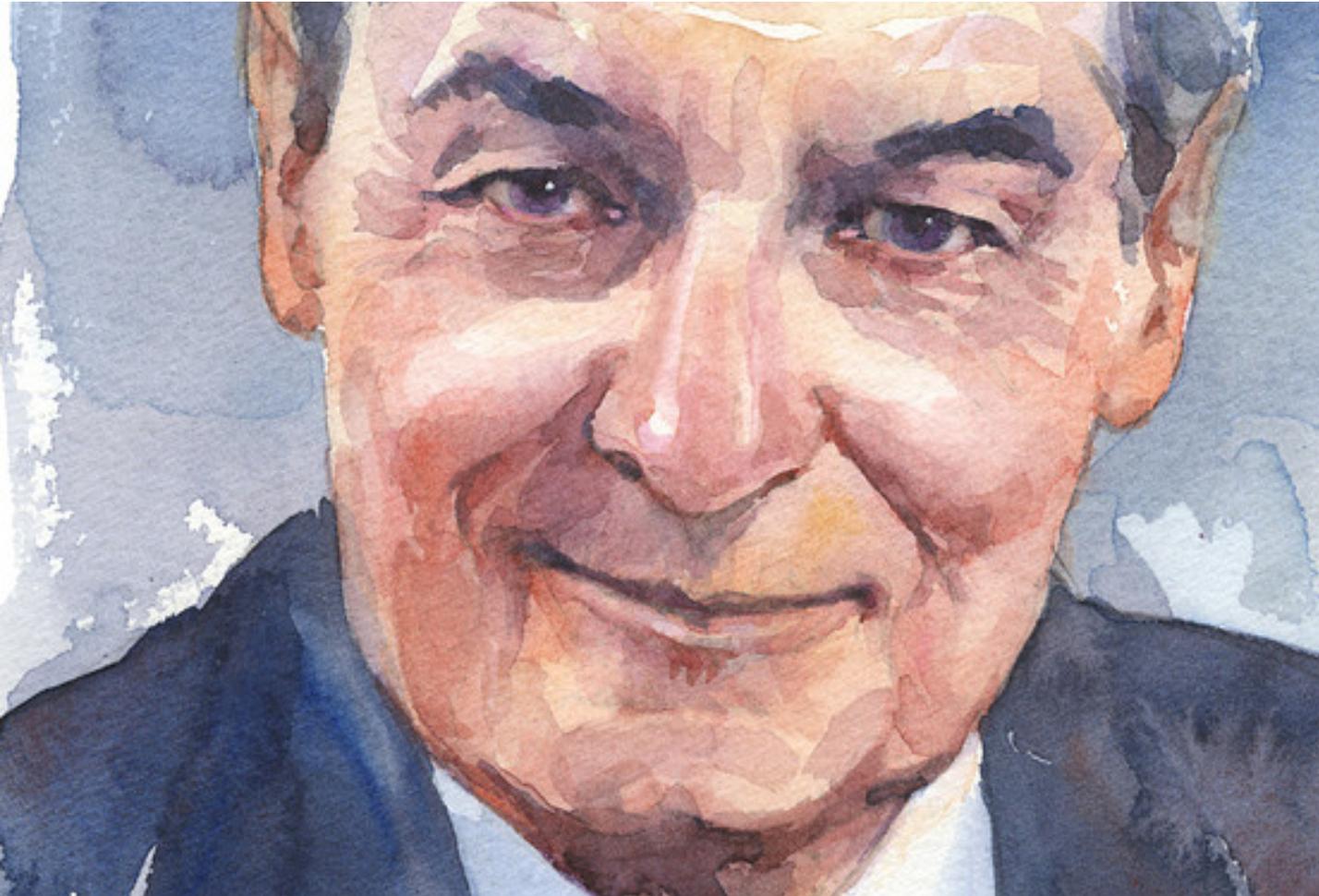


# Nova Economics Club

Publication #1 – September 2015

Robert E. Lucas, Jr. Edition



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[neclub.communication@gmail.com](mailto:neclub.communication@gmail.com)  
<https://novaeconomicsclub.wordpress.com>

## A message from our President

Dear colleagues,

For over four years, the Nova Economic Club (NEC) has been a platform for discussing and reflecting important economic, political, and social issues affecting the Portuguese and European society. Ever since the Key Performance Indicators Project, in which we assessed the reforms implemented during the Memorandum of Understanding signed between the Portuguese government and the troika, NEC has expanded its activities to a number of events and publications with considerable external recognition.

