

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION



Volume 9 Issue 3

KERN ECONOMIC JOURNAL

2007 Third Quarter

*Award of Merit from the California Association
for Local Economic Development*



www.csub.edu/kej/

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:



KERN ECONOMIC JOURNAL is a quarterly publication (February, May, August, November) 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. Sources of funding for the journal include university contributions and sponsorship and subscription fees.

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.

Editorial Board:

Brent Dezember, President, StructureCast
Mark Evans, Professor of Economics and Interim Dean, School of Business and Public Administration, CSUB
Abbas Grammy, Professor of Economics, CSUB
Jose Guerrero, Attorney, Klein, Denatale, Goldner, Cooper, Rosenlieb & Kimball, LLP
Michael Olague, Vice President, Rabobank
Michael Stepanovich, Executive Director, Bakersfield College Foundation

Publisher and Managing Editor: Abbas Grammy, CSUB (661/654-2466)
Design & Production: Sylvia O'Brien, O'Brien Images (661/805-0031)
Content Editor: Emerson Case, CSUB

To become a sponsor, please visit www.csub.edu/kej for the sponsorship form and benefits or contact the Journal's Publisher and Managing Editor.

INSIDE THIS ISSUE:

Cover Page

The new Mathematics and Computer Science building, CSUB

Economy at a Glance! 2

Opinion Surveys

Kern County Business Outlook Survey..... 3

Bakersfield Consumer Sentiment Survey..... 4

The CEO Profile

Richard Beene, The Bakersfield Californian..... 6

Business Education

Everyone is Doing It! 7

Feature Stories

Virtues, Ethics, and Introductory Economics Course..... 9

Preparing a Voter Opinion and Behavior Study..... 10

Tracking Kern's Economy

Economy 13

Labor Market 13

Housing Market..... 15

Stock Market..... 17

Commodity Prices..... 18

Econ Brief!

Local Households Responding to National Trends 1

San Joaquin Valley's Competitive Advantage.....

Book Review

Knowledge and the Wealth of Nations by David Warsh..... 20

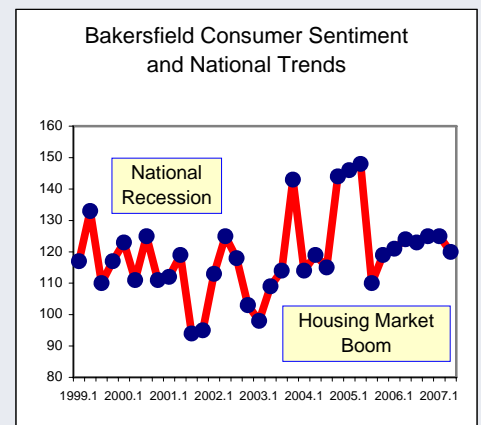
Econ Brief!

Local Households Responding to National Trends

We have administered the Bakersfield Consumer Sentiment Survey to a random sample of households listed in the phone book since the first quarter of 1999. The intent of the survey is to assist businesses in making decisions regarding local economic trends. Valuable insight may be gained by comparing the index with the recent sales trends of individual companies. The survey data also enable investors to assess the potential for local economic growth based on the degree of consumer confidence.

We use the survey data to construct the Bakersfield Consumer Sentiment Index (BCSI), where values above 100 indicate *optimism*, while values below 100 suggest *pessimism*. The local index closely follows the national index. Although the absolute levels of the national and local indexes cannot be directly compared, their distribution functions convey information about local versus national sentiment. Locally, households have been more optimistic 50 percent of the time and less optimistic 50 percent of the time since CSUB began tabulating the BCSI in 1999. In fact, households have been more optimistic at the national level in four-fifths of the quarters since 1999 and more pessimistic only one-fifth of the time.

A closer look at the distribution of the BCSI illustrates that local households respond to national trends. Two distinct trends are identified in the enclosed chart. First is the recession of 2000-2001, where the economy grew only 0.2 percent on average. Local consumers responded to the recession. They turned less optimistic when the BCSI fell from 125 to 119 and then became pessimistic as the BCSI plunged below the 100 mark. The second trend refers to the housing boom of 2003-2006, where the median sales price in the nation appreciated at an average annual rate of 11 percent. During this period, the BCSI peaked twice, once reaching 143 in the fourth quarter of 2003 and the other climbing to 148 in the second quarter of 2005.



ECONOMY AT A GLANCE!

ABBAS P. GRAMMY

PROFESSOR OF ECONOMICS, CSUB

Preliminary data indicate that the U.S. economy continued its healthy growth in the third quarter of 2007. The inflation-adjusted GDP grew 3.9 percent, \$112.3 billion more than the previous quarter. This increase in the GDP reflected positive contributions from personal consumption expenditures, exports, federal, state, and local government spending, and investments in equipment and software, nonresidential structures, and business inventory. These additions were partly offset by the negative effects of residential investment and imports.

The Index of Leading Economic Indicators, a measure of future economic activity, increased three-tenths of one percent to reach 138.0, suggesting continued economic growth. After three quarters of stability, the rate of unemployment climbed two-tenths of one percent to attain 4.7 percent. The economy felt less inflationary pressure as the cost of living and the cost of producing ascended 1.9 percent each. The cost of employment, however, increased at the faster pace of 3.0 percent.

In California, the unemployment rate increased three-tenths of one percent to reach 5.5 percent. The state's economy added 76,200 members to its workforce, of whom 20,800 were employed and 55,400 were jobless. The farm market added 11,830 jobs and non-farm industries created 11,000 paid positions. While services-providing industries (including educational services, health-care services, and leisure and hospitality) increased employment, goods-producing industries (like construction, manufacturing, finance and insurance, and real estates) lost jobs.

In Kern County, labor market data showed mixed results. The county's labor force increased by 4,500 workers and total employment grew by 5,600, including 11,300 *more* farm jobs, but 3,400 *less* nonfarm jobs, and 2,300 *less* jobs in the market for self-employed workers and those working outside the county. In the nonfarm labor market, government agencies cut 4,800 jobs, but private companies added 1,400 paid positions. In the meantime, the county's economy provided employment to 1,100 previously unemployed workers, lowering the rate of unemployment from 8.0 to 7.6 percent. Still below the county average, the rate of unemployment dropped from 4.5 to 4.3 percent in Ridgecrest; from 5.5 to 5.2 percent in Bakersfield; and from 6.2 to 5.9 percent in California City.

Kern's economic growth slowed from 3.6 to 2.4 percent. The county's economy generated \$15.6 billion in personal income, \$100 million more than the previous quarter. Personal income per worker, a measure of labor productivity, increased \$290 to reach \$49,710. Local households expressed less confidence about their employment and financial conditions as the Index of Consumer Sentiment fell 5 percentage points to arrive at 115. Likewise, Kern County businesses became less optimistic about their employment and financial conditions as the Index of Business Outlook dropped 4 percentage points to reach 116.

In the third quarter of 2007, Kern County's housing market remained in a recessionary mode both on price and volume sides. The county's median sales price for all residential units plummeted \$9,000 (or 3.4 percent) from \$261,000 to \$252,000. The median sales price per square foot of housing area declined \$9 from \$165 to \$156. The number of residential units sold fell from 2,496 to 2,210 and the number of building permits issued for the construction of new privately-owned dwelling units tumbled from 1,111 to 893. Meanwhile, the foreclosure activity accelerated from 1,593 to 2,196. As a result, 603 more homeowners received notices of loan default from their mortgage bankers.

In commodity markets, the average price of San Joaquin crude oil climbed \$9.84 to reach \$65.43 per barrel. However, the average retail price of regular gasoline sold in the Bakersfield metropolitan area dropped 41¢ per gallon from \$3.23 to \$2.82. The unit price of California's Class III milk edged up \$2.56 to attain \$20.51. The index of prices farmers received for their outputs climbed 3 percentage points to reach 141, but the index of prices farmers paid for their inputs remained constant at 158. As a result, the parity between output prices farmers received and input prices farmers paid narrowed 2 percentage points.

The composite price index of stocks for the top five *market-movers* in Kern County (2006.3 = 100) was down from 110.4 to 109.4. Nonetheless, the composite price index of stocks for these *market-movers* edged 9.4 percent higher since four quarters ago. While stocks of Chevron Corporation U.S. and Occidental Petroleum Corporation gained value, the price per share declined for San Joaquin Bank, Granite Construction, and Tejon Ranch Company.

KERN COUNTY BUSINESS OUTLOOK SURVEY

ABBAS P. GRAMMY

PROFESSOR OF ECONOMICS, CSUB



Businesses have become less optimistic about the economic conditions of Kern County. In the third quarter of 2007, the *Business Outlook Index* fell 4 percentage points from 120 to 116. The index value was 8 percentage points lower than that of the third quarter of last year.

The *Business Outlook Index* is constructed from responses of managers to a randomized telephone survey. Index values greater than 100 indicate optimistic perceptions, whereas values less than 100 imply pessimism. The intent of the survey is to provide private-sector managers and public-sector administrators with primary data that can help them make more informed decisions. The other purpose of the survey is to identify factors that have helped brighten or darken the local business outlook. Valuable insight may be gained by comparing the index with the recent employment and financial trends of individual organizations.

In addition to the overall index, we calculated two sub-index values. The *Index of Current Conditions* stayed constant at 115. However, the *Index of Future Conditions* declined 7 percentage points to reach 118. These results indicate that business managers are worried about future economic conditions. Compared with four quarters ago, business confidence about both current and future conditions have eroded.

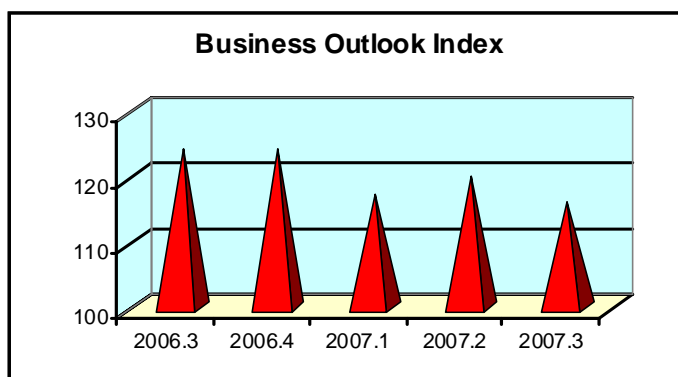
Employment Outlook – Fifty-one percent of interviewees reported that the number of jobs in their companies stayed constant this quarter, but 29 percent said more jobs were available in their companies. Looking ahead, 65 percent perceived that the number of jobs would stay constant, whereas 22 percent expected their companies to hire more workers next quarter.

