

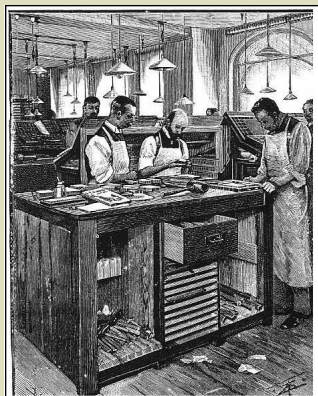
# ALUMNI NEWS

## DEPARTMENT OF ECONOMICS

INDIANA UNIVERSITY OF PENNSYLVANIA ☞ INDIANA, PA 15705-1087

Issue 55, Spring 2014

### GENDER, RACE, AND THE VETERAN WAGE GAP BY DR. BRANDON C. VICK



*Editor's Note: Dr. Brandon Vick joined the Department of Economics in August 2013. The results of this paper were presented at the 78<sup>th</sup> Midwest Economics Association annual conference held in Chicago, IL, in March 2014.*

Veterans face many difficult challenges and much uncertainty when they join to the civilian workforce: Will skills transfer? Will skills pay off in the same way as they do for everyone else? A diverse group of veterans return from very different military experiences. Some veterans have skills and experiences that have a strong demand from civilian employers. Combat/operations-support positions that hone technical, mechanical, and healthcare knowledge should serve as a springboard into high-paying jobs in the civilian workforce. Veterans from combat positions may have built skills sets that are less broadly sought out by civilian employers. The additional mental and physical stress of combat service may prolong recovery and create another barrier to finding work.



Dr. Brandon C. Vick

This research analyzes wage outcomes for Iraq/Afghanistan-era veterans – those serving since September 2001 – in the recent job market. The question of interest relates to reintegration into the civilian workforce – are veterans paid in the same way as non-veteran workers? Using the 2012 American Community Survey (ACS), I analyze the veteran vs. non-veteran wage difference in a number of steps. First, I segment the analysis by gender and race to focus on wage outcomes for veterans with different experiences. Until recently, combat-arms roles have been reserved for men. Fifty-three percent of enlisted white Army Soldiers served in combat-arms positions, compared to 24 percent of black Soldiers (Office of Army Demographics, 2010, p. 16). Thus, a gender/race difference in military experiences may relate to a difference in earnings outcomes. Second, I present the wage distributions of veterans and non-veterans together, to look for separation between the two. Separation favors non-veteran males for the top wage quintile while it favors female and black veterans for the bottom four quintiles. Third, I compare median industry wages for veterans and non-veterans, finding that veterans in the bottom four quintiles are employed in higher-paying industries.

Finally, I utilize the matching methodology of Nopo (2008) to decompose the veteran vs. non-veteran wage gap. Comparing veterans to non-veterans is very difficult for researchers using common survey data. Veterans tend to differ greatly from the civilian population

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## GENDER, RACE, AND THE VETERAN WAGE GAP (CONT.)

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in demographics and tend to finish college later, both of which affect wages. Additionally, veterans may have hard-to-measure attributes that serve to help and/or harm their ability to earn higher wages in the modern civilian workforce. This methodology segments the part of the gap due to observable vs. non-observable differences between veterans and non-veterans. The method also allows comparisons between veterans who match non-veteran workers in observable characteristics and veterans that do not match non-veterans. The idea is that two people (a veteran and a non-veteran) that match in education, age, the industry they work in, gender, race, family circumstances, and disability should be comparable in wages. I find that male veterans experience a nine percent gap in pay while female and black veterans experience wage premiums over non-veterans. Veterans that do not match civilian characteristics make substantially lower wages than veterans who do match.

The potential link between veteran status and earnings is not straightforward, thus *a priori* propositions on the direction of the veteran wage difference are not clear. On the one hand, valuable technical skills and experience may help a veteran land in higher-paying industries and occupations. The educational and health support that veterans receive through the U.S. Department of Veterans Affairs can help veterans in the accumulation of human capital and lessen the potential health barriers to the workforce. On the other hand, veterans may face barriers to work that stem from institutional differences between the Armed Forces and the civilian workforce and perceptions that civilian employers may have of veterans. For example, veterans must adapt to different procedures, communication norms, cultures, and command structures in the civilian workforce (Freifeld, 2010). Stigma facing veterans, either real or perceived, may affect a veteran's choices toward treatment (Ben-Zeev et al., 2012; Vogt, 2011) and potentially result in negative effects on job and earnings outcomes. A final complexity in the link from veteran status to earnings is selection bias. Characteristics such as ability and drive, which are generally unobservable in data, could push some people into the military and have an effect on earnings.

Recent studies have not found earnings gaps for Iraq/Afghanistan-era veterans, but such studies are limited in three important ways. First, they have focused on mean earnings, rather than looking across the wage distribution. Second, they have not considered segmenting the analysis based on gender or race, to investigate potential outcome differences across these groups. Third, no research has attempted to decompose earnings differences, techniques that isolate differences in earnings due to differing educational attainment or industry choice, from other possible, non-observed drivers of a veteran earnings gap, such as stigma or work ethic.

Kleykamp (2013) finds an earnings premium for veterans aged 18–40, using the Current Population Survey (CPS) from 2005–2011 (approximately 2,000 veterans). Estimating a generalized linear model that controls for demographic, family, and industry variables, the author finds that veterans earn a 6 percent premium over non-veterans. Tennant (2012) uses propensity score matching to compare post-2001 veterans to the rest of the population, using the CPS for 2009–2010 (a matched sample of 1,793). The author finds no significant differences in mean income from salary and wages. Humensky et al. (2013) estimate veteran vs. non-veteran outcomes for earnings, enrollment and employment by various age groups, using the CPS 2006–2011 (approximately 3,000 veterans). They find that Iraq/Afghanistan-era veterans have a higher probability of having earnings from employment but no difference in earnings, except for the small group of veterans aged 18–25.