The Nova Economics Club exists to complement students' education and prepare them for their future career aspirations in a more practical environment. Moreover, we hope to provide a useful contribution to the comprehension of the current Portuguese and European situation – taking recent academic research not only to academics and policymakers, but also to the public at large.

We are very proud to be recognized by our partners as both an important forum for rigorous analytical research and a catalyst for debate in our society. This semester, we will collaborate with the European Commission Representation in Portugal, the Portuguese Public Finance Council, and the Portuguese Association for Consumer Protection. Each project will be supervised by experienced Nova SBE scholars so as to guarantee the highest quality standards in our work.

With the help of an exceptional line-up of motivated young economists and tremendous networking opportunities, the Nova Economic Club is committed to remaining a vital institution at Nova SBE by making a positive difference both in our school and in your community.

We promise, in short, to do our best in connecting economics to real life.

See you around,

João

President of Nova Economics Club

## A message from the Editor

Dear subscriber,

Welcome to our monthly newsletter.

2015 marks the beginning of a new chapter in the history of the Nova Economics Club (NEC). With a newly elected board and an ambitious plan of initiatives and projects, NEC's goal is to expand its influence, relevance, and contribution to economics research within the Portuguese and European policy making framework. We are certain that the "NEC Experience" will benefit our members and their progression towards becoming highly achieving researchers and future economists. As they contribute to NEC's legacy, they will enjoy being a part of one of Nova SBE's best and most formative experiences.

This monthly newsletter serves two different purposes: sharing achievements, information, and news related to our projects, and creating a platform for you that includes relevant articles, events, trends to watch, economic indices and KPIs, and biographies of renowned economists. During the inception of this newsletter, we agreed that it would be interesting for every monthly newsletter to be named after a prominent economist born in the same month. Also, we have adopted a standard structure so that it is easy for you to familiarize yourself with the newsletter and navigate through its different sections.

However, this first edition is a good exception – we dedicated it to NEC as well as its next conference: "The Future of Economics: Science, Social Science or Art?". Another goal is to give you some forecasts on the 2016 Nobel Memorial Prize in Economic Sciences. As for the rest, you will be already introduced to some sections that will incorporate this newsletter's standard version, such as "Month in Review" and "Upcoming Events."

We hope you enjoy it as much as we do!

Stay connected,

Pedro Filipe Rodrigues

Marketing, Communication & Events Vice-President

## Executive Board



### **President**

#### **João Pereira dos Santos**

João Pereira dos Santos is currently participating in the International Economic Policy Research Program of the Kiel Institute for the World Economy with scholars from Harvard, Stanford, among others. He holds a MSc in Economics from Nova SBE and he also studied in the London School of Economics and in Universitat Pompeu Fabra. João worked as Research Assistant in projects related to Economic History, Public Economics, and Political Economy. He presented his work in conferences such as the European Public Choice Meeting and the International Panel Data. His interests also include International Trade, and Behavioral Economics. João has worked for the Embassy of Ecuador, completed a Seminar in European Studies at the European Parliament, and he was the First President of Nova Debate.



### **Executive Vice-President**

#### **Henrique Pita Barros**

Henrique finished his undergraduate degree in Economics at Nova SBE in 2015, having studied abroad in San Diego, California. Henrique was also a summer analyst at Roland Berger Strategy Consultants (July 2014) and a Visiting Associate at The Boston Consulting Group (July 2015). Currently Henrique is doing his Master in Economics at Nova SBE, where he is also a Teaching Assistant for the undergraduate course of Statistics for Economics & Management. Henrique is a member of NEC since January 2015.

