

An Interview with Dr. Judith Chevalier

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Interviewed by Caren Grown, International Center for Research on Women (ICRW)

I was an undergraduate at Yale, and I had no clue what I was going to do. I thought I would become a biology or a chemistry major, though I never did take a science course. But I took economics my freshman year, and I was kind of interested in it. My first class was Bill Nordhaus' introductory macro. It was an epiphany! It introduced me to how economists think. The intro class was pretty easy so I thought "this isn't so bad!" I kept taking more classes, and I had a lot of good professors at Yale. Rick Levin advised my undergraduate thesis. I also took a Ph.D. class with Nancy Galini and Nancy Lutz, who interested me in industrial organization.

Even as a child, I wanted to be an academic, although I didn't know in what field. My image of academic life was very romantic. After Yale, I thought about public policy school or law school, but economics seemed more rigorous. Graduate school was much better than I anticipated. It was really hard work, in contrast to my childhood image of drinking tea and discussing literature!

At MIT, I knew I was going to do IO from the start. Jean Tirole and Paul Joskow taught the intro IO sequence. MIT had a lot of good IO economists around at the time, including Nancy Rose and Dick Schmalanese, who had just come back from Washington. It was a good place to do IO. I also took economic history and thought I might actually go into that. I took a great class with Claudia Goldin and my work reflects that background more than you might think. Claudia loves finding old documents and using them in her empirical work. I do that too, but the documents aren't as old. I also took a corporate finance course with Jeremy Stein, and became quite interested in that. He had a little section on his syllabus on IO-corporate finance interactions. There wasn't much in that section; it was just something he was interested in. We talked about it in class and when I started my thesis search, that area was something I was interested in.

When I was in graduate school (in the early 90's), the new empirical IO was taking off; we were supposed to get really serious about a single industry. I was looking for an industry and had some of these corporate finance ideas in mind. The idea for supermarkets came from a Business Week article that appeared shortly after the LBO wave. The article questioned whether Safeway was competing the same way it competed before. It wasn't theoretical, just interviews, but it got me thinking. And the

supermarket industry worked out well because it allowed me to do a hybrid IO-corporate finance topic. It was a single industry, but because the competition is local, there were different combinations of firms and different local markets.

I had started out to write a paper about prices, but I had a lot of difficulty getting scanner data. To kill time while I was waiting for the data, I did a paper on entry and exit. This paper eventually appeared in the AER. When the scanner data finally arrived, they were not what I really wanted, so they did not end up being a big part of the work. I did use scanner data again when I did a paper with David Scharfstein on "Capital Market Imperfections and Countercyclical Markups."

The AER project on exit and entry relied on supermarket location data which I dug up from a magazine called Progressive Grocer. The Harvard Business School only had three years of the magazine, and I found another two years at U. Mass. I remember trekking around copying this data from everywhere. I didn't have a Harvard Library card, because I was at MIT. Someone pretended I was his research assistant so I could get a Harvard Library Card. It was all hand entry, more perspiration than inspiration.

I love the library, and if I weren't an economist, maybe I'd be a librarian. Crawling around a dusty basement to get data is actually my comparative advantage! I love sitting down there with some old books that no one else has ever looked at and checking out the data. To tell you truth, I love data work more than any other aspect of my projects.

I became interested in mutual funds in discussions with my friend and co-author, Glenn Ellison. We were in high school together and then we both went to MIT for graduate school. Then, when we were both junior faculty at Harvard, we started discussing mutual funds and the behavior of mutual fund managers. We had an idea for a paper that turned out not to work, and then Glenn had the idea about risk shifting. The project was a ton of work. We obtained data from Morningstar, but they were incomplete. Glen wrote a program to match the data to CUSIPs (uniform identification procedures). But then close to 150,000 securities failed to match. We spent the bulk of our time doing the matches. We now have three papers together, one in the JPE, one in the QJE, and one in the Journal of Finance.