### The Wage Distribution

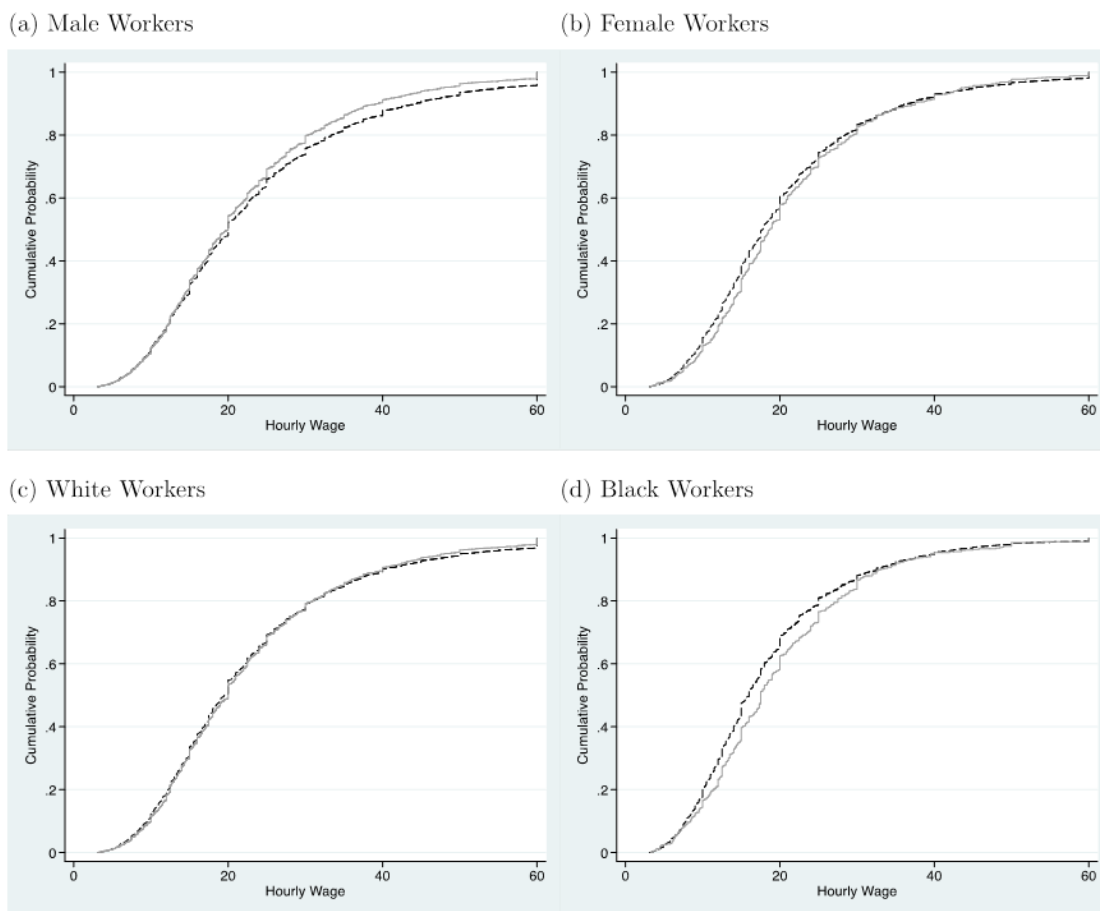
The following analysis compares full-time employed workers, ages 25–40, using the 2012 American Community Survey (ACS). This representative sample of the entire U.S. allows comparisons of 8,329 veterans to 284,011 non-veterans.

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## GENDER, RACE, AND THE VETERAN WAGE GAP (CONT.)

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Figure 1: Cumulative Distribution of Hourly Wages, by Veteran Status



Source: ACS, 2012. Dashed black line represents Non-Veterans; solid gray line represents Veterans.  
 - Number of Non-Veteran observations: 150,875 male; 133,136 female; 219,391 white; 26,159 black.  
 - Number of Veteran observations: 7,029 male; 1,300 female; 6,587 white; 984 black.

Figure 1 presents the cumulative distribution function (CDF) of hourly wages for non-veterans and veterans. When the CDF for veterans lie to the right (left) of the CDF for non-veterans, the veteran in a given percentile of wages has a higher (lower) wage than the non-veteran in that percentile. The top-left Subfigure (1a) illustrates a veteran wage gap for male workers starting around the median — the dashed black line for non-veterans falls to the right of the veterans line at the top of the distribution. The female distribution shows a different story. The top-right Subfigure (1b) shows a veteran wage premium beginning at the bottom of the female distribution, which continues until around the 80th percentile of female workers. The veteran premium turns into a gap for the top ten percent of female workers.

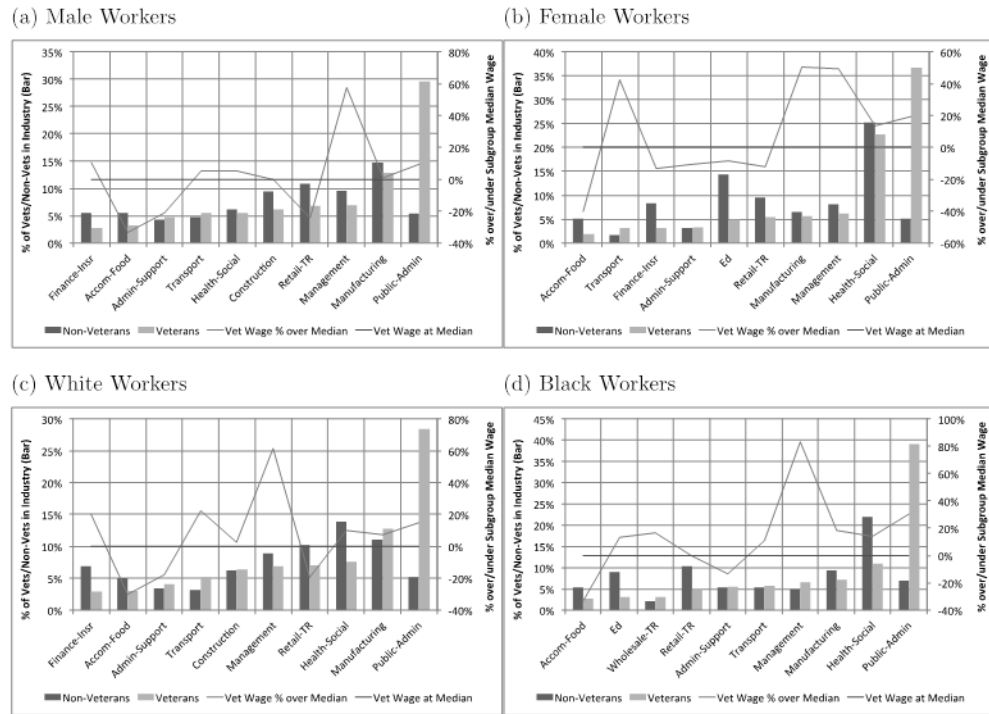
Similar differences appear when breaking down the wage difference by race. Among white workers (making up 75 percent of both fully-employed veterans and non-veterans) in Subfigure (1c), no difference appears between veterans and non-veterans, except for a small gap that appears near the top of the distribution. A large veteran premium occurs between black veteran and non-veteran workers in the bottom-left figure (1d). Similar to the female comparison, the veteran premium begins near the bottom of the distribution, widens near the median and converges at the top.

