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KERN ECONOMIC JOURNAL is a quarterly publication of California State University, Bakersfield. Its purpose is to track local trends and analyze regional, national, and global issues that affect the economic well-being of Kern County. The journal provides useful information and data that can help the community make informed economic decisions.

We wish to gratefully acknowledge the Journal sponsors:



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Editorial and analytical articles on important local, regional, national, and international issues and trends are invited for *consideration* of publication in the journal. Articles (not exceeding 800 words in length) must be submitted to the Managing Editor in hard or electronic copy. Individual authors are responsible for the views and research results.

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Econ Brief!

The Economic Status of California in the Nation

Data for the year 2005 identifies California as the largest state in the nation in terms of both economy and demography.

The economic indicator used is total personal income, which is the summation of labor income (net earnings by place of work), capital income (dividends, interest, rent, and royalty), and transfer payments (welfare incomes such as contributions for social insurance). California's total personal income of \$1.34 trillion is 13 percent of that of the United States. Its economy is nearly twice as large as either New York or Texas, which are second and third in the nation.

California is also the most populous state in the nation. Its population of more than 36 million is 12 percent of the population of the United States. California is home to 17 million more people than New York and 14 million more than Texas.

Because of its large population, California's ranking of personal income per capita in the nation falls to eleventh. Its personal income per capita of \$37,000 is \$10,800 lower than Connecticut, the top ranking state in this category, and \$3,500 less than that of New York. Still, California's personal income per capita is \$2,400 higher than the national average and \$4,500 more than Texas.

	Personal Income (millions of \$)	Population	Personal Income Per Capita (\$)
United States	10,251,639	296,410,079	34,586
California	1,338,181	36,131,899	37,036
New York	779,942	19,254,499	40,507
Texas	742,074	22,859,775	32,462

Source: U.S. Bureau of Economic Analysis

ECONOMY AT A GLANCE!

ABBAS P. GRAMMY

PROFESSOR OF ECONOMICS, CSUB

In the third quarter of 2006, the United States economy became even more sluggish. The Gross Domestic Product grew at an annual rate of 1.6 percent, which was nearly one percent lower than that of the previous quarter. A number of factors, including increased imports and reduced residential investment, contributed to this economic slow down. The Index of Leading Economic Indicators, declining for the second consecutive quarter, signaled slower growth ahead. In the meantime, the rate of unemployment rose from 4.6 to 4.7 percent. As is expected in this period of sluggish growth, the cost of living inflation rate decelerated from 4.9 to 2.9 percent and the cost of producing inflation rate lost pace from 6.5 to 3.6 percent. Unexpectedly, though, the employment cost index rose at an annual rate of 4.0 percent, 0.8 percent higher than that of the previous quarter.

In California, labor market conditions improved. The number of unemployed workers declined by 14,770 and the rate of unemployment fell from 4.9 to 4.8 percent. Meanwhile, the farm sector added 7,930 jobs and non-farm industries created 54,400 paid positions.

In Kern County, labor markets showed signs of improvements. The rate of unemployment fell one percent from 7.8 to 6.8 percent. The unemployment rate was lower than the county average in Bakersfield (4.7 percent), Ridgecrest (3.7 percent), California City (5.2 percent), and Taft (6.5 percent). The county's workforce expanded by 2,500 as 5,200 more workers were employed and 2,700 less workers remained jobless. The farm labor market added 2,400 full-time equivalent jobs, but non-farm industries lost 1,000 paid positions. The informal labor market - including self-employed labor and those working outside the county - added 3,800 jobs. Government agencies cut 3,100 jobs whereas private companies created 2,100 positions.

Kern's economy expanded at an annual rate of 4.0 percent, adding \$150 million of personal income to reach \$15.13 billion. With personal income growing more rapidly than the labor force, personal income per worker increased by \$120 to arrive at \$48,980.

The county's housing market softened as sales and prices declined. The number of residential units sold dropped from 3,985 to 3,821 and the median sales price of all residential units depreciated \$800 (or 0.3 percent) to reach \$278,000. In Bakersfield, however, the median housing price appreciated \$4,300 (or 1.4 percent) to arrive at \$301,600. Relative to the third quarter of last year, Bakersfield, California City, Delano, Taft, and Tehachapi recorded double-digit appreciation rates. The housing affordability index - measured as the average labor income divided by the median housing price - ascended slightly from 13.3 to 13.4 percent. While the interest rate on thirty-year conventional mortgage loans declined from 6.60 to 6.56 percent, the number of new housing permits fell from 1,975 to 1,511 and the number residential foreclosures increased from 549 to 741.

In commodity markets, the average price of San Joaquin crude oil declined slightly from \$58.71 to \$58.03 and the average price of regular gasoline in the Bakersfield metropolitan area fell from \$3.12 to \$2.95. However, the unit price of California's Class III milk edged \$0.40 higher to attain \$11.42. The index of prices that farmers received for their outputs climbed 3 percentage points and the index of prices that farmers paid for their inputs rose 2 percentage points. As a result, the disparity between output prices farmers received and input prices farmers paid narrowed one percent.

In the third quarter of 2006, the composite price index of stocks for the top 5 *market-movers* in Kern County (2005.3 = 100) declined 4.2 percentage points from 108.8 to 104.6. However, the composite price index of stocks for these top 5 *market-movers* was 4.7 percent higher than that of the third quarter of last year. While stocks of San Joaquin Bank, Granite Construction, and Occidental Petroleum gained value, the price per share declined for Berry Petroleum and Tejon Ranch Company.

KERN COUNTY BUSINESS OUTLOOK SURVEY

ABBAS P. GRAMMY

PROFESSOR OF ECONOMICS, CSUB



The *Business Outlook Index* is constructed from data collected in a random telephone survey to businesses across the county. The intent of the survey is to provide business decision-makers with primary data that would help them make more informed decisions. Survey data also help assess local economic conditions and identify factors that affect the business outlook. Valuable insight may be gained by comparing the index with recent employment and financial trends of individual organizations.

Kern County's businesses are still confident about local economic conditions. However, their degree of optimism has weakened. The *Business Outlook Index* decreased 7 percentage points from 131 in the second quarter to 124 in the third quarter of 2006. Relative to the third quarter of 2005, business managers were much less optimistic, as the index edged 15 percentage points lower. These declines are alarming because they constitute a trend of three consecutive quarters of reduced optimism.

In addition to the overall index, we calculated two sub-index values. The *Index of Current Conditions* fell 7 percentage points to arrive at 123. Similarly, the *Index of Future Conditions* lost 8 percentage points to reach 125. Results from these sub-index values confirm our

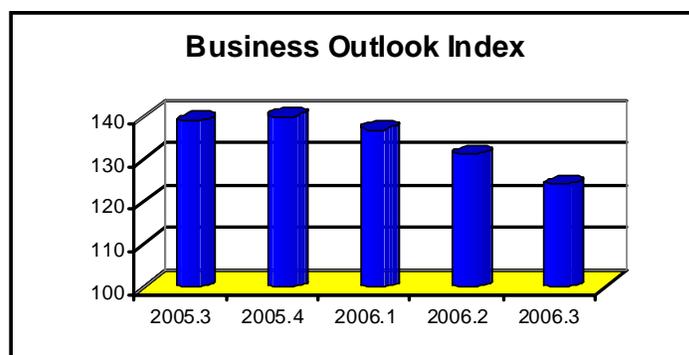
overall finding that although businesses are still optimistic about local economic conditions, they feel less confident than the previous quarter.

Employment Outlook – Fifty-six percent of interviewees reported that the number of jobs in their companies stayed constant, but 26 percent said more jobs were available in their companies this quarter. Looking ahead, 61 percent perceived that the number of jobs would stay constant, whereas 22 percent expected their companies to hire more workers next quarter.

Financial Outlook – Forty percent of survey respondents reported that financial conditions (sales and profits) of their companies were constant this quarter, whereas 50 percent indicated increased profits and sales this quarter. Looking ahead, 34 percent expected financial conditions of their companies to remain constant, but 56 percent anticipated increased sales and profits next quarter.

Industry Outlook – Fifty-four percent of interviewees perceived that employment and general business conditions of their industries remained the same as the previous quarter, and 30 percent felt these conditions improved this quarter. Thinking one quarter ahead, 52 per-

(Continued on page 5)



	Current Quarter	Previous Quarter	Four Quarters Ago
Index of Business Outlook	124	131	139
Index of Current Conditions	123	130	140
Index of Future Conditions	125	133	139

BAKERSFIELD CONSUMER SENTIMENT SURVEY

MARK EVANS

ASSOCIATE DEAN AND ECONOMICS PROFESSOR,
CSUB



The Bakersfield Index of Consumer Sentiment showed little movement between the second and third quarter, moving to 123 from 124. At the national level, the University of Michigan's index of consumer sentiment also was unchanged, remaining at 84.

