

The University of Arizona Department of Economics Academic Program Review

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I. Overview and Summary

The Panel was very impressed with how much the Economics Department is accomplishing with so few resources. Most faculty members are productive researchers, publishing in the top general interest and field journals, and those who are not are making major contributions as administrators and master teachers. The Department sets high standards for itself in hiring, placement of students, and instruction. It has successfully implemented the recruiting recommendations of the 1998 APR by hiring outstanding researchers in microeconomic theory and econometrics, and in industrial organization. The innovative graduate program has a record of placements that compares very favorably to the placements of higher-ranked departments such as the home institutions of the external academic members of the Panel. The undergraduate classes are in high demand, and the General Education courses in particular are very popular, taught by exceptionally gifted teachers. The Department clearly has highly effective leadership within the Department. Morale is high. The Department is worthy of investment.

By contrast, the University of Arizona has not given the Department the resources recommended by the 1998 APR. The size and funding of the graduate program has not increased, and the size of the faculty is smaller than it was in 1998. In this regard, the University remains an outlier among major research universities in that its economic department is limited in the range of its undergraduate offerings, its intellectual impact across campus in both research and graduate education, and the breadth of its research. Aside from possibly the University of Iowa and Purdue¹, we know of no other major research university that offers such a small range of economics courses to such a limited audience. Several fields of economics that are fundamental in the educational mission of nearly all universities are either unavailable here or taught solely by non-research faculty.

Not surprisingly then, the Panel's main recommendations on resources echo those of the 1998 APR. Our set of recommendations can be summarized as follows.

On Recruitment and Retention

- To effectively recruit more faculty members, the Department should be allowed to make more offers than it has positions available.
- The Department should make strong counter-offers to key faculty members who receive outside offers. The Department should also act preemptively to insure parity of faculty salaries with market salaries to discourage key faculty from soliciting outside offers and to maintain faculty morale.
- The Department should find a new director for the Economics Science Laboratory in order to re-establish its presence in experimental economics.

On the Undergraduate Program

- The University should facilitate the Department's expansion of its General Education course offerings in order to allow more students to major in economics and to meet the needs of non-economics majors. This could be achieved by assigning larger classrooms to existing courses and by providing the Department with more TA support.

¹ The economic departments in these two universities are also in the business school.

- Upper division economics courses should be expanded in scope to allow economics majors at the University to take courses available at other research universities and to allow students to minor in economics. This will require an increase in faculty size, as well as TA support.

On The Graduate Program

- The Department's graduate program should be expanded in size, with additional funding provided to support graduate students. This would enhance the University's reputation and would provide resources to achieve our recommendations regarding undergraduate education.

On Faculty Size

- The Department needs to increase in size. A Department with half of the faculty of departments at most peer universities cannot be expected to rank highly in its own discipline or meet the demands for economics across the University. A department of such limited size also appears inconsistent with the University's goal of being world class.
- A collaborative effort between the University and Eller is needed to achieve the Department's goals. Eller does not need a large, diverse Department to achieve its goals. Hence, the University should not expect the Dean of Eller College to solve the resource shortage problem alone, particularly if it involves shifting resources from core business areas like accounting, marketing and finance.

II. The Department's Faculty

The Department has experienced significant attrition over the last seven years due to retirements and resignations. As a result, recruiting has been a major responsibility for the department. It has invested a lot of faculty time in identifying, evaluating, and wooing potential candidates. Despite these efforts, the Department has declined in size from 24 to 19. It expects to lose two more highly productive members, Gary Libecap and Dan Ackerberg, and possibly one more through retirement by the end of the year. It has three offers outstanding but the likelihood is that 2005-2006 will be another year of net loss. The Panel feels that retention and hiring is the Department's number one priority.

A. Promotion and Retention

The Department has four junior faculty members. It has done an excellent job providing a supportive environment for them to conduct research and obtain tenure. The current chairman has recently negotiated a reduction in their teaching loads from 4 to 3 courses per year; their administrative loads are low; and they receive adequate research and summer support. The Department has recently implemented an innovative mentoring program. Two senior faculty members are assigned to a junior faculty member and provide feedback on his or her research in the form of comments and an annual report. The junior faculty members believe that they will be evaluated fairly when they come up for tenure.