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## GENDER, RACE, AND THE VETERAN WAGE GAP (CONT.)

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Figure 2: Distribution of Workers & Veterans Median Wages Across Industries



Source: ACS, 2012. Bars represent the percentage of workers in the given industry, measured along the left axis. Only the top ten industries on the veteran worker distribution are shown. Lines represent the percent difference between the veteran median wage and the gender/race subgroup median, measured along the right axis.  
 - See Figure 1 above for the number of Non-Veteran and Veteran observations.

### Veteran Earnings Across Industries and the Government Veterans' Preference

A major factor in industry differences of veteran and non-veteran workers is the “Veterans’ preference” in government hiring. Figure 2 shows the ten industries with the largest percentage of veterans along with the non-veteran distribution (represented by bars measured on the left axis). The top-left Figure (2a) shows that nearly 30 percent of male veterans work in Public Administration, compared to about five percent of non-veterans. Nearly 40 percent of female and black veterans find work in Public Administration. Research from previous years finds that veterans are three times more likely to hold federal jobs (Lewis, 2013).

Public Administration jobs tend to pay higher than the median. The lines in Figure 2 (measured on the right axis) show the percent that veterans make over/under the subgroup mean. For example, male veterans in Public Administration make 10 percent more than the male median wage. This Public Administration premium is 20 percent for female veterans, 15 percent for white veterans, and 30 percent for black veterans.

Going beyond Public Administration jobs, female veterans earn well above the median female in the top four industries that they work in (Public Administration, Health & Social Services, Management, and Manufacturing). Seventy-one percent of female veterans work in these industries. The top five industries for black veterans earn more than the median wage for all black workers.

Within the Public Administration sector, 60 percent of veterans work in national security and international affairs. Sixty-three percent of veterans work in protective service, office administration, maintenance, and business/finance occupations within Public Administration. Although Public Administration jobs pay higher for veterans when compared to the rest of the labor force, the jobs that veterans take within the industry tend to pay lower than the industry median.

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## NORMAL PROFIT, ACCOUNTING PROFIT, ECONOMIC PROFIT AND VENEZUELA 2014

BY DR. WILLARD W. RADELL

Most economists have a perspective on profit that differentiates them from popular views of profit. Common views of profit among non-economists see profits as superfluous icing on a cake, whose only purpose is to make someone rich. Others see profit as coming only from either exploiting labor (by paying subpar wages) or exploiting consumers (by manipulating price, quality, or supply). While economists do sometimes use their analytical tools to explain parasitic, discriminatory and exploitative gains (e.g., Gary Becker's theory of non-competing groups), economists also see profit as a complex social institution that has socially useful functions. Among the socially useful functions of profit are:

- A return to capital owners (an incentive without which investment would not voluntarily happen).
- Compensation to capital owners for deferring consumer spending.
- Compensation to capital owners for investing in a specific place rather than in the next best alternative place.
- A necessary cost of production (if profit were not allowed, less investment and production would be the result).
- A signal of where capital is needed most to satisfy the most pressing human wants.



Dr. Willard Radell

To understand why economists view profit as being socially useful, it is necessary to recall the differences between accounting profit, normal profit and economic profit.

Accounting Profit is simply total revenue minus total accounting cost (excluding Opportunity Costs). Accounting cost includes all explicit costs (plus the implicit cost of depreciation). Explicit costs are expenses appearing on the organization's income statement that are paid out as expenses (except for depreciation which can be charged as an expense, but doesn't require the organization to disburse funds). What economists call accounting profit is what is commonly called "net income." Accounting profit may be expressed as either a dollar amount or as a percentage of owners' investment in the firm. So an accounting profit of \$1,000,000 on \$10,000,000 invested by owners could be expressed as \$1,000,000 or 10%.

Normal Profit is a rate of return just sufficient to offset all total costs including Opportunity Costs. A firm that is earning a normal profit will not leave its present market because it does not expect that it will earn more by leaving. If a firm's accounting costs plus opportunity costs are greater than its revenue where it is, the firm will leave that market. To understand why, suppose you owned a steel mill in Pittsburgh in the early 1980s that was earning an accounting profit of 6% above inflation, and if you shut the steel mill down and reinvested the capital from the sale of the assets, you could earn 11% above the rate of inflation. The 11% was the normal profit and the accounting profit of 6% was well below the normal profit. So the steel mill would have been shut down. That is why "profitable" steel mills in Pittsburgh were shut down to finance re-investment in oil exploration ventures.

Economic Profit is Accounting Profit minus Normal Profit. In the previous example the economic profit would be -5% (6% - 11%). Economic profits signal to the entire economy whether capital should flow in or flow out of a particular market. If economic profits are negative in a market or industry, capital will exit as production shifts are cut, production lines are shut down, or plants are closed. If economic profits are typically positive in an industry, capital will flow into that industry and production will be expanded and new firms will enter. When a typical firm has an accounting profit that is equal to the normal profit rate, its economic profits are zero and there will not be large net capital movements in or out of that market.

