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ECONOMICS & Business

Five Seniors Conduct Honors Research

Donley Explores Influences on Educational Achievement

Starting with sociologist James Coleman's insights dating from the 1960s, researchers find that family and community factors play a predominant role in educational achievement. In other words, the ability of schools to influence student performance is limited and not all under a school's direct control.

Cantrell Donley's thesis, supervised by **W. Mark Crain**, William E. Simon Professor of Economics, investigated whether this non-relationship between student achievement and school characteristics still holds in 21st-century Pennsylvania.

This thesis pushes scholarly boundaries in two ways. First, Donley applied a relatively new empirical technique to the data. It makes use of the economist's emphasis on the marginal effects of some action rather than the total or average effects. Using this methodological insight, she measured the value-added of educational resources by using the change in student performance as the variable to be explained. This value-added approach provides a different perspective of school performance than measures of total test scores. Donley's second significant advance is that she found that school resources are less important in explaining changes in student performance than family resources, proving that Coleman's original insight is robust to alternative approaches.

Hart Feuer '05 (left) was advised by David Stifel, assistant professor of economics and business, in his study of Cambodian households.

Market Interactions in Everyday Village Relationships

Social capital describes the tendency of such community-wide social characteristics as trust, cooperative norms, and shared values to influence individual behavior. In his thesis supervised by **David Stifel**, assistant professor of economics and business, **Hart Feuer** separated market networks from social networks to provide a comprehensive analysis of the effect of social capital on economic outcomes.

Feuer's basic data was household-level information he collected through interviews with individuals in two villages in semirural Cambodia during a summer fellowship at the Center for Khmer Studies in Siem Reap.

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Handy Studies Attitudes toward Learning

Research conducted by **Sheila Handy**, assistant professor of economics and business, is markedly different from that of her colleagues. Handy, who holds a degree in business education from New York University, focuses on such research topics as student attitudes toward different approaches to accounting instruction, enhancement of a first course in accounting through cumulative learning, and improvement of accounting instruction.

Handy's research involves Lafayette students as both subjects and research assistants. Her doctoral dissertation, for example, involved a qualitative study of performance in an introductory financial accounting course for students exposed to the material through a multimedia tutorial or a classroom lecture. Using a sample of eight students, she observed their experiences with the tutorial using a technique known as "Think Out Loud" protocols where words spoken by the students while working through

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Issues in the News

Nonrenewable Resource Funds: A Red Herring for Fiscal Stability?

by Mark Crain

The number of countries implementing nonrenewable resource funds has expanded over the last three decades. **W. Mark Crain**, Simon Professor of Political Economy, recently completed a study of these funds, which was an outgrowth of joint research with Julia Devlin of the World Bank. Alaska, Alberta, Kuwait, Kiribati, and Papua New Guinea were among the first to establish NRFs in the 1960s and 1970s, followed by Colombia, Chile, and Tuvalu in the 1980s, with the list of countries expanding to include Ecuador, Norway, Mexico, Nigeria, Venezuela, Kazakhstan, Azerbaijan, Oman, Algeria, and others in the 1990s.

As this list indicates, NRFs are especially attractive to mineral-rich developing countries. The apparent motivation for implementing a NRF is to manage the effects of volatile commodity revenues on the macroeconomy.

Beginning with Harold Hotelling's path-breaking paper in 1931, a large literature in economics has focused on exhaustible resources and the special problems they pose for development. Consider, for example, that between 1960 and 1990, non-resource-rich countries

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Stifel Works toward Solutions to Poverty

According to the latest World Bank estimates, more than half of the world's population lives on less than $2 a day, some on less than $1. But these values, small as they are, fail to capture the depth of deprivation in many developing countries. The poor also lack access to proper sanitation, health care, education, and basic personal security. **David Stifel**, assistant professor of economics and business, considers these conditions unacceptable. Working toward solutions motivates his research.

Two broad approaches may be taken to address poverty in developing countries. The first involves creating appropriate macroeconomic conditions for economic growth. The second concentrates on microeconomic foundations that both facilitate growth and equitable sharing of its fruits. Although Stifel does not shy away from big macroeconomic issues, his focus is on adapting standard neoclassical microeconomic tools to situations in which markets fail.

A necessary first step in any development project is accurate measurement of poverty and its determinants. Although these issues may sound mundane, they are crucial to effective policymaking. Without good information, policymakers may make poor, perhaps even counterproductive, choices. As Stifel learned during his yearlong stay in Madagascar in 2000-01, people in developing countries understand the importance of better data.