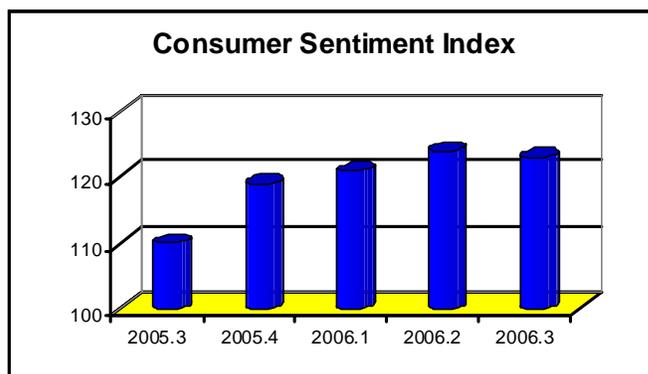
The absolute levels of the national and local indexes cannot be directly compared since they are tabulated differently and have different base years. However, the distribution functions of the two indexes can be compared. A reading of 123 for the Bakersfield index exceeds two-thirds of the readings since CSUB began tabulating it in 1999. In contrast, the University of Michigan's national index achieved a higher reading than 84 nearly nine-tenths of the time over this same span.

We compile the Bakersfield Consumer Sentiment Index from telephone surveys administered to a random sample of households listed in the phone book. The index is constructed and reported to help local business leaders compare national and local trends in expectations. The index also can help local businesses determine if their recent sales trend reflects movements in the local economy or shifts in relative competitiveness.

The Bakersfield index is disaggregated into sub-indexes relating to current conditions and future expectations. For the second consecutive quarter, there was a sharp contrast between household assessments of current conditions and future expectations. The sub-index measuring recent trends attained a value of 136, which is in the "top five percent" of previous readings. However, the sub-index measuring future expectations attained a value of only 110, which is in the bottom 25 percent of past values.

The sub-index measuring current conditions is constructed from questions relating to recent discretionary spending and the financial well-being of the respondent's household and local acquaintances compared to one year ago. Roughly one-half of households reported spending more than usual on discretionary items, while only one-in-ten reported spending less than usual. Forty percent indicated their household was better off than one year ago, while only four percent said they were worse off.

The sub-index measuring expectations for the coming year is constructed from projected changes in financial well-being and assessments of whether this is a safe or risky time to draw down savings or incur debt. Roughly one-fourth of the heads of households expect their financial situation to improve over the coming year, while one-sixth or so of the respondents expect it to deteriorate. For every household that thinks this is a risky time to draw down savings or incur debt, two believe it is a safe time.



	This Quarter	Last Quarter	Four Quarters Ago
Consumer Sentiment Index	123	124	110
Current Conditions Index	136	143	106
Future Expectations Index	110	105	114

(Continued on page 5)

Table 2: Recent Buying and Financial Trends			
	More than usual	Same as usual	Less than usual
Your recent spending on discretionary items (dining out, weekend outings, entertainment).	49 %	40 %	11 %
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	40 %	56 %	4 %
How your acquaintances in Kern County are doing financially compared to one year ago.	38 %	59 %	3 %

Table 3: Future Expectations			
	Better or more stable	About the same	Worse or more risky
The most likely financial situation of your family one year from now.	24 %	59 %	17 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	33 %	42 %	25 %
	Safe time to buy	Neutral response	Risky time to buy
Is now a safe or risky time for most people to use savings or incur debt to buy expensive goods?	30 %	56 %	14 %

Business Outlook (Continued from page 3)

cent anticipated that employment and general business conditions of their industries would be unchanged, but 34 percent expected progress.

Economic Outlook – When asked about Kern County’s economy, 46 percent of interviewees perceived no improvement this quarter, but 42 percent felt conditions improved. Likewise, 46 percent felt that economic conditions would be unchanged next quarter and 41 percent anticipated that the economy would get better.

Factors Affecting Business Outlook – We asked business managers to identify factors that have affected employment and financial conditions of their companies.

They felt the following factors brightened the local business outlook:

- Increased commercial construction
- Falling prices of oil, natural gas, and gasoline
- Industrial growth and development
- Increased public spending

However, survey respondents expressed the belief that several factors darkened the local business outlook:

- Downturn the in real estate market, both residential and commercial
- High cost of doing business in California
- New and more stringent government regulations
- Rising insurance premium for workmen’s compensation

THE CEO PROFILE!



Introduction

Vincent Rojas, Jr. has been President/CEO of Kern Schools Federal Credit Union (KSFCU). Prior to becoming President/CEO of KSFCU in April, 1989, he served as Loan Manager, Assistant General Manager and Executive Vice President, beginning in 1976.

Born and raised in Bakersfield, Mr. Rojas and his wife Linda have two daughters, Ashlee and Angela. He graduated from Garces Memorial High School and received a bachelor's degree in Political Science from St. Mary's College, Moraga. His additional credentials include Western CUNA Management School from Pomona College; CUNA Financial Management Schools I and II from University of Colorado, Boulder; and Executive Development Program, CCUL, Stanford University.

Mr. Rojas has been a member of the Credit Union Executives Society since 1978. In addition, he has served on the governing and advising boards of many organizations including Bakersfield City School District Educational Foundation; Bakersfield College Foundation; CSUB (Foundation, School of Humanities and Social Sciences, and Kegley Institute of Ethics); Bakersfield West Rotary Foundation; Greater Bakersfield Chamber of Commerce; Kern County Superintendent of Schools; and Kern Community Foundation.

Interview

What is the mission of Kern Schools Federal Credit Union?

As a financial cooperative, Kern Schools Federal Credit Union shall build a lifetime financial partnership with members through exceptional service and quality financial products. A key component of this mission is that it focuses on providing service to its membership.

You have been a banker for a long time. What is it about this business that keeps you motivated?

For the forty years that I have been in banking, there are two things that keep me motivated. The first, and proba-

bly foremost, is I am able to help someone. This formula has turned into helping many people, and this is exciting. It is also rewarding because on many occasions I am out in the community at the hardware store, grocery store, or restaurant, and repeatedly stopped by someone thanking me for the credit union and the assistance it provided them. This opportunity to provide a means of helping individuals achieve their financial goals, or, just to buy that first car or help pay for a college education, bring me an inner warm feeling. Credit Unions have an old saying "people helping people." How true this is. At Kern Schools Federal Credit Union, we believe that "together we have something special" as a financial cooperative. Our profits are returned to the membership in the form of dividend payments, lower interest rates on loans, lower fees on many services, and expanding delivery systems.

The second motivating factor is that today is different than yesterday, and tomorrow will be different as well. The financial marketplace is in constant change, and my challenge is to make sure that we are able to help our members survive through these changes. Meeting these challenges can only be accomplished by having the right kind of staff. The Credit Union has been able to assemble a professional staff as we have grown over the years. I am proud of our employees because without their dedication and abilities, we would not be able to meet the changing financial environment.

How has Kern Schools Federal Credit Union grown over the past ten years?

Kern Schools Federal Credit Union was chartered in 1940. Ten years ago, we had 82,800 members; today, we have 167,900. Our asset size was \$536 million; today, it is \$1.6 billion. In 1996, the Credit Union paid to its members, \$20.4 million in dividends. This year we expect to credit members' accounts with \$45 million in dividends. Ten years ago our outstanding loans balance was \$381 million; today, it is \$1.3 billion. Since our charter date, KSFCU has made \$5.7 billion in loans to its members.

(Continued on page 7)

What are the main services that Kern Schools Federal Credit Union provides for its members?

As a financial cooperative, we provide financial services that our members want. In the beginning it was a share savings account and a personal loan. Over time as members wanted to improve their standard of living, we have been able to add services to accommodate this desire. Share certificates, auto loans, home loans, home equity loans, VISA Credit Cards, and recreational vehicle loans. Today, we have a variety of consumer type loans for our members. Because of the demand on member’s personal time, we have increased our branch system to eleven branches in Kern County, over fifty ATM locations, and a home banking and bill payment services through the Internet. One of our most recent services has been the addition of investment representatives in our branches to assist members with those needs. As members needs have grown, so have our products and services.

How does the Kern Schools Federal Credit Union contribute to the community of Kern County?

As you can see, by an excellent job of providing our members with the ability to make purchases, we have created a direct benefit to retailers, automobile dealers, the home building industry, and the governmental tax base. With over four hundred employees, we have an annual payroll and benefits expense of \$25 million each year. This money flows right into the Kern economy. We, of course, pay the payroll taxes on these dollars. Our personal property tax bill for our properties is over a quarter of a million dollars. And, of course, these are dollars on top of the millions in dividends we pay to our members on their share accounts that flow into the local economy.

Econ Brief!

Population of the San Joaquin Valley

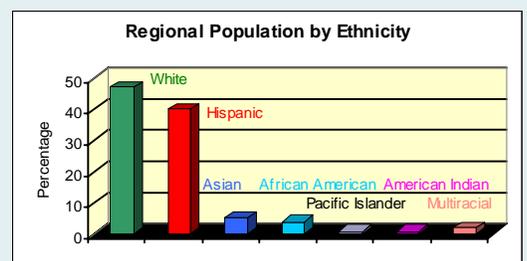
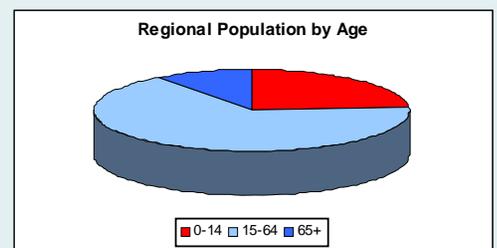
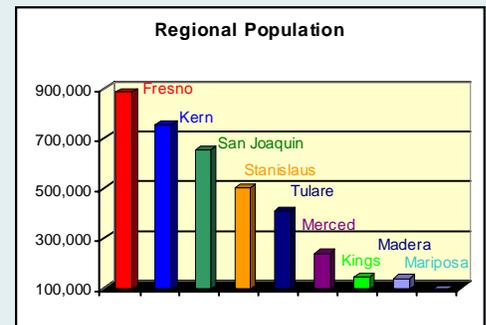
The San Joaquin Valley consists of nine counties: Fresno, Kern, Kings, Madera, Mariposa, Merced, San Joaquin, Stanislaus, and Tulare. As of January 1st, 2006, the Valley is home to more than 3,860,000 people.