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## NORMAL PROFIT, ACCOUNTING PROFIT, ECONOMIC PROFIT AND VENEZUELA 2014 (CONT.)

*(continued from page 5)*

ECONOMIC PROFIT = ACCOUNTING PROFIT — NORMAL PROFIT

Economic Profit	Accounting Profit	Normal Profit
5% (capital enters, old capital stays)	15%	10%
-10% (capital leaves, new capital avoids)	15%	25%
0.0% (capital stays, new capital stays away)	15%	15%
-5% (capital leaves and new capital avoids)	-15%	-10%

Note that the concept of Normal Profit applies to non-profit as well as for-profit organizations. In the last case above, a subsidized not-for-profit organization whose donors would be satisfied with a 10% subsidy, balk at a 15% operating subsidy.

What happens when nations implement policies that increase the normal profit rate? Over the last decade Venezuela has been hostile to policies that would increase economic profit and the Venezuelan people are paying a price for that hostility. When a government caps accounting profits, executes expropriations, or mandates lower prices, the normal profit rate is increased, requiring greater accounting profits for capital to voluntarily remain in Venezuela. That triggers negative economic profits that induce capital exit from that country. Consider the following example as a parable on recent Venezuelan economic history.

Suppose Mogul Drilling, Inc., a small oil drilling company with invested capital of \$1 billion, is earning accounting profit of \$0.2 billion (or 20%) on its operations in Lower Elbonia. Suppose that Mogul Drilling’s next best place to drill is Upper Hippiania where it could also make a profit rate of 20%. That makes the normal profit in Lower Elbonia 20%. It is the minimum profit necessary in Lower Elbonia for a drilling business to want to do business there. Now suppose the Lower Elbonian government is taken over by the Peoples Shining Path Party, the PSPP. The PSPP decides that 20% profits are too much and passes a law that for all profits over 10% there will be a 100% excess profits tax. Thus, the maximum accounting profit that can be earned by Mogul Drilling in Lower Elbonia is now 10%. If Mogul Drilling can disinvest from Lower Elbonia and move its investment to Upper Hippiania, it will move. Why? Because its normal profit is 20% and it can only make a 10% accounting profit in Lower Elbonia.

Now consider economic profit (what’s left after subtracting all accounting costs and opportunity costs from revenue). If a normal profit in oil drilling in Lower Elbonia is 20% and Mogul Oil can earn 20%, then their economic profit is zero and they will stay in Lower Elbonia. But if Mogul Drilling is only allowed to earn a profit of 10%, their economic profit drops to negative 10% and they will exit if they can.

Now suppose the PSPP is thrown out of Lower Elbonia, the excess profits law is repealed and a new oil field is discovered in which Mogul could drill and make a 30% accounting profit. Mogul will enter the field and reap a 10%

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## NORMAL PROFIT, ACCOUNTING PROFIT, ECONOMIC PROFIT AND VENEZUELA 2014 (CONT.)

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economic profit. When other drilling firms see that Mogul is earning an economic profit of 10% (an accounting profit of 30% where a normal profit is 20%), they will also want to enter the market. So capital will flow into Lower Elbonia. Result: more jobs for Elbonians and GDP grows.

A national government that threatens expropriation, excess profits taxes or unreasonable price controls is increasing the normal profit for doing business in that country. That means that many existing businesses that would otherwise want to stay will exit, and firms outside will not want to enter unless they can make huge accounting profits in a short time. One of the reasons for the long term success of the U.S. economy is a clause in our Constitution that “no person shall be deprived of life, liberty or property without due process of law.” That’s been interpreted to mean that no person or corporation can be expropriated without fair compensation. That has made the normal profit rate lower in the U.S. than in other countries and it means that we have been able to attract and retain capital that has a longer payback period. In Venezuela, the threats of uncompensated expropriation, unreasonable price controls and confiscatory taxation are real. Thus, normal profits in Venezuela are abnormally high causing extreme capital shortage which tends to cause severe structural inflation and higher unemployment.

That said, normal profit is not all lollipops, ponies and unicorns. If normal profit is used by corporations as an excuse for lax workplace safety standards, complete tax avoidance, using the public environment as a free dumping ground, corrupting democratic institutions and other forms of bad citizenship, some social regulation is necessary to find a reasonable balance. Like other issues in economics, the objective is not “all this, or no that.” The question is, what is an optimal level of government intrusion on otherwise free enterprise? Venezuela and Cuba have gone too far in ignoring normal profit. Other countries go too far the other way into the realm of helotry and plutocracy.

## ECONOMIC AND SOCIAL HUMAN RIGHTS BY DR. CHRIS JEFFORDS

In Fall 2014, I will teach a special topics course entitled *Economic and Social Human Rights* where we will explore the conceptual bases, measurement, and policy applications of many economic and social human rights including the right to work, the right to basic income guarantees for those unable to work, and the right to clean air and water for present and future generations. We will specifically consider the role of national policy and statutory and constitutional law, as well as international policy and agreements, in fulfilling (or failing to fulfill) these rights.

I agree that it seems a bit curious to offer a human rights course in an economics department, but let me try to convince you of its worth and of the various connections to economics that we cannot ignore. Universally implementing the right to an adequate standard of living for all humans by virtue of their humanity, for example, requires various types of resources including, but not limited to, economic, financial, natural, and political. And, as we know, resources are limited. For a world that is serious about implementing economic and social human rights, how can resources be diverted to these ends? Is it even possible to do so? Do opportunity costs matter in this context? Will we be able to universally implement all economic and social human rights, or will we have to choose? How will we choose? Are any of these questions seemingly familiar? Of course! These are similar to the questions one asks when trying to decipher the classic equity–efficiency tradeoffs in mainstream economic analysis.



For more information about the class or to simply discuss the economics of human rights, contact me at [Jeffords@iup.edu](mailto:Jeffords@iup.edu). *Looking forward to hearing from you!*

## ALLIGATORS, PEDAGOGY, AND TECHNOLOGY

BY DR. STEPHANIE M. BREWER JOZEFOWICZ

As economists, we all daily affirm the principle that “people respond to incentives.” Hence, when an economist is offered an expense-paid trip to Southern Florida to escape the polar vortex and attend a symposium focused on pedagogy and technology, her answer should be obvious! My gratitude extends to McGraw-Hill for the opportunity to attend their “New Course Models for Student-Centered Teaching in Principles of Economics” symposium near the end of February.

