

FORWARD

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 argument 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.

This year's journal begins with an analysis of credit card behavior in secondary markets, researched by David Frank of Iona College. Frank uses an advanced econometric methodology for an undergraduate. Estimating a logistic regression model he is able to determine the probability that people switch credit cards in a competitive secondary market. After constructing a survey designed to discover the reasons for switching, he used the data for his independent variables, some of which were interest rates, the balance on the credit card, and whether people thought of it as an extension of liquidity. Frank's results show that the balance and interest rate differentials have the most influence on a person's choice to switch cards. He also finds evidence of consumer ignorance and suggests that people may not switch due to transaction costs as well as some element of brand loyalty.

Secondly, Peter Bogardi, Andrew Knudsen, and Carey Schildt of the University of Nebraska-Lincoln take a hard look at a subject in which few Americans are aware. The theory of Swedosclerosis says that the productivity slowdown of the mid 1980's to early 1990's in Sweden was due to their heavy emphasis on welfare-state policies. The authors break down this theory and argue that the economists who have argued the existence of Swedosclerosis have wrongly tied the slowdown to the acclaimed Swedish welfare system. The authors argue that these economists have used selective data of per capita GDP as evidence of the slowdown. Refuting this evidence, they show that Purchasing Power Parity statistics are highly variable as a result of measurement problems and that Sweden actually performed quite competitively during the 1970 to 1990 period. In addition to these measurement problems the authors pose several alternative reasons for the slowdown in particular a number of poorly timed policy decisions by the Swedish government. As a result the slowdown may have only occurred due to situational problems and the generous welfare-state policy is indeed still beneficial for Sweden.

In a paper that combines a elements of developmental psychology and economics Jessica Al-Banna of Elon University studies whether employed mothers are negatively affecting their children's scholastic development. In an attempt to discover any change over the years in cognitive development, Al-Banna looked at end-of-grade pass rates from county school districts in North Carolina. In addition to maternal employment, she looked at the influence of divorce rates, education and income on children's academic success. She discovered that mothers who are employed might in fact have a harmful effect on their children's development early in life and during adolescence, but it depends on the family's level of income. More evidence shows that a child is less affected in their reading ability as they get older but more so in their math skills. These results should prove important in the ongoing debate over both standardized testing and maternal employment.

Meghan Bishop of Mary Washington College suggests a reason for the surge in U.S. growth rates in the 1990s in her paper. After looking at the classic Ando-Modigliani consumption function, Bishop hypothesizes that people have used credit to increase their consumption more and more in the past decade. Estimating a two-stage least squares regression she tested the impact of disposable income, wealth, and consumer credit outstanding on consumption. Secondly, to test what influences credit spending Bishop attempted to account for consumer confidence by using the Dow Jones Industrial Average as a proxy, and then included interest rates, wealth, and disposable income. After solving for several econometric problems she discovered that in comparison to Ando-Modigliani's results wealth has increasingly had less of an effect on consumption. Additionally, credit spending has more of an effect on consumption than disposable income. This is evident of America's lack of saving and indeed presents significant reason to believe credit spending contributed to the recent productivity boom of the 1990's.

Emily Polito of Trinity College discusses the unbiased forward exchange rate hypothesis in her paper. This theory says that the forward rate indicates information about future exchange rates. By testing for the validity of the hypothesis for the period 1991-1999 across a number of currencies, Polito was able to provide some significant policy suggestions. Her results indicated that the forward rate is unable to explain all information about the spot rate, a rejection of the hypothesis. She found that only Canada had evidence of the forward rate hypothesis. Because of the exchange rate volatility and inefficiencies of the exchange rate market, Polito suggests that the Tobin tax is a plausible solution; the tax provides a disincentive for currency speculators in that it taxes all spot transactions. This is important in light of the recent volatility in currency markets.

Our final paper comes from Nankai University in China. Ruogu Huang discusses whether preferential trade agreements (PTA) are really helpful in promoting global free trade. After discussing the structure of PTA formation, Huang theorizes that they actually fragment the global trading scheme contrary to economic theory. He analyzes this argument beginning with PTAs formed by similar countries, and then by dissimilar countries discovering the advantages and disadvantages each way. He then suggest that the World Trade Organization has limited power in promoting PTAs, and subsequently has little effect on global free trade. Huang argues that there is an optimal PTA in which there is a central superpower that will trade with smaller, dissimilar countries. This situation provides optimal benefits for the respective countries while excluding the detrimental effects of other larger countries. Given the recent wave of criticism regarding free trade and globalization, this paper proves to be quite enlightening.

The importance of these papers in regard to national, local, and world policy issues is evidence of successful undergraduate research. By 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.

James Ahearn, May 17, 2001