## Executive Board



### **Marketing & Communication Vice-President Pedro Filipe Rodrigues**

Pedro is on the 3<sup>rd</sup> year of the Undergraduate in Economics at Nova SBE and is currently studying abroad at GSOM in St. Petersburg, Russia. He finished in 2015 his undergraduate degree in Music Technology at ESML. His primary interests include microeconomic theory, financial markets, mathematics, audio technology and programming. Pedro joined NEC in 2014 as a member for the housing market research team on Portuguese Country-Specific Recommendations 2015. He is also a member of Nova Investment Club – Undergraduate Division.



### **Operations Vice-President Marli Fernandes**

Marli finished her undergraduate degree at Nova SBE in 2014, with an exchange program at the Aarhus University in Denmark. She did a summer internship at Portugal Economy Probe, a website with an emphasis on the Portuguese economy. Currently she is doing her Master in Economics, with a focus on the fields of Macroeconomics and Political Economy, where she is also undertaking her thesis. She is a member of the NEC since 2014.

# Marketing & Communication Department



## **Patrícia Filipe**

Patrícia is on the 3rd year of the Undergraduate Degree in Economics. Currently she is on exchange in the BI Norwegian Business School, in Norway. Patrícia is a member of the NEC since 2014, previously on the housing market research team on Portuguese Country-Specific Recommendations 2015, and she is also in AIESEC in Nova since 2014. Her primary interests are macroeconomics, political economy and public economy.



## **Carlos Gonçalves**

A member of the Nova Economics Club since 2015, Carlos is a second-year student pursuing a BSc Economics. Before coming to Nova SBE, he studied for one year at Wesleyan University in Connecticut, United States. Interested in finance, international relations, macroeconomic theory, and political economy, Carlos is also a member of the Nova Investment Club - Undergraduate Division.



## **João Correia**

On his debutant year as a member of Nova Economics Club, João is an undergraduate student on his 2nd year in Management. Curious about marketing, consulting and very fascinated with the entrepreneurial world, João is also a member of Nova Marketing Club.

## September in Review

**1<sup>st</sup>:** China's industrial activity registered the biggest contraction in three years. PMI index dropped from 50 points, in July, to 49,7 points, in August.

**3<sup>rd</sup>:** The ECB decided to maintain the reference interest rate at 0,05%, and the deposits rate at -0,2%.

**4<sup>th</sup>:** The US unemployment rate dropped from 5,3%, in July, to 5,1%, in August, the lower value since April 2008.

**9<sup>th</sup>:** S&P downgraded Brazil's credit rating to "junk" and estimates a contraction of 2,5% in Brazil's GDP in 2015 and 0,5% in 2016. A slight increase is only estimated for 2017.

**10<sup>th</sup>:** The Bank of England kept the reference interest rate at 0,5%, an all time low.

**16<sup>th</sup>:** S&P downgraded Japan's credit rating from AA- to A+ due to concerns over whether the Japanese government will be able to renew the economic growth and hold back inflation for the next two to three years.

**16<sup>th</sup>:** US inflation rate dropped for the first time since January 2015. The CPI fell 0,1% during the last month, after a 0,1% increase registered in July.

**17<sup>th</sup>:** The Fed kept the interest rates between 0 to 0,25% leaving for October the decision of raising rates in the world's largest economy.

**18<sup>th</sup>:** S&P upgraded the Portuguese long-term sovereign debt rating from BB to BB+, downgrading its outlook from "positive" to "stable".

**21<sup>st</sup>:** Syriza won Greece's second general election in a year with 35,5% of the vote and will return to power in coalition government with the right-wing Independent Greeks.

**24<sup>th</sup>:** INE updated its estimate for Portugal's Q1 and Q2 GDP to 1,6% YoY, increasing 0,1% from the previous update. Also, estimates for 2013 were revised indicating that GDP contracted by 1,1% instead of 1,5%.

**28<sup>th</sup>:** China industrial profits tumbled 8,8% in August from a year earlier, due to the weaker demand, the devaluated yuan and a tumbling stock market. It's the biggest drop since the government began releasing monthly data in October 2011.

**29<sup>th</sup>:** The Central Bank of India cut interest rates from 7,25% to 6,75% in response to lower global economic activity, low commodity prices and China's slowing economy.

**30<sup>th</sup>:** In August, the EZ and EU unemployment rates came in at 11% and 9,5%, respectively. The young unemployment rate increased by 0,1% among the Eurozone countries.