The symposium proved to be a good reminder of the rapid speed at which the teaching/learning environment has changed since I arrived at IUP 15 years ago (Fall 1999). Technology that is commonplace in my classroom today wasn’t even on my radar screen when I arrived at IUP with old-fashioned clear transparency sheets and colored chalk in hand. We’d be hard pressed to find one of those old transparency projectors in any classroom on campus today, and even many of the chalkboards have been replaced with whiteboards!

To place computing technology advances in context, consider the following: Google was founded in 1998; LinkedIn was founded in 2002; Facebook was founded in 2004; YouTube was founded in 2005; the iPhone was first launched in 2007; and the iPad was first launched in 2010. Culled from reports of survey data available through EDUCAUSE, in 2004 only 43% of students owned a laptop compared to 89% today, while fewer students today own desktop computers. From my own days as a graduate student spending hours in front of a photocopy machine in the library surrounded by stacks of research journals, printing now happens with a simple click of the “print” button having accessed these articles in my office through library electronic data bases. A part of me is still surprised whenever a student “takes notes” in class by using his/her smartphone to take a picture of my projection screen or the board.

Now, for those of you who know us well, you know that Jim and I still manage to live life sharing a single “unsmart” flip cell phone between the two of us. We have been slow adopters of technological advances and social networking in our personal lives with no ownership of a single flat-screen television and no interest in joining Facebook. Nevertheless, we, along with other educators, must adapt to the changing landscape of the teaching/learning environment. Some of those adaptations are driven by the dynamic effort to continue to reach students who are embracing technology. Some of those adaptations are rational responses to tight budget pressures and a repeated weighing of the true opportunity costs of time spent across teaching, scholarly growth, and committee work.

Beginning in Fall 2006, I started tiptoeing into the world of online homework delivery through the MyEconLab learning management system (LMS) offered by Pearson, the company supporting my Principles of Economics textbook of choice. After personally developing extensive electronic materials, I eventually entered the world of teaching Principles in a fully online environment. More recently, I have developed a fully online International Trade course utilizing the Aplia LMS supported by Cengage. Today, textbook companies must competitively make advances in developing digital resource support materials and learning technologies. During part of the symposium in Florida, I gained greater exposure to McGraw-Hill’s LearnSmart adaptive learning system that



Stephanie Jozefowicz (and friend) at the Everglades National Park.

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## ALLIGATORS, PEDAGOGY, AND TECHNOLOGY (CONT.)

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attempts to better understand what students have mastered at basic cognitive levels (think Pandora in the music world applied to education) in order to drill students in concepts they haven't quite grasped and move on through material the student more readily understands in a more efficient manner. Such systems are intriguing and hold promise for improving teaching/learning outcomes.

One of the newer buzz phrases in economic education circles is "flipping the classroom," which fundamentally is the en vogue way to say that students should read the textbook and gain an understanding of basic concepts before coming to class so that more instructional time can be devoted to harder concepts and problem solving. When I arrived at IUP, the buzz phrases included "collaborative learning," which, too, encouraged devoting more in-class time to small group discussion and problem solving. Irrespective of the buzz phrase, the challenge to this approach to teaching is motivating students to really do the work outside of class in a timely manner to maximize the efficiency of time spent in the classroom with ready access to the instructor. Carefully constructed digital technologies can aid in providing a balance of carrots and sticks through pre- and post-classroom assessment to incentivize student behavior in the hoped for directions.

At the conclusion of the symposium, I headed out to the Everglades National Park for the remainder of the weekend. Amazing! From alligators to bird migrations to manatees, I could write another whole article on the common property resource issues facing that ecosystem....

## STUDENT NOTES

- At the Undergraduate Scholars Forum (USF) held on April 1, 2014, Economics majors Jessica Black, Devin Gray, Jennifer Johnson, and Erica Sittig served as student moderators.
- At the Undergraduate Scholars Forum (USF) held on April 1, 2014, Economics majors Zackary Nelson, Riley Smith, Ashleigh Craig, and Theresa Scarnati won Outstanding Presentation Awards. Zac and Riley presented "A Revolution on Tap: Determinants of Microbrewery Prevalence at the State Level," and Ashleigh and Theresa presented "Pricing Behaviors of Large Carriers in the United States Airline Industry." USF winners received Amazon and Co-op Store gift cards.
- Alexandra Larch was the 2014–2015 recipient of the Donald A. Walker Scholarship. The scholarship is awarded to an IUP student majoring in economics who has outstanding academic potential.
- Sahara Dickison was the 2014–2015 recipient of the Karl A. McDermott Scholarship. The scholarship is awarded to a student majoring in economics who has demonstrated overall academic achievement and the promise for future success. Preference is given to eligible female students, to overcome the underrepresentation of women in economics and related professions.



Jim Jozefowicz with some of the USF participants.

## ROBERT J. STONEBRAKER SCHOLARSHIP FOR ECONOMICS

As reported in the last issue of the Economics Newsletter, Dr. Karl McDermott, '76 and several other economics alumni have pledged their support at the leadership level to establish the Robert J. Stonebraker Scholarship for Economics. Dr. Stonebraker was a valued member of the economics department from 1971 until his retirement in 2001 and known for taking a personal interest in his students and their success beyond IUP. These generous alumni are asking you to join their efforts in honor of Dr. Stonebraker with a contribution to this scholarship, establishing a tribute to a professor who made a lasting impact on many IUP students during his tenure. Your support will assist this scholarship in reaching an endowment level, which ensures that an economics student can benefit as early as next year and every year going forward.

Make your gift of support online through [www.iup.edu/stonebraker](http://www.iup.edu/stonebraker) or by completing and returning the form below. If you have any questions regarding the scholarship, please call the Office of Annual Giving at 724-357-5555 or email [iup-giving@iup.edu](mailto:iup-giving@iup.edu).