When the results of his study conducted in the 1990s were released, they were splashed all over newspapers, featured prominently in the nightly news, and dissected in policy circles. Stifel remarks that such public responses make him cautious about his work, but he also finds it gratifying because he feels like he is making a contribution. He is currently engaged in a similar project on Kenya, which he presented to government officials in Nairobi during spring break.

Stifel feels strongly that successful economic development policies are those based on pragmatic reasoning rather than emotion. Indeed, projects that feel good and appear to offer immediate relief may not be the best use of resources. Recognizing this, another line of his research uses economic theory and econometric methods to evaluate the effectiveness of current or proposed projects and policies. In one study, he and a coauthor from the World Bank used models developed by health economists and innovative statistical techniques to evaluate the "Glass of Milk" child-feeding program in Peru. What motivated their study was the persisting high prevalence of childhood malnutrition in Peru despite the program. Their inability to find any nutritional benefits from the program is raising eyebrows in Peru.

Stifel's research also concentrates on what contributes to rural poverty in developing countries. Regardless of the specific questions or the exact tools used, the emphasis is on identifying the constraints that hold back the hard-working poor.

Stifel has encouraged students to participate in his research through the EXCEL program. He worked with **Shreedhar Sasikumar '05** on isolation, migration, and agricultural productivity in Madagascar. He is currently working with **Dani Simova '06** on malnutrition in Kenya. Since coming to Lafayette, Stifel's agenda has expanded to include the economics of deprivation and well-being. In a joint project with **Susan Averett**, professor of economics and business, he is studying childhood malnutrition in the United States. Stifel says wherever he sees misery he sees an interesting research question. ■

Phi Beta Kappa

The following economics and business majors were among the 69 students invited to join Phi Beta Kappa this spring. They are listed with their major and hometown.

Peter M. Gagliano '05, economics and business, Flushing, N.Y.

Michael A. Greenfield '05, economics and business, Needham, Mass.

Andrew R. McCarthy '05, international affairs/economics and business, Marysville, Ohio

Shreedhar Sasikumar '05, economics and business/international affairs, Trivandrum, Kerala, India

Dhiraj Sharma '05, economics and business/mathematics, Hetauda, Nepal

Mark C. Torres '05, economics and business/international affairs, Schiphol, Netherlands

Brandon M. Benjamin '06, government and law/economics and business, Towanda, Pa.

Basar Eraksoy '06, mathematics-economics/international affairs, Istanbul, Turkey

Judith A. Hirx '06, government and law/economics and business, Milford, Mass.

Erica L. Morabito '06, mathematics-economics, Yorktown Heights, N.Y.

Daniela V. Simova '06, B.S. biology/A.B. economics and business, Sofia, Bulgaria

Brandon C. Stiles '06, economics and business, Manchester, N.J.

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Editor: Howard N. Bodenhorn
Professor
bodenhoh@lafayette.edu

Rose Marie L. Bukics
Jones Professor and Acting Department Head
bukicsr@lafayette.edu

Lisa Mutton
Secretary
muttonl@lafayette.edu

Department of Economics and Business, Lafayette College, Simon Center, Easton, PA 18042 ■ (610) 330-5306, Fax (610) 330-5715 ■ www.lafayette.edu

Seniors Conduct Honors Research

(continued from page 1)

Consistent with the emerging social capital literature, Feuer found that market interactions are embedded in everyday village social relationships, and that market interactions enhance the ability of social capital to contribute to the villagers' incomes. This influence has two sources. First, market interactions benefit the villagers directly by improving their businesses, and second, by enhancing their efficiency in group efforts. Based on these findings, Feuer contends that any policies designed to improve basic social behaviors to enhance rural productivity should develop markets drawing upon existing social relations unique to a region or area.

Economic Data and Literature Illuminate Lives of Women in Spain

Social, cultural, and economic factors have revolutionized the collective and individual identities of 20th-century Spanish women. In her thesis, **Veronica Hart** examined how the role of women in Spain changed during the transition from the authoritarian Francoist regime to parliamentary democracy. Hart's thesis, jointly supervised by **Howard Bodenhorn**, professor of economics and business, and **Denise Galarza-Sepulveda**, assistant professor of foreign languages and literatures, determined how female employment, domestic space, family relationships, and educational participation changed from the Civil War to democracy.

