

ROSTRA ECONOMICA



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December 2013

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Welcome!

Our new columnist
Prof. Arthur Schram

**Dr. Mehdi Parvizi
Amineh** on resource
rich countries

Dedication,
diligence, drama
and **Dell**



FAILURE IS
THE SECRET
TO SUCCESS



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text
Dovile Venskutonyte
editor-in-chief

Dovile Venskutonyte
is a Bachelor student
in Economics.

image
Gareth Wonfor



YOU WIN SOME, YOU LOOSE SOME

“**F**ailure is not an option” - once said Jerry C. Bostick, a NASA flight controller, who coordinated the mission to bring back Apollo 13 from space. These famous words express determination, focus and optimism, but of course they are never true. Failure is always an option and it is a terrifying one. Yet, I truly think that it is a necessary condition for success. Of course that does depend on how you view success. I don't think that it is something that it is ever finally achieved. It is not a point, but rather a circle that needs to be constantly sustained. Sometimes the circle breaks, but that does not mean that an endeavor was not successful. People make mistakes, companies go broke and empires fall, but that doesn't mean that they've failed. Otherwise nothing has ever been a success since nothing is eternal. However, in order to keep on being successful you need stamina and perseverance. By definition perseverance cannot exist without failure.

Failure should not be a debilitating fear that prevents people from pursuing their goals, but it should be scary and it should feel bad. Today, we hear so many successful people talk about the failures in their careers, listen to TED talks about how it is okay to make mistakes and find a million inspirational articles and quotes about how failure is good. This certainly makes me feel much more relaxed, but I think that this growing trend is a little dangerous. Simply because it seems to eliminate the educational aspect of failure and its ability to grow character in people. A major reason, why we look back, analyze our failures and try not to repeat them is because we don't like to fail. This makes us more critical and attentive in pursuing other

goals, which increases the chances of success. The difficulty is to appreciate failure for what it is and absorb the hard lessons it teaches without the loss of enthusiasm.

In this issue of Rostra we try to look into both success and failure from different perspectives. Anybody can fail and succeed: individuals, corporations, countries, ideas and pretty much anything else. Even though there are as many types of successes and failures as there are situations, it is interesting to look for common denominators. The impression I get is that in today's world, where competitiveness is ever increasing in all sectors of the economy, the lesson we should be learning from every success or failure story is that in order to be successful you need to keep moving. By this I mean that we can never stop improving and stop pursuing success, since it is never really achieved. Even when your company becomes very profitable or when you finish your degree or when your theory wins the Nobel Prize, you cannot stop, since failure is always just around the corner. There will always be someone else, who will learn from your experience, improve your work and replace you. In this issue we will see just how easily that can happen.

Failure and success go hand in hand. There will always be fails sometimes quite epic ones too, but the opportunities for growth that they give are worth the pain they may cause. We shouldn't be pessimistic or optimistic. Sometimes you win sometimes you lose, that is the reality we need to accept. However, true success is the ability to go through peaks and valleys, each time making the peaks just a little bit higher. ■

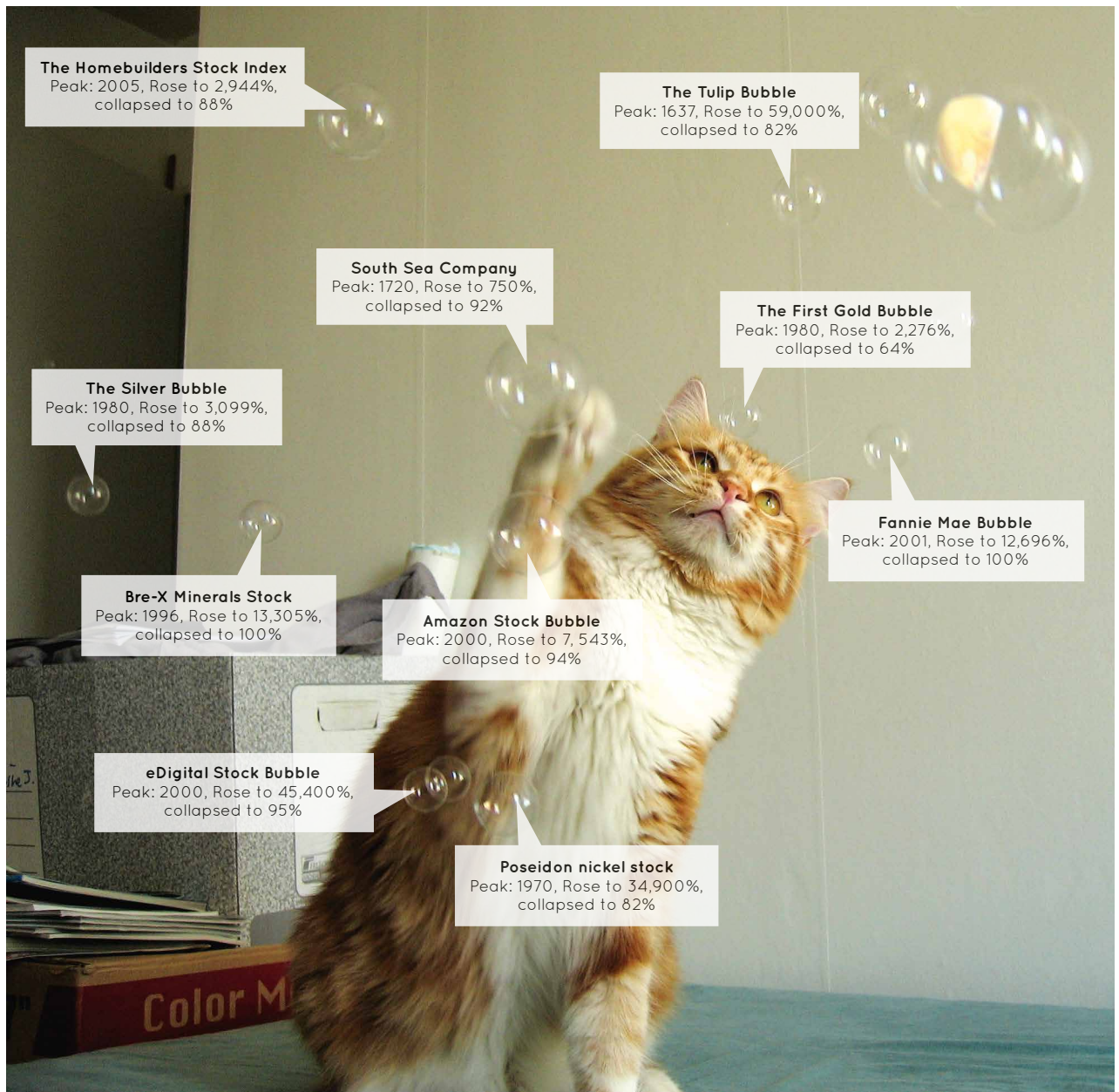
THE ROSTRA CHART

image

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Bubbles Bubbles Bubbles!

They bring so much joy, when made of water and soap. Unfortunately the ones made of exaggerated expectations; bad valuation and an eventual market collapse are no fun at all. Here are the 10 biggest bubbles that we ever blew up.