**Yes, I would like to support the Robert J. Stonebraker Scholarship for Economics in honor of Dr. Robert J. Stonebraker**

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## SPRING 2014 STUDENT SPOTLIGHT: HOLLY LYN BRENIZE

*Editor's Note: Holly Lyn Brenize was a recipient of the College of Humanities & Social Sciences Dean's Merit Scholarship this semester.*

**What is your hometown?** Newville, PA.

**Do you have a double major/minor?** I am minoring in Applied Statistics.

**Why did you choose IUP?** I chose to attend IUP after I visited the campus for the first time. I had visited many other schools before deciding to visit IUP. As soon as I saw the beautiful campus and how friendly all the students were, I knew that IUP was the right college for me.

**Why did you choose to major in economics?** When I originally decided to attend IUP I wanted to major in nursing; however, after my first year I was no longer interested in nursing. I took microeconomics with Dr. Yerger my second semester of college and I really enjoyed the course. After that I switched my major to economics and I am very happy that I did. I have enjoyed every economics class that I have taken at IUP.



Holly Lyn Brenize

**What are some of your college highlights/accomplishments/achievements/honors/extracurricular activities?** I made the Dean's List Fall 2012, Spring 2013, and Fall 2013. I was awarded the College of Humanities & Social Sciences Dean's Merit Scholarship this semester (Spring 2014). I have been working at the local Subway in Indiana since August 2013. I am also a volunteer at the Indiana County Humane Society as a dog walker. The biggest highlight of college thus far has to be all the amazing people I have met at IUP, as well as the lifelong friends that I have made here.

**How has your experience in the Department of Economics, specifically, and your experience at IUP, generally, impacted your life?** My experience in the Department of Economics impacted my life by increasing my knowledge of how economics affects every aspect of my daily life. I have come to realize that economics and different theories of economics can be applied to almost anything. Also, being a part of the IUP community is a life-changing experience. All the students that attend IUP are so proud to be a student here, we are like family.

**What advice do you have for incoming freshmen/new economics majors?** I would tell the incoming freshmen or new economics majors to never be shy, make friends with everyone in all their class, do not turn down any new opportunities even if you are scared of the challenge, and always go to class.



### Keep in touch!

The faculty in the Department of Economics are always thrilled to hear from their former students. Please keep us posted on your work and well-being. Feel free to drop us a note via email, letter, or phone call. Or, complete the Alumni Information Form at the back of this newsletter. We would love to hear from you!

## SPRING 2014 STUDENT SPOTLIGHT: SHANNON COSTA

*Editor's Note: Shannon Costa was a recipient of the College of Humanities & Social Sciences Dean's Merit Scholarship this semester.*

**What is your hometown?** Originally I grew up in Rhode Island, but my family moved to Westmont, PA (which is about 45 miles Southeast of Indiana) when I was 12 years old.

**Do you have a double major/minor?** Along with my Economics major I have minors in Applied Statistics and Business Administration.

**Why did you choose IUP?** The majority of my middle school and high school years I had always said I was going to attend a college far away from home until I realized I enjoyed living in a small town in Western Pennsylvania. That is when I looked into schools that were far enough away from home that I could get the college experience, but I was still close enough to visit my family whenever necessary. I then chose IUP because I previously completed a summer program here that I enjoyed immensely, and they also had a good Psychology program which was my intended major upon entering IUP.



Shannon Costa

**Why did you choose to major in economics?** After two and half years of not being 100% sure of what I wanted to do with my life, and three different majors, I made one of my best decisions in college, which was to major in Economics. As I previously stated, I came to IUP as a Psychology major and I quickly realized that wasn't my niche. My second semester here I became a student in the Eberly College of Business, where I explored the majors of Finance and MIS. Neither caught my eye as something I would be passionate about looking into my future so I explored other options. I really enjoyed and did well in the two Principles of Economics courses I took as a freshman so I decided to become an Economics major in my seventh semester at IUP.

**What are some of your college highlights/accomplishments/achievements/honors/extracurricular activities?** Throughout my four years at IUP I've been a member of multiple academic and honors organizations. While in the Business College I was a part of Phi Beta Lambda which is a business professional fraternity, and I am currently a member of Golden Key National Honour Society, as well as Vice President of Phi Eta Sigma, which is also a national honor society. I have made Dean's List all seven semesters completed and, in addition, I am a Provost's Scholar. I have also been lucky enough to receive two scholarships throughout my four years at IUP. I received the Jane Banks Book Fund Scholarship as a sophomore, and last semester I received a Dean's Merit Scholarship from the College of Humanities & Social Sciences thanks to the Economics Department.

**How has your experience in the Department of Economics, specifically, and your experience at IUP, generally, impacted your life?** Becoming an Economics major has by far been the best decision I have made in my four years here. Not only do I feel as though I have finally found my niche, but the department in itself is by far the best and most valuable department I have been a part of. I have only been a part of the department for two semesters and the opportunities and insight I have received from the faculty of the department is more than I could have ever asked for. There is always a helping hand available, not only when it comes to your academics, but your future outside of school as well. If you want to be a part of a department where you feel as though the faculty truly care about you, the Economics Department is that department.

## GENDER, RACE, AND THE VETERAN WAGE GAP (CONT.)

*(continued from page 4)*

The top three occupations (protective service, office administration, and maintenance, employing 55 percent of veterans in the sector) all pay 10 percent or less than the industry median wage.

### Decomposing the Veteran Wage Gap

Table 1 presents the total and decomposed veteran hourly-wage gap. Among all workers in the sample, veterans are paid 3.31 percent less than non-veterans on average ( $p < 0.01$ ). The first result to highlight is the large difference in the veteran premium between males and females and white vs. black workers. A large veteran wage gap exists among male workers – the mean hourly wage for veterans is 9.20 percent less than the hourly wage of non-veterans ( $p < 0.01$ ). Among female workers, however, veteran wages are 1.23 percent higher than non-veterans, though this difference is not statistically significant. Racial segmentation of the analysis reveals further differences in the premium – white veterans experience a gap of 2.51 percent ( $p < 0.01$ ) while black veterans see a premium of 6.62 percent over black non-veterans ( $p < 0.05$ ).

