



**ISSUES IN POLITICAL ECONOMY**  
Undergraduate Student Research in Economics

**VOLUME 13**

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## Mission Statement

*Issues in Political Economy* is committed to supporting and encouraging quality undergraduate research in all areas of economics. Now in its 13th volume, the journal was founded on the belief that the best way to learn economics is to do economics. Through the process of research, writing and peer review, students actively engage the discipline in a way not possible simply by listening to lectures and reading textbooks. In short, undergraduate research is a vital component in an economics education. The literature suggests that students take projects more seriously and learn more when the project is directed towards an external, rather than an internal audience such as a class assignment. *IPE* is designed to provide an external audience for such research.

*IPE* is edited and refereed entirely by students, with oversight from faculty at Elon University and the University of Mary Washington. The only requirements for submission are that the article pertains to some aspect of economics, that it was written during undergraduate study, and that it be submitted through a faculty sponsor. Though submissions on all topics in economics will receive consideration, papers should be analytical and seek to add new understanding to the topic.

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For additional information please visit our website <http://www.elon.edu/ipe>

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## NOTE FROM THE EDITOR

*Issues in Political Economy* began over a decade ago with the goal of developing a forum to deepen the understanding of economics among undergraduate students. The original journal was conceived and cultivated by dedicated students and faculty at Bellarmine College in Louisville, Kentucky.

In 1999, Elon University and the University of Mary Washington inherited the sponsorship and editorial responsibilities of *Issues in Political Economy*. Since then, *IPE* has gained international recognition, receiving submissions from all over the world. Although faculty mentoring has played a significant role in the development of the *IPE*, all papers are refereed by student reviewers and editors. Over the past three years, the acceptance rate has been approximately 30%.

*Issues in Political Economy* greatly appreciates the patience and leadership provided by faculty and sponsors. In particular, we would like to acknowledge the work of Mehmet Odekon, Jean Horney, Steve DeLoach, Greg Lilly, Heather O'Neill, Lewis Davis, and Steve Greenlaw. Additionally, Maurice Levesque, John Burbridge, and the Houghton-Mifflin Publishing Company have provided invaluable support for this publication. We would also like to thank all those who have been acknowledged for being instrumental in past issues. This journal builds on the foundation carefully created by its thoughtful predecessors.

And of course, we would like to express special thanks to professors Steve DeLoach and Tina Das from Elon University and Steve Greenlaw from the University of Mary Washington. Their guidance and enthusiasm has been invaluable to the publication of this journal. They have actively promoted the awareness of a wide range of topics in economics.

In conjunction with this journal, *Issues in Political Economy* also continues to coordinate undergraduate student presentations at the Eastern Economic Association annual meetings. This year's meetings were held in Washington, D.C. and consisted of seven sessions. There was a diverse group of presenters and their participation sparked discussions and initiated thought about a variety of economic issues.

It is our hope that this issue of *Issues in Political Economy* will continue to aid the flow of ideas and research.

Elizabeth Elzer

## FOREWORD

This year's publication of *Issues in Political Economy* has produced six different papers of undergraduate research. Some authors have used sophisticated econometric tools such as a logistic regression while others analyzed theoretical arguments in great depth. These papers have each shed important light upon new economic trends or vital questions of concern to both national and international economics and social policy.

The first paper comes from Katherine Hennesy of Ursinus College, who takes on the complex topic of defensive medicine and its contribution to health care costs. Defensive medicine occurs when concerns about malpractice liability cause a physician to, for example, order extra tests or procedures. Using data on skull fractures from 994 hospitals in 28 states, she isolates the effects of various malpractice tort reforms on total charges incurred for a skull fracture from state to state, including reforms in arbitration, prejudgment measures, contingency fee caps, collateral source rules damage caps, joint and several liability rules, periodic payments, physician compensation funds, and statutes of limitation. She hypothesizes that such reforms will have a negative impact on total charges, because physicians practicing in states where malpractice reform has been enacted will "feel less malpractice pressure" than those practicing in states without reforms. She concludes that the reform that has the largest negative effect on total charges is provision for mandatory arbitration, which reduced total charges by \$12,177. Of the remaining tort reforms, all but voluntary arbitration significantly affects total charges.