The market for economists is very active and salaries in the economics profession have increased rapidly over the last 10 years (as documented in the Department's self study). As a result, faculty members are often earning substantially less than what they could earn at other, comparable universities.

- While the Panel recognizes budgetary constraints, Eller College needs to act preemptively when possible to insure that the most critical faculty members are not obligated to seek other positions.

A related issue is the response to outside offers.

- Eller College needs to respond strongly to outside offers for pivotal faculty members. In particular, if the Department is to succeed in retaining promising new faculty, then the College must be prepared to defend the Department when the promise is fulfilled. The counter-offers also provide a significant positive signal to faculty members and encourage them to continue investing lots of effort into recruiting.

The lack of a suitable salary adjustment appears to have been a factor in some of the resignations that have occurred since 1998. In this regard, the Department's position within the Eller College is advantageous: business colleges are experienced in addressing rapidly rising salaries, and they typically have means of funding such as summer support that are uncommon in colleges of arts and sciences.

B. Recruitment

The Department's recruiting strategy has been to primarily target assistant professors who are several years into their term and young associate professors. The Panel thinks that this strategy makes a lot of sense. The Department is likely to enjoy a higher success rate in recruiting high quality candidates in this market than in the new Ph.D. market where candidates typically accept the offer from the highest ranked department. The risk of an unproductive hire is lower. And, perhaps most importantly, given the low number of faculty, the Department badly needs to hire people who can have an immediate impact on its research reputation and who can carry their share of the advising, teaching, recruiting, and administration duties.

The Department spends a considerable amount of time in recruitment. Over the past three years, the Department has made twenty offers, at a cost of approximately 72 faculty hours per offer. The Department has high standards, consistently pursuing people who are at more highly-ranked universities. The success rate has been quite good. However, the Panel believes that Eller College could improve the success rate.

- The Department should have the flexibility to make more offers than they have positions. This would allow the Department to pursue more candidates and exploit complementarities between candidates. Expansion and turnover should permit inter-temporal substitution in the relatively low probability event that too many offers are accepted.

The hiring priorities of the Department build on its traditional strengths of microeconomic theory, econometrics, and industrial organization (IO). The first two fields are part of the core of any economics program, and the third is particularly important to the mission of Eller College. For example, strategy is taught by IO economists. The Panel believes this effort needs to continue. The Department has not yet achieved critical mass in these areas, in the sense that the group is at risk if one person leaves. Of course, the department should not neglect the occasional “targets of opportunity” in other fields that can help the department achieve its goals of diversity and higher rankings.

The Panel is very concerned about the future of Economic Science Laboratory (ESL). The resignations of Vernon Smith, Mark Isaac, and Jim Cox, internationally renowned researchers in the field of Experimental Economics, have hit the Department (and the University) hard in an area that was identified by the previous APR as one of the research strengths of the department and an important factor in its reputation for excellence.

- The Department urgently needs to find a new director for the ESL in order to re-establish its presence in experimental economics.

Experiments have become part of the mainstream methodology used to study behavior and markets. The Department has several faculty members such as John Wooders, David Reiley and Martin Dufwenberg, who combine economic theory and experiments in novel ways. Behavioral economics is a growing new field in which experiments play a central role and which has important implications for other areas of the business school such as marketing and finance. Experimental economics also serves as an intellectual bridge between economics and the other social sciences. The laboratory facilities give the Department a significant advantage in recruiting faculty who are interested in experiments.

C. Faculty Morale

The Panel is impressed with the enthusiasm and collegiality of the Department. The loss of highly productive researchers, the burden of recruiting on a large scale with a low yield rate, and low levels of instructional support would demoralize most units. The setbacks faced by the department in recent years might be expected to demoralize the faculty. We searched for signs of weariness and defeat. Instead, we have found a collegial and positive group that works together enthusiastically and cooperatively towards its common goals such as recruiting, Ph.D. training, and undergraduate education. The collegiality and the sense of the common good extend from the faculty into the staff, the adjunct faculty, and the graduate program.

Credit must be given to the leadership of Mark Walker, who is consistently constructive and optimistic. Credit must also be given to John Drabicki for his leadership of the educational programs of the department. The faculty is sustained by the enthusiasm for the University, the Tucson community, and the field of economics as shown by

faculty members such as Price Fishback and Gerry Swanson. We are also optimistic about the good relationship between the leadership of the Department and the College.

