief economist at the World Bank and director of the PSE (Paris School of Economics). Nowadays, he is member of Collège de France, a higher education and research establishment in Paris.

Can you tell us a bit about your career?

I graduated from Ponts-et-Chaussées, Polytechnique and from Sciences Po. I entered the research center CERMAP which is the forerunner of the CEPREMAP in which I started to do research in economics. I then worked at the CNRS from 1974 to 2000. In 1978, I was nominated director of studies at the School for Advanced Studies in the Social Sciences, EHESS. Afterwards I also worked for the Collège de France. Thus, my career is mainly dedicated to research but I keep a strong interest for economic policy issues such as unemployment and the minimal wage on which I wrote an article.

How long have you known about the magistère économiste-statisticien programme?

In fact, I am not very involved in the university field but I knew for a long time one of the two creators Jean-Jacques Laffont.

Do you know the other guest speakers ? Have you ever worked on economic or statistical studies together?

I know Paul Champsaur since he was at Ensaie and I know Eric Maskin well. However I have not worked with them on economic or statistical studies. I wrote a kind of a thesis in the 1980s under the direction of Jean-Jacques Laffont with whom I have written some articles.

Do you have something to say about André Grimaud, the former director of the magistère over the last 20 years who is retiring this year ?

André Grimaud is a person that I respect a lot because in some way I know the importance of his work as the creator of a doctoral program. (Roger Guesnerie created together with François Bourguignon the research institution Delta, which developed into to the Paris School of Economics). ■

Econometric Game

The TSE Team at the Econometric Game 2013 in Amsterdam

By Eva Raiber



The Effects of Fiscal Policy on Economic Growth

This year's topic was the effects of fiscal policy on economic growth. Estimating the effects of fiscal policy on economic output has been a hot topic for academic and political discussion. There is still ongoing debate about the size of the fiscal multiplier, especially if the multiplier is more or less important in times of recession. Most studies that address the issue of the effect of fiscal policy have been using linear models, such as Vector Autoregressions and linearized DSGE models that do not distinguish between recessions and expansions. Therefore, more recent papers (e.g. Auerbach and Gorodnichenko (2012)) try to trace the different impulse responses to changes in fiscal policy during recession and expansion. For example, non-linear switching models can be used for this purpose.

For the second time, the Toulouse School of Economics sent a team of Masters and PhD students to compete in the Econometric Game in Amsterdam. Georgios Petropoulos, Daniel Herrera, Juan David Gómez Dávila, Andrés Salamanca Lugo and Eva Raiber represented TSE at this prestigious international competition from 9th to 11th of April.

Econometric Games in Amsterdam

The Econometric Game is organized on an annual basis by the VSAE, the student association for students in Econometrics, Actuarial Science and Operations research Management at the University of Amsterdam since 1999. It has evolved into an international three-day competition that gathers teams from prestigious universities from all over the world. The aim is to use econometric methods to approach interesting but unusual topics in order to test the students' ability to apply their theoretical knowledge in unfamiliar areas. Each team consists of five students. This year, 30 universities from across the globe took part in this event, including Oxford, LSE, Cambridge, Harvard, Tilburg and Carlos III Madrid. After being introduced to a topic on the first day, the teams are provided with a case study including a dataset that teams have to use to solve the case study within eight hours and hand in a written report. Ten teams are then selected to participate in the finals on the next day. These teams again receive a case that they have to solve, write a report and make a short presentation, on the basis of which the winning team is chosen.

During the opening of the game, the topic was introduced by the case makers, Prof Jörg Breitung (University of Hannover) and Prof. Matei Demetrescu (University of Bonn). In the afternoon, the students had time to search for literature on the topic as well as on the time series models that were mentioned in the introduction. Since many participants were unfamiliar with advanced time series models, preparation and literature review took many teams until late at night. On the second day, teams received the case with four subsections. First, the teams were supposed to replicate the linear benchmark model of Auerbach and Gorodnichenko (2012)



using the same dataset which included quarterly data of GDP, government spending and taxes for the U.S. from 1948 to 2008. Auerbach and Gorodnichenko (2012) use a structural Vector Autoregression (SVAR) as proposed by Blanchard and Perotti (2002) to trace the effects of shocks in government spending and in taxes on GDP as a benchmark model in order to compare it to a regime-switching model. Using the replicated SVAR results, the teams were then asked to test for misspecifications, especially those pointing to nonlinearity in the model. Also, the variables that were used in logarithm should be tested for the assumption of cointegration. Last, but very importantly, students were asked to propose alternative identification methods for the SVAR model. So far, identification



was based on Blanchard and Perotti (2002), who use institutional information about taxes and assumptions about the timing of fiscal policy changes.