# Opinion: Nobel Prize

This month we dedicate our opinion section to the potential winner of the Economics Nobel Prize. We launched a challenge to some professors, alumni and members of the NEC to attempt a guess about the winner. Here are some of the answers:

## **João Pereira dos Santos**

In this exercise I will not consider names like Saez, Piketty, Duflo or Melitz that are too young for the Nobel committee standards. Therefore I am left with two groups that I think are strong contenders and one personal favourite.

The first pair is Bernanke and Gertler for drawing our attention to the damage done to the real economy by shocks in the credit system ("the financial accelerator"). Moreover, Bernanke, a researcher of the Great Depression, was "the right man in the right place" when he led the FED. Kiyotaki and Moore are also solid options in this field.

The second is Card and Angrist for their work on bringing empirical methods to answer relevant policy questions.

My personal favourite, however, is Ernst Fehr for his work on demonstrating that people deviate systematically from rational modes of behaviour and that changes in preferences, fairness, reciprocity, and bounded rationality matter for economics.

Having said that, I think Romer, Baumol, Aghion or Howitt are going to win this year.

## **Pedro Brinca**

I believe William Nordhaus to be a strong possibility. He has made several significant contributions to many fields in economics, though his most path-breaking research probably concerns the economics of climate change. He published a paper on Science - "An Optimal Transition Path for Controlling Greenhouse Gases" - in 1992 that brought the field into mainstream economics and created an active and prolific research agenda. He also made significant contributions on topics such as energy resources, welfare economics and the determinants of technological change.

## **Pedro Freitas**

If you are interested in human capital theory, skill formation and economics education, names like David Card, Joshua Angrist and Alan Kruger will easily pop-up in your mind as candidates to the Nobel. Not only their contributions were a step forward in what concerns the identification of returns to schooling, but they defined the way as we use natural experiments in economics. Examples of this is the 1990's Angrist innovative approach using the student's birthday as an instrument for school attainment, a methodology which became largely used in the education literature. Or when migration flows are on the top of the agenda, maybe it is the time to come back to Card's Mariel Boatlift paper showing the apparent no effect of the Cuban migration in the Miami's labour market. But, well... you know the economists' reputation on making bad predictions...

## **Pedro Pita Barros**

Daron Acemoglu, although he may be too young, he gave major contributions to political economy and growth. William Baumol, due to his contributions to industrial and technology businesses. Philippe Aghion because of his contribution to growth and innovation.

# Robert E. Lucas, Jr.

## Economist of the Month - September

Robert Lucas (born September 15, 1937) is one of the most influential macroeconomists of the last quarter of the XXth century. He earned his B.A. in history in 1959 and his Ph.D. in economics in 1964, both at the University of Chicago. From 1974 to the present, he has been a professor of economics at the same institution.

Robert Lucas is the founder and an advocate of the rational expectations approach to economics. In his models, agents are rational, i.e. based on the available information, they form expectations about the future, and based on these expectations, they maximize their expected lifetime utility. Lucas has applied this concept to many issues, including taxation, inflation, economic growth, and asset pricing.

A corollary of rational expectations – known as the Lucas Critique – challenged the foundations of macroeconomic thinking. According to this view, a change in a given policy should not assume that people's behaviour measured econometrically under the old regime will remain the same. This tells economists, primarily, *how not to do* economic analysis and suggests that if we want to predict the effect of a policy experiment, we should model the preferences, technology, and resource constraints that are assumed to govern individual behaviour.

Not all macroeconomists agreed with Lucas' New Classical School, but all have found themselves needing to confront his critique. Although many economists in the 1970s (including himself) thought that he had pounded the final nail in the Keynesian coffin, the New Keynesian approach responded with models with two fundamental features. First, they also included rational expectations and microeconomic

foundations for macroeconomic theory. The two schools, however, differ in that New Keynesian analysis usually assumes a variety of market failures. For example, New Keynesians assume that there is imperfect competition in price and wage setting to explain why prices and wages can become “sticky”. In this setting, the economy may fail to attain full employment, and therefore, New Keynesians argue that fiscal and monetary policy can lead to a more efficient outcome than *laissez faire* policies.