Financial Outlook – Thirty-six percent of survey respondents reported that the financial conditions (sales and profits) of their companies were constant this quarter, whereas 51 percent indicated increased profits and sales. Predicting next quarter, 33 percent expected financial conditions of their companies to remain constant, but 53 percent anticipated increased sales and profits.

Industry Outlook – Fifty-eight percent perceived that the employment and general business conditions of their industries remained the same as the previous quarter, and 24 percent felt these conditions improved. Thinking one quarter ahead, 54 percent anticipated that the employment and general business conditions of their industries would be unchanged, but 31 percent expected progress.

Economic Outlook – When asked about Kern County’s economy, 55 percent of interviewees perceived no

(Continued on page 5)



	Current Quarter	Previous Quarter	Four Quarters Ago
Index of Business Outlook	116	120	124
Index of Current Conditions	115	115	123
Index of Future Conditions	118	125	125

BAKERSFIELD CONSUMER SENTIMENT SURVEY

MARK EVANS

INTERIM DEAN, SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION

PROFESSOR OF ECONOMICS, CSUB



The Bakersfield Index of Consumer Sentiment fell from 120 to 115 in the third quarter, its lowest reading in two years. The University of Michigan's national Index of Consumer Sentiment retreated slightly from an already abysmal 87 in the second quarter to 86.

The absolute levels of the national and local indexes cannot be directly compared, since they are constructed differently. However, we can say that the decline of the Bakersfield index over the previous quarter moved it from a slightly above-average reading to a below-average reading that is exceeded 62 percent of the time. The University of Michigan's national index of consumer sentiment remains in the doldrums: it has attained a higher reading in four-fifths of the quarters since we began compiling the local index in 1999.

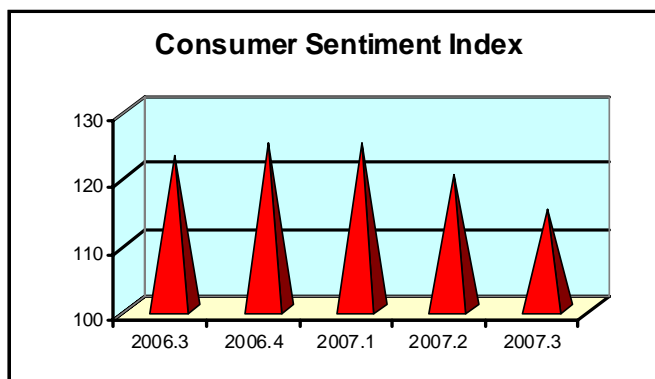
We compile the Bakersfield Consumer Sentiment Index from telephone surveys administered to a random sample of households listed in the phone book. The index is constructed and reported to help local business leaders compare national and local trends in expectations. The index also may provide timely insight into whether a local company's sales over the previous quarter reflect broad regional trends or shifts in market share.

The Bakersfield index is disaggregated into sub-indexes reflecting both recent financial conditions and future expectations of households. The decline of the composite index in the third quarter reflects a slight decline in expectations coupled with a somewhat larger, but still modest decline in current financial conditions.

The sub-index measuring current financial conditions is constructed from questions relating to discretionary spending and financial well-being compared to one year ago. This sub-index decreased from 119 to 112. There was little change in the percent of households reporting they spent more than usual or less than usual on discretionary items. In the second quarter 44 percent reported their households were better off than one year ago; this declined to 38 percent in the third quarter. Sixteen percent reported their situation had worsened in the third quarter, compared to only nine percent in the second quarter. Responses relating to the financial situation of acquaintances in Kern County followed a similar pattern: a slight shift toward a perception that acquaintances had become worse off.

The sub-index reflecting expectations for the coming year declined slightly to 119 from 121 in the second quarter. It is no surprise that the percent of households who think this is a risky time to use savings or incur additional debt more than doubled from 22 to 53 percent. Interestingly, this negative blow to the sub-index reflecting expectations was nearly offset by an increase in the percentage of households who are optimistic about the likely financial situation of their households one year ahead. In the third quarter, nearly three-in-five households expected the financial situation of their households to improve over the coming year compared to less than two-in-five in the previous quarter. Perhaps this bodes well for the future, suggesting that households are retrenching, but they expect this retrenchment to put them

(Continued on page 5)



Consumer Sentiment (Continued from page 6)

on a sustainable footing within a year.

Table 1: Index Values			
	This Quarter	Last Quarter	4 Quarters Ago
Bakersfield Consumer Sentiment Index	115	120	123
Sub-index: Current Conditions	111	119	136
Sub-index: Future Expectations	119	121	110

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).	22 %	59 %	19 %
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	38 %	46 %	16 %
How your acquaintances in Kern County are doing financially compared to one year ago.	23 %	64 %	13 %

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.	58 %	38 %	4 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	42 %	45 %	13 %
	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?	26 %	21 %	53 %

Business Outlook (Continued from page 3)

change this quarter, but 36 percent felt conditions improved. Likewise, 56 percent felt that economic conditions would be unchanged next quarter and 28 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 business outlook:

- Increased sales with the start of school year and more weddings
- Greater investment in commercial real estate
- Continued population growth

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

- Continued slump in the residential real estate market, forcing some lenders out of business
- Rising prices of produce and fuel
- Uncertainty about military conflict in Iraq and Afghanistan and growing tension with Iran

THE CEO PROFILE!



Background

Richard Beene was appointed President and Chief Executive Officer of *The Bakersfield Californian* in 1998 after serving four years as Executive Editor.

He was born in Knoxville, Tennessee, and reared in Atlanta and has spent his entire career in newspapers on both the editorial and business side. He joined *The Bakersfield Californian* after seven years with *The Los Angeles Times*, where he worked in Orange County, South Bay and San Fernando Valley offices serving in a variety of editing and management positions. He was part of the reporting teams awarded the Pulitzer Prize for coverage of the 1992 Los Angeles riots and the 1994 Northridge earthquake. Prior to that, he worked as a journalist overseas, serving as Latin American bureau chief in Mexico City for *The Dallas Times Herald*, an editor at the Spanish News Agency EFE in Madrid and as Cairo bureau chief for United Press International.

Mr. Beene also worked as state manager for UPI in Miami and Birmingham, Alabama, an editor on the UPI Foreign Desk in New York, political writer for UPI in Atlanta and in editing positions at The Fort Lauderdale Sun-Sentinel, Marietta (Ga.) Daily Journal and Warner Robins (Ga.) Daily Sun. He has served as past president of the Bakersfield Museum of Art Board of Trustees; past president of the Rotary Club of Bakersfield; and past board member of the Greater Bakersfield Chamber of Commerce. He is currently serves on the advisory committee to the CSUB School of Business and Public Administration. Mr. Beene graduated with a degree in history and a minor in journalism from Georgia Southern University.

Interview

What is the mission of *The Bakersfield Californian*?

Our mission is simple: to be the best source of credible news and information in Kern County for our readers and our advertisers. We are agnostic as to the platform we do that by: we have *The Californian*, which has been around more than 100 years, but we also have weekly newspapers, magazines, community telephone books and more than a dozen websites that provide our communi-

ties which news and information, not to mention blogs, podcasts, videos, citizen restaurant reviews and other forms of self expression. We also believe that it's our mission to give back to our community, and we do that through several charitable giving arms including The Bakersfield Californian Foundation.

What are your responsibilities at *The Bakersfield Californian*?

I serve as President and CEO of *The Californian*, but I am also in charge of three affiliate companies: Valley Direct Inc., which owns The Tehachapi News and seven community telephone books; Mercado Nuevo, which is home to The Northwest Voice, The Southwest Voice, Mas magazine, Bakotopia magazine and the Bakotopia website; and Participata, which is the company that sells our home grown social networking digital platform. I work for Ginger Moorhouse, our publisher and the fourth generation of her family to run the company, and I report to a Board of Directors that has four outside directors: John Moorhouse, Ray Dezember, Bob Stine and Bart Hill. My primary role is to work with my publisher and our vice presidents to set a strategic direction that insures the continued growth of our company during these changing times.

What is the range of services provided by *The Bakersfield Californian*?"

Ten years ago our business model was built around one source of revenue: *The Californian*. Today, we have greatly diversified our revenue stream by introducing a whole bevy of tightly targeted niche products, some in print but even more online. These include things like The Northwest Voice and The Southwest Voice, weekly community newspapers that pioneered the concept of "citizen journalism." That means these papers are written almost exclusively by members of our community: people who work in the school districts, parents, youth coaches, pastors Anyone who wants a "voice." We also introduced Mas magazine, the only magazine serving Kern County's growing assimilated Hispanic population. This has been a huge hit and has allowed us to reach a totally new audience. The same is true of Bakotopia.com and Bakotopia magazine, two products tar-

(Continued on page 8)

BUSINESS EDUCATION

EVERYONE IS DOING IT!

DONAVAN ROPP

DIRECTOR, BUSINESS RESEARCH AND EDUCATION CENTER,
CSUB



We are all involved in the process of “negotiation” on a continuing basis, be it in our personal or business lives. Everyone negotiates something every day; it is an integral part of every human activity. People negotiate even when they don’t think of themselves as doing so; negotiation is a fact of life. Negotiation in business is where the proverbial “rubber hits the road.” It equates to opportunity. Business transactions cannot do without it!

Society is experiencing a period of punctuated evolution that is changing the way we learn, work, play, and interact with others. For example, Dr. Hari Balakrishnan of MIT, states that there are over 100 billion E-mails transmitted daily. Communication technologies are dramatically advancing and expanding capability and capacity of practical instant communication devices.