With a population of 899,500, Fresno is the largest county in the Valley and the tenth largest in California. Fresno, with a population of 471,500, is also the largest city in the Valley and the sixth largest in the state. Kern County is the second largest county of the Valley. With a growth rate of 2.9 annually, Kern is the fastest growing county in the Valley and the fourth fastest in California. Following Fresno, the largest counties of the Valley are Kern, San Joaquin, and Stanislaus. The smallest counties of the Valley are Mariposa, Madera, and Kings.

The Valley’s population is evenly divided according to gender: 50 percent are male and 50 percent are female. Nearly one-fourth of the Valley’s population is under 15 years of age. Individuals between 15 and 64 years of age make up 65 percent of the population and those 65 years and older account for 10 percent of the population.

The majority of the Valley’s population, 47 percent, is classified as White. The Hispanic population comprises 40 percent of the Valley’s population. People with Asian ethnicity make up 5 percent and people of African American heritage constitute 4 percent of the Valley’s population. The remaining 4 percent of people living in the Valley are classified as American Indian,

Source: Rand California, www.ca.rand.org



TEHACHAPI RESIDENTS AND PROSPECT OF A WAL-MART STORE¹

STANLEY E. CLARK

DIRECTOR, POLITICS RESEARCH CENTER, CSUB



In 2005, the Politics Research Center interviewed nearly 600 Tehachapi residents at the request of the City of Tehachapi, regarding the prospect of a Wal-Mart store. Based upon those telephone interviews, the area retains the high citizen satisfaction that it has shown in the past.

The Municipal Dilemma

Reactions to the opening a Wal-Mart store in Tehachapi by residents in both the City and the surrounding communities are generally negative, but they tend to see it as ‘inevitable.’ Most residents, including those most opposed, indicate they will shop at such a store if it comes to the community. In particular, respondents with children report in significant measure a desire for new retail businesses, presumably because such families need more, and less expensive, consumer alternatives. There are not distinct divisions in the community on the issue although long-time residents, older residents, those with more income, and those who shop primarily in Tehachapi are opposed in somewhat greater proportions. The table below presents a few, significant findings from our Tehachapi opinion survey.

Most cities regularly face such development decisions, but even residents who want growth become “reluctant” if the “price” is too high. Tehachapi’s growth and annexation is most desirable in areas where infrastructure already exists, but there are few residents. This probably means areas of commercial development adjacent to the City, areas on which residents depend, but which they want better organized and kept free from traffic jams, seasonal flooding, trash build-up, and deviant behavior.

The Economic Impact Literature

Because Wal-Mart has imprinted itself in global consciousness as “the discount store,” there is extensive literature on its impact on community growth and development. Wal-Mart has itself sponsored studies of its influence in local markets and communities (Global Insight, November 2005). Such sponsored research figures both in Wal-Mart’s anticipating the rise of new competitors and in its response to litigation attempting to prevent Wal-Mart expansion (Burger, 2005).

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Types of business
Of those who do not live year round in Tehachapi:
69% want more retail, home improvement, and discount shopping
Of those who would shop at a Wal-Mart, the highest percentages are:
72% of the renters
78.5% of those under 40 years of age
Of those who would like to see a Wal-Mart store, they are:
64% of those not year- round residents
68% of the renters
61% of those who have under 18 year olds in the household
63.5% of those under \$50,000 income
62.5% of those under 40 years of age

¹The entire report is available from the City of Tehachapi or PRC at California State University, Bakersfield.

The most difficult task for all involved might be minimizing Wal-Mart's impact on wages and other local businesses' profitability. These alleged negative impacts must be emphasized since both positive and negative impacts have been documented primarily at the County or regional level. In a smaller community, negative impacts might be greater and the positive impacts might be less. The small community cannot so easily diffuse negative impacts or exploit positive impacts.

The evidence on Wal-Mart's positive impacts includes these findings:

- "The establishment of an average Wal-Mart store in an average county increases retail employment by 3.7% within the first three years," "but this observed increase in retail employment is less than the amount needed to staff even the smallest store" (meaning that some Wal-Mart employees merely left other jobs?), and "(in retail jobs) long-run increases average only 2.3%" (Global Insight, p.29).
- More obvious in positive impact for consumers is prices - whereby the research indicates that "prices for all consumer items excluding food and energy were 2.5% lower due to Wal-Mart, prices on all commodities were 4.2% lower, and food at home cost 9.1% less"(Global Insight, p. 55).
- "The presence of a Wal-Mart increases local commercial property taxes assessments, resulting collection increases from \$350,000 to roughly \$1.3 million" although which governments receive those revenues depends upon State rules on county, city, and district taxing authority (Hicks I, pp.1 & 12).

Even though there is evidently agreement about the positive impacts noted above, there are also seemingly negative impacts such as these:

- "Although Wal-Mart's may generally have no impact on expenditures and even decrease AFDC/TANF expenditures, a Wal-Mart does increase Medicare expenditures by roughly \$898 per worker." (Hicks II, p. 1).
- Further, "there is some evidence that payrolls per worker also decline, by about 3.5 %", although this finding is not as statistically significant as others, and

- "That total payrolls per person decline, by about 5% in the aggregate, implying that residents of local labor markets earn less following the opening of Wal-Mart stores" (Neumark, p.1).

Further, one of the most carefully designed, local (i.e. small counties) studies had this to say in conclusion about Wal-Mart's impacts:

Although it cannot be proven conclusively, there is a strong sense that the zero-sum-game theory applies in the case of super-centers in Mississippi. For every gain in sales by super-center-related goods, there were corresponding losses in sales for businesses of these types in the host counties and, in some cases, from non-host counties (Stone, Artz, and Myles p. 10).

More precisely, the most negative impacts came in the following categories:

- Host county food stores experienced average annual declines in sales from 10% after the first year to nearly 17% after five years;
- Building material stores in host counties experienced average losses of approximately 8% and 12% for the first and second years," although they tended to gain in years three, four, and five as the "big box" effect came into play; and
- "Wal-Mart super-centers capture substantial amounts of miscellaneous retail trade from host counties, ranging from nearly 3% the first year to over 9% by year five (Ibid).

True, total sales after Wal-Mart's entry will tend to increase 3-10% in years one through five, before settling back to an average of 4% after year five. However, all such impacts must be gauged by mobility. The more mobile the buyers from adjacent areas, the more the "negatives" are displaced onto "non-host" areas and the more the positives are maximized for the "host" areas (e. g., perhaps good for Tehachapi, but bad for Mojave).

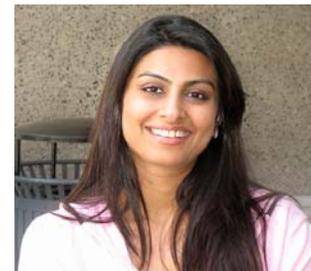
Conclusion

Our 2005 Tehachapi respondent pool included many more consumers than business owners, and the prevailing wisdom, backed by economic impact analysis, is that existing businesses are at greater risk than consumers when a Wal-Mart superstore comes to town -- even if in the long-run there are a greater number of jobs and in

(Continued on page 20)

GM'S SURVIVAL STRATEGY: WILL IT WORK?

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MBA STUDENT, CSUB



Global market dynamics reward competitive strategies that apply the managerial economics principle of matching supply assortments with demand preferences. To achieve these market synergies within a competitive economic environment, strategies must focus on formulating brand attributes that occupy clear positions in the market. To meet the brand supply caused by changing customer demands, the auto industry is scrambling to adjust to soaring gas prices and is introducing fuel-efficient cars. A look at the auto industry from a microeconomic view exemplifies the effect of high gas prices on the US auto industry. Currently, the industry is trying to gain advantages by focusing on supply assortment competitive strategy to carve clear and advantageous brand positions for a market with excessive product lines/models. However, global competition and energy prices are creating consumer brand confusion.

General Motors (GM) serves as an interesting case of being hurt by gasoline price inflation. GM's large size vehicles are losing ground to Toyota. While Toyota offers fuel-efficient and stylish cars, GM is facing the question of how to configure its supply assortments and match them with demand patterns. The challenge facing GM today is how to pare product lines and models and pursue perfect pairing of product assortments with demand patterns. GM is unable to predict market demand and is forced to become nimble as it carries a large baggage of product-mix liability. GM needs to clarify its product mix, for the purpose of optimizing brand equity, market share, and customer satisfaction.