Hart, a double major in Spanish and economics, found that female labor participation, educational achievement, and remuneration equity increased as social, political, cultural, and economic institutions moved toward a more democratic structure.

Hart combined economic data and literary textual analysis to illuminate the social background of economic events during the Francoist and post-Francoist eras. She included an economic analysis of employment and wage data and a literary analysis of three Spanish novels that describe the social and economic condition of women.

Brendan Rivage-Seul '05 is investigating the effects of unregulated water privatization on people in developed and undeveloped countries in senior honors research with James DeVault, associate professor of economics and business.

Rivage-Suel Examines Water Privatization

In his thesis, **Brendan Rivage-Seul** explored the effects of water privatization and the looming global water crisis. Under the supervision of **James DeVault**, associate professor of economics and business, Rivage-Seul compared a half-dozen developing countries that have privatized their water sector, primarily Central America, which is home to 52 percent of global private investment in water. The purpose was to better understand why water privatization, often pressed by the International Monetary Fund or the World Bank, works better in some places than others.

Ultimately, this is a question of fundamental importance because 20 percent of people in the developing world lack access to safe water, 50 percent live without adequate sanitation, and 90 percent live in areas that do not treat wastewater.

Rivage-Seul concluded that privatization enhances efficiency, reduces costs, and improves service in areas with inadequate water supply and treatment systems. But until access to water is seen as a fundamental human right and the myriad failures of some water privatization schemes are recognized, privatization of water distribution requires strict government oversight and, in some cases, multilateral institutions. Rivage-Seul argues that a multi-tier pricing structure, including subsidies in some instances, can accommodate most basic water needs. Getting water to the world's 1.2 billion people would cost just $40 billion per year, the equivalent of 0.0004 percent of global gross domestic product.

Politics and Free-Trade Agreements

Under the supervision of **David Stifel**, assistant professor of economics and business, **John Stephenson** investigated how political factors influence U.S. bilateral trade agreements by focusing on U.S.-New Zealand relations. In 2001, the Clark administration in New Zealand expressed a desire to negotiate a trade agreement with the Bush administration. Despite the Bush administration's positive attitude toward bilateral free trade agreements—it has already implemented such agreements with Australia, Chile, Morocco, Singapore, and negotiated with Bahrain—it has not implemented an agreement with New Zealand.

Given New Zealand's politics and historic ties with the U.S., it appears to be an excellent candidate for a bilateral free trade agreement. The sticking point is political. In 1987, citing safety concerns about nuclear power, New Zealand prohibited the entry of nuclear-powered ships or those armed with nuclear weapons into national waters. Because this policy effectively banned the entry of U.S. warships into New Zealand, the U.S. canceled its obligations under the Australia, New Zealand and U.S. (ANZUS) Treaty.

Stephenson holds that the Bush administration has chosen to punish New Zealand by refusing to act on its request for a free trade agreement. In this case, politics dictates the terms of trade policy, and New Zealand is paying the price for its political stance. ■

Students Present Research at NCUR

The following economics and business majors were among the 39 Lafayette students who presented research in April at the National Conference on Undergraduate Research at Virginia Military Institute and Washington and Lee University in Lexington, Va.

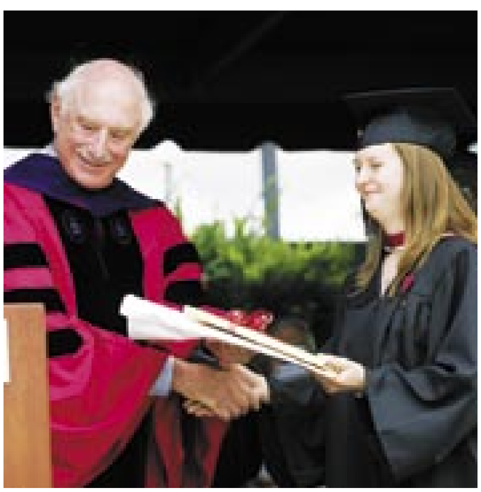
Mitchell Feld '05, "Lewis Powell: A Reluctant Justice Longing for Middle Ground"

Veronica Hart '05, "'Hispanidad' and Individual Identity in El Cuarto De Atrás"

Katharine Wolchik '05, "Stock Portfolio Continuous Trading Strategies by Simulation"

Isaac Esseku '05, "Firm's Optimal Cash Holdings"

Usman Khan '05, "The Time Evolution of Random Interest Rates using Numerical Methods"



Veronica Hart '05 (right) received special recognition from President Arthur J. Rothkopf '55 during graduation for having the highest GPA of the class.