This technology adventure is globally democratizing the business world. Thomas Freedman in *The World is Flat* states, “It is now possible for more people than ever to collaborate and compete in real time with more other people on more different kinds of work from more different corners of the planet and on a more equal footing than at any previous time in the history of the world.”

With this continuing expansion, Roger Fisher and Jeffrey Ury of Harvard, authors of *Getting to Yes*, state that negotiation and conflict resolution is a growth industry. They indicate the importance in a changing world of establishing negotiation approaches that have wisdom and are rational, objective, fair, and efficient. Their integrative model is named “principled negotiation.” Five major fundamental components of this interest based prescriptive win-win approach are as follows:

1. Separate the people from the problem - This first component is separating relationship issues (or “people problems”) from substantive issues and dealing with each independently. A negotiator has two interests in a negotiation – the negotiation itself and the relationship with the other parties. The general approach is to be “soft” on the people issues and “hard” on the actual substantive issues. Concessions can be made on the process and procedural details of the negotiation while holding firm on the important items at stake.

2. Focus on interests, not positions - An *interest* is the underlying need, while a *position* is just one particular way to satisfy that need. Positions are characterized as concrete, explicit decisions. Positional bargaining focuses on a single “want” (or position) rather than on the reasons for the positions. Each side has multiple interests that define their positions. Interests are abstract and intangible. Generally, they define basic human needs, desires, concerns, and fears. The task is finding shared interests that can serve as a common ground for generating creative collaborative problem solving techniques that address alternative positions with differing priorities among the parties that will satisfy the interests of all sides. As parties develop a greater understanding of each other’s interests, they can then move to the next step in principled negotiation.

3. Invent options for mutual gain - Collaborative processes are designed to create value, review alternatives, and “expand the pie” by working together in generating options. This approach avoids assuming single solutions or zero-sum conditions. One method is through “brainstorming” where the parties informally explore issues in detail prior to finalizing the agreement and without being judgmental. Negotiators are looking for ideas and solutions for addressing preferences, shuttling between the specific and the general, separating the problems into smaller segments, inventing agreements of different strengths, identifying shared interests, dovetailing differing interests, etc. This is followed by evaluation and expansion of promising ideas and solutions prior to final decision making.

4. Insist on using objective criteria - When interests are directly opposed, the parties should use objective criteria to resolve differences. Decisions based on reasonable standards make it easier for the parties to agree and preserve their good relationship. Criteria should be legitimate, practical, efficient, fair, and have merit. Source examples include scientific findings, professional and industrial standards, market value, replacement cost, precedent, the Kelly Blue Book, the law and legal precedent, or developed procedures to resolve issues.

(Continued on page 8)

geted specifically at the 20-something adults who frequent the downtown bar scene and are heavily engaged in music. This is another hit for us and has allowed us to establish new relationships with young readers and new advertisers. We also produce seven community telephone books serving Tehachapi, Ridgecrest, Taft, Frazier Park, the Kern River Valley, Shafter and East Kern. Finally, we now have more than a dozen websites that are serving different niches, including our flagship Bakersfield.com and our website aimed at newcomers: NewtonBakersfield.com. Another newer niche product is our BakersfieldLife magazine, a classic glossy city magazine that has gotten rave reviews from our advertisers.

What are the main challenges facing your industry?

The main challenge facing us is the same challenge facing all media, and that is the explosion of media “choices” for the consumer, driven by the maturation of the internet. The audience share for mainline TV channels is at an all-time low, as are the audience shares for old time terrestrial radio. Just look at what cable has done to the networks, and how devices like TIVO have changed the way people view TV. Many people no longer even see TV commercials any more, and the explosion of channels has further reduced its audience. The TV business is in quite a bind, and now it is losing viewers to digital sites like Youtube.com. The same is true with radio, where satellite radio and the use of iPods and CDs in cars have eaten into its share. And old mass media newspapers have also been impacted. We are still the

absolute best vehicle for an advertiser to reach a mass audience – certainly an upper income audience - but our readership has been impacted by the internet. We have responded by launching more than a dozen internet sites, including Bakersfield.com which is the premier website serving Kern County. It gets more traffic and more unique visits than any other website in Kern County. Bakersfield.com’s revenue grew more than 75 percent last year so it is certainly a solid revenue model. So our main challenge is the explosion of alternatives for people’s time, the same thing that is affecting all media. But we are confident (and our internal revenue numbers reflect it) that we are on the right road to diversify our revenue to build an even stronger company.

What aspects of your job keep you motivated?

Every day is a new challenge for me, and that’s what keeps me motivated. I also believe that the core of what we do here – gathering and editing local news and information, putting advertisers in front of the right audiences – are the right things to do for our community, and our society. It’s particularly true today when there is an avalanche of unedited opinion and “information” available on the internet. We take seriously our role in this democracy: to give people unbiased news and information with which to make sound decisions. That’s important and it’s nothing to be taken lightly. It’s what motivates me, and it’s what keeps my juices flowing.

5. Develop the best alternative to a negotiated agreement (BATNA) - The BATNA phase is culminated in the preparatory stage prior to starting negotiations. The idea is to baseline the minimally acceptable potential agreement by devising alternatives if the negotiation were to fail. Below that point it is best to discontinue and walk away from the negotiation effort, retreating to the BATNA. The party with the best BATNA is the more powerful party having ability to walk away from the negotiation. BATNA is the key to expanding existing assets by identifying opportunities and taking steps to further develop those opportunities.

The above listed fundamental structure of Fisher and Ury’s integrative approach is the basic foundation of principled negotiation. There are additional key elements that are integral to the negotiation process. The most important is through preparation, especially in dealing with complexities and intricacies. Building trust and

understanding is pertinent in developing relationships. Communication skills, listening techniques, and persuasive dialogues are requirements. Dealing with difficult opponents, dirty tricks and hardball tactics, power plays, conflict escalation, cultural diversity, ethical dilemmas, etc. are challenges that require experience, wisdom, and insightfulness in resolving differences. Awareness of psychological factors, such as emotions, perceptions, feelings, anxiety, fear, etc., are extremely beneficial in conducting negotiations. Employing humor may have a powerful impact in tense situations. It is all part of the total life cycle of the negotiation game. Have fun. Every one is doing it, so do it well.

VIRTUES, ETHICS, AND THE INTRODUCTORY ECONOMICS COURSE

MARK EVANS

INTERIM DEAN, SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION
PROFESSOR OF ECONOMICS, CSUB

Diane Coyle's *The Soulful Science* describes a "remarkable creative renaissance" occurring in economics. In Coyle's view, these advances are enabling economists to "make huge strides in understanding real human behavior" and "revolutionizing efforts to solve the world's most serious problems." As enthusiastic as Coyle is, she laments that "what we teach our students has changed only slowly over twenty-five years ... the basic introduction to the subject is still the simplest version of the standard paradigm." I second Ms. Coyle's lament and propose that a consideration of virtues and ethics in the introductory economics course is needed and overdue.

Students enroll in Human Sexuality 101 because they *want* to. They enroll for Economics 101 in droves because they *have* to. Who are these stakeholders imposing economics on our students? Economics is required by professional programs such as business and public administration. Students from all majors use it to satisfy general education requirements. According to AACSB International – The Association to Advance Collegiate Schools of Business, an accredited business program is expected to include "learning experiences in ... *ethical understanding and reasoning skills*." For a public administration program to be accredited by the National Association of Schools of Public Affairs and Administration, its curriculum must "enhance the student's values, knowledge, and skills *to act ethically* ..." The stakeholder for general education is the citizenry at large, which expects the baccalaureate experience to nurture core values such as self-actualization and informed civic engagement. Clearly, an appropriate consideration of virtues and ethics would be well received by the economics course's constituents.

Still, including this topic in the economics course makes sense only if it is fundamental to economics. The title of Adam Smith's tome -- *An Inquiry into the Nature and Causes of the Wealth of Nations* -- establishes the subject matter of economics. Quoting from this classic, "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest ... By pursuing his own interest ... he is ... led by an invisible hand to promote an end which was no part of his intention." The unintended larger end to which Smith refers is the economic well-being of society at large; the invisible hand is market competition, which limits our capacity to exploit others as we pursue personal gain. However, a growing body of research convincingly argues

it is seriously misleading to consider *The Wealth of Nations* in isolation of Smith's earlier book, *The Theory of Moral Sentiments*. This book's focus is the existence and importance of moral sentiments (i.e., empathic virtues and ethical codes). Most scholars who have studied Smith's entire body of work conclude he was saying, "*Empathic virtues and ethical constraints* + self-interest + competition = a high living standard." As economics currently is taught, ethics is ignored and Smith's theory is depicted as, "Self-interest + competition = a high living standard." The difference is profound.

Modern economics is validating the broader conceptualization of Adam Smith's theory. In 1958, Edwin Banfield's *The Moral Basis of a Backward Society* concluded that virtues such as a wide radius of identification and trust are an integral component of economic development. Banfield observed that the main cause of poverty in the towns of southern Italy he studied was "amoral familism," an inability to trust and, hence, cooperate with anyone beyond one's immediate family. Efficiency requires specialization and exchange on a global scale. The market cannot work its magic if efficiency-enhancing transactions are unduly restricted by mistrust. This trust depends on wide adherence to ethical norms.

Diverse research programs within economics are confirming Banfield's insight. Development economists now have access to the World Values Survey (WVS) administered every five years to inhabitants of an increasing number of nations. Empirical studies using the WVS and similar data sets show a positive relationship between economic development and social capital (i.e., trust relationships enabling cooperation among large groups). International trade theorists now explain shifting trade patterns using concepts such as "economies of scale" and "external agglomeration economies." The latter can be viewed as a fancy term for highly functioning social networks (which of course rest on a foundation of trust reinforced through adherence to ethical norms). Economic geographers and regional economists use these same concepts to explain urban growth and to devise economic cluster strategies for regional development.

