

## IN THE NEWS

### Lotteries' Regressivity Inverse To Their Prizes



Beth Rooney

As Illinois lawmakers weigh the costs against the benefits of expanding legalized gambling, critics assert that such legislation will

disproportionately affect the poorest citizens. A recent *Chicago* magazine article on this debate profiled **Emily Oster**, assistant professor of economics, and her research, "Are All Lotteries Regressive? Evidence from the Powerball," published June 2004 in the *National Tax Journal*.

While previous research has demonstrated that lotteries are largely played by low-income individuals, Oster presents evidence that this regressive effect actually diminishes as prizes grow. Examining Connecticut's Powerball, specifically, Oster found that as the size of the purse increased, so did the percentage of players from the top income quintile.

"It could be that the 'fun' of the lottery is dependent, in part, on how large the prize is relative to the player's current wealth," she writes. Or, because the rich tend to be better educated, they understand the odds against winning and may require a greater incentive to be tempted.

Extrapolating on these results, her model suggests that lotteries become progressive at a jackpot of \$806 million. Oster concludes her research asserting that, "concentrating lotteries so there are fewer games, with longer odds and higher jackpots, could allay some fears about regressivity." —A.D.

Emily Oster

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### Active Management



Beth Rooney

Why do investors keep their money in actively managed funds, even though index funds have offered higher returns on aver-

age for over 30 years? According to a new Center for Research in Security Prices Working Paper by **Lubos Pastor**, Charles P. McQuaid Professor of Finance, active investors expect their returns to rise as more and more capital moves into index funds.

In "On the Size of the Active Management Industry," Pastor and his co-author, Robert Stambaugh, developed a model of investor behavior based on the premise that there are decreasing returns to scale in the active management industry. Ultimately, as more money chases mispricing, mispricing becomes harder to find.

In Pastor and Stambaugh's model, past underperformance of active management leads investors to move some capital from active to passive management. This move creates new opportunities for active managers, with one result being that active performance improves going forward. "Given the observed performance of active mutual funds," the authors write, "investors' proportional allocation to active management should have shrunk only modestly since 1962."

The study prompted a columnist in the *Financial Times* to write, "fascinating research suggests that we are acting rationally when we give money to an active manager—though we may be gripped by a dreadful collective action problem." —D.K.

### Body of Evidence



Dan Dry

In May, the Cambridge University Press published *The Changing Body: Health, Nutrition, and Human Development in the Western*

*World Since 1700*, co-authored by **Robert Fogel**, Charles R. Walgreen Distinguished Service Professor of American Institutions, along with Roderick Floud, Bernard Harris and Sok Chul Hong. The book—a result of nearly 30 years of research—demonstrates that, "In most if not quite all parts of the world, the size, shape and longevity of the human body have changed more substantially, and much more rapidly, during the past three centuries than over many previous millennia." Citing the book's findings, the *Independent on Sunday* reports, "The changes are too rapid to be evolutionary."

The authors attribute these changes largely to technology, which has brought about huge advances in nutrition, disease control, and sanitation over the past few centuries. Their research into this new "technophysio evolution," as described in a recent, in-depth report on the book in the *New York Times*, is being hailed as one of the most important stories in human history. According to University of Pennsylvania sociologist Samuel H. Preston, who was quoted in the article, "Mr. Fogel and his colleagues' great achievement was to figure out a way to measure some of that gain in body size." The article goes on to describe the resulting book as, "A testament to both the staggering accumulation of information and the collaborative nature of the enterprise." —K.A.

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**FEATURES**

## Faculty Digest

### In Climate Change Debate, Perception Is Reality

**Jane Risen** finds that facilitating people's ability to envision a future event can be more compelling in persuading them of its possibility than any scientific evidence.

By Kerry Mackenzie

10

## Capital Ideas: Diverging Motives

Come merger time, cross-owning shareholders split their investment allegiances, voting in favor of mergers that increase the value of an acquiring company's stock against the best interest of the target company, according to research by **Gregor Matvos**.

By Vanessa Sumo

18

## Management Conference 2011

Chicago Booth faculty and business experts weigh in on the seismic shift toward social media and what this means for business.

By Phil Rockrohr

22

## Cover Scorecasting

Taking econometrics to the sports arena, **Tobias Moskowitz**'s research dispels age-old myths, debunks legends, and changes not just the way we think about sports, but how we approach financial markets as well.

By Josh Schonwald

30

**IN EVERY ISSUE**

### Letters & News

From the Dean ..... 2

News Update ..... 5

### Back Story

Linda Ginzel ..... 64

### Alumni News

Alumni Affairs Update ..... 39

Career Services Update ..... 43

Class Notes ..... 46

In Memoriam ..... 63