O'Harra '97 Does Policy-Driven Economic Research

by Howard Bodenhorn

I have known Josh since we were introduced by **Hal Hochman**, Simon Professor Emeritus of Economics and Business, in 1995. Hal was then encouraging Josh to take my Law and Economics course. Because he would be away on sabbatical during Josh's senior year, Hal later encouraged me to supervise Josh's honors thesis. Josh wrote a fine honors thesis on the connection between human health and economic well being. He earned an M.A. in Applied Economics at University of Michigan. He opted not to pursue a Ph.D., preferring instead to engage in policy-oriented research. For the past several years, Josh has been doing research at the Congressional Budget Office and, given that he has been researching various Social Security proposals, I thought this was a propitious moment to find out about his research and how his Lafayette experience prepared him for his job.

What purpose does the CBO serve?

The CBO assists the House and Senate Budget Committees and the Congress more generally by preparing reports and analyses. In accordance with the CBO's mandate to provide objective and impartial analysis, the CBO's reports contain no policy recommendations.

What project have you been focusing on recently?

I've been analyzing various Social Security reform proposals under consideration in Congress. Several of these policy changes would redirect payroll taxes that currently flow to the government into "private investment accounts." Now, payroll taxes that are dedicated to Social Security are "borrowed" from the Social Security trust fund to finance current government operations; a change could significantly reduce the amount of money available to Congress and increase public borrowing. My job relates to estimating that additional borrowing, determining whether the policy puts Social Security on a financially sustainable path, and presenting who wins and who loses under various policy regimes.

Do your analyses actually influence policy? If so, how?

CBO analyses are part of the iterative policy-making process. Often, Congressional staff will send down legislative language or call with an idea they're considering. Legislators, like everyone else, must deal with choice under scarcity. CBO's analysis is exceedingly useful in presenting those trade-offs at the federal level. I think staff seriously consider the cost and distributional implications CBO provides before ushering legislation onto the Capitol floor.

Which course and professors at Lafayette had the greatest impact on your pursuing a career in economic research?

There were several important influences. Hochman's Theories of Consumer and Firm Behavior (or Advanced Microeconomics) course provided a strong grounding in reading scholarly articles. Hochman was generally influential on my desire to pursue economic research because he was able to connect the tools of economic analysis to questions of truly human significance. A second major influence was Basic Econometrics and summer research with **Susan Averett**, both of which provided me with useful technical skills. Theory is definitely important and can be interesting. However, a huge portion of day-to-day economics relies on computers and programming. Getting familiar with this in the safe environment of Lafayette gives one a starting point for doing economics in the real world. Finally, **Howard Bodenhorn**'s Law and Economics course made me want to go to law school, but that doesn't inform my current or past research much.

But now you're giving all this up to pursue a different career?

Yes, I have been attending Georgetown Law School on an Olin Foundation Fellowship in Law and Economics. I am taking the bar exam this summer and then practicing in the D.C. office of a mid-sized international law firm. I'll either be doing healthcare law (federal reimbursements and drug pricing) or securities; either way, I'm sure I'll continue to rely on the economic training I got as an undergrad. ■

in the Real World

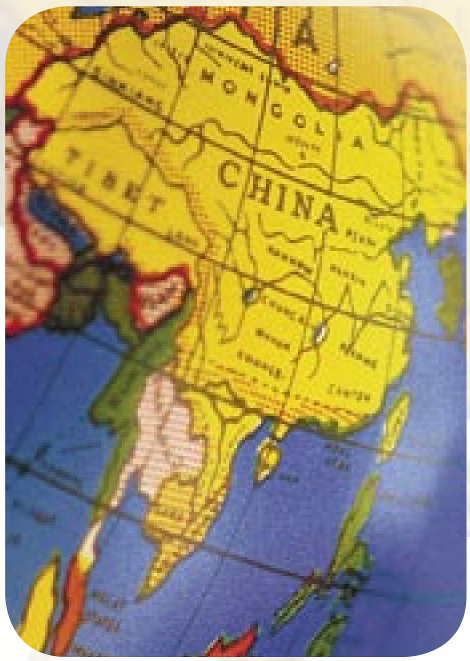
Vanduzer-Snow ’03 Proposes Restructuring the IMF

Working with several other scholars, especially Praveen Chaudhry, assistant professor of political science, Ohio University, **Marta Vanduzer Snow ’03** is engaged in important research. A graduate student in politics at New York University, she is also a visiting resident scholar at Observer Research Foundation, a private think tank in New Delhi, India.