The Homebuilders Stock Index
Peak: 2005, Rose to 2,944%, collapsed to 88%

The Tulip Bubble
Peak: 1637, Rose to 59,000%, collapsed to 82%

South Sea Company
Peak: 1720, Rose to 750%, collapsed to 92%

The First Gold Bubble
Peak: 1980, Rose to 2,276%, collapsed to 64%

The Silver Bubble
Peak: 1980, Rose to 3,099%, collapsed to 88%

Fannie Mae Bubble
Peak: 2001, Rose to 12,696%, collapsed to 100%

Bre-X Minerals Stock
Peak: 1996, Rose to 13,305%, collapsed to 100%

Amazon Stock Bubble
Peak: 2000, Rose to 7,543%, collapsed to 94%

eDigital Stock Bubble
Peak: 2000, Rose to 45,400%, collapsed to 95%

Poseidon nickel stock
Peak: 1970, Rose to 34,900%, collapsed to 82%

Color M

8

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12

Socially responsible student entrepreneurs "Kitchen and Pedals"

Fail: why do you not see these products anymore?

15

Arthur Schram writes his first piece for Rostra

16

Trouble for millennials: do we need permission to fail?

18

Nokia no more: what happen?

26

Africa: the **underrated** continent

AND MORE

22 SEFA FRONT

38 DELL: A COMPANY THAT FAILED TO INNOVATE

24 WHAT HISTORY TELLS US

42 FSR PAGE

30 THE SORT OF NOBEL PRIZE IN ECONOMICS 2013

43 FEB FLASH

31 FEB STUDENT ABROAD

32 INTERVIEW WITH DR. MEHDI PARVIZI AMINEH






People do weird things. Why would an average person train for years to run a marathon or go through extremely difficult, dirty, marine designed obstacle courses like these guys? It is time consuming, often painful and has no monetary reward. Yet one of the most satisfying things a person can experience is succeeding to expand their boundaries. Success is only sweet, when it is preceded by sweat and failure. If it was easy, it wasn't success. The feeling of earned reward, even if it is not tangible, is a major driving force that pushes personal limits and pushes civilisation forward.



text
Matteo Ruozzo &
Klara Keutel (3rd
year Economics)



THE RISE OF SOCIAL ENTREPRENEURSHIP

Without a doubt, being a young entrepreneur is an appealing prospective for a University student. When doing so implies benefiting society, few things could lead to a greater sense of accomplishment. This is the belief shared by students Walter Sarin and Katharina Grube, Economics students at the University of Amsterdam and members of the socially responsible foundation 'Kitchens and Pedals'.

Kitchens and Pedals is a non-profit catering company born two years ago on the basis of a simple, yet powerful idea, nurtured by a group of talented Amsterdam students. The underlying mission of the foundation is easily defined: "With our catering service, we aim to provide inexperienced women with the opportunity to learn a profession and gain skills for an easy

transaction into the labor market" says Katharina, chairman of the board at K&P. The ideal candidates are women who come from a minority background, whose social circumstances prevent them from finding a job. Hired by K&P, they use this experience as a platform to start a career in the Horeca industry. Started as a Sife/Enactus-Uva project (see below), K&P has now grown to become an independent company. "Even though we are still a small company, working with an average of two assignments per month and employing only two women and one professional chef, we see huge potential for growth" says Walter, who was appointed co-treasurer in June 2013. Despite being still a narrow reality, big clients such as Amnesty International have turned their head towards K&P for their catering needs.

Social Entrepreneurship: A Dutch-tailored reality

Social Entrepreneurship is a relatively young and upcoming trend in the Netherlands. Defined as a "company whose primary goal is to deliver social value in a financially sustainable and independent way", a social enterprise seeks business solutions to societal problems. That places it between a charity organization (impact-only) and a traditional business (finances-first). Recent reports published by McKinsey and Social-Enterprise.nl shine a light on the existence of approximately 4000-5000 social enterprises in the Netherlands operating within several different markets. With a total turnover of €1.4 bn and 26,000 employees overall, the Dutch 'socially responsible' sector is still significantly smaller than that of early birds UK and US. Nevertheless, reports

It has always been considered difficult for social entrepreneurs to find funding for their business ideas. There is light at the end of the tunnel, however: Triodos Bank and ASN Bank are two banks explicitly committed to support - of course convincing and promising - social businesses. But also ABN Amro recently created a fund together with the Postcode Loterij and Stichting DOEN which is providing start-up and growth financing as well as intensive advisory.



KATHARINA GRUBE :

IF OUR PRICE WEREN'T ALIGNED WITH THOSE OF OUR COMPETITORS, VERY FEW CLIENTS WOULD HIRE US, DESPITE THE FACT THAT WE REINVEST ALL OF OUR PROFITS FOR THE BENEFIT OF SOCIETY

highlight how total employment within the sector increased by 25% during the last three years, with a potential for employment and turnover figures to quadruple by 2023. Moreover, business confidence appears to be booming among social entrepreneurs. According to the McKinsey report, 90% of social entrepreneurs believe that future profits will increase, compared to a meagre 51% among traditional businesses.

All things considered, doing business with social and sustainable ideals in mind seems to be a trend among active Amsterdam students. Possibly

one of the oldest social enterprises in Amsterdam, completely “student-made”, is ‘Stichting Kriterion’, the notorious movie theatre set up by two students after The Second World War. The aim of the Kriterion project: providing students with the opportunity to be financially independent and gain entrepreneurial experience through work. Free of any hierarchical structure, Kriterion offers a diverse movie program featuring art-house films and documentaries like the monthly Movies That Matter-screening. During its evolution phase, the foundation continued to successfully spawn a vast range of student-run initiatives: In 1949 a

babysitting office was founded and in 1960 a petrol station. In recent years, well-known sub-divisions Skek and Studio K were established. Besides being a restaurant, bar, café, club and cinema, these divisions provide a podium for upcoming artists, designers and singers/songwriters to present themselves. On top of that, they host events like the sustainability festival “The Next Level” and Viva Las Vega’s “Food Festival”, and aim at offering a fair and sustainable menu. Altogether, more than 150 students are employed by Kriterion, working within literally every sector – from cooking to club programming.

Enactus - the social-business incubator

Not surprisingly, the vast majority of these socially responsible initiatives falls under the non-profit sector, mainly relying on voluntary work and set up in a relatively riskless environment. The global non-profit network Enactus provides a good example. By bringing together businesses, the academic and student leaders, Enactus represents a platform for students to start their own social ►



The Tostifabriek was set up by six students and with the support of sponsors and donors to explore the production process of our most-loved lunch- (and breakfast-, dinner-, night-, after party-, and inbetween-) snack: Toasties! The team bought two cows, two pigs, planted grains and took care of everything else required for a good toastie. For eight months they were busy running the tostifabriek, invited students and school classes for tours and workshops, reported and blogged, and finished off with a spectacular toastie-party where 1000 self-made toasties were handed out. Sad side-fact: The team concluded that one home-fabricated toastie costed €60.

For the ones among us who want to follow a program about social entrepreneurship, here are some ideas:

The Knowmads Business School offers a one-year program for young people who want to make a positive change. Together with business partners, consultants and teachers the students work on personal projects and cases provided by companies.