Fortunately, it is possible to bring this currently neglected insight into the beginning economics course without crowding out anything of importance. Students already are ex-

(Continued on page 12)

PREPARING A VOTER OPINION AND BEHAVIOR STUDY



CRAIG W. KELSEY

*DEAN, EXTENDED UNIVERSITY DIVISION
PROFESSOR OF PUBLIC POLICY AND ADMINISTRATION, CSUB*

Many critical and important agendas confront the community, not the least of which might be initiatives dealing with bonds and future funding, acquisition or development of new or improved facilities and resources or the ability to move forward business or government projects. At times these initiatives require that citizens of the community learn of, understand and then vote on the priority and value of what may be complex, vital and far reaching proposals. Of assistance to the business or government professional, in particular in the early stages of the process, is the development and conducting of a voter opinion and behavior study. Is it possible to have a sense of “if” or “when” the citizens would feel comfortable in supporting those activities that would be important to the community’s future agenda? The answer is yes. In fact, it is possible to have an early and accurate idea of voter opinion, intended voting behavior and propensity regarding rather specific local community driven issues.

What is a Voter Opinion and Behavior Study?

A voter opinion and behavior study consists of a professionally constructed survey that uses scientifically based citizen selection processes with the intent to identify, understand and assess the collective views, opinions, attitudes, expectations and intended voter behavior of a representative sample of the registered voting citizen population of the concerned community. The study may also obtain information about voter support on a number of issues, a profile of the supportive voters, and the concerns and questions held by the non supportive voters. The purpose of this type of study is to obtain an early and accurate indication if key issues affecting both the citizens of the community and business or government are supported by the citizens as a whole, and if only by a part of the citizens, which ones and to what extent does the support exist. Also, it is possible to understand why the citizens feel the way they do. The types of subjects that can be researched are specific to the needs of the community, the initiatives under consideration and the extent and the level of detail desired by the group that sponsors the study.

Who Should Prepare and Conduct the Study?

The business or government professional has two choices when it comes to the development and conducting of these important voter opinion and behavior studies. One option is to use existing in-house staff, resources, time and energies. The other choice is to outsource the project to indi-

viduals or firms that have specific expertise in these types of studies. The choice between the two options is primarily one of staff expertise and time and the amount of consulting fees available in the budget. If the business or government agency feels confident that their staff has the type of research background and time to conduct such a study, then there is no reason not to proceed with in-house staff. However, if staff expertise and the pressures of other assignments are such that consulting dollars used to purchase the services of a specialty firm seems reasonable, that is common and is generally the preferred approach. The primary advantage of in-house staff is control of the study, while the obvious points of outsourcing are time, expertise and perhaps credibility.

There are three components to the development and conducting of the voter opinion and intended voter behavior study. The three elements are: 1) design of the survey and the selection of questions, 2) study methodology that determines how many and which voting citizens should be selected for participation in the study, and 3) reporting the results of the study, specifically the findings and conclusions, with necessary cautions.

The Survey

Two of the most common ways to survey community citizens are over the telephone or personal interview. This is particularly true for the voter opinion and behavior study. The specific voter contact method will be reviewed in the next section, but with either form of contact a survey interview instrument must be developed. The following are guidelines that should help when designing the survey instrument.

1. Develop an introduction that the surveyor reads to either the telephoned voter or the interviewed citizen. The introduction should identify the interviewer by name, who the interviewer is representing and that the voter is being asked to participate in a survey of public attitudes and opinions about issues confronting the community. It is not uncommon for the citizens to ask how long the process will take, so it is important to have timed the survey (do not exceed the 10 to 15 minute threshold) and be able to answer the question for the interviewee.

(Continued on page 11)

2. Determine the specific information desired from the survey respondent and build questions that are directly related to that informational need. Make sure the questions are located in “sets,” such as, all attitude questions, all intended behavior questions, and all demographic questions. To co-mingle the types of questions is usually exhausting to the citizen and confuses the process.
 3. Word the question in simple, understandable, direct to the point, bias free language. Also, make sure that the citizen has clear options from which to respond to the question. Some questions are easy for the citizens to answer because they are asking about simple, non-controversial issues while other questions are difficult for voters to respond to due to their complex and far reaching implications. When an interviewer is using the telephone or visiting with a citizen a question can be longer and more complex than on a mail survey because the interviewer is reading the question to the citizen and can use inflection and pauses to better help the citizen understand the question.
 4. Make sure the interviewer has a concrete way to record the answers of the citizens without delay, confusion or error. The surveyor should have an instrument where they can quickly record the response and have it properly coded for analysis. The answer boxes are not seen by the citizen but must be constructed for the research team so the findings are accurate, meaningful and useable.
- Lastly, the respondent should be thanked for their participation. The citizen may ask when and where they may review the finished survey. A proper answer should be developed. If the results of the survey are to be public, posting the results on the government or business web page is an easy and effective method.

The Study Method

At the heart of a quality, accurate and scientifically based voter opinion and behavior study is the proper selection of respondents to the survey. To proceed with confidence that the results of the survey constitute a representative sample of the registered voters, then specific attention must be paid to those selected as participants for the study. The following guidelines serve as a minimum for this important component of the study:

1. The respondents selected for the study must be residents of the community and registered voters properly authorized to vote in local elections. This identification is made on the basis of an accurate list of those that are, in fact, registered to vote in local elections. This of course, is the group to which we will infer voter opinion and intended voter behavior.

2. From the local list of all registered voters, the surveyor must pull a random sample using one of the sample techniques that constitute proper scientific procedure. The easiest method to use is the “table of random numbers” which allows the surveyor a simple, fast and accurate way to assure that, in fact, the sample is representative of the total voter population.
3. The sample size need not be large. The sample size is a function of the total number of registered voters and, therefore, will be different for each community. The surveyor may consult a “confidence level” chart which will indicate the proper sample size based on the greater total population size. The surveyor then selects the citizens to be surveyed using the random table method.
4. If the telephone survey method is used, then a trained set of callers makes contact with the identified voters and visits with them using the questionnaire device. If the interview approach is used, then the surveyor meets with the registered voter and queries that individual. As you can tell, the telephone method will be faster, less expensive and will yield the same quality of information.
5. In some studies the surveyor approaches individuals in public locales, such as a shopping mall, and asks the individual if they are a registered voter. If the response is yes then they are interviewed. This approach does yield important information from citizens but it violates the “representativeness” of the sample and, therefore, there is a significant risk in suggesting that, in fact, the total voters will have the same voter opinions and intended voter behavior.
6. Lastly, there are statistical programs that are available that can be applied to analyze the collected data. These computer software packages (the most commonly used for this type of study is SPSS) can breakdown the findings into very specific and meaningful categories. Not only does the data indicate total frequency of voter reaction per question, but also voter profiles are generated that describe the specific characteristics of the voter per opinion and intended voter behavior.

Reporting the Results

From the information gathered it will then be possible to deduce both general voter findings and specific voter opinion and intended and likely voter behavior. The findings must then be interpreted in light of each specific question and also the grouping of questions that deal with a common theme. It is possible that a similar type question was asked three or four times throughout the survey and the conclusions are based on the accumulations of the responses to all

(Continued on page 12)

of those questions. There are a few guidelines that should be followed when preparing the conclusions of the survey.

1. It is more accurate to use the findings from a group of questions asked about the same issue than the findings based on one question about an issue. In a well designed survey, certain key questions will be posed slightly differently throughout the survey. Picking up the trend from these sets of questions indicates consistency of belief on the part of the voter.
2. Be careful in combining the response categories (strongly agree, somewhat agree) together in making a conclusion. This is a common practice in general surveys and is helpful in noting trends, but it is a more delicate matter in voter opinion and behavior studies. It is essential that in this type of study we know exactly how the voter feels and the depth of commitment held to each issue.
3. Inter-demographic comparisons are important to note. When a question is asked, it is important to note how different segments of the population feel about the same questions. Do residents of the east side of the city feel differently than the residents of the west side? Also important here is to determine if the difference, if any exists, is a wide margin or not.
4. Be careful with the use of the word “significant.” This term has special meaning in statistics-based research and indicates that the strength of the voter’s opinion or intended voter behavior is not due to chance but will, in fact, remain. Only use the term when statistical evidence will support the use of that specific term.
5. The words “majority of voters” may mean 51% of the voters. However, each survey will have a certain amount of sample from total population error (for example, + or -3%) and that + or – percent should be noted particularly when the percent of the majority is close. There are times when the conclusion is that voter opinion and behavior is just too close to call accurately.
6. The use of key words such as “definitely” or ‘likely” must be used with exactness. The purpose behind a voter opinion and behavior study is to be able to project with accuracy if a particular measure will be supported by voters or not. Make sure conclusions are based on the proper interpretation of these key words.
7. Be careful of using “unrealistic options” when providing respondents a selection or choice. If voters are asked if they would support a new parks and recreation venture if it was funded by a grant or a tax increase, almost all citizens would pick the grant option. It is more likely that a tax increase is a more accurate choice and so there is little point for the grant option.

A voter opinion and intended behavior study can be of importance to business and government. Questions ranging from support to non support of a measure to what arguments are most convincing for voters to hear are examples of the key types of information that can be garnered. If prepared and conducted properly, the business or government agency is in a better position to understand, predict and use voter opinion and intended behavior.

pected to learn that living standards of individuals and regions increase through specialization and exchange. This objective can easily be extended to incorporate the reality that these gains will be larger for individuals and groups with the wide radius of identification and trust brought about through adherence to ethical norms. This insight can be empirically demonstrated toward the end of the course when international economic development is considered. Game theory and the prisoner’s dilemma (recall the movie, *A Beautiful Mind*), already included in the introductory course, can be used to illustrate that ethical norms such as honesty and retaliatory sanctions against cheaters are efficiency-enhancing. The concept of externalities, currently used to analyze pollution, also can be used to discuss how social capital and social networks affect urban agglomeration and regional development.

Does any of this matter? Will our future leaders *become* more ethical just because they gain *knowledge* of a positive connection at the societal level between adherence to ethical norms and average living standards? It can’t hurt. The status quo apparently is far from neutral. Robert Frank’s *What Price the Moral High Ground?* summarizes several experiments that suggest increased exposure to the self-interest model currently dominating economics instruction increases reliance on “go-it-alone” strategies and weakens dispositions toward integrative cooperation. Should we consider ethics in economics? We can’t afford not to.

