

At the time of drafting this response, we had received comments from three external reviewers. All three praised the core of the program and the health economics concentration, generally with great enthusiasm. Two were in favor of the Nonprofit/Philanthropic economics concentration, although there was one concern expressed. One was not in favor of the latter concentration and also raised a question about the mathematical preparation of our prospective matriculants. One also suggested that the department be granted latitude to defer the entrance of the first class if necessary. This is not addressed below because Dean Blomquist has indicated that he will *not* ask the Department to implement the program unless the necessary resources are in place. Our response below focuses on the three concerns.

**One extern worried that prior training in Real Analysis cannot be required at matriculation but should be suggested background and should be offered in a first course or pre-course (in early August). This extern also worried that simply teaching optimization techniques in our Mathematical Economics [E520] course is behind the frontier.**

Response: The curriculum section does include a statement that training in Real Analysis is a desirable characteristic for our applicants. That means our guidance to applicants will include an encouragement to take that course before matriculation. It is important to note that in most PhD programs a proportion of the matriculants will go on to do dissertations in Economic Theory and some of those will have careers in academic economics departments as theorists. For those students it is critical that they get very advanced training even in the core theory courses. Our students will do dissertations in applied microeconomics, health economics and nonprofits/philanthropic economics. Few, if any, in the first few years will get academic appointments at research universities. For these students, it is much more critical to have a firm foundation in the techniques of static and dynamic optimization. It is probably also reasonable to note that the course description in the proposal comes from the Graduate Bulletin description of the course offered in Bloomington. We suspect that this description is out of date. The Math Econ course [E520] that is described in the IU Bulletin will be revised significantly. This course will probably include mathematical topics that are usually not taught in Multivariate Calculus and Real Analysis—topics like convex analysis, optimization theory, and some elementary fixed point results—like Brouwer's fixed point theorem and the contraction mapping theorem.

**One extern thought the Nonprofits/Philanthropic concentration was very good but that there needed to be a commitment to teach separate courses in Industrial Organization (IO), and Game Theory. These are not specifically identified in the proposal.**

Response: Much of the description of the core theory sequence is at this point, in line with the IU Bulletin. However, once we write down the details of the three courses we will include new topics and do away with some old ones. For example,

- i) In E521 we will probably replace the topics on quality of goods, revealed preference, and derived demand with new material on information economics and game theory;
- ii) In E621 we will probably drop activity analysis and capital theory and substitute that with topics from game theory and IO;
- iii) E611 will probably include topics from game theory and incomplete information—new topics that are not included in the topic list now.

So there will actually be much more game theory and IO related material included in the 3 micro theory courses than is evident from the descriptions on the books at this point. Further exposure to the relevant literature in Public Economics could be acquired either through a readings course or in PhD thesis credits or by taking a course in Public Economics from IUB. We expect our students to be well prepared in these three areas (IO, Public Economics & Game Theory) prior to beginning the sequence in Nonprofit/Philanthropic Economics.

**One extern indicated that the Nonprofit/Philanthropic Economics concentration was not justifiable as it is not a field in economics although it is a topic, among many, that applied economists can do research. This extern felt there would be insufficient demand for economists who specialize on this topic.**

We acknowledge that the area is not typically thought of as a separate field. But Health Economics was not thought of as a separate field ten years ago either and it now has that status. Similarly we are ahead of the curve on Nonprofit/Philanthropic Economics. The reviewer overstates the lack of demand for specialists in Nonprofit/Philanthropic Economics, perhaps because the reviewer is thinking primarily of the academic job market and is unaware of the opportunities in this subfield. We should mention that we already have approved a PhD in Philanthropic Studies on this campus. Just as there appear to be opportunities for those generalists in the private, governmental and nonprofit sectors, we believe there is a market for the kind of specialists we can turn out. We agree with the reviewer that the program will need to start small and that our faculty in the area will need to pay extra attention to the task of obtaining placements for our students.

To give a little more detail, there is no field labeled "applied economics." This phrase is a catch-all designation used to recruit faculty or signal student skills in fields that are not widely known or to signal that a wide variety of fields are acceptable. An economics department advertising a position for an applied economist is saying that those in the fields of health economics, labor economics, industrial organization, and other such fields are equally welcome to apply. We do not conceive of this as the primary employment opportunity for those specializing in nonprofit/philanthropic economics, but our graduates could certainly compete for these jobs. The reviewer overlooks the other employment opportunities we list. In particular, to the cited 105 U.S. schools offering a graduate degree or concentration in nonprofit management or philanthropic studies in 2006, we can now add 239 academic programs in Europe "focusing on non profit organizations ... [and] philanthropy." (<http://www.misp.it/benphe/>). These are new and, at least prior to the recent recession, growing programs that define nonprofit/philanthropic studies as an interdisciplinary field and employ economists to teach courses such as "the role of nonprofits in society", "economics for nonprofit managers" and "evaluation."

Training within traditional economic fields would not suffice to prepare our graduates for many of these positions. Nonprofit management and philanthropic studies programs want to hire scholars with a deep background in nonprofit and philanthropic institutions as well as appropriate expertise in selected topics from many of the established fields in economics (public economics, labor economics, comparative economic systems, health economics, law and economics, game theory, environmental economics, and industrial organization.) For example, research on nonprofit hospitals by health economists has, to date, largely ignored relevant findings from researchers with different specializations, harming the quality and impact of that research. That is why we wish to cluster a coherent body of knowledge on a set of related topics in a new way and pioneer this new field

within economics. Hence we expect there to be some opportunities for our graduates in the educational sector as well as in the private, governmental and nonprofit sectors.