The UvA offers, in cooperation with the Amsterdam Center for Entrepreneurship, a minor in Entrepreneurship as well as the course Social Entrepreneurship. Part of the curriculum is working in groups on a business plan.

business initiatives. Enactus is currently active in 37 countries and 1,600 universities, with more than 450 business partners and 62,000 participating students. In Amsterdam, two teams (VU and UVA) are actively working on approximately ten projects.

Among these projects is “Coffee Career”, aimed at facilitating entry of handicapped people into the labor market. “Fietsforce”, on the other hand, trains young homeless people to become bicycle mechanics and provides them with a guaranteed workplace. “Greencourt” is a neighbourhood-garden that engages in education about nutrition, sustainability and health. These projects are developed with advice from business partners such as Frisse Blikken, Babbels or the Amsterdam Center for Entrepreneurship.

All that glitters... is not gold

Nevertheless, running a socially responsible business is easier said than done. “We face several challenges on a day-to-day basis”, says Walter “among which remaining price competitive,

dedicating part of our student time to an unpaid activity and understanding Dutch regulations on how to keep a business running”. As a matter of fact, Kitchens & Pedals faced challenges since day one, when the company had to be set up from scratch.

Despite their rising popularity, many Dutch social enterprises are struggling with their financials. Reportedly, 40% of them still struggle to break even and it is not exceptional for a social enterprise to take up to ten years to become profitable. Research highlights how social enterprises face three fundamental problems. Among these, raising money appears to be the greatest concern: if a business does not set profit as its primary concern, not surprisingly financial institutions will not see it as a good source of investment. On top of that, social enterprises often struggle to find and

retain talented management. Anything, however, comes easier with practice and all this effort leads to great rewards. According to Katharina, “companies choose to come to us because we are socially responsible and price-competitive at the same time”, one of Kitchens & Pedals key strengths. She continues, “If our price weren’t aligned with those of our competitors, very few clients would hire us, despite the fact that we reinvest all of our profits for the benefit of society.”

What does all this effort lead to? “There is nothing more rewarding for us than being able to run a company at such young age. It is something that goes beyond any other student extra-curricular activity out there. And knowing that what we do can change other people’s lives makes us feel even happier and more accomplished”, Walter and Katharina conclude. ■

ROSTRA ECONOMICA IS LOOKING FOR NEW EDITORS!!

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“Being an editor for the Rostra Economica, you are responsible for the content of the next issues of the Rostra Economica. You will think about topics, articles and lay-out.”



text
Pierre Borst

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Yvonne Roos

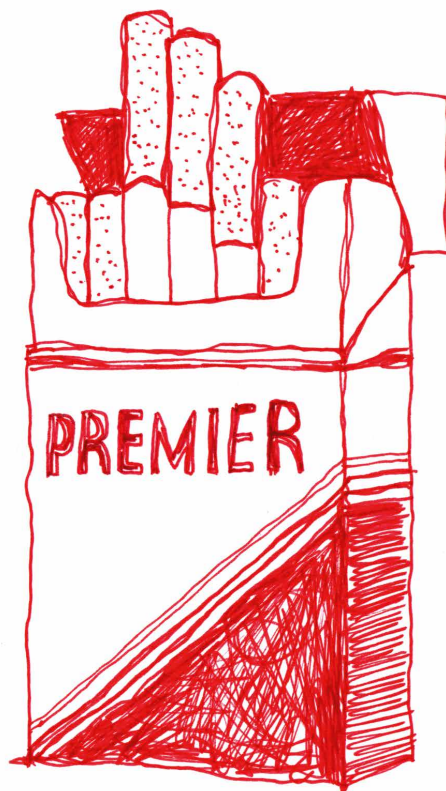
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TOP OR FLOP

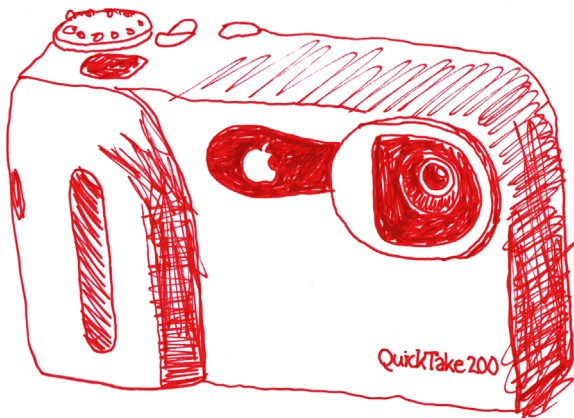
One side of this Rostras theme is success. It is about people with an inspiring view who have changed the world we live in. You may read about all these successes, but for every success story there is a failure. In this article, we will take a look at some famous failures. We conducted a top 5 of some of the biggest product flops and as you will see, even the world's most famous companies made some terrible mistakes.

5 Premier Smokeless Cigarette

R.J. Reynolds Tobacco Company (RJR) released Premier, a smokeless cigarette, in 1988. Instead of burning the tobacco, the Premier heated it, so no smoke or ashes were produced. It produced 70% less carbon monoxide than traditional cigarettes and had zero tar. The Premier was intended to reduce the unhealthy side effects of smoking and of second hand smoke. The project cost more than \$ 1 billion and took several years to develop. Unfortunately for the RJR, people hated the taste and claimed it smelled like burning garbage. One might ask how it could smell that much more unhealthy than lighting a traditional stick of chemicals though. Also, special instructions how to light the cigarette were required and to acquire a taste for Premier, it would take the smoker two or three packs. As if this wasn't inconvenient enough, activists condemned the cigarette for its potential use in taking drugs. Health advocates were concerned, even though the cigarette was developed to make smoking less unhealthy in the first place. They claimed Premier's high-tech appeal could seduce teenagers to smoke. Less than a year after its introduction, RJR had to withdraw Premier from the market.



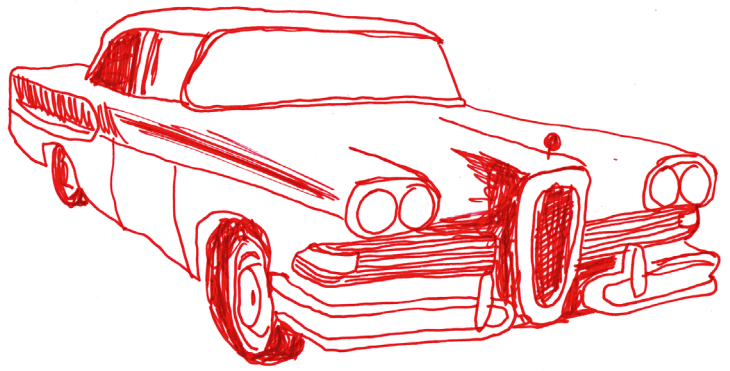
MCDONALDS' ADVERTISING CAMPAIGN WAS A COMPLETE FAILURE. PEOPLE DIDN'T COME FOR A SOPHISTICATED BURGER



4 **Apple QuickTake camera**
 Nowadays, the brand Apple is synonymous with success. Everything Apple touches, from computers to phones to tablets, seems to turn into gold. It is almost impossible to think of Apple launching a new product without creating a massive hype. In the mid-nineties though, Apple launched a digital camera that didn't turn out to be the same success as the iPhone or iPad are now. The QuickTake was a digital camera that lasted for three product cycles and was priced between \$600 and \$700. It was the beginning of digital cameras when QuickTake was released. The camera was able to take up to 8 pictures, stored on a floppy disk and it had 0.3 MP resolution. Like most Apple products, Quicktime was criticized for being overpriced and therefore, unlike Apple products today, it didn't manage to sell enough. It faced strong competition and it was one of the products Steve Jobs shut down, when he returned to rescue his company.



