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Lessons from a Changing Economy

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LOW STOCK Ticker Div Yield %

Yield	Vol	P/E	High	Low
%	00s			
52.5	3831	42.00	39.5	
3.2	162	6.09	5.9	
20.9	15	24.49	24.29	
	31028	4.50	4.20	
26.5	6517	27.15	26.50	
2.1	6412	47.99	47.00	

ENTRANCE

Lessons from a changing economy



If Randy Grant was looking for the perfect laboratory in which to teach economics, he found it last fall.

Some days, he cast aside his textbook and syllabus and used the front page of the daily newspaper.

The economic turmoil from the declining stock markets, falling home values, record unemployment and tightening credit, provided an opportunity to engage students with material that fascinated and alarmed them.

For students of economics – undergraduates and professors alike – it’s been both an electrifying and chilling time.

“One thing I said to my students early last semester is that it is an exciting time to be an economist, and a scary time to be a person,” said Grant, a professor of economics at Linfield College. “From a teaching perspective, it’s wonderful. It’s great as an economist to see these things play out, some of which have only been theoretical ideas for a long time.”

Teacher and students have gotten an intimate look at economic principles that, until now, have only been theory.

For example, in intermediate macroeconomics, students learn about the liquidity trap, the concept that monetary policy has a limited ability to expand an economy that’s in a deep recession, Grant said. It existed as a theory for many years and only recently, during last decade’s economic crisis in Japan, did it become a living experiment. It began to play out again last fall as U.S. banks have been reluctant to lend and people were unwilling to borrow. Regardless of what the Federal Reserve has done, including the creation of new monetary policy tools, the expansionary policy has not generated the borrowing and spending necessary to bring the economy out of recession.

Curiosity has been the biggest reaction from students, Grant said. “They hear something new and they want to know what it means,” he said. “Of course there’s concern, mostly from seniors. More students are talking to me about graduate school. They are looking for alternatives, recognizing that the job market may not be very good when they graduate.”

Emma Kemp ’09 applied economic reasoning before accepting a position as an actuary after she gradu-

ates. A math and economics double major, she changed her plan to attend graduate school in favor of taking a good job.

“With the financial crisis, there will be a lot of graduates looking for jobs and applying to graduate school,” she said. “That makes for fewer resources for graduate assistantships. I felt lucky that I had a good job offer. I can always go back to graduate school if I decide that’s what I want.”

She felt her economics major gave her an edge over many students in understanding last fall’s events.

“I understood what was happening and could see the breaking points in the economy,” she said. “With everything turning upside down, it’s been interesting to think about how the economy might react depending on what changes are made.”

The economic upheaval has pushed Lacy Smith ’09 toward pursuing a graduate degree, not because of the job market, but to broaden her knowledge of economics.

“I want to get a deeper understanding of what’s happening,” she said. “It was interesting to watch the news and see the different concepts that I had studied being played out.”

Drew Schroeder ’10 is just soaking up everything he can.

“It’s an unprecedented time, and there’s no one answer out there that’s a fix for everything,” he said. “As you study the principles (of economics) you learn about the problem and how to fix it. But when you look at what’s happening right now, those answers don’t necessarily apply. It’s interesting to watch all these sound economic minds trying to formulate an answer.”

Throughout some 40 years of teaching economics, Dave Hansen, professor of economics and vice president for student services, has seen little change in the main ideas and concepts. The challenge has been to convince students that economics is important.

Until this year.

“The constant attention and the exposure in the media have given students an immediate belief that the subject is relevant,” he said. “In some ways, we are on the cusp of a change in how we think about the economy as a whole and the role of government in the economy, so that makes it pretty exciting.”

But it is also very unsettling and the seriousness of the situation may not be clear to many people, including students, with the country facing the most difficult



Economic sleuth

Economists are, in a sense, detectives dealing with everyday evidence and abstract theories.

"It's very much like being Sherlock Holmes," Randy Grant said. "The economy is the body and you try to reconstruct what happened."

At the same time, economists are forward looking, trying to predict what is going to happen based on current events and theoretical models. Like it or not, everyone is involved.

"We all make countless economic decisions every day, even if we don't recognize it," he said. "An economics class puts it in a framework and uses language that allows you to think in a clearer way."

Linfield graduates on average 10 economics majors and 10 minors per year. However, the introductory course attracts nearly 200 students annually and has had a profound impact, Grant said.

One of the teaching techniques he finds beneficial is requiring students to keep a journal and write about their personal experiences in economic terms – how they weighed the benefits and costs in making decisions.