One project calls for significant restructuring of the International Monetary Fund. Vanduzer-Snow and her coauthors argue that viable institutions reflect the historical necessities of particular periods. But strong institutions adapt and serve changing economic and political realities.

Globalization and other fundamental changes in international economic activity present an opportunity for the IMF to adapt and better serve both local and global desires. Vanduzer-Snow presents an agenda that may bolster international economic cooperation, enhance economic security, and promote globalization to provide broad rather than narrow benefits. Based on the nature of political economy in the 21st century, she suggests fundamental changes in five critical areas: (1) the IMF must grow larger; (2) voting power be redistributed to redress current imbalances among industrial, emerging, and developing countries; (3) board votes be rebalanced to reflect current needs; (4) board members be held to greater accountability; and (5) emphasis should shift toward managing intensified globalization in such a way that it promotes stable growth of the world economy and offers economic security to all nations.

Vanduzer-Snow and her coauthors argue that delay in instituting these changes will further reduce the IMF’s already declining relevance, which threatens the long-run peace, security, and stability of the international system.



A second collaborative project with Chaudhry is a forthcoming book tentatively titled *India’s Security and the United States: The Formative and Cold War Years, 1945-1981*. They have collected declassified documents from several sources, including presidential libraries, National Security Council, United States Agency for International Development, CIA, and the State Department. Theirs is the first project to provide a detailed documentary history of U.S.-South Asia relations based on declassified materials. Although the project is still in its infancy, they have been invited to present findings at the First Global International Studies Conference in Istanbul, Turkey, this summer.

Vanduzer-Snow’s research interests originated at Lafayette. She began collaborating with Chaudhry when he was a visiting professor in the government and law department. An independent scholar, she has traveled to several places in the U.S., India, and the Philippines.

Vanduzer-Snow’s experience demonstrates two features of good scholarly research. First, it challenges current thinking about contemporary issues. Having published papers in such prominent academic journals as *Finance and Development*, *The World Economy*, and *Journal of Development Studies*, she and her coauthors are reaching out to other scholars and practitioners. Second, good scholarship opens doors around the world. In addition to spending time in New Delhi and traveling to Istanbul this year, she has traveled to Hawaii and the Philippines to present at professional conferences. She hopes to become a professor and establish her own research center focusing on national and international educational initiatives. ■

Faculty Scholarship

Howard Bodenhorn

- “Free Banking and Bank Entry in Nineteenth-Century New York,” NBER working paper #10654, fall 2004.
- Review of Gene Smiley *Rethinking the Great Depression: A New View of its Causes and Consequences* (Chicago: Ivan R. Dee, 2002) in *Business History Review*, spring 2004; and Howard M. Wachtel *Street of Dreams—Boulevard of Broken Hearts: Wall Street’s First Century* (London and Sterling, Va.: Pluto Press, 2003) in *Journal of American History*, March 2005.
- Presented “The Economic Consequences of Colorism and Complexion Homogamy in the Black Community,” NBER, Development of the American Economy meeting, Cambridge, Mass., March 2005; “Colorism and African-American Wealth: Evidence from the Nineteenth-Century South” (with Chris Ruebeck), Persistent Interracial Inequality and Identity Conference, Florida State University, March 2005; “Usury Ceilings, Relationships, and Bank Lending Behavior: Evidence from Nineteenth-Century New York,” Money, History and Finance Seminar, Rutgers University, April 2005.

Jerome Heavey

- Presented “Henry George, Emile de Laveleye, and the Issue of Peasant Proprietorship,” Eastern Economic Association Annual Conference, New York, March 2005.

Christopher Ruebeck

- Presented “The Economic Consequences of Colorism and Complexion Homogamy in the Black Community,” Persistent Interracial Inequality and Identity Conference, Florida State University, March 2005.