3 **McDonalds' Arch Deluxe**
 McDonalds has always had the image of easy, cheap junk-food and Ronald McDonald dancing around with happy kids. In 1996, they wanted to broaden their image and appeal to a new target group. McDonalds introduced the Arch Deluxe and marketed it as a sophisticated burger "with the grown-up taste", and explicitly didn't want it to be associated with children or their usual image. They launched an advertising campaign with kids grimacing in disgust at their latest burger. McDonalds hoped to appeal to sophisticated adults with the Arch Deluxe and its mustard-mayonnaise sauce. Unfortunately, the advertising campaign was a complete failure and people didn't come to McDonalds for a sophisticated burger. People come to McDonalds for cheap, fatty food and its convenience; that's McDonalds' successful value proposition. McDonalds tried to save the burger by launching a new ad campaign, but it didn't work either and McDonalds had to give it up. Considering advertising expenses of more than \$100 million, more than McDonalds ever spent on any other burger, the Arch Deluxe was a pricey failure. ▶



2 New Coke
Coca Cola, the undisputed market leader in the soda drink market, was constantly challenged by the new kid on the block, Pepsi-Cola. Throughout the US, Pepsi was organizing the Pepsi challenge, a taste preference tests with blindfolded participants and Pepsi emerged as a clear winner. Not only Pepsi became a serious competitor, also Coca Cola's own brands Fanta and Sprite became more and more popular. Coca Cola concluded that consumer preferences have changed and people preferred sweeter drinks now. As a response, they worked on a new, sweeter formula. It was on April 23, 1985, that Coca Cola announced it was scrapping its 99-year-old soda formula for the new, sweeter version. Blind taste tests revealed that consumers preferred "new Coke" to the original and competitor Pepsi. However, Coca Cola underestimated the nation's sentimental attachment to the iconic American brand. After being flooded with phone calls, 40,000 letters and reams of bad press, the company backtracked three months later, announcing the return of Coca-Cola "classic" – news that TV anchor Peter Jennings interrupted *General Hospital* to bring to the nation. Sales for the original Coca-Cola surged, restoring it as the dominant leader in the nation's competitive soda market. The reviled replacement drink stuck around and was later rebranded "Coke II" before eventually fading away.

1 Ford Edsel
The Ford Edsel is the biggest failure in automobile history, and may even be the biggest failure in business history in general. In the beginning of the fifties, Ford decided it needed a new car line to compete in the medium/higher priced car segments. It had to be a new division and Henry Ford named it Edsel, as a tribute to his son who passed away. In the months preceding the launch of the car, Ford started their ad campaign: "The Edsel is coming". The ads consisted of nothing more than a glimpse of the hood ornament and Ford was building hype around this mystery car. People involved with the Edsel were sworn to secrecy about this radically new and innovative car. Dealers had to store the Edsel undercover and risked to be fined or lose their franchise if they showed the car before the release date. The whole US were anxiously awaiting the unveiling of the Edsel. Ford even had a television show on the release day, or "E-day" as they called it, to unveil the car. Thousands of people came to see the unveiling at their local dealer and then left without buying. The reason people didn't buy Edsel was not because it was a bad car, but because it didn't live up to the hype that Ford created. People expected a revolutionary car, a car that would be the start of a new era in automobile history. And this wasn't the case; it was just a decent car with a couple of technological innovations. The marketing campaign seemed to have had the opposite effect after creating too many expectations. Another mistake was that although Ford decided that the Edsel was a brand-new division, they didn't give the car line its own manufacturing facility. Ford's workers didn't like assembling a vehicle that wasn't really theirs and took little pride in their work. Not having a devoted work force was probably Ford's biggest mistake regarding the Edsel. Apart from the mistakes Ford made in manufacturing and marketing the Edsel, they released the car in the worst possible time. The US was in a recession and while competitors were discounting their last years' models, Ford released the most expensive car they ever made. It's a shame that Edsel failed that miserably because the car itself wasn't bad at all. If Ford would have advertised it with a more honest campaign, manufactured it in its own factory and didn't release it in the middle of a recession, it wouldn't be the failure it is. ■

Arthur Schram

MY DILEMMA



Arthur Jan Hendrikus Christoffel Schram is a professor of experimental economics at the Amsterdam School of Economics as well as the director of CREED. He launched his career by graduating cum laude with a Masters in Econometrics from the University of Tilburg and later achieving a Ph.D. degree (cum laude) at the University of Amsterdam.

sometimes ask myself two questions. First, am I really an economist? Second, do I really want to be an economist? These questions came (back) to mind when thinking about ‘Make or Break’. The reason is the notion of competition that underlies this expression. Many economists believe that competition makes people bring out the best in themselves and therefore is good for society as a whole. They also believe that free markets are the means to achieve this Walhalla. So my questions are basically whether I (want to) share this faith in market competition.

I could, of course, simply choose not to care. As a researcher in the Amsterdam School of Economics I am fortunate that I can do the things I like to do and nobody bothers whether my research papers are economic enough, as long as I publish them. But I do care. When my mediagenic colleagues present standard economic arguments about market competition and how it can save the world – if we would just leave it to them to organize –, I often think of all the relevant research that they are conveniently forgetting. Nowadays, we know much more about actual human behavior in economic decisions than we did when the neo-classical market ideology started to dominate the field about half a century ago. We know that social ties matter in economic decisions; that networks of mutual trust

strongly affect our decisions on the labor market; that people care about others and more often than not do not simply maximize the utility of consumption. Also, we have observed that perfect markets are hard to find, so strategic interaction needs to be taken into account; that market power is not something that either does or does not exist, it can be created by political action. In short, we know that competition in its classic textbook form may not be all that it’s made out to be.

AS A RESEARCHER
IN THE AMSTERDAM
SCHOOL OF
ECONOMICS I AM
FORTUNATE THAT I
CAN DO THE THINGS
I LIKE TO DO AND
NOBODY BOTHERS
WHETHER MY
RESEARCH PAPERS
ARE ECONOMIC
ENOUGH, AS LONG
AS I PUBLISH THEM

But there’s more to my deliberations. My non-economist family and friends often address me as an economist. They want me to explain why exorbitant bonuses for corrupt bank managers may be a good thing; or why we

shouldn’t just nationalize all of our banks. My first reaction is always like I’m teaching the first year micro course all over again. I explain why competition is good and why we should believe in the invisible hand whenever we can. I explain that market mechanisms are better than any known alternative. In short, I act the neo-classical economist.