GM sells various car models to reach its target market. GM's product line consists of a single-family vehicle, whose product length is extended to 8 brands: Chevrolet, Buick, Pontiac, GMC, Saturn, Hummer, Saab, and Cadillac. The width for the product mix refers to 6 different models that GM offers for each brand. These six models are 2-door coupe, 4-door sedan, pick-up trucks, sport utility vehicle (SUV), sport/cargo van, and sport convertible. The depth of GM product mix consists of 82 different closely related models. The main function and model is the same, but they are differentiated from each other by added features. Interestingly, GM is not only competing with other automakers, but also competing within its own brands. However, global competition requires GM to eliminate models, condense in size, and respond to changing market conditions. If GM wants to keep its length and width, it needs to eliminate old models and concentrate on efficient market styles and desirable consumer demands. This way, GM will have less internal competition and would be able to concentrate on external competition.

The following matrix shows the product mix for GM. It shows that every brand carries at least a SUV model. GM's strategy should be to eliminate most of these models and keep only two SUVs per brand. GM should also correlate the elimination of brands with the current fashion, in which old models replace new ones so that it can offer variety and reduce internal competition. GM needs

(Continued on page 20)

GM's Product Matrix						
	2-Door Couple	4-Door Sedan	Pick-Up Trucks	Sport Utility Vehicle	Sport/ Cargo Van	Sport Convertible
Chevrolet	3	4	5	7	3	2
Buick		2		2	1	
Pontiac	3	3		2	1	3
GMC			2	8	2	
Saturn	1	2		1	1	1
Hummer			1	4		
SAAB		5		1		1
Cadillac		5	1	4		2

BUSINESS EDUCATION

EXACTLY WHO IS A CERTIFIED PUBLIC ACCOUNTANT?

JANIS S. RUIZ

PROFESSOR OF ACCOUNTING, CSUB

Accountancy has a variety of professional certifications associated with each specialty. The oldest, broadest, and most widely held certification is the Certified Public Accountant (CPA). Originally a “public accountant” was to prepare audit reports attesting to the appropriateness and fairness of financial statements prepared by the management of a corporation. Public accountants do not directly work for one firm. Instead, they are engaged to audit a firm’s books and to issue an audit opinion. This audit opinion is designed primarily to be of interest to stockholders, bankers, and other parties outside the direct management of the firm. In modern times, the types of entities that are audited by a CPA has greatly expanded. There are now legal requirements that CPA’s perform audits on school districts, water agencies, and not-for-profits as well as publicly traded corporations.

The CPA designation has been in a state of flux over the last two decades. According to the California Society of CPAs, only about 15 percent of CPAs conduct audits. The “public accountant” designation has evolved into meaning more than someone licensed to write an audit report. CPAs now advise clients on a variety of financial matters such as tax planning, cost accounting, and the design of accounting information systems. Today’s CPA is a broadly educated professional capable of assisting in a variety of financial areas.

The licensing process for CPAs has evolved to reflect the changes in the CPA’s function. Currently CPAs are licensed by state accountancy boards to practice in a particular state. Each state develops its own licensing requirements. In general, all states require the passing of the Uniform CPA Exam. This nationwide exam is quite rigorous and tests a wide variety of topics such as tax, business law, auditing procedures, and accounting systems. This difficult, broadly-based exam ensures that all CPAs have attained a high standard of overall professional knowledge.

Reflecting the emergence of the CPA as the chief financial advisor for a variety of entities, the California State Board of Accountancy has recently revised its licensing requirements for the CPA. Previously, all CPAs had to



have approximately two years of direct audit experience under a CPA in order to be licensed. In recognition of the many roles a CPA now performs, the emphasis on the audit function has been diminished. There are now two pathways to becoming a CPA. Both no longer require extensive training in the audit function.

Pathway One is designed for someone who wishes to practice only in California. It requires less education than Pathway Two, but demands an additional year of experience. Pathway One requires:

- A bachelor’s degree;
- 24 semester units in accounting related subjects;
- 24 semester units in business related subjects;
- Passing the Uniform CPA Exam;
- Two years of general accounting experience supervised by a licensed CPA;
- Passing an ethics course.

Many states currently require CPAs to have more educational units than what is required by a typical bachelor’s degree. Pathway Two is designed for California CPAs who also wish to be licensed in other states. While Pathway Two requires more education, the experience requirement is only one year. Pathway Two requires:

- A bachelor’s degree;
- 24 semester units in accounting related subjects;
- 24 semester units in business related subjects;
- 150 semester units of overall education;
- Passing the Uniform CPA Exam;
- One year of general accounting experience supervised by a licensed CPA;
- Passing an ethics course.

These pathways began phasing in with the May 2002 Uniform CPA Exam. Under these new pathways, a CPA may not perform audits unless a minimum of 500 hours of auditing experience has been obtained under a licensed CPA. You may now become a CPA without audit experience, but you cannot perform audits. While many CPAs are not planning to have extensive careers performing audits, young accountants are still advised to obtain the audit experience if at all possible.

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TRACKING KERN'S ECONOMY

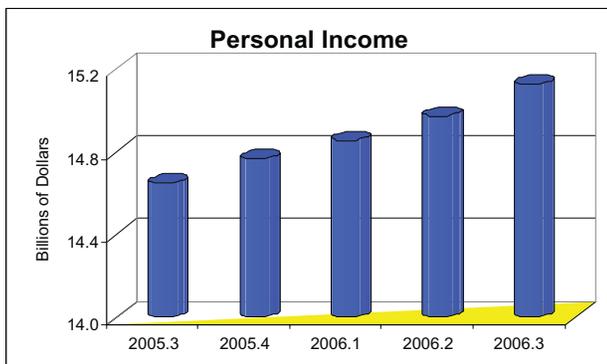
THIRD QUARTER OF 2006

ABBAS P. GRAMMY

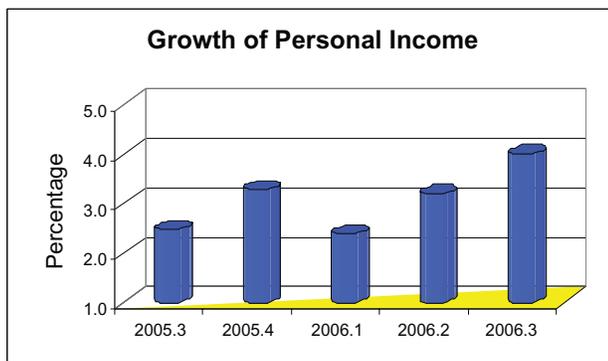
PROFESSOR OF ECONOMICS, CSUB

Economy

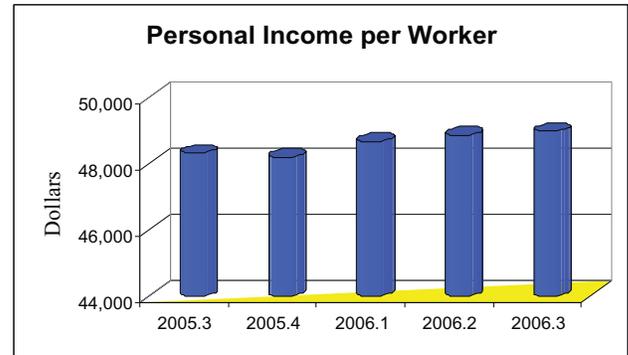
Personal Income - Kern County's personal income (in constant 1996 dollars) increased from \$14.98 billion in the second quarter to \$15.13 billion in the third quarter of 2006. The county's economy expanded \$150 million this quarter. Since the second quarter of 2005, Kern County's economy has added \$480 million of personal income.



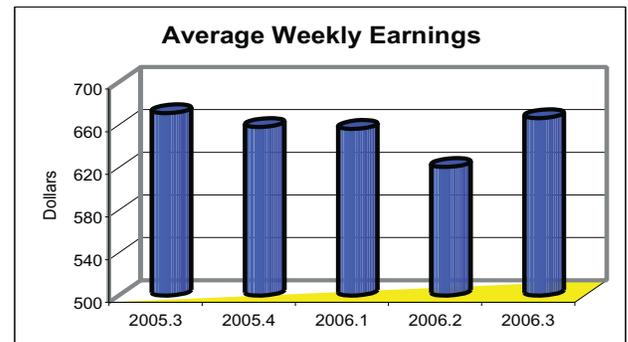
Growth of Personal Income - In the third quarter of 2006, personal income grew at an annual rate of 4.0 percent, which was 0.8 percent faster than that of the previous quarter. Compared with the third quarter of last year, economic growth accelerated 1.5 percent.



Personal Income Per Worker - Labor productivity is measured by personal income per worker. In the third quarter of 2006, personal income per worker increased \$120 from \$48,860 to \$48,980. Labor productivity has increased \$660 since the third quarter of last year.



Manufacturing Wages - In the third quarter of 2006, weekly wages paid to local manufacturing workers increased \$45.78 from \$620.73 to \$666.51. On average, they worked 41.7 hours per week at \$15.98 per hour. Relative to the third quarter of last year, local manufacturing workers earned \$4.60 less per week.