The author acknowledges and thanks CSU Bakersfield’s Kegley Institute of Ethics for supporting this inquiry and Steven Gamboa, his co-investigator.

TRACKING KERN'S ECONOMY

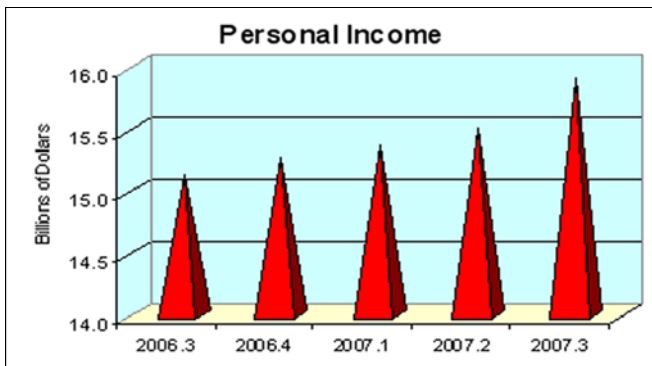
THIRD QUARTER OF 2007

ABBAS P. GRAMMY

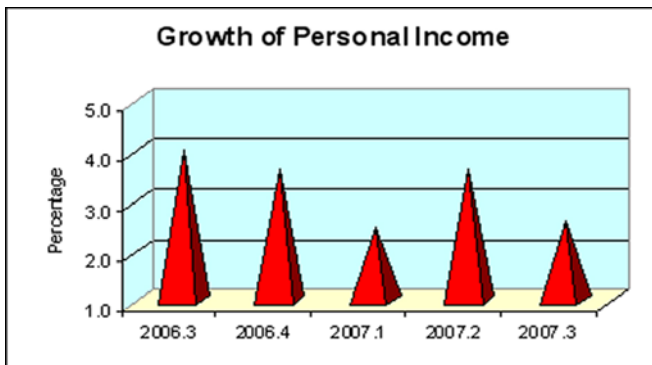
PROFESSOR OF ECONOMICS, CSUB

Economy

Personal Income - Kern County's personal income (in constant 1996 dollars) increased from \$15.50 billion in the second quarter to nearly \$15.60 billion in the third quarter of 2007. The county's economy expanded \$100 million this quarter. Over the previous four quarters, Kern County's economy has added \$460 million of personal income.



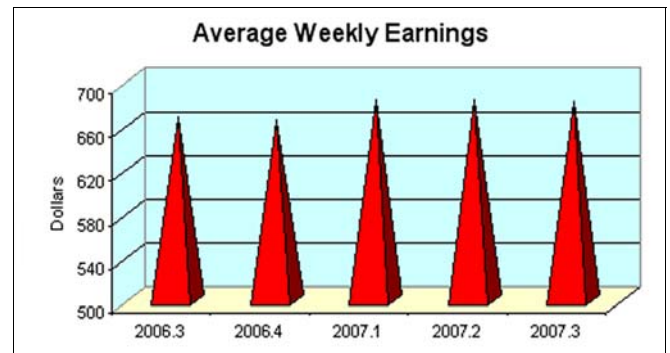
Growth of Personal Income - In the third quarter of 2007, the growth rate of personal income decelerated from 3.6 percent to 2.6 percent. Compared with the third quarter of last year, the rate of economic growth slowed 1.6 percent.



Personal Income Per Worker - Labor productivity is measured by personal income per worker. In the third quarter of 2007, personal income rose faster than the labor force, enabling personal income per worker to rise \$290 from \$49,420 to \$49,710. Labor productivity has increased \$730 since the third quarter of 2006.

Manufacturing Wages - In the third quarter of 2007, weekly wages paid to local manufacturing workers declined slightly from \$682.82 to \$681.33. On average,

they worked 41.8 hours per week at \$16.29 per hour. Relative to the third quarter of last year, local manufacturing workers earned \$14.62 more per week.



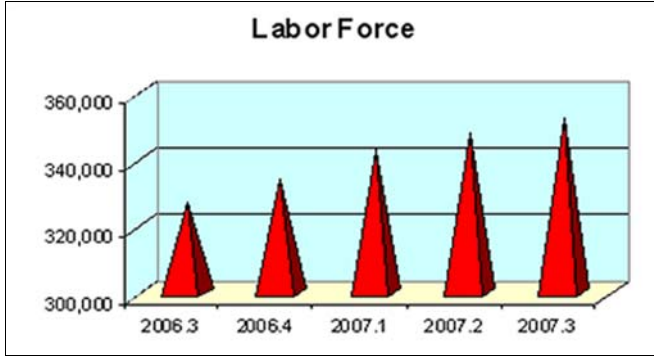
Labor Market

To analyze labor market conditions in Kern County, a time-series dataset was established (January 2000 – September 2007). 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 major market indicators are shown below:

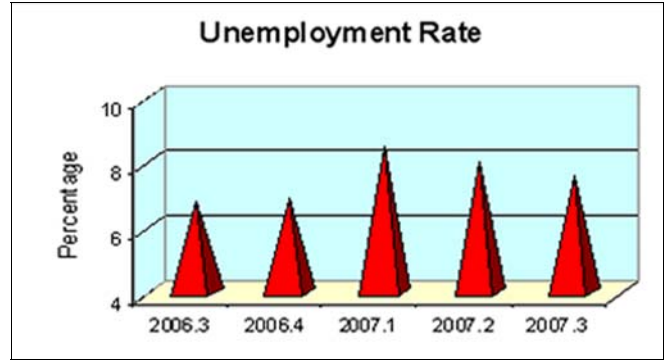
Labor Force	Total Employment	Total Unemployment	Farm Employment	Nonfarm Employment	Private-sector Employment	Public-sector Employment
4,500	5,600	-1,100	11,300	-3,400	1,400	-4,800

(Continued on page 14)

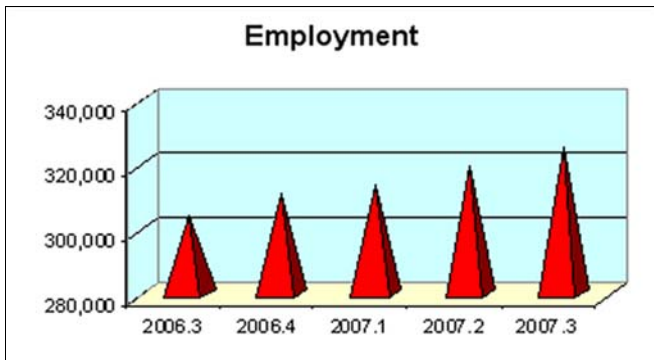
Labor Force - The civilian labor force increased by 4,500 workers from 347,600 in the second quarter to 352,100 in the third quarter of 2007. Compared with four quarters ago, the labor force increased by 25,320 workers.



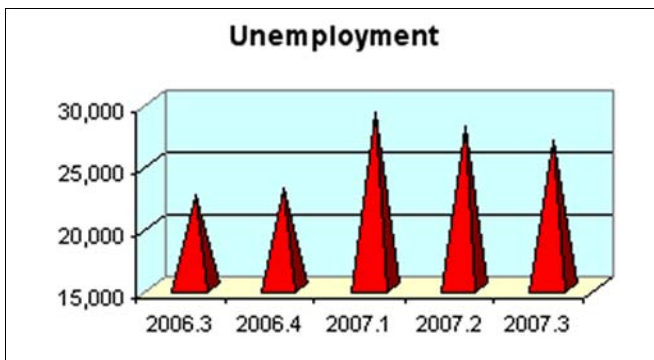
Unemployment Rate - The rate of unemployment dropped from 8.0 percent in the second quarter to 7.6 percent in the third quarter of 2007. Nevertheless, this quarter's unemployment rate was 0.8 percent higher than that of four quarters ago.



Employment - In the third quarter of 2007, Kern County's economy added 5,600 jobs as total employment climbed from 319,700 to 325,300. Relative to the third quarter of 2006, 21,100 more workers were employed this quarter.



Unemployment - In the meantime, the number of jobless workers decreased by 1,100 as unemployment fell from 27,900 in the second quarter to 26,800 the third quarter of 2007. However, 4,300 more workers were unemployed this quarter relative to four quarters ago.



The rate of unemployment varied considerably across the county. It ranged between 3.0 percent in Kernville and 21.6 percent in Arvin. The rate of unemployment was below the county's average of 7.6 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.

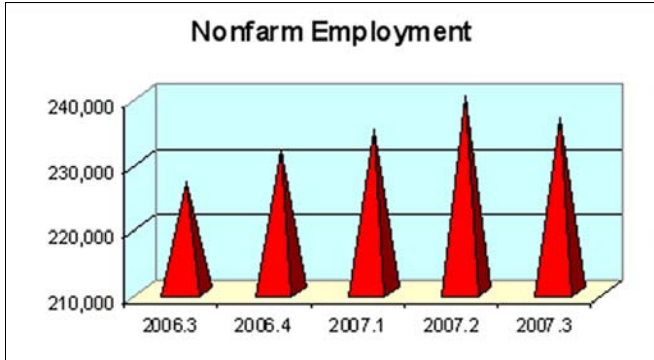
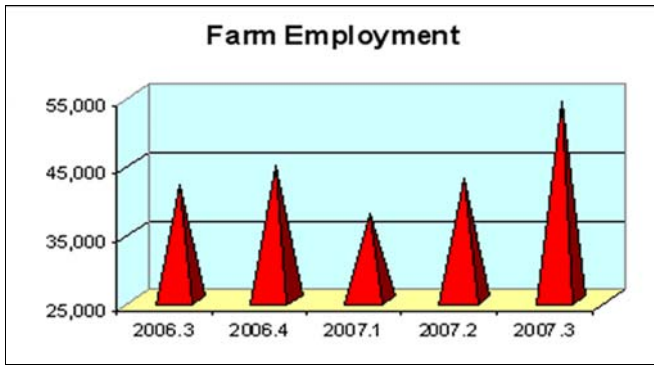
Unemployment Rate of Cities			
Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Kernville	3.0	Oildale	8.0
Lebec	3.3	Lake Isabella	9.2
Ridgecrest	4.3	Mojave	9.6
Tehachapi	5.0	Shafter	14.0
Inyokern	5.0	Lamont	14.1
Bakersfield	5.2	Wasco	14.6
California City	5.9	McFarland	16.6
Rosamond	6.1	Delano	21.0
Frazier Park	6.6	Arvin	21.6
Taft	7.4		

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

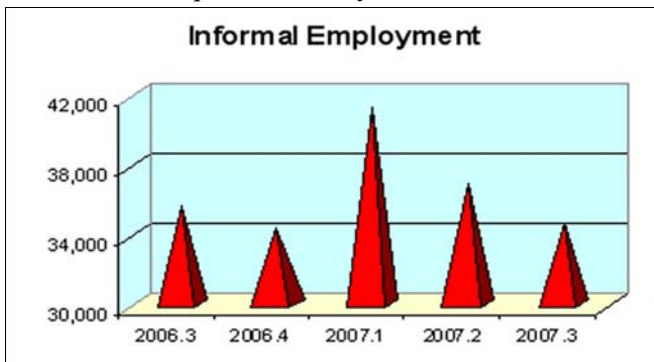
Farm Employment - In the third quarter of 2007, Kern County gained 11,300 farm jobs as employment increased from 42,800 to 54,100. The county's farm employment this quarter offered 12,200 more jobs this quarter relative to four quarters ago.