One way to solve my split personality is by realizing that we need to go back to the basics and understand that economics is about much more than markets and competition. It is about human behavior related to the allocation of scarce resources. This behavior takes place by individuals shaped by the evolution of our species and in an entirely social context. Markets are just one way to organize this behavior. To know whether they are the best, or even a suitable way in any specific circumstance, we need to take account of how people actually behave, and preferably also why. Yes, it is good that economists can show the magic of the invisible hand and explain why competition can benefit all. But no, this is not enough to make the claim that competition is good in any specific case. For this, we need to also think like biologists, psychologists and sociologists. If it is ok for me as an economist to do so, then yes, I want to be an economist. I guess this answers my second question. ■



text
Jantine Derksen

image
Chris Devers

Jantine Derksen is a Masters student in Entrepreneurship and Innovation.

PERMISSION TO FAIL

These days the pressure on students to get high grades, manage their finances, excel in extracurricular activities and stand out in general seems higher than ever. As success is highly valued and rewarded, society gives no reward for failure. Not many failures are documented in history books, except maybe those that had become steppingstones to later success, and when you start to look for failure stories on the Internet, there is also not a lot to find. Most of the articles related to failure, give you advices on how to reach success after you have failed. They usually provide a set of steps, like instructions for assembling Ikea furniture or emphasize a mentality change accompanied by inspirational quotes. However, what do extracurricular activities and high grades mean if there are simply not enough jobs?

Enough is not enough

The unemployment rate is still on the rise in Europe and young graduates struggle to find a job. As well an increasing proportion of employed youth are involved in non-standard jobs, including temporary employment and part-time work from which a significant part of the increase is involuntary rather than by choice.

Even with extracurricular activities and high grades, finding a suitable job that matches your expectations and education is not as normal anymore. The pressure on students to perform well however, does not improve their condition.

Epidemic

Since the crisis is a global phenomenon and affects all layers of society, we are all in this together. Few employment opportunities do not only have a negative impact on an individual's finances, health and long-term career prospects, but also on his self-esteem. People often tend to take economic success and failure much more personally and see these times as a mark of personal failure. The western notion of success is often based upon the capability of individuals. Success, in that notion, depends on you. So when people cannot find a job or lose the one they had, they think it's because they are a failure. Carl Van Horn, professor of public policy at the Rutgers University in the United States and director of the John J. Heldrich Center for Workforce warns of a silent mental health epidemic, as the jobless face financial, emotional, and social consequences of being unemployed. *"We don't tend to look at*

unemployment as having a psychological effect, just an economic one. For many people, being unemployed is embarrassing. They're not interested in talking about it and think of it as their fault."

Creating opportunities

A possible upcoming mental health epidemic should be taken seriously and different bodies in society have already undertaken or are planning to undertake action. Europe's leaders have agreed on a *youth guarantee*, under which every young European has a job, apprenticeship or enrollment in higher education within four months of becoming unemployed or leaving formal education. These kinds of actions however are not a sufficient solution alone. A more flexible labour market is needed which encourages firms to give young people more opportunities and to hire more workers. However, economists warn the high unemployment rate is not something that will disappear easily.

Unfortunately, fixing the labor market is not an easy task and will take time, but we can change our vision towards failure. Let's face it: failure is neither fun nor particularly rewarding.

SAMUEL BECKETT:

EVER TRIED. EVER
FAILED. NO MATTER.
TRY AGAIN. FAIL
AGAIN. FAIL BETTER.



However, the key towards approaching new challenges is simply: give yourself permission to fail.

The pressure in everyday life to perform well or even excel tends to cause problems when we are faced with something unfamiliar or difficult. We start to worry about making mistakes, because we think we lack ability, which creates a lot of anxiety and frustration. Failure however is a necessary part of the innovation process and opportunity recognition. From failure comes learning, iteration, adaptation, and the building of new conceptual and physical models. Most innovations are the result of prior learning from failures. Risk averse behavior prevents from trying new things in order to avoid failure. However, uncertainty and ambiguity are the places where many innovation opportunities reside.

Do it yourself

The International Labour Organization, ILO, concluded in their research paper “Global Employment Trends for Youth 2013” that the current young generation is a generation at risk. However, youth unemployment rates don’t have to translate into a catastrophe for that generation and those it sustains. A

period of rapid technological advances has created a new global generation, which is used to new media and is more aware of the challenges that the world is facing. According to research from the Boston Consulting Group, the Internet Economy in G-20 countries is expected to grow at an annual rate of 8 percent over the next five years. This rising tide can help fight unemployment, however the days of large business and the government being the main job creators seem to be over. Entrepreneurship should be encouraged, as entrepreneurship is a key driver of economy. A large number of existing jobs are created by small businesses started by entrepreneurially minded individuals, many of whom go on to grow their enterprises to a large size. Moreover, people exposed to entrepreneurship frequently express that they have more opportunity to exercise their creative freedom, higher self-esteem, and an overall greater sense of control over their lives. The European Commission highlights the importance of youth entrepreneurship as a way to overcome the high unemployment rates among young people. It is stated in the EC’s booklet “Young people and entrepreneurship”: *To achieve this,*

there is a need to encourage young people, to instill a spirit of entrepreneurship from early on in life – initiative, confidence, calculated risk-taking, creativity, organization, tenacity – and to help them in the transition from school to adulthood.

Keep on moving

All this reward for success therefore should also make a place for the reward of failure. Without teaching young people that taking risks and thus having a chance to fail is something very valuable, young people will not take risks in order not to become a failure. We have to be realistic. The safe route to success by following pre-designed extracurricular activities or focusing on getting the highest grades is not that safe anymore. The economy will only get better if we are willing to take the risk to improve it by ourselves. Even if failure rate among new initiatives is high, lets motivate people to show initiative, creativity, to take risks and to have the willingness to make a difference. The lessons of failure can be harsh, but well learnt they can have a huge return. Failure is not a problem, it is a good teacher. If you want something you have never had, then do something you have never done. ■





text
Poya Kabiri

Poya Kabiri is an
MSc student in
Business Studies.

image
Yvonne Roos

THE ELUSIVENESS OF SUCCESS:

HOW NOKIA LOST ITS MOJO

Once a giant among giants, today Nokia is merely a shell of what it used to be. The once proud Finnish mobile telephone producer has been forced to witness a staggering decline, while its rivals have pulled ahead. The story of Nokia tells a tale about a company that has been altering its business model for decades but somehow managed to miss out on one of the biggest technical shifts in recent years. Nokia lost its mojo and paid a large price in an effort to regain it.

The Leader of the Pack

Nokia was founded in 1871 in the city of Nokia, Finland, as a wood-pulp mill. One could say that they were destined to come to work with telecommunication as they were already involved in one of the more ancient forms of communication, paper production. Their business soon expanded into making rubber products, such as tires and galoshes, and further expanded into cable production, forestry, electronics and power generators. It was not until 1987 that Nokia introduced its first handheld mobile phone. Weighing in on almost one kilo it was nicknamed the “Gorba”, after pictures of the Soviet leader Mikhail Gorbachev using the phone were broadcasted. However the golden era of Nokia departed with the launch of the GSM phone. It came to become the European standard, and Nokia disposed all other business to solely focus on its new core business, mobile phones and network infrastructure. Other leading electronics firms at the time, like Sony, Siemens, Apple and Philips could not foresee the surge in demand for handheld phones and instead Nokia was in competition with Ericsson, Blackberry and Motorola, the predecessors to the mobile phone elephants’ graveyard. Years to come Nokia would be the leading tech giant, ►

In 2008 Nokia was the fifth largest investor in R&D in the world, according to the EU Commission, and outspent Apple nine fold during the period of 2004 to 2007, the years leading to the launch of the Iphone.