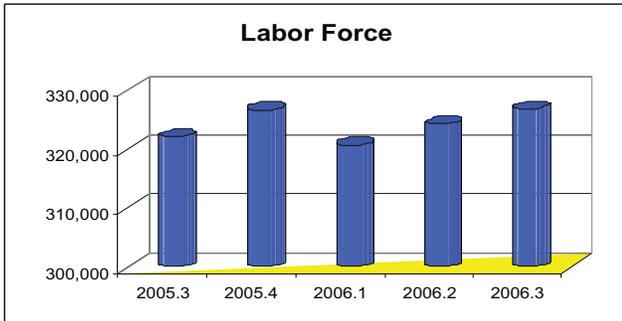
Labor Market

To analyze labor market conditions in Kern County, a time-series dataset was established (January 2000 – September 2006). Monthly employment data were adjusted in three ways: (1) to calculate informal employment (i.e., the difference between total employment and industry employment), accounting for members of the labor force who are self-employed or work outside their county of residence; (2) to adjust the dataset for the effects of seasonal variations; and (3) to take three-month averages for the analysis of quarterly changes. Changes in the local labor market are shown below:

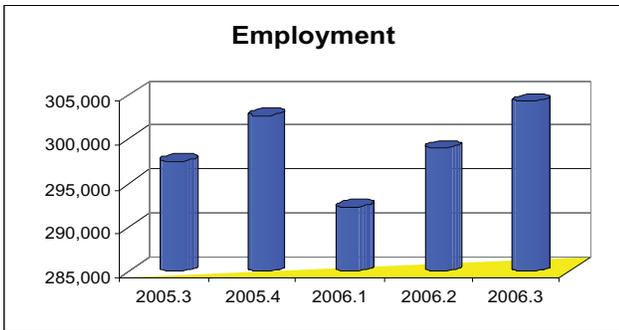
Labor Force	Total Employment	Total Unemployment	Farm Employment	Nonfarm Employment	Private-sector Employment	Public-sector Employment
2,500	5,200	-2,700	2,400	-1,000	2,100	-3,100

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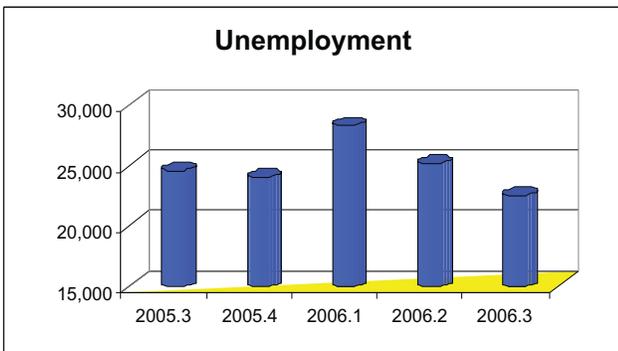
Labor Force - The civilian labor force increased by 2,500 workers from 324,280 in the second quarter to 326,780 in the third quarter of 2006. Compared with four quarters ago, the labor force increased by 4,680 workers.



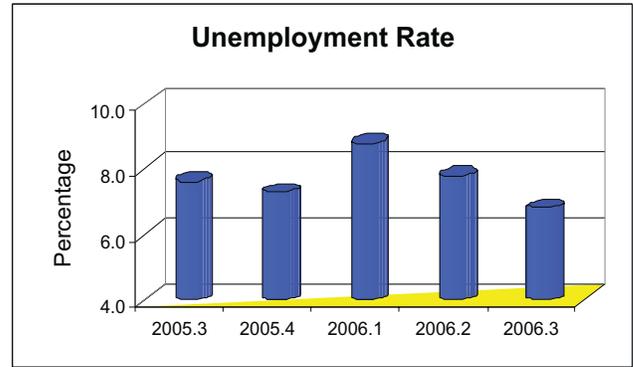
Employment - Total employment climbed by 5,200 from 299,000 in the second quarter to 304,200 in the third quarter of 2006. Likewise, 6,710 more workers were employed this quarter relative to the third quarter of last year.



Unemployment - In the meantime, the number of jobless workers declined by 2,700 as unemployment decreased from 25,200 in the second quarter to 22,500 in the third quarter of 2006. Relative to the third quarter of last year, 2,067 less workers were unemployed.



Unemployment Rate - The rate of unemployment fell one percentage point to 6.8 percent in the third quarter from 7.8 percent in the second quarter of 2006. Compared to the third quarter of 2005, the county's unemployment rate edged 0.8 percent lower.

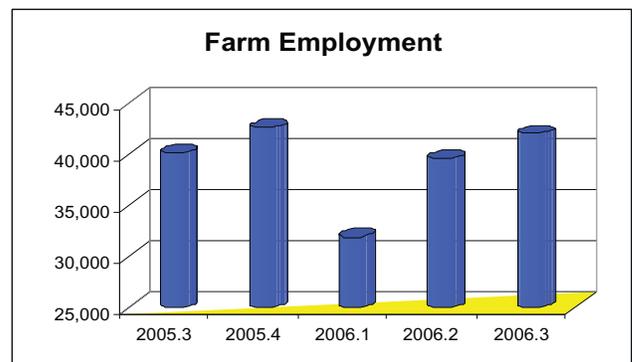


The rate of unemployment varied considerably across the county. It ranged from 2.7 percent in Kernville to 19.3 percent in Arvin. The rate of unemployment was below the county's average of 6.8 percent in Kernville, Lebec, Ridgecrest, Tehachapi, Inyokern, Bakersfield, California City, Rosamond, Frazier Park, and Taft. In contrast, the rate of unemployment was above the county average in Oildale, Lake Isabella, Mojave, Shafter, Lamont, Wasco, McFarland, Delano, and Arvin.

Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Kernville	2.7	Oildale	7.1
Lebec	2.9	Lake Isabella	8.2
Ridgecrest	3.7	Mojave	8.5
Tehachapi	4.4	Shafter	12.4
Inyokern	4.4	Lamont	12.5
Bakersfield	4.7	Wasco	12.9
California City	5.2	McFarland	14.8
Rosamond	5.4	Delano	18.7
Frazier Park	5.8	Arvin	19.3
Taft	6.5		

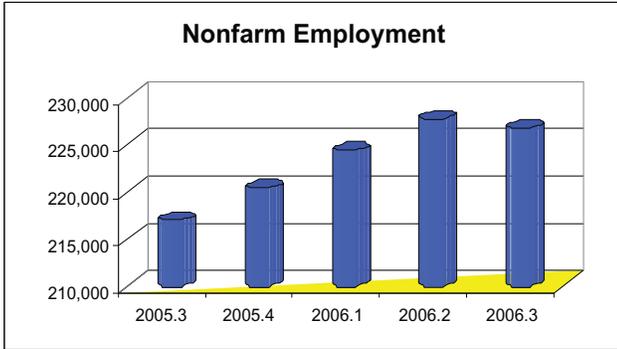
Note: City-level data are not adjusted for seasonality.

Farm Employment - In the third quarter of 2006, farm employment increased by 2,400 paid positions from 39,500 to 41,900. Relative to the third quarter of 2005, the farm market added 1,800 jobs.

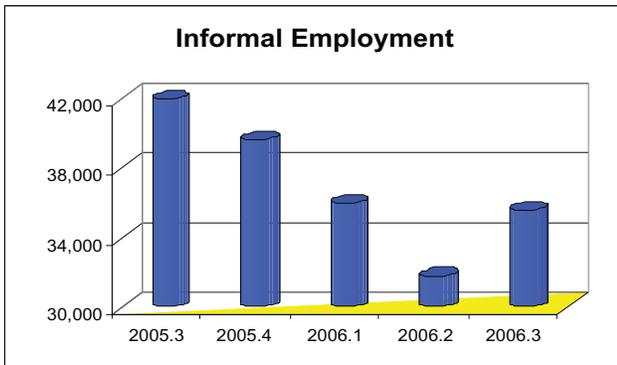


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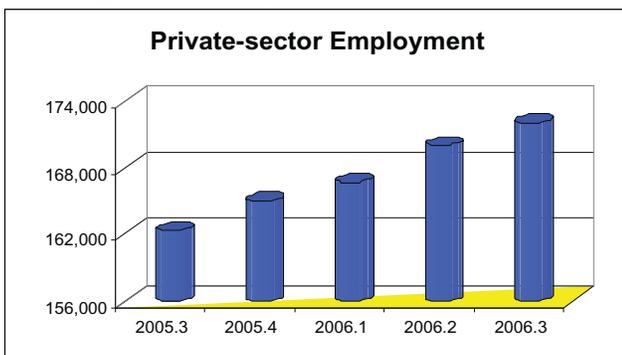
Nonfarm Employment - In the third quarter of 2006, the number of nonfarm workers declined from 228,700 to 226,700 for a loss of 1,000 jobs. Nonfarm industries have added 9,730 new jobs since the third quarter of 2005.



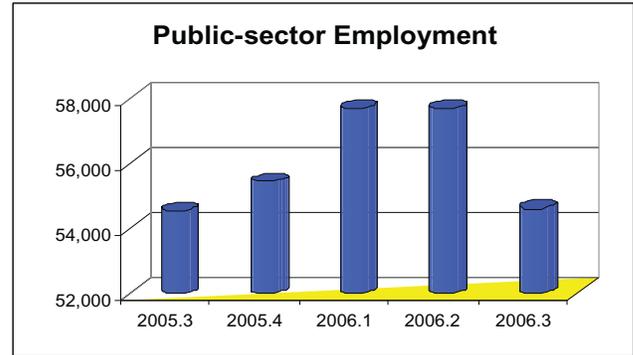
Informal Employment - Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and those who work outside their county of residence. In the third quarter of 2006, the number of workers engaged in this market increased by 3,800 from 31,800 to 35,600. However, the informal labor market has lost 6,470 jobs since the third quarter of last year.