Lindsay Ludwig from Skidmore College produced the second paper, which examines the U.S. acid rain program's use of tradable pollution permits and the existence of pollution 'hot-spots.' She hypothesizes that a high net flow of permits in an individual plant will lead to higher SO<sub>2</sub> emissions, thereby implying that permit trading leads to the concentrated areas of pollution known as 'hot spots.' Controlling for power plant size, primary fuel type, and SO<sub>2</sub> controls, she finds that a positive net flow of permits does indeed increase SO<sub>2</sub> emissions, by .06 tons per year per additional permit. However, she concludes that relative to other contributing factors, tradable permits have only a small impact on total emissions, and as such cannot be considered a leading cause of pollution hot-spots.

Next, Chaya Compton of Elon University offers a study of factors affecting the widening gap of income inequality in the United States. Utilizing two extensions of the Heckscher-Ohlin model—the Stolper-Samuelson theorem and the factor price equalization theorem—Compton hypothesizes that the downward pressure on unskilled wages occurring as a result of both NAFTA and trade openness in general will be found to have increased income inequality in the U.S. Such government policies as the Welfare Reform Act of 1996, defense spending, personal transfer payments and the minimum wage are also hypothesized to have affected income inequality, as well as such macroeconomic factors as GDP growth and inflation. Among other results, Compton finds that positive GDP growth, NAFTA, and the 1996 Welfare Reform Act have all increased inequality, leading her to conclude that not only is growth alone not the answer to the problem, but that recent government policy has only contributed to the growing gap between the rich and poor.

In a paper examining gender differences in job-search behavior Lindsey Bowen and Jennifer Doyle of Furman University extend a 1991 study by Donald Parsons. Building from the

observations that rapid wage growth is most often seen early in the life cycle, and that young men tend to experience higher wage growth than young women, Bowen and Doyle hypothesize that gender differences may also exist in patterns of job search and mobility. Estimating separate models of job search activity for men and women, and controlling for employment characteristics, labor market conditions, and demographic characteristics, Bowen and Doyle use probit analysis to estimate the probability of employed job search for men and women in samples from 1984 and 1996. The changes between the two time periods prove to be the most interesting results generated: in the 1984 sample, being married with a spouse present negatively affected the probability of job search for women, but not men. In the 1996 sample, however, being married with a spouse present was shown to affect search behavior in women and men. Other trends, and changes in them, identified by this study include those related to race and employment characteristics, such as tenure and experience.

The next paper comes from Angelyn Zephyr of Smith College, whose in depth analysis of microcredit anti-poverty programs provides an interesting window onto the successes and failures of those programs' reliance on social capital in both the developing and developed world. Social capital refers to trust in and concern for others, and a general willingness to abide by accepted norms. It is theoretically harnessed in microcredit lending programs by organizing borrowers into groups, the individual members of which "screen one another and enforce repayment." Although microcredit programs have flourished in several developing countries, attempts to implement them in the U.S. have met with little success. Zephyr concludes that this is due to a lack of social capital, and also, therefore, that the peer-lending model of the original microcredit programs is not the sure bet it was once thought to be.

Finally, Elizabeth Terrell of the University of Mary Washington attempts to identify whether brand loyalty exists for the store brand products of the Ukrop's grocery chain in Virginia. Using price and quantity data from three different categories of goods, each with two to four competing brands, Terrell estimates price elasticities and cross-price elasticities for each brand using double log regression analysis. Comparing these results with those from a regression run on a product previously identified as having brand loyalty, Terrell identifies which national and store brand products seem to also exhibit brand loyalty. Based on her analysis she concludes that overall, the Ukrop's brand does not exhibit brand loyalty. Interestingly, however, for milk and canned peas—the two most basic commodities in the study—some level of brand loyalty over national brands does exist.

The relevance of these papers to the projects of businesses and national and world policy makers alike is evidence of successful undergraduate research. In promoting economic research by undergraduates, *Issues in Political Economy* hopes to raise awareness of significant undergraduate contributions. This year's publication is sure to provide economists a variety of topics that we hope will spark continued research and debate.

Elizabeth Elzer, June 15, 2004