



ISSUES IN POLITICAL ECONOMY
Undergraduate Student Research in Economics

VOLUME 14

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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 14th 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*, student reviewers and editors referee all papers. 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 Rosin O'Sullivan, Lewis Davis, James Warner, Edgardo Ayala, Dennis Heffley, Ken Peterson, Kailash Khandke, Jean Horney, Jeffrey Yankow and Steve Greenlaw. Additionally, Karl Sienerth, 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 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 New York City and consisted of eight 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.

Kathleen Niple

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 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 Desislava Dimitrova from the College of Wooster. Examining the relationship between stock prices and exchange rates using the United States and United Kingdom from January 1990 to August 2004. She develops a multivariate simultaneous equation model to study the relationship in a macroeconomic framework. She uses the relationship to make suggestions for multinational businesses to forecast exchange rates using stock prices. Namely, the correlation between exchange rates and stock prices is different depending on whether stock prices or the exchange rate change first. This has important implications for currency crises. When a currency depreciates significantly, it will trigger a smaller decline in stock prices. The reverse causality then actually helps the currency to appreciate, and lessen depth of the crisis.

Next, Hristina Bojadzieva from Smith College examines Macedonia's lack of economic growth in comparison to other Eastern European transition countries. She uses this model to test for factors that play a role in explaining economic growth in 25 Eastern European countries. The regression is applied to Macedonia to determine which policies had the most negative effect on its growth during the transition period from 1991 to 2000. The results reveal initial conditions, stabilization, liberalization, human development, geography and the quality of institutions are important in explaining growth of a transition economy. In the case of Macedonia, the data shows the lack of strong institutions followed by a need for foreign direct investment have the biggest impact in dampening the country's growth.

In a paper examining the impact a person's health has on economic growth, Andres Aguayo Rico, Iris A. Guerra-Turrubiates, and Ricardo Montes de Oca-Hernandez from el Instituto Tecnologico y de Estudios Superiores de Monterrey use panel data analysis. They include growth rates of physical capital, labor, schooling, and health indices for the years 1970-80 and 1980-90. They find for the 52 countries around the world they evaluated using regression analysis, that health capital has a significant effect on economic growth. This result has importance for policy makers who should include investment in a country's health as a macroeconomic tool for growth.

Kristen Payne from the University of Mary Washington examines spending habits of children of divorced parents. She hypothesizes that children from a broken home are more likely to exceed their income and go into debt. Using the Panel Study of Income Dynamics (PSID), Kristen finds a disrupted family structure increases an individual's accumulation of personal debt.

The next paper comes from Adnan Filipovic from Furman University. He examines some of the problems with privatization William Eatserly, Paul Cook, and Yuichiro Uchida examined. Using empirical evidence to determine whether or not privatization of assets has a significant effect on the GDP of a country, Adnan makes some policy suggestions. He considers a number of

different policies to determine which have positive effects and which have negative ones. The results of his final empirical analysis support show that privatization has the potential to affect economic growth, but only in conjunction with other economic reforms promoting an incentive based economy.

David Agrawal from University of Connecticut produced the final paper, which examines the U.S. aid program, Comprehensive AIDS Resources Emergency (CARE) Act. He conducts a cross-sectional analysis of the fifty states to determine how each state allocates funding to the CARE program. He examines program size, quality, biases, and political standing. This paper provides data for policymakers who may assign funding for CARE in the state budget. David finds that states with a higher per capita income generally spend less on the program while programs with a higher quality of care have a lower amount of funding. This may help politicians determine what the optimal level of spending is depending on per capita income and quality of care.

The relevance of these papers to business, 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.

Kathleen Niple