Private-sector Employment - Nonfarm employment is comprised of private-sector employment and public-sector employment. In the third quarter of 2006, private-sector employment increased by 2,100 from 170,000 to 172,100. The private sector has added 9,750 jobs since the third quarter of last year.

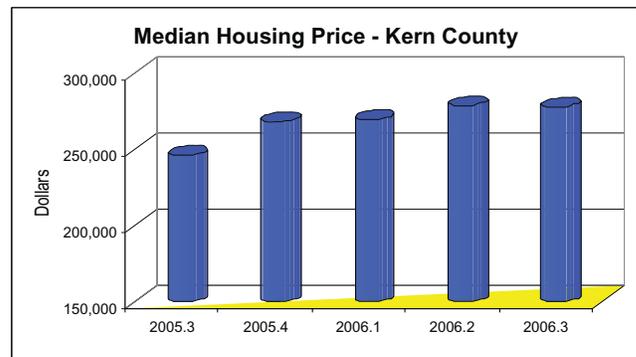


Public-sector Employment - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. In the third quarter of 2006, public-sector employment declined from 57,670 to 54,570 for a loss of 3,100 jobs. However, public-sector employment edged 37 higher since the third quarter of last year.



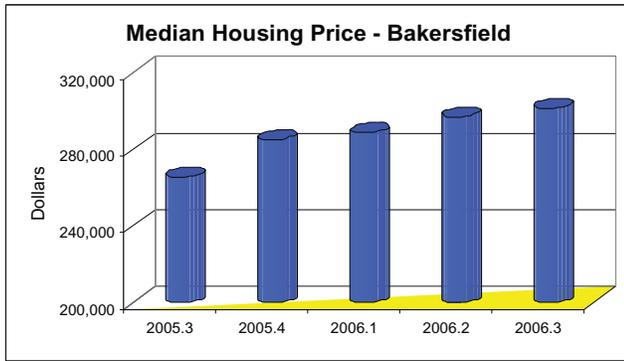
Housing Market

Housing Price - In the third quarter of 2006, Kern County's housing market softened. The total number of all residential units sold in the county dropped 3,985 to 3,821. In the meantime, the median sales price for all residential units depreciated \$800 (or 0.3 percent) from \$278,800 to \$278,000. However, the county's median housing price was \$31,700 (or 12.9 percent) higher than that of four quarters ago.



In Bakersfield, the number of all residential units sold fell from 2,976 in the second quarter to 2,804 in the third quarter of 2006. Meanwhile, the median housing price appreciated \$4,300 (or 1.4 percent) from \$297,300 to \$301,600. Since the third quarter of 2005, the city's median price has appreciated \$35,900 (or 13.5 percent).

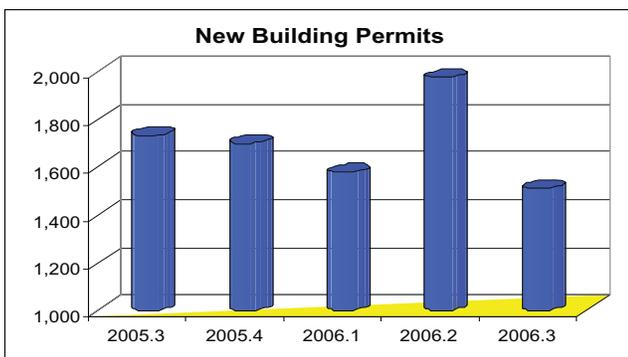
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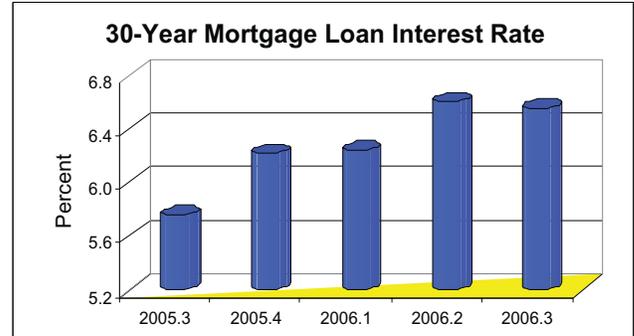
Between the third quarter of 2005 and the third quarter of 2006, housing price appreciation rates varied across the county. Among selected locations shown below, Delano recorded the largest one-year price appreciation of \$73,050 (or 55.8 percent) and Rosamond gained the smallest price increase of \$19,900 (or 9.0 percent). Over the past four quarters, the median housing price depreciated \$5,300 (or 4.2 percent) in Ridgecrest.

Location	Median Price (\$) 2006.3	Median Price (\$) 2005.3	Median Price Appreciation (\$)	Median Price Appreciation (%)
Kern County	\$278,000	\$246,300	\$31,700	12.9%
Bakersfield	\$301,600	\$265,700	\$35,900	13.5%
California City	\$231,000	\$178,750	\$52,250	35.5%
Delano	\$227,300	\$154,250	\$73,050	55.8%
Ridgecrest	\$165,300	\$170,600	\$-5,300	-4.2%
Rosamond	\$286,600	\$266,700	\$19,900	9.0%
Taft	\$151,200	\$114,300	\$36,900	44.5%
Tehachapi	\$299,900	\$271,300	\$31,700	12.9%

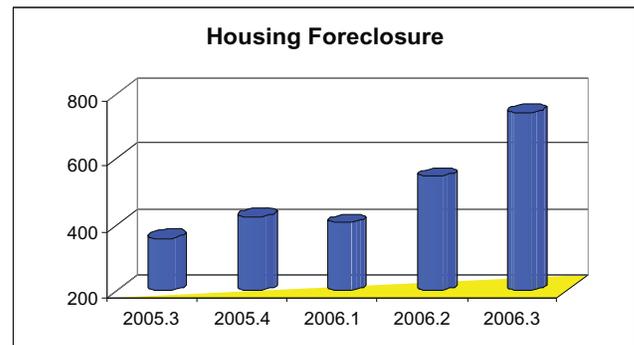
Building Permits - In the third quarter of 2006, the total number of building permits issued for the construction of new privately-owned dwelling units declined by 464 from 1,975 to 1,511. Compared with the third quarter of 2005, 222 less building permits were issued.



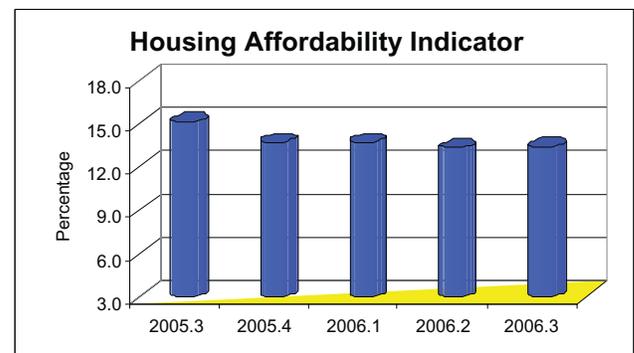
Mortgage Interest Rate - Mortgage loan interest rates remained low. In the third quarter of 2006, the interest rate of thirty-year conventional mortgage loans decreased slightly from 6.60 to 6.56 percent. Since the third quarter of last year, the mortgage loan interest rate has risen 0.8 percent.



Housing Foreclosure Activity - Foreclosure activity in Kern County increased from 549 in the second quarter to 741 in the third quarter of 2006. As a result, 192 more homeowners received loan default notices. Also, the number of default notices was up 380 from the third quarter of 2005.

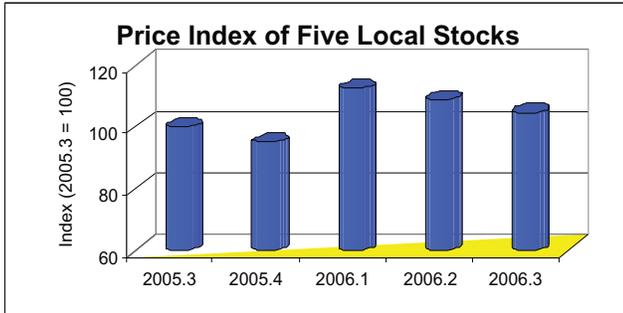


Housing Affordability - Here we define housing affordability as the average household income divided by the median housing price. In the third quarter of 2006, the housing affordability indicator increased slightly from 13.3 to 13.4 percent. Over the previous four quarters, housing has become less affordable as the indicator edged 1.7 percentage points lower.