"They come out of that class thinking more explicitly about many of their economic decisions," Grant said. "Invariably, I will hear from a student 'I'll never do things the same way again.' It's a compliment that they recognized this was something valuable and that every decision they make carries both benefits and costs."

economic period since the Great Depression, Hansen said.

"Given what I know about economics, I would never have predicted that we would be in this much difficulty," Hansen said.

Learning to network



Eight Linfield finance majors recently have learned first-hand about aspects of the current economic crisis – and may have made some valuable contacts along the way.

"Topics in Finance: Seminar in Securities Markets," a January Term course, combined a research project with an opportunity to meet with finance and investment professionals in Portland and New York City. Students spent part of the first three weeks of the course researching a specific mutual fund and preparing a presentation to investment professionals in McMinnville and Portland on how that fund could be best used in an overall investment strategy. The investment evaluators, most of whom were alumni volunteers, then graded the students, said Scott Chambers, professor of finance at Linfield.

"It's very intimidating to go to an investment professional and say, 'I'm going to tell you about investing in this mutual fund,' but it really is a confidence builder for the student," Chambers said. "It builds up their confidence so that when they are in a job interview and they have to talk about something of substance, they have had that experience."

One of the most valuable lessons from the class was getting a solid understanding of what finance professionals actually do on a day-to-day basis. Another was establishing some important contacts in the field.

Meeting with investment professionals, including many alumni, may be the most valuable part of the course, Chambers said. The New York trip included meetings with Richard Cahill '76, vice president of the Bank Supervision Group at the Federal Reserve Bank of New York; Brian Petroquin '94, associate at LeClair Ryan in Newark, NJ.; Tim Benzel '06, a research associate at Neuberger Berman; Jeff Dunbar '00, vice president at Blackrock Inc.; and Tom Phillips '79, first vice president, Merrill Lynch & Co. Inc.

"This experience is so valuable because it builds the bridge between the classroom and the professional career," Chambers said. "This is when they really start to understand what the profession is all about and just how serious this recession may be. They can hear it from me or other professors, but when they hear it from someone working in the field, they begin to understand the severity and implications of the situation."

Jessica Richey '09 has no doubt that finding a job in the current market will be tough. As she watched the financial crisis unfold, she was fascinated that her classes paralleled real life.

"While this sounds bad, it really made the classes fun and interesting," she said. Bank closings, the drop in the markets and the tightening of credit all applied directly to her financial theory and investment classes.

"It was happening before our eyes and yet at the same time, we were being taught what was happening and why," she said. "Although it is going to be tough for a couple of years, I still think it is something that can be fixed and that we can learn from."

Richey said the January Term class has given her some insight into the wide range of career choices she can pursue.

"I have better ideas about job options and a better understanding of what various people actually do," she said. "The people we have visited take the time to explain what they are doing and how they do it."



Mark Kralj, left, principal and CFA at Ferguson Wellman Capital Management in Portland, met with students enrolled in the January Term course "Topics in Finance: Seminary in Securities Markets." The class visited a variety of banks and investment firms in Portland and New York City to give students an inside look at the day-to-day work of finance professionals. Students are, clockwise from left, Andrew Nelson '09, John Torsey '09, Jackson Baber '09, Jessica Richey '09, Kelly McLeod '09, Galaxy Slight '09, Yang Shi '09 and Tiffany Cook '09.

Ashlee Moehring '02 understands the importance of classes like this one – she met with alumni at R.V. Kuhns during Chambers' 2002 class, secured an internship and then a full-time job. She is now a principal and consultant for the firm and credits, in part, the experience of the class.

"I got my foot in the door by coming here with the class," she said. "There's always a gap between education and work experience, so this class is really helpful. Meeting with professionals and alumni in the field and getting advice and feedback from them is so important to finding the right job."

Moehring, who works with a variety of institutional clients including Linfield College's endowment fund, has found the events of the last several months challenging, yet educational.

"This is the first major market dislocation I've been through in my working career," she said. "One of the greatest challenges is trying to balance the long-term objectives of our clients' investments given the un-

certainty as to how long this market turmoil will persist. This has certainly made everyone much more aware of the risks in the market. I think the excesses we've witnessed in the market were unhealthy and we should come out of this a stronger economy, but it will be very painful in the interim."

Students also got a crash course on how to dress and conduct themselves professionally. They were required to prepare an introduction that they each delivered at some 30 meetings over the course of the month. The introduction included the student's name, hometown, major, the type of investment he or she was researching, and something about themselves that would not come up in a typical conversation.

"We work constantly on their introduction," Chambers said. "I know it works because students have told me two or three years later that whenever they are in a situation with someone they haven't met, they use their introduction because it is automatic."

– *Mardi Mileham*