In 2008, Lucas was asked if he was 18, would he become an economist all over again. He replied:

*I like thinking about social policy, about history, about the workings of society. I always have. I got drawn to that before I even knew there was such a thing as economics really, in courses I had in school and so on. Like Marx and Engels, the questions those guys were asking, or even thinking about, that's what I wanted to do. I think, if I was 18, I'd still have that view.*

Robert Lucas received the 1995 Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel.

Sidenotes:

Just 5 years before the Great Recession, Lucas argued that “...Macroeconomics (...) has succeeded: Its central problem of depression prevention has been solved, for all practical purposes, and has in fact been solved for many decades.”

His ex-wife placed a clause in their divorce settlement that she would receive half of any Nobel Prize won by Lucas in the next seven years. When Lucas won the Nobel Prize in 1995 (falling just within the time limit), she was awarded half of the prize money.

# NEC Events

## The Future of Economics: Science, Social Science or Art?

**October 6<sup>th</sup>, 18h00, Room A223 – Registration on Facebook**

### Guests:



**Isabel Horta Correia** got her undergraduate degree in Economics at the Universidade Católica Portuguesa as well as the PhD. She is a Full Professor in the same institutions and she is the head of the Research Department in Banco de Portugal. Her main area of research is Macroeconomics, more specifically Growth, Business Cycles, Fiscal and Monetary Policy and Distribution.



**José Tavares** holds a Ph.D. in Economics from Harvard University and he is currently professor of economics at Nova SBE, and researcher at the Centre for Economic Policy Research (CEPR) in London. José's academic research focuses on diverse issues, including the relationship between democracy and growth, the cost of gender discrimination, and the role of globalization in controlling corruption.



**Sandra Maximiano** is an Assistant Professor in the Department of Economics at Purdue University, USA. She received her PhD from University of Amsterdam and the Tinbergen Institute. Her research interests lie in the fields of behaviour, experimental, organizational, and labor economics. Her main focus is on the role of social and moral preferences in economic decisions.



**Joana Pais** is an Assistant Professor in the Department of Economics in ISEG, Universidade de Lisboa. She holds a PhD in Economics from IDEA, Universitat Autònoma de Barcelona. Her main area of research is Microeconomics, more specifically Game Theory, Matching Theory, Auction Theory, Networks, and Experimental Economics.

### Moderator:



**José Luís Cardoso** is a research professor and director of the Institute of Social Sciences of the University of Lisbon. Until 2008 he was full professor of economics and history of economic thought at ISEG, Lisbon. He collaborates with several foreign universities as visiting or advisory professor. His historical essays combine multidisciplinary approaches with contributions from economics, sociology and political science.

## Upcoming Events

### **A Escola e o Desempenho dos Alunos**

#### **1<sup>st</sup> conference of the month of Education**

**7<sup>th</sup> October, 16h00, Fórum Lisboa**

Students' academic performance and the role of schools on their performance, based on the most recent research. These issues will be addressed by: Luís Catela Nunes (Nova School of Business and Economics), Hugo Reis (Banco de Portugal), Ana Balcão Reis (Nova School of Business and Economics), Maria do Carmo Seabra (Nova School of Business and Economics), Maria Eugénia Ferrão (Universidade da Beira Interior), Miguel Portela (Universidade do Minho), David Justino (Conselho Nacional da Educação), Adelino Calado (Agrupamento de Escolas de Carcavelos) and Margaret Raymond (Stanford University, CREDO).

### **Educação em Portugal: Dados e Reflexões**

#### **2<sup>nd</sup> conference of the month of Education**

**8<sup>th</sup> October, 17h30, Fórum Lisboa**

Presentation of the research paper "O quinto compromisso", by Margaret Raymond (Stanford University and CREDO - Center for Research on Education Outcomes). This research paper contains a detailed analysis of the Portuguese educational system and will be discussed by the author and Yohannes Negassi (Stanford and CREDO).

### **Governança integrada: A experiência internacional e desafios para Portugal**

#### **International Conference**

**15<sup>th</sup> and 16<sup>th</sup> October 2015, 09h00, Fundação Calouste Gulbenkian, Auditorium 2**

Learning with international experiences of integrated governance to respond to social complex problems.