IN SEPTEMBER 2013 NOKIA'S MARKET SHARE OF THE SMARTPHONE MARKET WAS DOWN BELOW FIVE PERCENT. A MARKET SHARE THAT WAS CLOSER TO FORTY PERCENT THREE YEARS EARLIER

contributing to a quarter of the Finnish GDP growth from 1998 to 2007 and generating nearly a fifth of the country's exports at its peak. But the saga could not continue endlessly. In September 2013 Nokia's smartphone market share was down below five percent. In comparison, Its share was closer to forty percent three years earlier. And in the same breath, Microsoft announced its intention to acquire Nokia's mobile phone business to be a part of the software giant.

Change Arrives

In 2007, after an immense success with their new line of products, such as the Ipod and iTunes, Apple released the Iphone. The Iphone was unlike many of the past smartphones and was priced rather high compared to the competitors. The reviews' of the Iphone where ecstatic but it was an expensive niche product that mostly attracted an early adopter. But its influence on the next generation of smartphones was still unforeseen. At this point, Nokia held nearly fifty percent of the smartphone market share and was estimated to be the sixth most valuable brand, surpassing giants such as McDonalds and Disney. Nevertheless, instead of being satisfied with their nearly monopolistic market share, Nokia kept pouring money into its R&D department. In 2008 Nokia was the fifth

largest investor in R&D in the world, according to the EU Commission, and outspent Apple ninefold during the period of 2004 to 2007, the years leading to the launch of the Iphone. Now what did these investments achieve? Nokia's former chief of design, Frank Nuovo, has expressed that the features of the Iphone, that transformed the entire industry, were anticipated by them years before its release. However, Nokia's efforts where noticeably fruitless. According to Frank Nuovo, the miscommunication between the R&D and operating department brought Nokia to their knees.

What went wrong?

How can a company that continuously researches more than its competitors, has a bigger share of existing customers, and a more valuable brand come to falter behind the rest of the herd? The concurrent view has to do with the inability to respond quickly enough to the arrival of the Iphone. With the Iphone, Apple introduced an operating system that supported a new type of echo-system that nourished an entire web of services and applications for customers. Nokia, and other mobile phone brands on the other hand, were using the operating system Symbian. As the market for smartphones rapidly expanded Google introduced their operating system to be implemented by mobile phone producers. Google's operating system, Android, was promptly adopted by Apple's competitors, as a means of attracting customers with a similar type of concept. But Nokia hesitated. Nokia was still the largest mobile phone producer in the world and wanted to create their own, separate, echo-system instead of using somebody else's. They invested heavily in the success of the Symbian, but after a series of unsuccessful launches of new smartphones, and the ensuing success of its competitors, they realized that the battle was lost. Nokia came to the conclusion to form a partnership with Microsoft regarding a Windows based operating system. The announcement of the strategic partnership in early 2011 awakened the hopes



MAYBE IT WAS THE FACT THAT NOKIA, AS A LARGE INCUMBENT, HAD TO WAGE A TWO-FRONT WAR, AGAINST BOTH HIGH AND LOW-END COMPETITORS

of a revitalized Nokia regaining its previous glory, but that ship had sailed a long time ago.

Was the fall inevitable?

Out of the top ten best selling mobile phones in the world Nokia holds nine positions. The sheer size and production capacity of Nokia probably calmed down most of its critics when they started to lag behind initially. But Nokia kept falling behind, and their response against Apple and Google seemed to be far too weak. But when did Nokia actually lose its mojo and was it perhaps inevitable? Maybe it was the fact that Nokia, as a large incumbent, had to wage a two-front war, against both high and low-

end competitors; or perhaps, because the incentives were not as big as for their rivals. It is a common case that new, or more radically innovative firms, attempt to leapfrog ahead of old and rigidly structured companies. However, Nokia is not the first company that lost its edge. Most of its competitors at its prime time; Ericsson, Blackberry and Motorola, have all faced the grim truth that Nokia now is facing, one way or another. Other industrial leaders, such as Kodak, Blockbuster and Palm have also been through similar events and been regarded as “too big to fail”. Nonetheless, new technology and new markets have always been a source of opportunity and threat. Maybe it is the curse of incumbent inertia, as told by the first-mover advantage theory, and an embedded reluctance to act innovatively when success has been overwhelming. A technological shift is not only a technical alteration but also a systematic shift that to a large extent is intertwined in complex socio-technical systems. Nokia did not manage to make it through the shift that Apple brought to the industry with the Iphone, despite its head start. Perhaps the story of Nokia is a chance for other companies to once again remind themselves of the elusiveness of success and their own mortality. ■

SEFA FRONT

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Economica is also
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for the digital
version!



MESSAGE FROM MEREL

1128 years A.D., an empire flourished. Weirdly overlooked by many history books. The empire was situated along a strip of land that reached from the areas we now know as Turkey through Serbia to Northern Italy in the middle of the Roman Empire. It wasn't acknowledged by the Romans but not interfered with either. Probably because of its well-developed educational system: a unification of the present systems of universities in Constantinople and Bologna. As you may know, both cities were known for their well-established universities by that time.

The empire was ruled by emperor Sefa together with his wife Academia, the leading woman of the educational system. The educational system as we know it today is named after her. In honor of his wife, the emperor wanted to

build a temple right at the border of the empire. It formed the pass through for the most important routes of that era. The emperor decided the construction had to consist of four pillars with inscriptions to remind the people of the empire of the essentials of a successful and fulfilling life. The inscriptions above the pillars stated: Academicis, Careeris, Internationalis and Socialis.

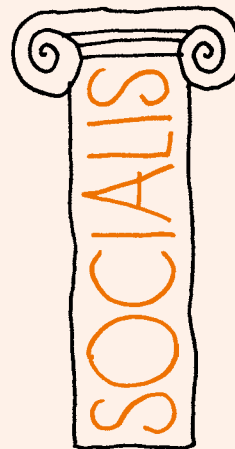
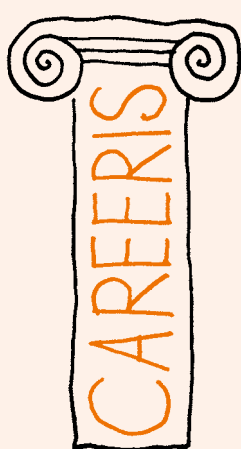
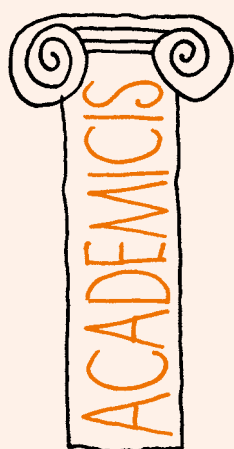
Emperor Sefa had the desire to make this a project of the public. The most decisive people from all years and specializations joined. First they build Academicis. After finishing pillar one they needed to build the pillar at opposite site to support the construction. This one was placed right at the other side of the border. The neighbour emperor gave permission for the temple but

wanted his own man to build with them. Together they build Internationalis. The third pillar was next. The builders of emperor Sefa were really efficient by then, like professionals. They build Careeris. However, they missed their colleagues from across the border and so they asked them to join again and build the last pillar together. Within days there was Socialis and the temple was finally finished.