The TSE Team's Performance

The topic of this year's Econometric Game was very challenging and not all of us were familiar with advanced time series modeling. However, we managed to address all points of the case in time and handed in a well structured report. For the last question, we proposed long run restriction for identification for the SVAR model using the assumption that some shocks do not have long run effects on some variables. Yet, we were short in time for the last part of the case and we were not able to provide the motivation for some parts of our analysis as well as we would have liked. As a result, we were not chosen to participate in the finals. Even though we are convinced that our team did a very good job, we acknowledge the excellent work that the teams that managed to get into the finals did. It was a surprise to most of the participants that most of the famous universities such as Harvard, LSE and Cambridge did not make it to the finals either. It could be observed that the finalists were often from universities with a strong macroeconomic focus.

Forecasting Spain's Growth Rates

On the third and last day, the finalists were given another case and the non finalists could enjoy Amsterdam through a guided city tour. Afterwards, the Econometric Game congress took place where two presentations were held and the case makers presented the second case. As a surprise to most of the students, the second case was not to further expand the analysis of the first topic but a different and fascinating question. The teams in the finals were given a time series data set of the Spanish economy including GDP and around 70 other, possible explanatory variables. They were asked to forecast the growth rates for Spain for this year's four quarters includ-

ing information from the explanatory variables. Most teams, among those the winners, chose to do a Principal Component Analysis (PCA) and to include these principal components in their forecast. The finalist presented their results at the end of the congress. We want to congratulate the team from Carlos III Madrid that wrote an excellent report and presented their results convincingly and fully deserved to win the competition. Carlos III was followed by the University of Copenhagen and the University of Warsaw.

A Rewarding Experience for all Participants

During the Econometric Game, we were not only able to work on these interesting topics, but we also had time to get to know the city of Amsterdam and the students from the other universities. At night, dinners were organized followed by drinks where participants could also talk about non-econometric topics. It was a very rewarding experience to compete and converse with what might well be some of the best students in econometrics and economics.

Even though we did not manage to win the competition we, as a team, fostered strong team spirit, motivation, openness and made the most out of this experience. We hope that again next year, a team of TSE will be able to compete and enjoy the atmosphere and working attitude of this event.

We want to thank the faculty, especially Christian Gollier, Jean-Philippe Lesne, Thierry Magnac, Christine Thomas, Marc Ivaldi and Elodie Alet for their continuous support and for financing our participation. We also wish to thank the econometric teachers for offering their help and the BDE for being close to our team and for providing our competition "uniforms". ■

For more information on the econometric game, visit www.econometricgame.com.

GALA by BDE



By Clemence Grimonpont, President of the BDE

Since its inception, the BDE TSE has aimed to create a tradition by organizing a gala to celebrate the end of the academic year and bring together students and all the other TSE actors (administration, researchers, PhDs, teachers, and alumni). This year again, the Gala TSE 2013 was a great success and gathered many people: almost 500 were in attendance! We want to thank all of you for coming Friday night and hope that you enjoyed the gala!

We were happy to see that so many teachers, students, administration workers, alumni and PhDs had the opportunity to meet each other outside of an academic environment! As this event is also for the M2 students to enjoy a final student party in Toulouse, we wish them good luck in their future ventures as they leave TSE.

This year we were glad to host "The TSEconomist Awards" as we believe it is an important student initiative and that the gala is a perfect event for recognizing the outstanding teaching efforts of those professors and TAs who received honors. We hope to host it again next year!

And for those who will stay in Toulouse and are anticipating our next event, don't forget that we are organizing an Integration Weekend at the beginning of the next academic year! It could be the opportunity to meet your new classmates and enjoy a final "holiday atmosphere" weekend with TSE spirit before the academic year begins. Hope to see you there! And of course, you can look forward to next year's Halloween party, ski weekend, after works, etc...