The decomposition of the veteran gap/premium illustrates the different combinations of characteristics (age, education, family, disability, region, and industry) that veteran workers hold and how they are paid in the civilian workforce. The first component,  $\Delta_v$  is negative for every subgroup (Columns 2–5). This suggests that veterans with non-veteran characteristics are paid more than unmatched veterans. The negative  $\Delta_v$  also suggests that one reason that male (and white) veterans are paid less than non-veterans on average is that unique veteran characteristic combinations are paid lower. The penalty on unmatched veterans is -7.08 percent for female veterans and -4.63 percent for black veterans.

Table 1: Veterans’ Earnings Premium:  $\tilde{N}$ opo Decomposition Estimation Results, by Gender, Race subgroups

	(1)	(2)	(3)	(4)	(5)
	All	Male	Female	White	Black
<u>Mean Hourly Wages (\$)</u>					
Veteran	22.47	22.65	21.52	22.97	19.98
Non-Veteran	23.24	24.94	21.26	23.56	18.74
Total Veteran Gap/Premium (percent)	-3.31 (.009)	-9.20 (.001)	1.23 (.019)	-2.51 (.001)	6.62 (.027)
<u>% Difference<sup>a</sup></u>					
$\Delta_v$ = Unmatched - Matched Veterans	-4.53	-3.86	-7.08	-3.30	-4.63
$\Delta_{nv}$ = Matched - Unmatched Non-Veterans	6.48	0.51	9.84	6.12	-0.51
$\Delta_x$ = Matched: V-NV Characteristics	-1.72	-1.85	-1.09	-1.34	4.61
$\Delta_0$ = Unexplained	-3.55	-4.00	-0.44	-4.01	7.15
Matched Veterans	4,029	3,441	588	3,695	251
Matched Non-Veterans	11,532	9,367	2,165	11,005	398

*Source:* ACS 2012. Employed, Full-time Workers, Ages 25-40.

<sup>a</sup> Matching Specification 1: Gender, race, education category, age, age-squared, region, disability, and family characteristics (married, single, other workers in family, children under 5 and/or 17), and dummy variables for 20 industries.



## GENDER, RACE, AND THE VETERAN WAGE GAP (CONT.)

*(continued from page 13)*

The second component  $\Delta_{nv}$  shows that non-veterans with veteran characteristics are paid 6.48 percent more than other non-veterans. Matched female non-veterans make 9.84 percent more than unmatched non-veterans. This result may be related to the result above, female veterans are more represented in the relatively high-paying Public Administration sector and under-represented in low-paying sectors such as retail, education, and food accommodations. Non-veterans females are likely disproportionately represented in the lower part of the wage distribution.

The third component  $\Delta_x$  focuses the wage comparison between veterans and non-veterans that have a characteristic combination match in the other group. Specifically, veterans in this group earn 1.72 percent less on average than similar non-veterans. Considerable differences are seen by race: white veterans earn 1.34 less than comparable non-veterans while black veterans earn 4.61 more than non-veterans.

Finally,  $\Delta_0$  shows the portion of the gap that is not explained by characteristic differences; it compares how veterans obtain different returns from non-veterans along a similar distribution of characteristics (i.e., due either to non-observable factors or discrimination). For all veterans,  $\Delta_0 = -3.55$ , suggesting that lower returns to skills or potential discrimination serves to widen the pay gap against veterans. This varies by gender and race however. The unexplained gap is close to zero for female workers but  $-4.00$  for male workers. Differences between white and black veterans are large:  $-4.01$  percent for white workers but 7.15 percent for black workers.

### Summary

For the entire sample, I find a veteran hourly wage gap of  $-3.31$  percent. Male veterans experience a larger gap, while female and black veterans earn a wage premium, shown both in the descriptive wage distribution and the wage-gap decomposition. Four findings should be noted: first, veterans who do not have characteristics that match those of non-veterans do worse – a  $-4.53$  percent gap overall, 7 percent less for female veterans, and 4.6 percent for black veterans. Second, unmatched non-veterans are paid less than matched veterans, highlighting the possibility that veterans do not compete for jobs at the bottom of the wage distribution. One potential driver of both findings is the government preference for hiring veterans – over 30 percent of veterans work in Public Administration compared to less than 6 percent of non-veterans. Third, isolating comparisons between veterans and non-veterans who have a match of characteristics in the other group, veterans make 1.72 percent less than non-veterans. Black veterans, however, are paid 4.61 percent more than matched black non-veterans. Fourth, the unexplained portion of the gap suggests the role of non-observed characteristics and possible discrimination. This piece of the difference results in lower pay for male and white veterans but a premium for black veterans. The possibility of a link between combat-arms skill sets (disproportionately male and white) and poorer returns to skills vs. non-veterans in the civilian workforce cannot be ruled out.

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## FACULTY NOTES

**Drs. David B. Yerger and Todd B. Potts** had their manuscript "Impact of U.S. Financial Shocks upon the Canadian Economy" published in the *Journal of International Finance and Economics*, Vol. 13, No. 1, pp. 125–130, 2013.

**Dr. Todd B. Potts'** and **Raymond Edwards'** ('11) paper, "The Decreasing Returns to Gender Equality: Evidence from the 2012 Summer Olympics," was published in *Applied Economics Letters*, Vol. 20, No. 16, pp. 1501–1505, November 2013.

**Dr. Christopher R. Jeffords** presented a working paper entitled "Do Constitutions Matter? The Effects of Environmental Rights Provisions on Environmental Outcomes" (coauthored with Lanse Minkler, University of Connecticut) within a Law and Social Economics panel on January 5, 2014, at the American Economic Association annual meeting. The panel was sponsored by the Association for Social Economics through which (in 2010) Jeffords won the William R. Waters Research Grant for his dissertation research on environmental economics and environmental human rights.

**Dr. Brandon C. Vick** participated in a panel discussion about the film *Inequality for All* as part of the Center for Community Growth's 2014 Film Series, Indiana, PA, January 31, 2014.

**Dr. Brandon C. Vick** was awarded a research grant in the amount of \$15,000 from The Center for Rural Pennsylvania for a proposal called "Assessing the Potential for Health Workforce Supply Shortages in Rural Pennsylvania," with work to be completed in Fall 2014.