Nowadays there is nothing left of the temple due to the battle of Knowledgeio Economia. But until this day those four pillars stand for the most important values of personal development through learning.



Merel van Geel is the chairman of the 92nd Sefa Board





A QUICK OVERVIEW OF THE LAST SEFA ACTIVITIES

- 1 September - Room for Discussion - Frans Timmermans
- 2 October - Sefa Recruiters Event
- 3 October - Constitution Drink
- 4 October - Sefa Conference



NEW ECONOMIC THINKING

Thursday October 31st the Sefa Conference took place. This year the theme of this academic event was New Economic Thinking. Several motivational and very inspiring speakers took the stage, where interviewed by Room for Discussion after each speech and asked questions by the audience. The day left us with several statements and questions.

- Modern macroeconomic models now take the dangers of the financial sector into account.
- Students of economics need to keep their mind open, and mind the limitations of overly simplistic models.
- Reading Aristotle may answer the part of the crisis that takes place in our heads.
- Black and white thinking is dangerous. Solution? Move to Japan!
- Mathematics and economics have become intertwined, perhaps dangerously so.
- To begin thinking about changing the nature of our financial system, it is imperative that we understand it first.

SEFA CAREER MONTH

November is also known as the Sefa Career Month. This month consists of multiple career events in marketing, accountancy, finance and an International Career Event specifically for international students. It is the perfect way to meet your future employer.



text
Dovile Venskutyte

Dovile Venskutyte is a Bachelor student of Economics.

image
Thierry Ehrmann,
Abode of Chaos

FROM CHICAGO WITH LOVE

In all sciences the most important tool is experimentation. I sometimes think that the natural sciences are so lucky, because they have it at their disposal. Of course, experiments in any of the sciences are never easy, but at least they have some ways to test their theories in reality. Physicists recently discovered the Higgs Boson through experimentation; pharmacologists can test their new drugs on animals and later on humans; biologists, chemists and all other natural scientist can replicate reality in their laboratories. Unfortunately, the economists' laboratory is a computer with several modeling programs on it. The only way to test their hypothesis in reality is to pass policies based on them, which has numerous political and other barriers. So we are stuck with our approximations. However, a few economists had their dreams come true and got to use an entire country as their guinea pig. It was Chile in the period from 1973 to 1989.

Don't anger business

In the second half of the 20th century Chile experienced extremely turbulent times. In the year 1970 it became the first democracy in the western hemisphere to elect a Marxist president, Salvadore Allende. Just after stepping into office Allende started a

series of radically left economic policies. These included large-scale nationalization of business, banks and foreign held assets. The most important industry in Chile at that time was copper excavation. However, it wasn't really Chilean, as copper producing companies were largely owned by US investors. Of course, having their property taken away did not go well with the Chilean business community and the US government. Furthermore, USA was fighting a cold war against the socialist Soviet Union and had a clear anti-communism policy. It is now widely acknowledged that in 1973 the CIA took action, which was hard to consider to be legitimate, to solve this problem. It supported a massive outbreak of protests against Allende and eventually played an important part of General Pinochet's military coup, in which Allende was killed and dictatorship replaced a democracy.

Friedman to the rescue

Pinochet's government started reversing Allendes policies right after the coup was finished. Their priority was to once again privatize all that was made national just a couple of years ago. However, the new government did not have a remotely clear economic policy, which resulted in inflation hitting a staggering 341

percent in 1975. This is where the Chicago boys enter the story. We are all probably aware of the Chicago School of Economics, its heroes Milton Friedman and Fredrick Hayek and its strong support of right wing economics. Well, the Chicago boys were a creation of this school. They

AUGUSTO PINOCHET

I'M NOT A DICTATOR.
IT'S JUST THAT I HAVE
A GRUMPY FACE

were 30 Chilean economists, who studied there and were almost fundamentalist in their beliefs. Pinochet simply handed over economic policy making to them, no questions asked. In theory, this sounds like a good idea: basing economic policy on science and rationality, rather than political and corporate interests. However, Pinochet's had a lot of work to do as well. His main task was to suppress political resistance to the new policies and the regime at large. This was a dark time for many, since people, who were against the dictatorship would often simply disappear.



Shock therapy

The policies that were adopted by the Chicago boys were referred as “shock treatment”. It was neoliberalism on steroids. Anything you would think a typical right wing economist would do was done. First, they drastically cut government spending and money supply, which did get inflation rates down. Unfortunately it also got the unemployment rate up from 9.1 to 18.7 percent also affecting output, which fell by 12.9 percent. Other than this, the boys privatized not only the businesses that Allende nationalized, but also government services; carried out large-scale deregulation; and not just opened their doors to trade, but blew them off their hinges. The IMF and World Bank also supported these new policies as they made their implementation a precondition for Chile ever getting loans from them. This whole ordeal was extremely undemocratic, bloody and unjustifiable, but it did have some positive consequences.

The aftermath

From 1978 to 1981 a phenomenon, named ‘Economic Miracle’ by the Chicago boys, occurred. It was simply the fact that the Chilean economy grew by 6.6 percent annually, which is goo, but hardly a miracle, if you take into account the fact that economies tend to have steeper recoveries after really bad recessions. Also in 1977 foreign loans started flooding in due to deregulation, which created growth, but it wasn’t sustainable. At the time Chile had the highest interest rate in the world, which created new jobs in marketing or financial service sectors, but they did not make the economy stronger in the long run. Furthermore, due to increased international exposure Chile was hit very hard by the 1982 global crisis. Foreign investment shrank dramatically and the country still had to pay interest on an enormous amount of loans. Eventually the IMF bailed them out, but the ramifications

MILTON FRIEDMAN

WHILE ECONOMIC FREEDOM FACILITATES POLITICAL FREEDOM, POLITICAL FREEDOM, ONCE ESTABLISHED, HAS A TENDENCY TO DESTROY ECONOMIC FREEDOM

rested on the average workers shoulders. Fortunately, this crisis eventually resulted in Pinochet being removed from power. However, even though democracy was restored, Chile to this day has to deal with inequality and unsustainability that the Chicago boys helped create. ■