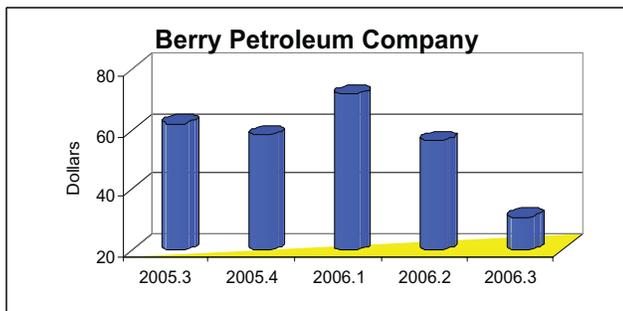


Stock Market

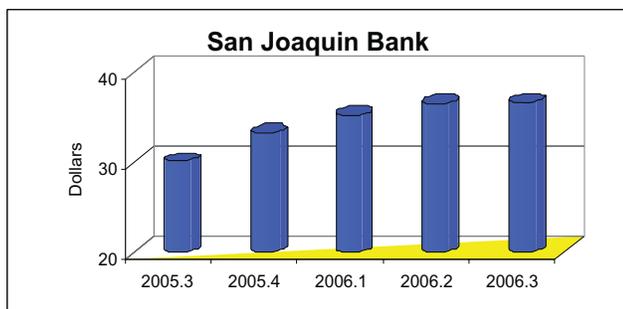
In the third quarter of 2006, the composite price index (2005.3 = 100) of the top five local market-movers declined 4.2 percentage points from 108.8 to 104.6. However, the index has climbed 4.7 percentage points since the third quarter of 2005. These top five local market-movers are Berry Petroleum, San Joaquin Bank, Granite Construction, Occidental Petroleum Corporation, and Tejon Ranch Company.



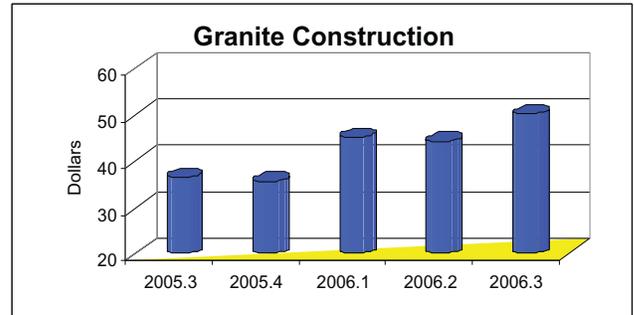
Berry Petroleum: BRY lost 41 percentage-points as its share value plummeted from \$56.32 in the second quarter to \$31.01 in the third quarter of 2006. BRY has lost nearly 50 percent of its value since the third quarter of 2005.



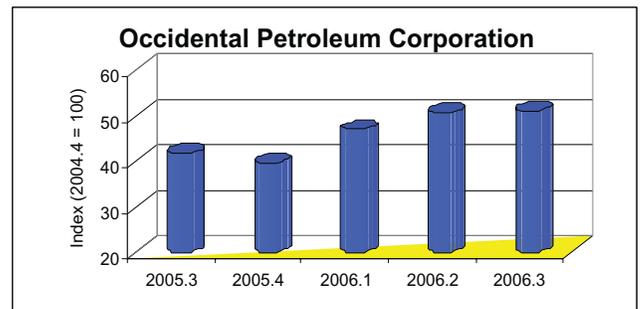
San Joaquin Bank: SJQU gained \$0.17 per share as its price climbed from \$36.50 in the second quarter to \$36.67 in the third quarter of 2006. Since the third quarter of 2005, SJQU has gone up \$6.57 or 35.1 percent.



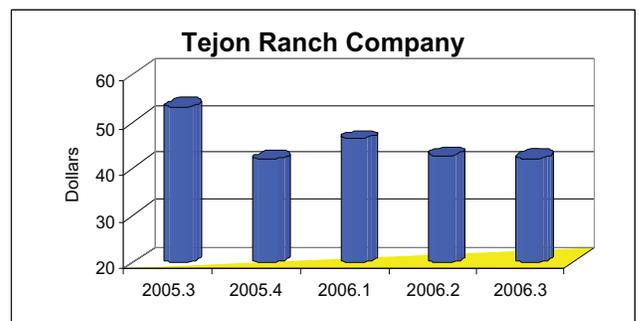
Granite Construction Inc.: GVA gained \$5.84 per share in the third quarter of 2006 as its stock price climbed from \$44.32 to \$50.16 per share. GVA has climbed \$14.58 or 37.1 percent since the third quarter of 2005.



Occidental Petroleum Corporation: OXY gained \$0.26 as its stock price rose from \$50.73 in the second quarter to \$50.99 in the third quarter of 2006. Since the third quarter of 2005, OXY has jumped \$9.20 or 22 percent.



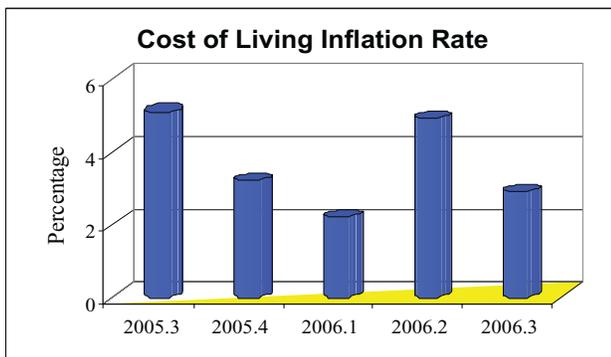
Tejon Ranch Company: TRC lost \$0.45 per share as its stock value declined from \$46.66 in the second quarter to \$42.21 in the third quarter of 2006. Since the third quarter of 2005, TRC has lost \$10.97 per share.



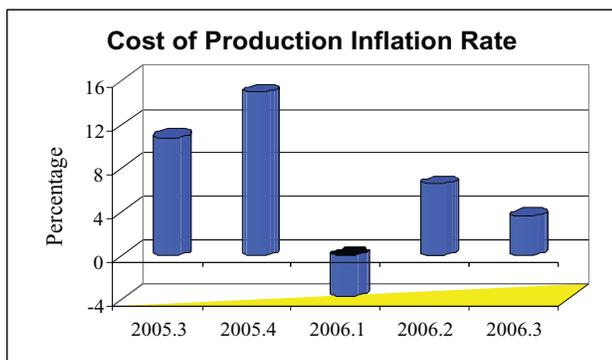
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Commodity Prices

Cost of Living - The Consumer Price Index (CPI) for all urban areas (1982-84 = 100) climbed from 201.7 in the second quarter to 203.2 in the third quarter of 2006. In annual rate, CPI inflation decelerated from a revised 5.0 percent to 2.9 percent. Relative to the third quarter of 2005, the CPI inflation rate was 2.2 percent lower.

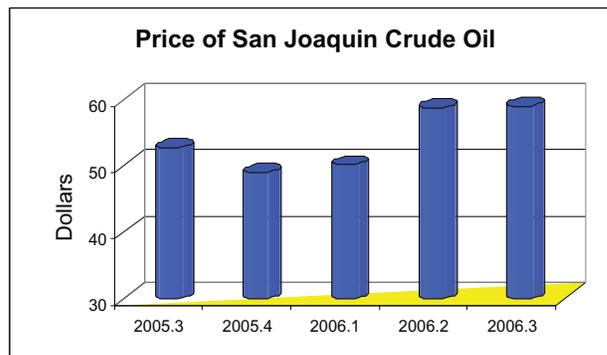
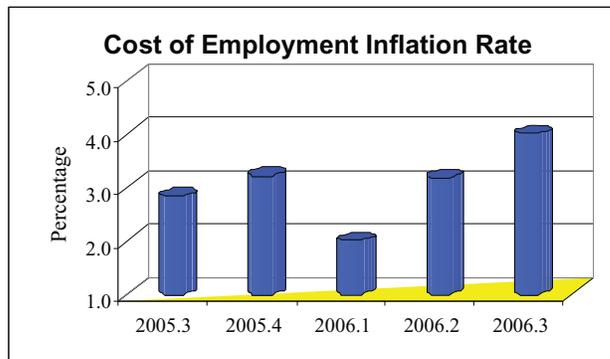


Cost of Production - The Producer Price Index (PPI) for all commodities (1996 = 100) rose from a revised value of 165.3 in the second quarter to 166.8 in the third quarter of 2006. In annual rate, PPI inflation decelerated from 6.5 percent in the second quarter to 3.6 percent in the third quarter. Relative to the third quarter of last year, the PPI inflation rate has fallen 7.2 percent.

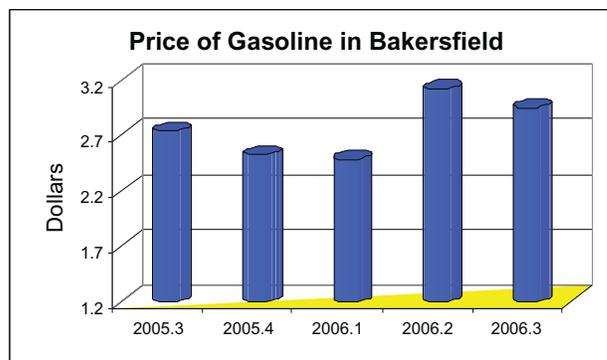


Cost of Employment - In the third quarter of 2006, the index of employment cost (December 2005 = 100) increased at an annual rate of 4.0 percent from 101.6 to 102.6. Over the previous four quarters, the index climbed 1.2 percentage points.

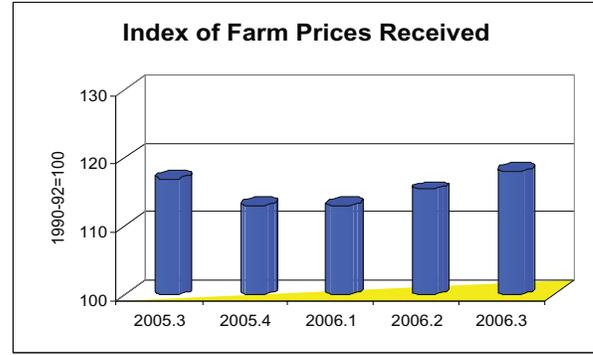
Price of Oil - The average price of San Joaquin Valley heavy crude rose \$0.32 per barrel from \$58.71 in the second quarter to \$59.03 in the third quarter of 2006. Since the third quarter of 2005, the average price of crude oil has soared \$6.46 per barrel.