**Dr. Yaya Sissoko** presented a research paper entitled "Trade Dwindling Effects of Market Price Support on Refined Sugar" (co-authored with Dr. Inoussa Boubacar) at the 78<sup>th</sup> Midwest Economics Association Annual Conference held in Chicago, IL, March 21–23, 2014. Dr. Sissoko was also a discussant at the conference and chaired a session on International Trade I.

**Dr. Brandon C. Vick** participated in a panel discussion and presentation on "Report from the Front: Successes and Failures of Innovative Teaching Methods" at the 78<sup>th</sup> Midwest Economics Association Annual Conference held in Chicago, IL, March 21–23, 2014. In addition, Dr. Vick presented a research paper entitled "Gender, Race, and the Veteran Wage Gap" at the conference.

**Dr. Brandon C. Vick** presented a lecture on U.S. Trade Policy as part of the Foreign Policy Association's "Great Decisions 2014" lecture series at St. Andrew's Village in Indiana, PA, April 1, 2014.

At the IUP Undergraduate Scholars Forum held on April 1, 2014, **Dr. James J. Jozefowicz** organized the sessions "Topics in Applied Macroeconomics" and "Topics in Applied Microeconomics." **Drs. Chris Jeffords, Stephanie Jozefowicz, Yaya Sissoko, and Alexi Thompson** judged the sessions. In addition, **Dr. Yaya Sissoko** organized the sessions "Economic Development" and "Monetary Economics." **Drs. James J. Jozefowicz, Todd Potts, and Alexi Thompson** judged the sessions.

**Dr. Yaya Sissoko** attended the IUP International Unity Day on April 5, 2014. Dr. Sissoko cooked red rice with vegetable sauce, "*Oeuf Surprise*" (eggs with ground beef), and "*Malian Gateau*" (fried donuts). The purpose of the International Unity Day is to make our university and general community aware of the diversity of cultures at IUP.

**Drs. Christopher R. Jeffords and Todd B. Potts** presented a paper entitled "Share the Love: Producing Wins in the NFL with a Cobb–Douglas Technology," at the annual Sports Business Conference held at the Kovalchick Convention and Athletic Complex at IUP on April 12, 2014.

**Dr. Brandon C. Vick** reviewed articles for two scholarly journals: *Journal of Development Economics*, September 2013, and *JAMA Psychiatry*, April 2014.

### Faculty

Dr. Christopher R. Jeffords  
*Christopher.Jeffords@iup.edu*  
 Dr. James J. Jozefowicz  
*James.Jozefowicz@iup.edu*  
 Dr. Stephanie M. Jozefowicz  
*Stephanie.Jozefowicz@iup.edu*  
 Dr. Nicholas Karatjas  
*Nicholas.Karatjas@iup.edu*  
 Dr. Todd B. Potts  
*Todd.Potts@iup.edu*  
 Dr. Willard W. Radell  
*Willard.Radell@iup.edu*  
 Dr. Yaya Sissoko  
*Yaya.Sissoko@iup.edu*  
 Dr. Alexi S. Thompson  
*Alexi.Thompson@iup.edu*  
 Dr. Brandon C. Vick  
*Brandon.Vick@iup.edu*  
 Dr. David B. Yerger  
*David.Yerger@iup.edu*

### Faculty Emeriti

Dr. Arthur H. Martel  
*amartel@auxmail.iup.edu*  
 Dr. Robert J. Stonebraker  
*stonebrakerr@winthrop.edu*  
 Dr. Donald A. Walker  
*dawalker@iup.edu*

## FACULTY NOTES (CONTINUED)

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**Dr. Alexi S. Thompson's** paper, "Analysis of a Tourism Demand Model Across European Source Countries," (co-authored with Koichi Yamaura) received a *revise and resubmit* from the journal *Tourism Planning and Development*.

**Dr. David B. Yerger** and Dr. Amber Stephenson have had their article "Optimizing Engagement: Brand Identification and Alumni Donation Behaviors" accepted for publication in the *International Journal of Educational Management*.

**Dr. Alexi S. Thompson** served as a reviewer for two journals, *International Journal of Green Energy* and *Modern Economy*.

**Dr. Alexi S. Thompson's** paper, "An Almost Ideal Supply System Estimate of U.S. Energy Substitution" (previously published in *Energy Economics*) was chosen to appear in the journal *Renewable Energy Global Innovations* for "contributing to excellence in Energy research."

**Dr. David B. Yerger** presented two research projects at the 26<sup>th</sup> Annual International Academy of Business Disciplines Conference in San Diego, CA, in April 2014: "Variations in the Return to Skills Across Bachelor's Degree Occupations," and "Students Estimates of Earnings by Major: Assessing Their Usefulness in the Classroom and the Implications of Their Accuracy."

**Dr. Yaya Sissoko** presented an article entitled "Assessing the Impacts of HIV/AIDs on the Economy of Sub-Saharan Africa" at African Night on April 26, 2014. Dr. Sissoko is the faculty advisor of the Pan African Student Association (PASA) and the coordinator of African Night 2014.

**Dr. Yaya Sissoko** will present two research papers entitled "Trade Dwindling Effects of Market Price Support on Refined Sugar" (co-authored with Dr. Inoussa Boubacar), and "Assessing the Effects of the Great Recession on the Industrial Sector in Pennsylvania" (co-authored with Dr. Brian Sloboda) at the Pennsylvania Economic Association (PEA) Annual Conference at Edinboro University of Pennsylvania, Edinboro, PA, May 29-31, 2014.

**Dr. Alexi S. Thompson** will present a working paper "Competitive Devaluations in Highly Touristed Countries" (co-authored with **Dr. Chris Jeffords** and Jessica Black) at two conferences including the Pennsylvania Economic Association annual meeting in Edinboro, PA, in May 2014, and the European Economic and Financial Society (EEFS) annual meeting in Thessaloniki, Greece, in June 2014.

## GENDER, RACE, AND THE VETERAN WAGE GAP (CONT.)

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# Indiana University of Pennsylvania

Department of Economics  
213 McElhaney Hall  
441 North Walk  
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