Nonfarm Employment - In the third quarter of 2007, the number of nonfarm workers decreased from 240,000 to 236,600 for a loss of 3,400 jobs. Nevertheless, nonfarm industries have added 9,900 jobs since the third quarter of 2006.

(Continued on page 15)



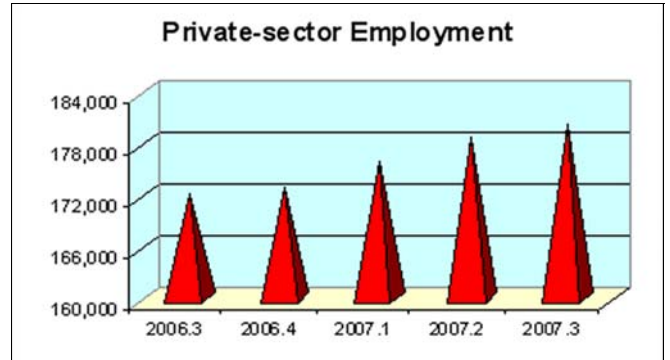
Informal Employment - Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and those who work outside their county of residence. In the third quarter of 2007, the number of workers engaged in this market decreased by 2,300 from 36,900 to 34,600. Likewise, the informal labor market has lost 1,000 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 2007, private companies added 1,400 jobs as their employment rose from 178,800 to 180,200. The private sector has added 8,100 jobs since the third quarter of last year from 176,000 to 178,800. The private sector has added 8,800 jobs since the second 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 2007, government agencies eliminated 4,800 jobs as their employment fell from 61,200 to 56,400. The majority of job losses occurred in the local government including public education and county government agencies. Relative to the third quarter of last year, however, public-sector employment edged 1,830 higher.

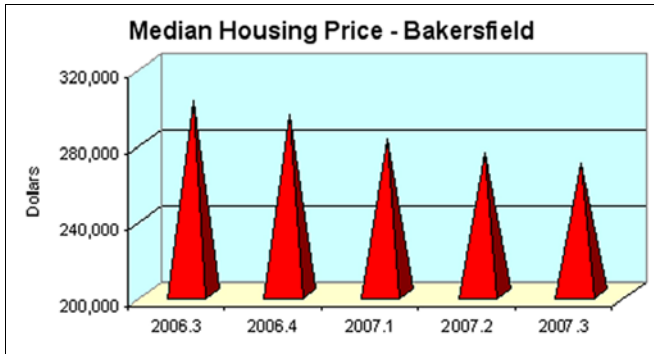
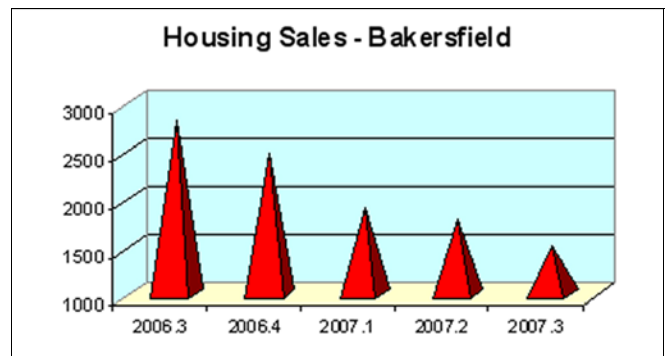


Housing Market

Housing Price - In the third quarter of 2007, Kern County's housing market continued to soften. The median sales price for all residential units depreciated \$9,000 (or 3.4 percent) from \$261,000 to \$252,000. The county's median housing price was \$26,000 (or 9.4 percent) lower than that of four quarters ago.

In Bakersfield, the median housing price depreciated \$5,800 (or 2.1 percent) from \$274,500 in the second quarter to \$268,700 in the third quarter of 2007. Since the third quarter of 2006, the city's median housing price has depreciated \$32,900 (or 10.9 percent).

In the third quarter of 2007, housing price changes varied across the county. Among selected locations shown below, the median housing price appreciated only in Delano. However, the median housing price declined in all other cities. In particular, Taft, California City and Ridgecrest recorded exceptionally large depreciation rates.

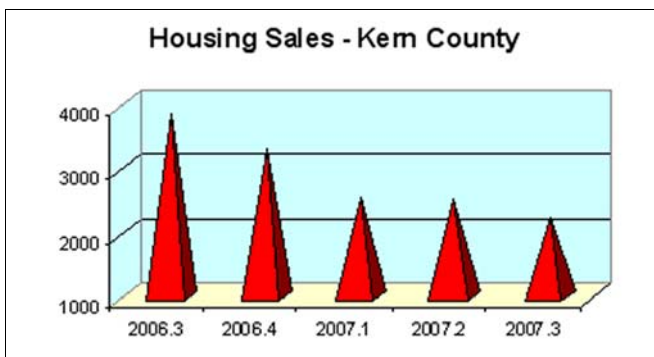


Median Housing Price per Square Foot - The median sales price per square foot of housing area declined \$9 from \$165 in the second quarter to \$156 in the third quarter of 2007. Since the third quarter of last year, the housing price per square foot has plunged \$27 from \$183 to \$156.

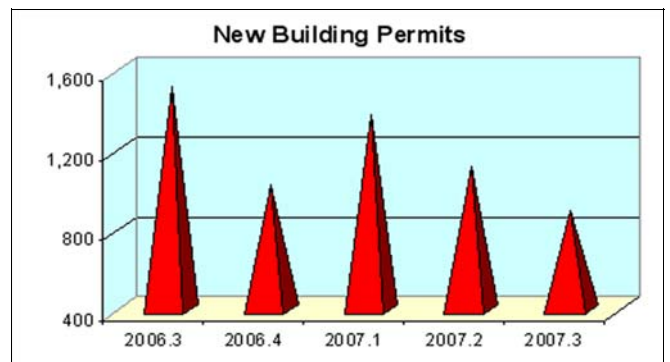


Location	Median Price 2007.3	Median Price 2007.2	Median Price Change	Median Price Change
Kern County	\$252,000	\$261,000	-\$9,000	-3.4%
Bakersfield	\$268,700	\$274,500	-\$5,800	-2.1%
California City	\$201,200	\$217,300	-\$16,100	-7.4%
Delano	\$234,800	\$226,000	\$8,800	3.9%
Ridgecrest	\$181,500	\$194,500	-\$13,000	-6.7%
Rosamond	\$257,800	\$266,500	-\$8,700	-3.3%
Taft	\$144,300	\$173,800	-\$29,500	-17.0%
Tehachapi	\$275,600	\$283,300	-\$7,700	-2.7%

Housing Sales - Housing sales have dropped for six consecutive quarters. In the third quarter of 2007, 286 less homes were sold. The number of residential units sold fell from 2,496 to 2,210. The number of units sold this quarter was 1,611 less than that of four quarters ago.



New Building Permits - In the third quarter of 2007, the number of building permits issued for the construction of new privately-owned dwelling units plummeted by 218 from 1,111 to 893. Likewise, 618 less building permits were issued relative to the third quarter of 2006.



In Bakersfield, 259 less homes were sold as the number of all residential units sold fell from 1,781 in the second quarter to 1,522 in the third quarter of 2007. Compared with four quarters ago, sales declined by 1,282.

Mortgage Interest Rate - In the third quarter of 2007, the interest rate of thirty-year conventional mortgage loans increased from 6.37 to 6.55 percent. Since the third quarter of last year, the mortgage loan interest rate has remained almost constant.

(Continued on page 17)



Housing Foreclosure Activity - In the third quarter of 2007, the county's foreclosure activity accelerated from 1,593 to 2,196. As a result, 603 more homeowners received notices of loan default from their mortgage bankers. Since the third quarter of 2006, Kern's foreclosure activity has nearly tripled from 741 to 2,196.



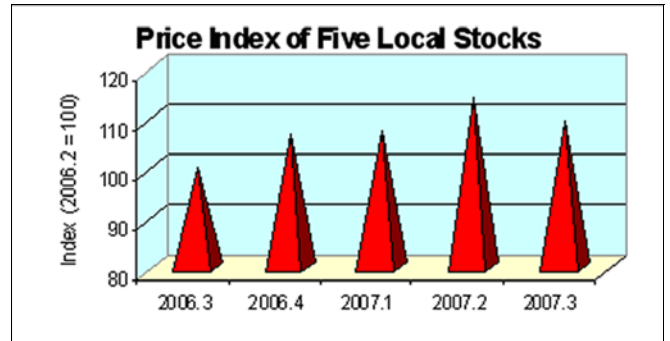
Housing Affordability - Here, we define housing affordability as the average household income divided by the median housing price. In the third quarter of 2007, the housing affordability indicator increased nearly one percentage point from 14.6 to 15.5 percent. Compared with four quarters ago, the affordability index gained 2.1 percent.