David Stifel

- “Targeting at the Margin: The ‘Glass of Milk’ Subsidy Program in Peru” (with Harold Alderman), *Journal of Development Studies*, July 2005.
- Presented “Isolation, Welfare, and Agricultural Productivity,” SUNY-Binghamton, N.Y., February 2005; and “Tracking Poverty in Kenya Using Poverty Mapping Methods,” World Bank-sponsored workshop for policy makers and practitioners, Nairobi, Kenya, March 2005. ■

Anatomy of a Turnaround

The first CIRCLE Entrepreneurship Series lecture for 2004-05 was not the usual story about starting a new business. George Becker, former CFO of Prudential Health Systems, told the story of turning around a failing company.

Several years ago, Becker retired as the CFO. He looked forward to playing 80 rounds of golf per year and teaching high school math in New Jersey. However, in 2001, he was approached by Pacificare Health Systems, a failing managed care company headquartered in California. He became a member of a new management team hired to restructure the company, whose earnings per share and membership dropped from $4.58 to $.55 and 4.1 million to 3.4 million, respectively, in one year.

The team focused on diversifying the product line, evaluating the Medicare Plus Choice option for subscribers, exiting unprofitable markets, and improving customer service. They executed a 6 percent workforce reduction and consolidated regions in an effort to reduce costs to the company. These actions enabled Pacificare to not only improve its position, but become the best performing

Sheila Handy, assistant professor of economics and business, has a planning session with students in the CIRCLE Club.

stock in the managed care industry in 2003. The company outperformed the S&B index in 2003, posting a 141 percent return that year.

Now that the company is back on its feet, Becker has returned to teaching, this time at his alma mater, Pope John XXIII Regional High School, Sparta, N.J., and he hopes to again play 80 rounds of golf per year. He closed his talk with excellent questions for students considering entrepreneurship:

Are you focused on execution—follow-through without follow-up?

Are you able to make rapid staff and organizational assessments?

Are you able to make data-driven, fact-based analytical decisions?

Are you resilient, persistent, and optimistic?

Are you able to develop a vision and be demanding? ■

*The CIRCLE lecture series is sponsored by the Robert F. Hunsicker Education Fund, which was established to promote entrepreneurial education programs to Lafayette students. Members of the current CIRCLE team are **Matthew Guadagno '05, Martin Lawlor '05, Noah Payne '05, and Stephen Caruso '06.***

Nonrenewable Resource Funds

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grew three to four times faster than resource-rich countries, and this gap in growth rates has widened significantly since the 1970s.

Among the factors underlying this phenomenon is the impact of commodity price volatility on macroeconomic aggregates, particularly fiscal spending and the adjustment costs associated with rapid changes in expenditure. One policy response to deal with issues of fiscal revenue volatility, particularly in mineral-exporting countries, has been to establish nonrenewable resource funds to serve two purposes: stabilize fiscal policy and transform exhaustible resources into financial assets and productive capital that preserves wealth for future generations.

Empirically, the effectiveness of NRFs in stabilizing fiscal revenue and expenditure appears to be rather limited, although there has been little attempt at formal modeling in this regard. This paper extends the literature by analyzing several propositions regarding NRFs using pooled cross section and time series data in the context of an analytical and empirical framework that illustrates the importance of institutional mechanisms designed to stabilize fiscal policy.

Using aggregate panel data covering 71 countries for the years 1970 through 2000, the evidence provides little support for the ability of NRFs to minimize fiscal volatility outright. However, the aggregate data suggest that a NRF can curtail government spending, although at the cost of fiscal deficits. This reinforces the concern raised in the theoretical literature that while NRFs may generate national savings, such savings are dissipated by a lack of discipline to hold down deficits in other parts of the budget. Establishment of a NRF should be accompanied by a fiscal rule that ensures the net asset position of the government is not adversely affected by accumulating fund balances.

Finally, the analysis suggests that, on average, NRFs have a positive impact on domestic capital investment. At the country level, there is more significant evidence that NRFs can potentially mitigate fiscal volatility (Norway, Chile) and overall spending, and increase fixed and gross capital investments, suggesting that the nature of fiscal policy management and the rules and institutions governing the use of fund resources at the country level can matter significantly.