BDE online www.bde-tse.eu





Junior Études

The JE organizes its first business talk!



By Anastasia Ushakova

On Friday 22nd of March, the TSE students and staff had the chance to attend an insightful talk organized by the student organization TSE Junior Études. The event focused on the missions and objectives of the team, with examples of studies performed during the two previous years. These studies were presented by the members of the association as well as by Marc Vivaldi, head of research at the IDEI (Industrial Economic Institute), who was at the center of the realisation of an econometric mission by L3 and M1 students.

Junior Études was officially born in February 2010, with the aim of undertaking educational projects related to the field of studies in TSE, allowing companies and organisations to benefit from the economic expertise of the TSE students. However, according to Marc Ivaldi, the initiative taken by the students in Junior Études has a long tradition. In fact, Marc was one of the strongest supporters of the idea being put in practice when the school was established.

Marion Fernet, the recently elected president of the Junior Études, presented the structure of the organization and its operations. Currently there are 16 active members in the association, including volunteer members in the treasury, communication, business and audit-quality sectors as well as paid workers, recruited to undertake projects connected to the fields of study at TSE. As Marion suggests, they are focusing now on projects more related to real applications of economics, rather than just its technical approaches. Recently completed projects by the association include the creation and cleaning of a database for a developing country and an analysis of labor productivity issues. More examples of their work will be presented below.

The project for 'La Tribune' newspaper taken on by Junior Études was described by former president of the association, Xavier Régis. The objectives were to create a questionnaire to gather data, which would allow them to construct a rating for the firms and give awards to the best four candidates. Since at the TSE the 'Social and Solidarity Economy' is not a focus of the academic program, this project has created an opportunity for the students to study the field in more detail. As a result, a jury selected by the company chose the four best candidates to receive an award based on the data obtained with an award ceremony being held afterwards. The ceremony was followed by a debate on the social and solidarity economy in which members of the Junior Etudes had the opportunity to participate and expand their networks by getting in touch with people from high level business organizations.

The vice-president of the association, Marlène Boura, illustrated some interesting examples of economic research performed by the team in the field of medicine. One of the studies has been carried out with the aim of helping a PhD student with her thesis on monitoring the gynecological care given

to women by GPs in the Pyrénées-Atlantiques region and observe the reasons for poor follow-up. The work mainly involved reorganising the data, a statistical analysis of the information to give a relevant conclusion of why there is low monitoring by GPs in the region, allowing students to improve their database skills more broadly. Another project, on which members of Junior Etudes had the chance to work, was a study of the legislation for nursing and home-help services and support. Apart from a description of the kinds of participants in the sector (i.e. type, location, turnover, number of employees, acceptance of children), a strategic proposal was written on how to enter the nursing market by taking into consideration the viability of the past projects. The team also worked on translations of relevant research papers, which helped them to develop skills outside of the technical areas such as experience of wide academic reading and improving their language abilities.



Marc Ivaldi then took over to present one of the largest and most challenging projects undertaken by Junior Études. The study was on the competition sustainability of the transport market, which can be explained by understanding the

choice between train, car, plane or any other type of transport taken by individuals. Since the main tool to perform such research is an estimation of cost elasticity, the data collection and ability to ask a reasonable number of people are the most crucial issues. Information was collected using online survey, however, the main problem that arose was missing observations on the existence and price of the transport subscriptions that individuals could hold for specific methods of transport, which thus created bias in estimation. This particular example illustrates how important the structure of a questionnaire is when the data is collected. Tools to solve this problem could involve searching on the Internet for the prices or using econometrics to construct relationships between different types of transport usage by individuals to complete the information. Marc Ivaldi expressed that upon completing the project he was very impressed by the capacities of the Junior Études and their ability to perform high quality work in a short period of time.

To conclude, Marion Fernet welcomed students to join Junior Études, to be a part of the rewarding experience they offer and to gain valuable skills for their future career, in addition to the opportunity to build a network through getting in touch with influential and successful business people and researchers.

On behalf of the TSE students we thank the Junior Études for an insightful event and wish them the best of luck with their upcoming projects. ■

TSE Junior Études online <http://tsejunioretudes.free.fr/>

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