The Department faces two threats to morale:

- Further attrition may tip the faculty into surrender. The loss of 2-3 of key faculty members would place the Department in a situation in which recovery through new hiring would be extremely difficult, due to both discouragement and a fundamental shortage of leadership and manpower in the faculty.
- Significant disparities between salaries of long-time faculty members and new hires and between current faculty members and options at other universities are corrosive on morale.

To conclude, as the University addresses the increasing costs of recruiting and retaining economists, it is important to keep in mind that this reflects the *value* placed upon the contributions of economists by the premier research universities. Universities are increasingly recognizing the contribution of economics in undergraduate education, business education, public policy, and a range of research fields; demand for economists has thus increased markedly over the last decade. In other words, the Department, Eller College, and University will profit from their investment in the Department.

III. The Undergraduate Program

The Panel commends the Department for its work in establishing the Chair in Master Teaching for their star lecturer, Gary Swanson, who teaches in the General Education program. The chair ensures that the Department will always have a “master teacher” who has a strong interest in teaching large sections of undergraduate economics classes.

The staffing of the general education courses is a concern. The Department recruits its SBS majors from these courses and they need to be taught well. They are currently taught mainly by McBrearty and Swanson, who are senior faculty nearing retirement. The classes are large enrollment, writing classes in which instructors have to do most of their own grading because of the lack of TA support. The Department is considering hiring senior tenured faculty or “master teachers” from other institutions who have a strong interest in teaching large sections of undergraduate economics classes. These faculty members would be compensated primarily for teaching rather than research.

The Panel is concerned about the level of TA support that the Department receives. As documented in the Department’s Self-Study, it has two 50% TAs for their Ph.D. students, three 25% TAs who are MBA students, and several undergraduate preceptors. Most other departments teach their General Education courses with break-out sections. The Department does not because it receives only one 50% TA for servicing these courses. More TAs would not only enhance the classroom experience for students but would make it much easier to recruit faculty to teach the general education courses.

- The Panel strongly recommends that the University provide additional TA support to the Department that is commensurate with its contribution to General Education. The number of funded TAs is inadequate to either support the educational mission of the Department or to provide adequate support for its Ph.D. students

In addition to TA support, the Panel believes that the University could help the Department provide high quality teaching in General Education in one other way.

- The University could assign larger classrooms to satisfy the huge excess demand for the department's courses, particularly ECON 200. Many more students would have their preferences met, and the department would likely graduate significantly more SBS majors if the space constraint on these core classes could be relaxed.

The Panel is also concerned about the inability of the Department to respond to the demand for its classes from non-majors and from students outside Eller. Given the centrality of economics as a discipline, it is a serious shortcoming of undergraduate education at the University that non-majors and non-Eller students almost surely cannot enroll in "field" or "topics" classes in economics.

Finally, the Panel is concerned that many of SBS economics majors are not being served as well as they could be by the Eller faculty. First, we would like them to be able to take selected non-economics courses within Eller. This can be accomplished without allowing a "backdoor" into enrollment into Eller. The best SBS economics majors also expressed a desire for more courses that are more demanding in their use of mathematics and statistics. This relates to the issue of broadening the offerings within the economics curriculum.

IV. Graduate Program

The Department has developed a successful Ph.D. program that is in many ways unique and which has resulted in quality graduate placements. Among its innovations are a first-year course (ECON 508) in which students are introduced to research in various fields of economics, and required second- and third-year research papers. In the first-year "Doing Research" course students are required to present assigned papers to the class and then critique them. The opportunity for a non-lecture research experience during the first year of graduate study is rare in U.S. economics departments. While other departments require second- and third-year papers of their graduate students, the Department is noteworthy for requiring students to present these papers in internal conferences and in offering a \$2,000 prize to the best papers. These innovations help to focus students on producing research and thinking of themselves as researchers early in their graduate careers.

The Department also prepares students well for teaching. All students are expected to teach at least two courses before graduation. They are prepared for this experience by taking a one-semester course on teaching that involves teaching before both faculty and undergraduates, something that not all departments require. This

teaching experience is valuable to the students in gaining placements at academic institutions.