In this regard, the relatively successful use of NRFs in Norway, Oman, and Chile suggests that NRFs tend to work well in the presence of a sound fiscal infrastructure where commodity revenue flows are integrated into the budget process and fiscal rules manage expenditure of these revenues. Second, NRFs may be more effective in helping countries to manage commodity windfalls rather than volatility in commodity prices and revenues. The litmus test is the extent to which expenditure decisions are delinked from short term price movements. Finally, the size of the fund matters, particularly given the properties of commodity prices and political economy constraints. ■

For Further Reading

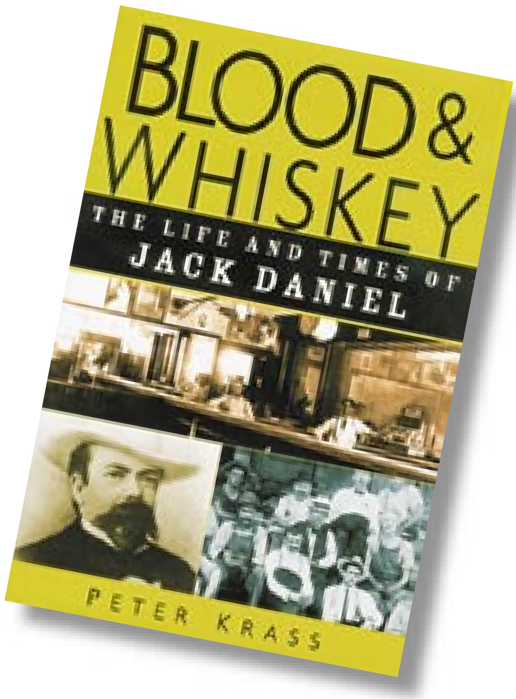
Is Jack Daniel a Betty Crocker? ■ by Howard Bodenhorn

In the second half of the 19th century, Americans became prodigious imbibers. One estimate holds that American per capita consumption of alcohol rose from just 4 gallons in 1850 to 20 gallons in 1905. Although whiskey accounted for just 1.5 of those 20 gallons (America was fast becoming a nation of beer drinkers), Jack Daniel's and a handful of other whiskeys produced in Tennessee and Kentucky became and remain household names.

Was Jack Daniel a real person? Or, was he to Tennessee sipping whiskey what Betty Crocker was to baking supplies—an invention of savvy marketers who realized the individuals, even if imaginary, moved product more effectively than corporations. It turns out that Jack was a real person, and **Peter Krass '87** in *Blood and Whiskey: The Life and Times of Jack Daniel* (John Wiley & Sons, 2004) skillfully illuminates his life and career.

Daniel was born in 1849 to parents of Scots-Irish descent in the rolling hills of south central Tennessee, and orphaned during the Civil War. Despite the Scots' love of whiskey, it was geography more than ancestry that led him into the whiskey business. Quality sour mash whiskey requires a prodigious amount of corn, charred white oak barrels, pure spring water, and charcoal made from sugar maple through which the concoction is filtered. Lynchburg, Tennessee had all the raw materials in abundance. Moreover, Lynchburg was far removed from any major market, and a mule could carry only 4 bushels of corn to market as grain, but could carry the equivalent of 32 bushels as whiskey.

In 1875 Daniel entered into the partnership of Daniel & Call. His timing was propitious for two reasons. First, technological change came fast in the 1870s. From small-batch production methods used at the beginning of the decade, the industry quickly moved to large-batch continuous flow technology that focused more on what business historians label "throughput" rather than output.



In throughput technologies, proprietors focus on keeping capital constantly employed. And, indeed, Daniel & Call replaced an 8-gallon still, which used a few bushels of corn each week, with a distillery capable of using 39 bushels of corn every day. Despite the massive proportionate increase in productive capacity, Daniel's distillery remained a high-end niche player, which was what he preferred. He had no intention of competing against the run-of-the-mill blended whiskeys produced by the emerging Whiskey Trust.

The second key innovation of the period was the increasing use of brand names to differentiate products from those of competitors. But investing in and developing a legitimate brand name did not happen until mass production made sealed glass bottles economic. Without a factory-sealed bottle, it was possible, even probable, that some underhanded dealer diluted or adulterated the product. Once the technology was in place to guarantee purity, branding and advertising began in earnest. Even in Victorian America, sex sold. Daniel resisted, however. His labeling was simple and his slogan non-jingoistic. Old No. 7 was pure and simple and so was his approach to marketing. What set Daniel's bottle apart from his competitors was its square shape, fluted neck, and plain black label, three features that have not materially changed.