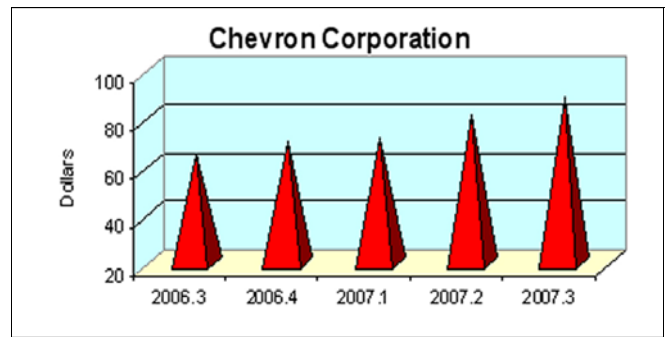
Stock Market

In the second quarter of 2007, the composite price index (2006.3 = 100) of the top five locally traded stocks declined 2.0 percentage points from 110.4 to 109.4. How

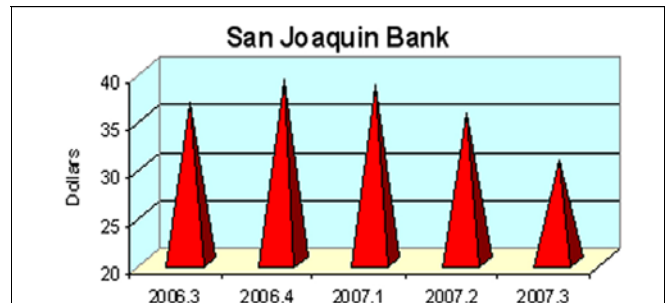
ever, the index was 9.4 percent higher than that of the third quarter of 2007. These top five local market-movers are Chevron Corporation, San Joaquin Bank, Granite Construction, Occidental Petroleum Corporation, and Tejon Ranch Company.



Chevron Corporation US: CVX gained \$7.70 (or 9.51 percent) per share as its price climbed from \$81.17 in the second quarter to \$88.87 in the third quarter of 2007. CVX has gained \$23.87 (or 36.7 percent) since the third quarter of 2006.

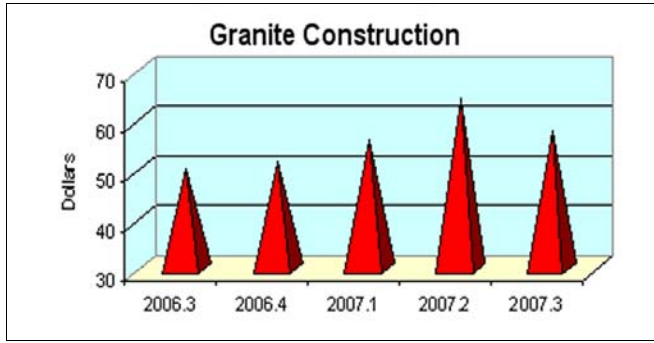


San Joaquin Bank: SJQU lost \$5.00 (or 14.1 percent) per share as its price fell from \$35.50 in the second quarter to \$30.50 in the third quarter of 2007. Likewise, SJQU has lost \$6.17 (or 16.8 percent) since the third quarter of 2006.

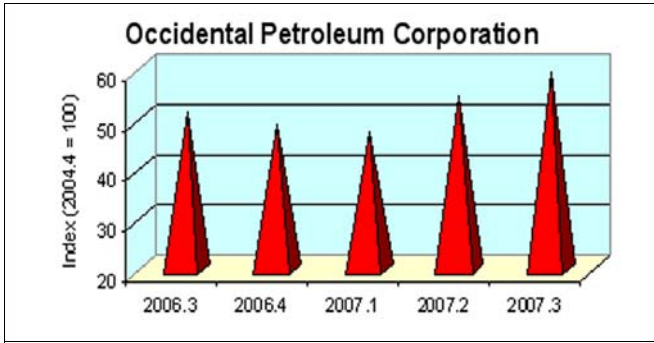


Granite Construction: GVA lost \$6.82 (or 10.6 percent) per share in the third quarter of 2007 as its stock price plunged from \$64.30 to \$57.48 per share. Nevertheless, GVA has gained \$7.32 (or 14.6 percent) since the third quarter of 2006

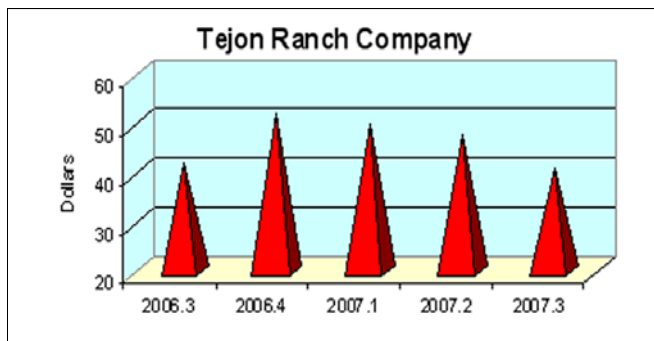
(Continued on page 18)



Occidental Petroleum Corporation: OXY gained \$4.64 (or 8.5 percent) per share as its stock price climbed from \$54.52 in the second quarter to \$59.16 in the third quarter of 2007. OXY has gone up \$8.17 (or 16.0 percent) since the third quarter of 2006.

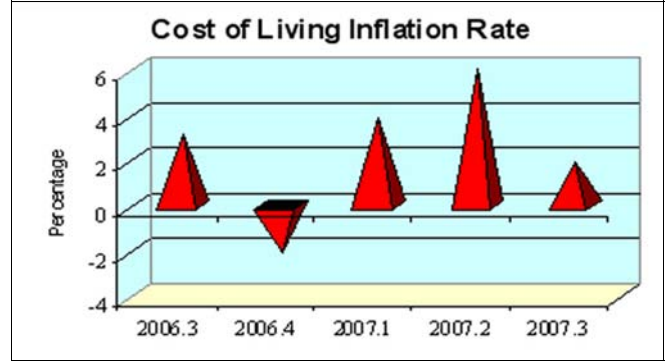


Tejon Ranch Company: TRC lost \$6.94 (or 14.5 percent) per share as its stock value dropped from \$47.76 in the second quarter to \$40.82 in the third quarter of 2007. Similarly, TRC was down \$1.39 (or 3.3 percent) relative to the third quarter of 2006.

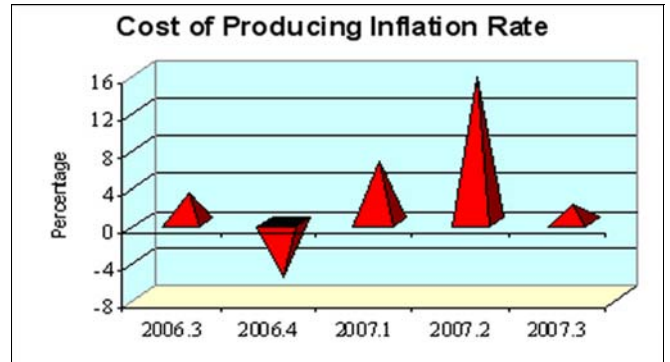


Commodity Prices

Cost of Living - The Consumer Price Index for all urban areas (1982-84 = 100) inclined from 207.1 in the second quarter to 208.0 in the third quarter of 2007. In annual rates, the rate of inflation for cost of living decelerated from 5.8 to 1.9 percent. Since the third quarter of last year, the cost of living inflation rate has risen 1.2 percent.



Cost of Production - The Producer Price Index for all commodities (1996 =100) climbed from 172.8 in the second quarter to 173.6 in the third quarter of 2007. In annual rates, the inflation rate for cost of producing decelerated sharply from 15.4 to 1.9 percent. The cost of producing inflation rate was 1.3 percent higher than that of the third quarter of 2006.

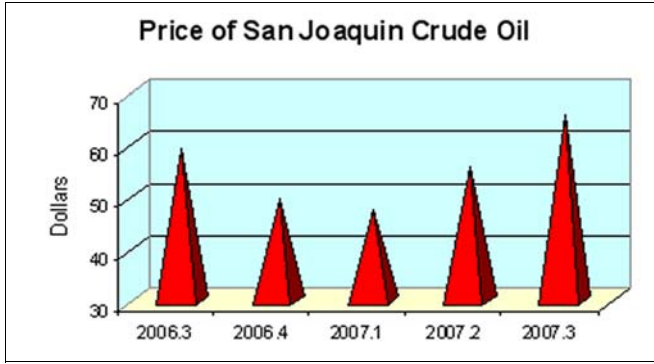


Cost of Employment - In the third quarter of 2007, the Employment Cost Index (ECI; December 2005 = 100) increased at an annual rate of 3.0 percent from 105.1 to 105.9. The ECI has gone up 0.6 percentage point since the third quarter of 2006.

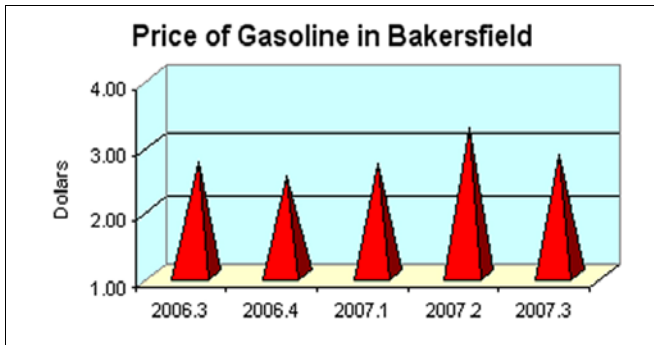


Price of Oil - The average price of San Joaquin Valley heavy crude was up \$9.84 per barrel from \$55.59 in the second quarter to \$65.43 in the third quarter of 2007. Likewise, the average price of crude oil was up \$6.40 per barrel relative to the third quarter of 2006.