The idea for the paper that we wrote third

(our QJE paper) actually came before the idea for the second paper (the Journal of Finance paper). In looking at the data, we realized that fund managers were turning over frequently, much more frequently than we had anticipated, on the order of 25 percent per year. We realized we could examine the labor market for fund managers. We could track the careers fairly decently; we could measure performance and we had a measure of managerial risk taking. A manager's risk taking behavior is something you couldn't really measure in most datasets.

I think that the biggest contribution of the QJE paper on career concerns is that they show strongly that implicit incentive schemes matter. Both in the literature and in popular conversation, people think too much about the incentive effects of CEO pay for performance contracts. But an idea that hasn't gotten a lot of play is that, at the same time you are writing CEO contracts, you have to consider that there are other implicit contracts that CEOs face that also affect their behavior— either for good or for bad. If the CEO knows he will be fired if he doesn't perform well, that will affect his behavior; if he thinks that he will leave his job and get a better one if certain things happen, that also affects his behavior. So, the notion that there are implicit incentive schemes at work is relevant. We always knew that, but I don't think there was a great deal of evidence for it. Our results show that it is important to look not only at CEO contracts, but also the rest of this person's incentive scheme.

Our Journal of Finance paper was an outgrowth of the career concerns project. One of the most extensive literatures in finance considers whether there is performance persistence in mutual funds. The question that's always been asked is, "Is time T performance predicted by time T-1 performance?" This is usually done at the fund level. However, we realized that if ability exists and if it resides in the manager, you will have a hard time finding evidence of it if 25% of the funds are turning over their managers every year. That is how we started thinking about taking a cross-sectional approach to performance instead of a time series approach.

My current projects do not have a common theme. I am working with Anil Kashyap and Peter Rossi on the question of whether markups are counter-cyclical, and if so, why; this is an outgrowth of prior work that we have each done

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independently on this issue. There is a debate in macro about whether prices rise or fall during business cycle busts. There are several models trying to explain why markups might be countercyclical. We are using a huge supermarket scanner data set to tease out evidence for or against these various models.

I also have a couple of e-commerce projects that I'm working on. One, with Dennis Carlton is about vertical restraints and channel conflict on the internet. We examine how manufacturers who rely on promotional effort by retail stores are transitioning to sales on the internet. We collected data on perfumes, and will collect data on other products, to understand what determines availability and pricing on the internet. An early finding is that manufacturers with narrow distribution channels often avoid making their products available on pure internet retailers sites and instead sell them through manufacturer sites. If they sell them from the manufacturer site they can control the extent of free riding between the physical retail stores and the internet stores.

In general, manufacturer websites charge very high prices; in effect, impose resale price maintenance on themselves. Exclusive distribution mechanisms help with the free rider problem, but it means that manufacturers probably often face the situation in which, if they are trying to limit the number of retailers, there are consumers who don't have access to a retailer.

We looked at many sites that sell perfumes and, for perfumes common across all the sites, or across some sub-sets of the sites, the price dispersion was astonishing. One might hypothesize that large price dispersion can't exist on the internet. Nonetheless, we found that some perfumes cost \$7.99 in one place, \$54.00 someplace else, and \$190.00 on the manufacturer's site. However, there are many perfumes in our sample for which price dispersion doesn't exist, because the manufacturers only allow sites to sell it that don't discount off of the manufacturer's suggested retail price. Manufacturers will distribute some perfumes widely, and those are going to have a wide range of prices on the internet depending

on whether you go to an upscale site or a downscale site. Because resale price maintenance is technically illegal, manufacturers can't source perfume to a site and say, "Oh, by the way, don't discount it." So, instead, some sites build a reputation for not discounting and manufacturers who are very concerned about retailer inputs will only sell their products there.

If I were to give advice to young women, I would tell them work very, very hard. Second, find a co-author. I have been lucky with my co-authors. I work with other people because it has given me lots of opportunity to learn new things and my work has grown as a result. Finally, work on what you're interested in. I always tell my colleagues, "I just work on little problems and try to get the answers right." And, you know, I think there's something to that approach. I tell my students, "Just get the data, make sure it's entered correctly, check it twice and it will all flow from there." I think that it makes sense to start on something that is interesting to you, even if you are not sure it is a "big" problem. Because sometimes something bigger develops once you get started.