Due to a sometimes frustrating paucity of data about Daniel and his business at certain critical junctures, Krass' book is as much a look at the times as his life. Nevertheless, the book brims with historical anecdotes and is littered with quirky characters, including some persistent revenuers, several pesky temperance leaders, and an assortment of colorful, if not corrupt politicians. Daniel's life and times were interesting, as the shifting sands of business and politics moved beneath his feet. ■

Class of 2005 Awards

John H. Allen Prize to the author of the best essay in public finance—**Cantrell Donley**

Economics and Business Award for Scholastic Excellence for outstanding academic performance and leadership in department activities—**Veronica Hart**

Robert F. Hunsicker Award to the student who has done meritorious work in the area of small business study—**Matthew Guadagno**

Institute of Internal Auditors Award for excellence in accounting and business studies—**Usmab Khan**

Institute of Management Accountants Award for excellence in accounting—**Emily Fogelberg**

Pennsylvania Institute of Certified Public Accountants Award for excellence in accounting and participation in college and community affairs—**Magee Perini**

J. H. Tarbell Award to the student who best demonstrates an understanding of financial operations and institutions—**David Mitchell**

Wall Street Journal Student Achievement Award to the student whose academic performance in economics and business is considered exceptional—**Shreedhar Sasikumar**

Department of Economics & Business
Lafayette College
100 William E. Simon Center
Easton, PA 18042-1776

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Handy Studies

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the material become the data. This method is not designed to provide statistical measures of achievement, but to gain insights into a learning experience in real time. A principal result is that students liked to control the pace of their learning, but that the tutorial was not, by itself, an adequate tool to learn accounting.

A second project conducted at Lafayette involved collaborative homework teams in a financial accounting course. The purpose was to determine whether students working alone or in groups achieved higher test scores. Handy discovered no substantive differences in achievement between the two types, consistent with previous research.

Handy is currently administering a survey to students at other schools to determine differences in attitudes toward accounting based on instructor teaching philosophy. Accounting instructors can adopt either a "preparer" approach, which emphasizes bookkeeping techniques, or a "user" approach, which stresses a broader understanding of the information included in financial statements. Recent studies report that students find the preparer approach boring, thereby creating negative attitudes toward pursuing a career in accounting. **Thuy Lan Nguyn '07** is assisting with this research through the EXCEL Scholars program. The results were reported in April at the annual meeting of the Academy of Business Education.

An article based on the results of an honors thesis by **Scott Wynne '02**, supervised by Handy, is under review at an educational administration journal. He examined the relationship between school district expenditures and standardized test scores in New York State. The results were presented at the 2003 meeting of the Eastern Economic Association. During spring, Handy also supervised an independent study with **Maurice Bennett '06**, who studied the investing habits of whites and African Americans. ■

Santorum Visit Hosted by Simon Professorship

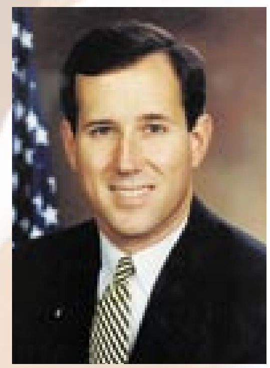
A capacity audience of over 500 students, faculty, and local community members attended the Feb. 25 conversation with U.S. Senator Rick Santorum on the future of Social Security. Held in Colton Chapel, the event was sponsored by the William E. Simon Professorship of Political Economy.

"President Bush made it abundantly clear during his re-election campaign that reform of the Social Security system would be his domestic priority in a second term, and Senator Santorum, as chair of the Social Security subcommittee of the Senate Finance committee, will play a key role in legislative proceedings—he will be at the center of the debate in the Senate," says **W. Mark Crain**, Simon Professor of Political Economy.

"How the policy debate on the sustainability of the Social Security system and proposals to change the system are resolved has vast implications, and ranks as the premier domestic policy issue of our day," Crain adds. "Even beyond the consequences for the Social Security system, per se, the resolution of this debate foreshadows the dividing line between public versus private responsibility in the coming decades."

Arthur J. Rothkopf '55, president of Lafayette, introduced Santorum. Crain served as moderator. Santorum presented information about Social Security, engaged in discussion, and answered questions from the audience.

"I am pleased that I was able to openly discuss this important issue with both seniors and younger Pennsylvanians," Santorum said. "We have the opportunity and responsibility to work in a bipartisan fashion to protect current and near retirees, while ensuring sustainable financial security and peace of mind for generations to come. My colleagues and I were elected to solve problems, not pass them on to future generations. It is our responsibility to make the changes necessary to Social Security now, while we have the chance to make public policy for the public good."



Rick Santorum

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