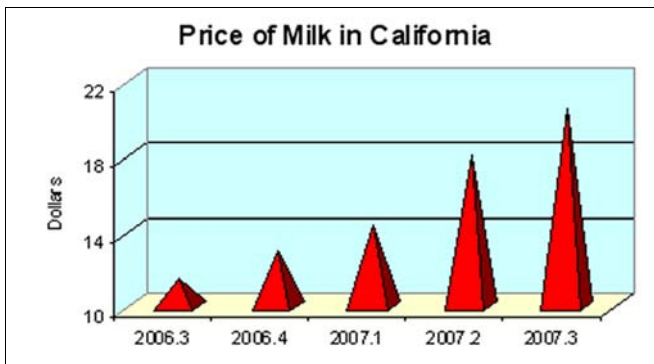
(Continued on page 19)



Price of Gasoline - In the Bakersfield metropolitan area, the average retail price of regular gasoline per gallon dropped 41¢ per gallon from \$3.23 in the second quarter to \$2.82 in the third quarter of 2007. However, the average gasoline price was up 9¢ relative to the third quarter of 2006.



Price of Milk - The average price of California's Class III milk increased \$2.56 per cwt from \$17.95 in the second quarter to \$20.51 in the third quarter of 2007. Compared to the third quarter of 2006, the price of milk was \$9.09 higher.



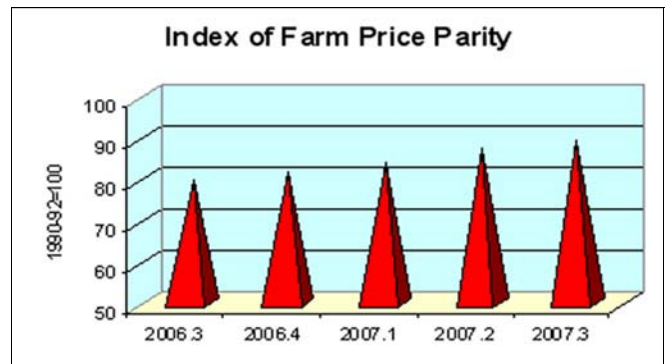
Farm Prices - In the third quarter of 2007, the national Index of Prices Received by Farmers for all farm products (1990-92 = 100) rose 3 percentage points to arrive at 141. This index was 23 percentage points higher than that of four quarters ago.



The national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents remained constant at 158. However, this index has gained 10 percentage points since the third quarter of last year.



The Index of Farm Price Parity is measured by the ratio of the Index of Prices Received to the Index of Prices Paid. In the third quarter of 2007, the Index of Farm Price Parity improved 2 percentage points to reach 89. The gap between prices paid and prices received by farmers has narrowed 9 percentage points since the third quarter of last year.



BOOK REVIEW

KNOWLEDGE AND THE WEALTH OF NATIONS: A STORY OF ECONOMIC DISCOVERY

BY DAVID WARSH; W. W. NORTON AND COMPANY, 2006



REVIEWED BY: DAVID BERRI

ASSOCIATE PROFESSOR OF ECONOMICS, CSUB

College professors are asked to do two tasks – teaching and research. Teaching is well understood by the general public. Whether you went to college or not, you understand what a teacher does in a classroom. Research is not as well understood. Most members of the general public do not read academic articles and perhaps suspect that many of these articles would not be very interesting. Having written and read a fair number of articles, I can confirm the suspicion about the interest level of some research. Given the nature of academic articles, can a book about an academic article be expected to capture your attention?

The surprising answer is **yes!** In *Knowledge and the Wealth of Nations*, David Warsh – an economic journalist – reviews the history of an academic article written by Paul Romer. In October of 1990 *The Journal of Political Economy* published Romer’s article: “Endogenous Technological Change.” This paper, which Warsh notes, “...observed all the ordinary conventions of scientific writing: passive voice, mathematical analysis, modest claims,” changed the way we view the economic growth and development of nations. Hence, it changed how we view one of the most important questions economists ask – why are some nations rich and others poor?

The story Warsh tells begins with a brief discussion of the nature of academic meetings in economics, specifically a meeting that took place six years after “Romer ‘90” (as the paper is known) was published. Why begin the story with an academic meeting? Warsh is not interested to simply tell us what Romer’s paper is about and why it matters. What Warsh wants to do is tell us how an idea becomes accepted in a discipline. To understand this process, you need to understand the nature of academia.

The creation and acceptance of ideas is certainly not a new phenomenon. The study of economic growth is also not new. Consequently, after a brief discussion of the nature of the academic discipline that is economics, Warsh quickly moves back in time.

The story of why nations grow is perhaps the oldest tale told in economics. Adam Smith wrote an entire book – yes, *The Wealth of Nations* – examining this very topic. It is the review of Smith’s work where Warsh’s tale really takes off. Beginning with Adam Smith, Warsh takes the reader

through a whirlwind of pre-20th century thinkers. David Ricardo, Thomas Malthus, Karl Marx, and Alfred Marshall are all people we meet along the way. And Warsh doesn’t just tell you their ideas, but also explains who these people were.

Warsh then moves into the 20th century where we meet, among others, Robert Solow, Kenneth Arrow, George Akerlof, and Robert Lucas. All people who have won the Nobel Prize in economics, and all people who have contributed to our knowledge of economic growth. Again, for each writer Warsh explains both who the writer was (or often is) and what contribution that writer made to our understanding of economic growth.

The approach extends to the story of Paul Romer. After detailing all the people whom Romer mentions, Warsh turns to the story of the book’s primary protagonist. Romer was born in 1955 in Colorado, the second of seven children. His father, Roy Romer, was a three-term governor of Colorado, as well as co-chair of the Democratic National Committee and superintendent of schools in Los Angeles. Romer’s academic career begins in 1973 as an undergraduate student at the University of Chicago. He then went to do graduate work at MIT and Queen’s College, and then wrote his dissertation back at Chicago. Upon earning his Ph.D. at Chicago, Romer went to work at the University of Rochester. After a few years at Rochester it was back to Chicago, and then to the University of California-Berkeley.

Warsh details all these moves, but does so in the context of the research Romer pursues. The story of that research involves a host of other major names in economics (e.g., Robert Barro; Paul Krugman; Gregory Mankiw). The interaction between this group is what makes this tale so interesting. In the end, we indeed see one person’s idea can change the way we see the world. As Warsh notes, before Romer people thought about economic growth in terms of factors of production. Land, labor and capital were the focus of economics. After Romer, the focus shifts to “people, ideas, and things.” The economics of knowledge now is part of the story economists tell. How we got to that point is quite a riveting tale.

San Joaquin Valley’s Competitive Advantage

The United States has a large food manufacturing industry (NAICS 311), which provides jobs to 10.4 percent of manufacturing workers and pays them \$706 per week. Similarly, California’s employment share in food manufacturing is 10.1 percent and its average weekly wage is \$751. The concentration ratio of 0.88 implies that California is less specialized in food manufacturing than its nationwide counterpart. With negative growth rates, both the nation and state food manufacturing industries have lost jobs. Between 2001 and 2006, food manufacturing employment fell 5.4 percent in the United States and 4.8 percent in California.

In contrast, food manufacturing is a relatively large, fast growing, and highly specialized industry in the San Joaquin Valley. Firms operating in this industry provide jobs to about 44 percent of the manufacturing workforce and pay them \$705 per week. The industry’s employment grew by 2,524 or 5.6 percent as the number of workers increased from 45,280 in 2001 to 47,804 in 2006. With the concentration ratio of 4.17, the Valley is nearly four times more specialized in food manufacturing than the same industry nationwide. Fresno, Stanislaus, and Merced have the largest food manufacturing industries and Madera, Kern, and Kings have the fastest growing. Although all counties exhibit competitive advantage over the same industry nationwide, Merced, Kings, and Stanislaus have the largest concentration ratios. Food manufacturers in Stanislaus, Tulare, and San Joaquin pay the highest weekly wages to their workers.

Employment Data for Food Manufacturing, NAICS 311						
Location	Employment 2006	Employment 2001	Employment Share 2006	Employment Growth	Employment Concentration	Weekly Wage
United States	1,470,421	1,554,605	10.4%	-5.4%	1.00	\$706
California	150,525	158,049	10.1%	-4.8%	0.88	\$751
San Joaquin Valley	47,804	45,280	43.9%	5.6%	4.17	\$705
Fresno	12,127	11,746	44.5%	3.2%	3.24	\$635
Kern	4,896	3,543	38.3%	38.2%	1.70	\$653
Kings	3,107	2,281	75.5%	36.2%	7.93	\$742
Madera	593	367	17.8%	61.6%	1.29	\$630
Merced	5,846	5,744	58.5%	1.8%	8.09	\$666
San Joaquin	6,155	5,500	28.2%	11.9%	2.55	\$746
Stanislaus	9,504	11,937	42.8%	-20.4%	4.94	\$807
Tulare	5,576	4,162	45.7%	34.0%	3.64	\$761

Enterprise College: Economics for Future Leaders
 Summer Economics course for high school juniors
www.csub.edu/~agrammy



- Answering business and economic questions
- Providing data and reports on demographic and economic conditions of California, San Joaquin Valley, and Kern County
- Conducting survey research, market analysis, impact study, feasibility study, statistical analysis and forecasting, cost-benefit analysis, and cluster analysis

Kern Economic Journal 4045
Abbas Grammy
School of Business and Public Admin.
California State University, Bakersfield
20 BDC
9001 Stockdale Highway
Bakersfield, CA 93311-1022



Whatever your line of business

We have the tools to help your business grow

Rabobank proudly supports CAL State University, Bakersfield and their success with the Kern Economic Journal. Our legacy of community banking extends over 100 years, and that dedication continues to be the heart of Rabobank's mission today: meeting the needs of local communities with a wide range of great banking products, personalized banking relationships, and the friendly smiles of local Rabobank professionals.

At Rabobank, we invest our personal time and energy as well as our resources into our communities - ***because we don't just work here, we live here too.***

- Treasury Management
- Business Banking
- SBA Preferred Lender
- Commercial Lines of Credit
- Real Estate Construction Financing
- Residential Lending

We're here to help you succeed!

Bakersfield

Northeast **847-7301** Southwest **283-7605** Stockdale **833-7243**



Rabobank, N.A.
Member FDIC
RabobankAmerica.com



Rabobank