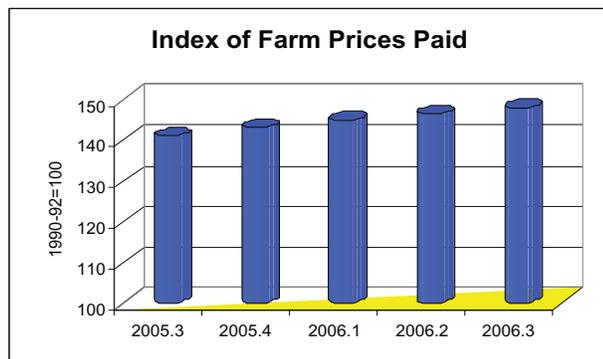
Price of Gasoline - In the Bakersfield metropolitan area, the average retail price of regular gasoline per gallon dropped 17 cents from \$3.12 in the second quarter to \$2.95 in the third quarter of 2006. However, the average gasoline price was 22 cents higher relative to the third quarter of last year.



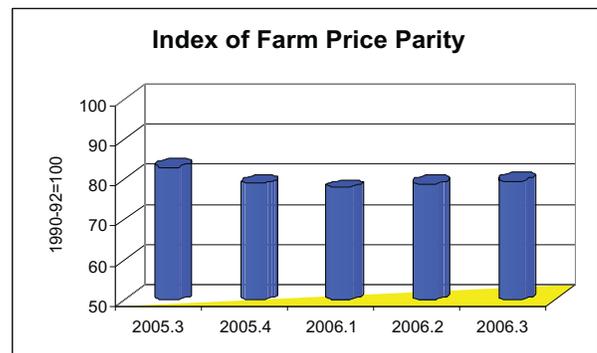
Price of Milk - The average price of Class III milk rebounded from three consecutive quarters of decline. It increased \$0.40 per cwt from \$11.02 in the second quarter to \$11.42 in the third quarter of 2006. However, the milk price was \$2.66 lower relative to the third quarter of 2005.



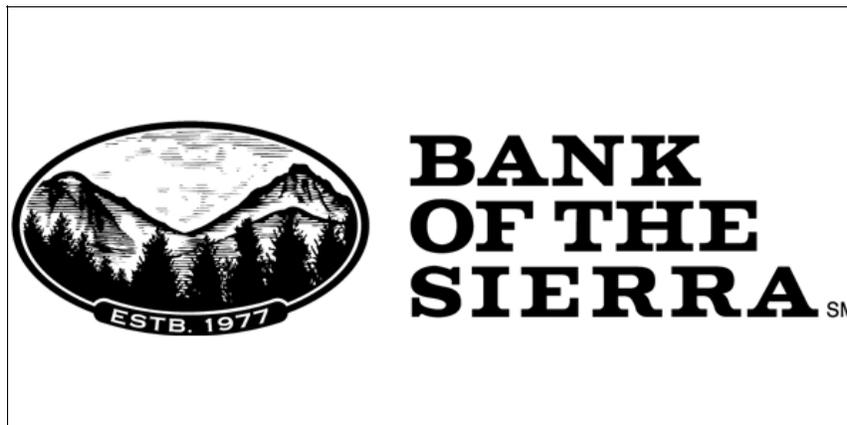
Farm Prices - In the third quarter of 2006, the national Index of Prices Paid by Farmers (1990-92 = 100) for commodities, services, interest, taxes, wages, and rents rose 2 percentage points to reach 148. Since the third quarter of last year, this index has gained 7 percentage points.



The Index of Farm Price Parity is measured by the ratio of the Index of Prices Received to the Index of Prices Paid. Values of this index less than 100 illustrate the imbalance between prices farmers pay for their inputs and prices farmers receive for their outputs. In the third quarter of 2006, the Index of Farm Price Parity narrowed 1 percentage point from 79 to 80. However, the disparity between output prices farmers received and input prices farmers paid narrowed as this quarter's disparity index value edged 3 percentage points lower than that of the third quarter of last year.



The national Index of Prices Received by Farmers for all farm products (1990-92 = 100) rose 3 percentage points from 115 in the second quarter to 118 in the third quarter of 2006. This index was 1 percentage point higher than that of the third quarter of last year.



BOOK REVIEW

THE WAGES OF WINS

BY DAVID J. BERRI, MARTIN B. SCHMIDT, AND STACEY L. BROOK

REVIEWED BY: MIKE STEPANOVICH
PUBLIC AFFAIRS DIRECTOR, CSUB

A CSUB professor's recently released book debunks several myths about professional sports, including that teams can simply buy wins in professional sports, the stars are the most valuable players in the NBA, fans are turned off by labor strikes, and competitive balance is a problem in Major League Baseball.

David Berri, an economics professor, together with his co-authors, spent 10 years conducting research on sports and economics. They were motivated to write a book, Berri said, when they consistently noticed that, "much of what people were saying about sports was not consistent with what our academic research showed." Their findings are reported in *The Wages of Wins, Taking Measure of the Many Myths in Modern Sport*. Published by Stanford University Press, the book has been released to critical acclaim.

Writing for *The New Yorker* magazine, Malcolm Gladwell concludes: "Looking at the findings that Berri, Schmidt and Brook present is enough to make one wonder what exactly basketball experts – coaches, managers, sportswriters – know about basketball. ... It's not hard to wonder, after reading 'The Wages of Wins,' about the other instances in which we defer to the evaluations of experts."

The book begins with the ability of teams to buy wins in professional sports. "The relationship between a professional team's payroll and wins is not as strong as people would believe," Berri said. "In baseball, football, basketball and hockey, payroll does not explain much of wins."

After debunking the link between pay and wins, the authors moved on to the impact that strikes have on fan support. "We discovered that it doesn't matter," Berri said. "No matter how much sportswriters say the fans will be angered and won't come back, the data show that fans always return. Just look at the NHL this past season. After losing an entire season to a labor dispute, hockey set an all-time attendance record."

"Competitive balance doesn't have much to do with revenue sharing, salary caps or other league policies," Berri



said. "It's primarily about the number of people playing the game. As baseball integrated and allowed more and more talent from other countries to play, competitive balance improved. Or look at the NBA, easily the least competitive league. To play in the NBA you have to first be very tall. And as we say in the book, the NBA suffers from a short supply of tall players. Consequently, some teams will have tall players who are extremely talented. Other teams will have to make do with tall players who are not nearly as good. ... Consequently, the league ends up with very little balance."

Predictability may be an issue for the NBA, but in baseball and football it is not. Over the past 10 years the team with the best regular season record in baseball has only won the World Series once. In football, players are consistently inconsistent. To illustrate, the authors take the reader through the 2004 season of Brett Favre where, from game to game, his performance fluctuated from great to not-so-great.

"Although player performance is more predictable in basketball, it is not very well understood," Berri said. "How do we know that? If you look at what determines player pay, coaches voting for the all-rookie team, or who gets cut from a team, the primary statistic that matters is scoring totals. Rebounds, turnovers, or steals don't affect decision making very much, but those statistics do affect outcomes. But players aren't paid to do those things. That's why payroll and wins don't correlate in basketball, because players aren't evaluated correctly."

Beyond evaluating decision-making in the NBA, the authors also created a unique measure of player performance. "In order to do the research on basketball, we had to create a measure of performance that connects what the player does to wins. So you can now measure how many wins a player produces."

"The key thing is if you want to maximize profits, you want to get players who produce wins. We created an algorithm that allows one to translate the player's statistics into the number of wins the player produced."

(Continued on page 20)

GM (Continued from page 10)

to look into the performance of all its brands and consider closing one or two brands. This strategy will make the company more flexible to changing consumer demands and create a clear market position for beating competition and building customer loyalty.

References:

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Wal-Mart (Continued from page 9)

creased amounts of tax revenues and retail sales. That is the reality for decision-makers in a city such as Tehachapi, and this is the task that its elected and appointed officials know they must anticipate.

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CPA (Continued from page 11)

In addition to the initial licensing requirements, all California CPAs must complete continuing education requirements every year to ensure they stay informed of the changes in their profession. While the role of the

CPA has changed from being a "public accountant" to more of an overall financial advisor, one thing has not changed. The CPA designation is still indicative of a well trained, committed professional.

Book Review (Continued from page 19)

With this measure the book shows that while Allen Iverson was drafted first in the 1996 draft by the Philadelphia 76ers, and has the highest salary of the 29 players drafted in the first round that year, he only ranks 11th among that draft class in career wins produced.

"We also did the same for football, and the results debunked another myth about sports. Often quarterbacks are given the full credit and blame for a team's success or failure. The numbers dispute this practice. Peyton

Manning, in his very best season, produced 5.6 wins for a team that won 12 games. So, one of the best seasons ever played by a quarterback was not worth half the team's wins. What that shows is that other players are important. The quarterback doesn't catch the ball, or tackle or play defense – other players matter on a football team and it is the team that wins and losses games."

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