These innovations, together with an excellent and dedicated faculty have produced quality graduate placements. In the past five years, Department graduates have been hired as assistant professors at the University of California, Irvine, Ohio State University, the University of Rhode Island, the University of Arkansas and Georgia State University. Department graduates have also received post-docs at the University of Chicago and the University of Michigan. These placements compare favorably to the placements of higher-ranked departments such as the home institutions of the external academic members of the Panel.

- The Panel strongly believes that the Department's graduate program should be expanded in size, with additional funding provided to support graduate students.

This expansion would benefit Eller and the University in several ways. First, it will enhance the visibility of the Department, Eller, and the University. The number and quality of graduate placements are a key component of a department's, and hence a university's, academic reputation. The current ratio of graduate students to faculty is extremely low compared to peer institutions and could be increased without sacrificing quality, provided that sufficient funding is given to support graduate students. Second, expanding the size of the graduate program could actually improve program quality by increasing the size of field courses. At present many field courses have fewer than five students. Expansion would increase student interaction without increasing instructor costs. Thirdly, funding additional graduate students through teaching assistantships would provide the teaching resources that are needed if the department is to meet its objective of providing high quality economics instruction to students in all parts of the University.

- In addition to increasing the number of funded TAs, the Panel is also concerned that the graduate stipend needs to be increased so that the Department can effectively compete for students. This is especially critical as the Department tries to increase the enrollment in its program.

V. Faculty Size

The Panel returned again and again to the problem of faculty size. It is clear to us that a Department with 25 or so FTEs with concentrations in microeconomic theory, econometrics, and industrial organization would be able to serve the needs of the College of Management. In this respect, the Department is similar to economic departments in many of the highly-ranked business schools. In fact, the Department is currently ranked highest among economics department in peer institutions (see Self-Study) that serve within business schools.

However, in addition to business, economics as a field spans engineering, the social sciences, and public policy. Three quarters of the economics majors are from the College of Behavioral and Social Sciences. They are not adequately prepared in core fields such as macroeconomics, international economics, and public finance because the

Department lacks researchers in these areas. Many more students in this College would take economic courses if they were more widely available. Several Colleges outside of Eller require Economics Principles. Currently there is such a tight constraint on class offerings that economics as a minor is absent as a practical reality, and electives of majors are unusually limited as well. The lack of resources to meet the needs of the broader university community creates a degree of frustration in the Department.

Joint faculty hiring could help on the margin. There was an initiative previously to create a joint position between Economics and the Center for Latin American Studies focusing on international economics, economic development and labor economics. Such interdisciplinary joint appointments can serve not only to strengthen the economics department, but also contribute to the goals of increasing interdisciplinary programs and diversity among the faculty. Some potential areas where joint appointments seem appropriate include Entrepreneurship, Finance, Marketing, and Health sciences.

The Panel is not in a position to make any specific recommendations on how the university should address the resource inadequacy problem. We would, however, like to make two points.

- A Department with half of the faculty of departments at most peer universities cannot be expected to rank highly in its own discipline or meet the demands for economics from across the University. A department of such small size also appears inconsistent with the University's goal of being world class.
- The University cannot expect the Dean of the Eller College to resolve the resource inadequacy problem alone. His mandate is to raise the stature of Eller among colleges of business. He does not need a full-service economics department to accomplish this goal, particularly if it involves shifting resources away core business areas like marketing, accounting, and finance.

The Panel urges the Department Chair, the Dean of Eller, and the Provost to collaborate on a long term plan to expand the Department of Economics so that it can provide a high quality economics program available to all students and provide the faculty strength for collaborative research across campus where an "expert" economist is needed. They should examine all possible resources which include: funds earmarked for general education, growth in state allocations to higher education in years they occur, the Technology and Management State of Arizona decision package, Executive MBA cash flows, revenues from summer and winter programs, private fundraising, and special undergraduate fee assessments.

The unique challenge to the University is to develop novel ways in which Eller College can use the economics department as a bridge to the rest of the university, and play a substantially larger role in the intellectual life on the campus. If successful, it could make Eller College a special place. The intellectual gain to the University would be very significant and help achieve its vision of a world-class university. And the Department would achieve its goal of being counted among the world's leading economic departments.