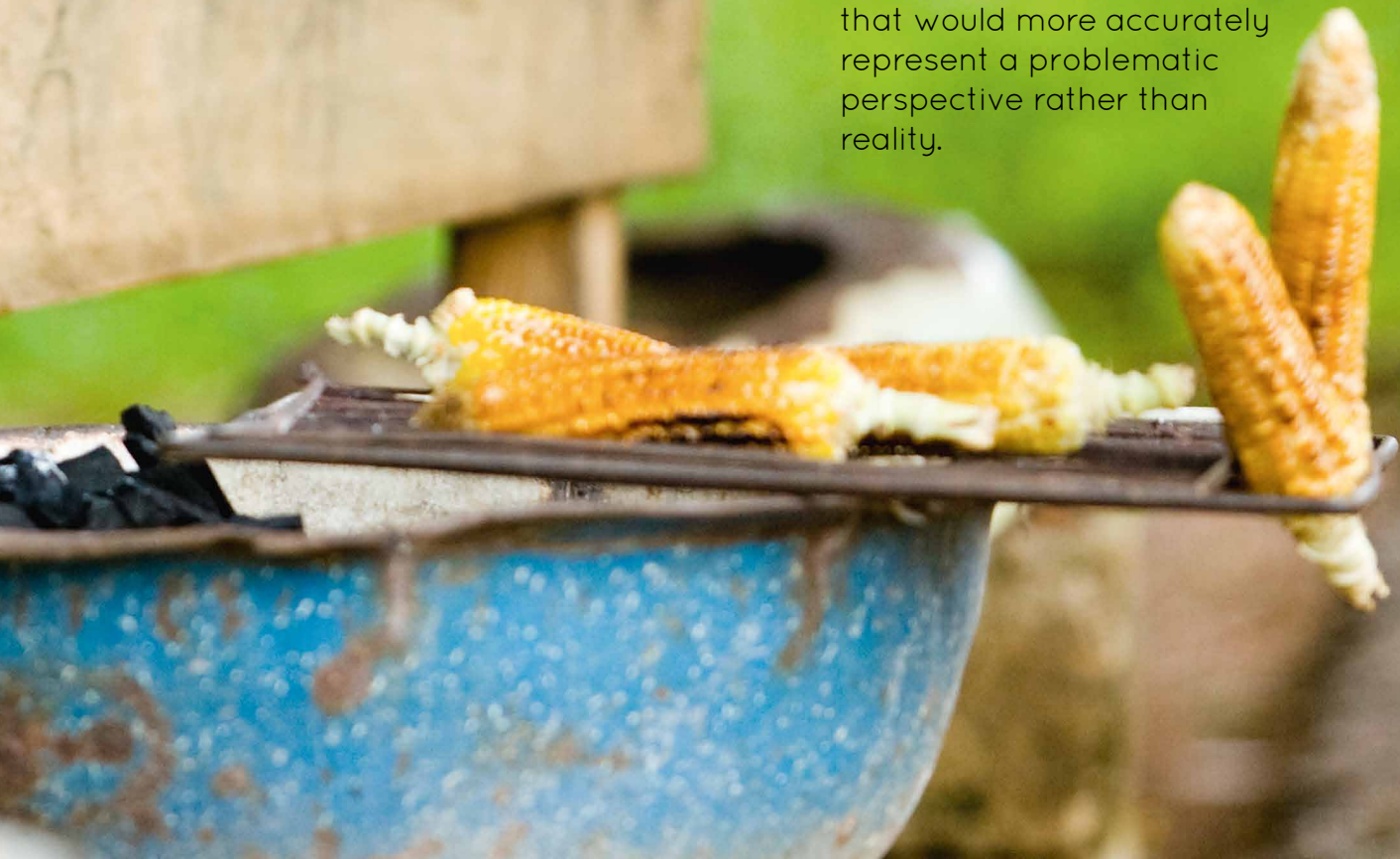
text
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images
Gates foundation,
www.flickr.com/photos/gatesfoundation/
Jack Zalium

THE CRADLE WILL ROCK

It is an unfortunate fact that when thinking about Africa, the first words that come to people's minds are hardly positive. We know that it is a continent stricken with famine, political unrest and AIDS. It is true that I could fill this entire magazine with stories about problems that Africans face everyday, but that would more accurately represent a problematic perspective rather than reality.





African agriculture is on course to create 8 million wage-paying jobs between now and 2020.

Of course, I do not wish to paint a picture of pure happiness and hope and therefore send a wrong message that there aren't any deep-rooted issues, which require urgent solutions. However, a more realistic view of Africa is that it is a land with many problems, but with even more opportunities and potential. Success is in Africa's future and in its present.

Optimistic predictions

First of all we should keep in mind that Africa the way it is today is still a very young region, which had a very difficult situation to start from. Only about half a century ago it gained its independence from colonial rule. After that there were seemingly countless military conflicts, which caused great instability and bloodshed. This is no surprise, because modern African countries were created by colonialists often not taking into account cultural differences, which of course lead to various civil conflicts. However, today, it has never been more peaceful or more stable. Africa is the fastest growing continent in the world. This alone can surely be named a success if we take into account where it was not too long ago. Recently the World Bank adjusted its growth expectations for Africa by stating that they project above 5 percent growth in 2014. Even though this is less than the pre-crisis rate of growth of 6 to 7 percent, taking into account that the global financial meltdown negatively affected this still very vulnerable region, these are good prognoses. Furthermore, HIV rates have decreased dramatically, life expectancy has increased by 10 percent and foreign direct investment has tripled only in the past decade. Modern technologies are becoming more and more prevalent and civil societies are getting stronger with voting rates ever increasing and people pressuring their politicians to implement necessary changes that will help their nations reach a higher living standard. If this continues consumer spending is expected to double in the next decade.

Correcting past mistakes

Even though many African countries are resource rich, this is not the only reason why the continent is growing. Unfortunately the people do not share a lot of profits from resources. This is because many of their mines of various minerals are foreign owned and tax revenue is exported from countries through methods of transfer pricing. This is detrimental to economic growth, however with the help of some international organizations tax laws are being developed in Africa to secure a fair amount of tax revenue. Another big problem that Africa is facing is extremely low employment in the formal sector, which leads to underfunded government that do not have a working population to pay taxes. However, economists have stated that one of the main reasons for Africa's growth is domestic demand, which is getting stronger and stronger. This is incredibly important for developing countries, because it promises sustainability. Even though Africa now is still largely dependent on imports, having a strong demand inside their borders gives opportunity for domestic business to develop and avoid the trouble some Asian countries are in now. For example as the west experiences slow growth, China fears that it will not be able to export as much and lose its rapid growth. That is why it needs to build a strong domestic market for its products. It would be a great advantage if Africa could avoid this problem in its path of development. Another major mistake that nations of the plateau region are trying to fix is their approach to agriculture. In the past many African nations have implemented urban biased policies and neglected investment in the agricultural sector. Of course it is true that a sustainable economy has to be diversified, but Africa has missed the first stage of development. However, now many Sub-Saharan countries have fixed this flaw and started their green revolution. Agricultural growth in Uganda, Nigeria and Tanzania are at a solid pace of growth and are predicted to stay that way. Ethiopia, which recently was a country best known for widespread and frequent



 DESMOND TUTU:

WHEN THE MISSIONARIES
 CAME TO AFRICA THEY HAD
 THE BIBLE AND WE HAD THE
 LAND. THEY SAID 'LET US PRAY.'
 WE CLOSED OUR EYES.
 WHEN WE OPENED THEM WE
 HAD THE BIBLE AND THEY HAD
 THE LAND

famines, now is the 10th largest producer of livestock in the world. This is of extraordinary importance to the region, because food price volatility has been one of their main problems in the past years. A strong civil society, strong domestic demand, strong legal system and a strong appeal

to international investors are all necessary ingredients for success of an economy and a nation. It is hard to doubt that Africa is on the right path to a bright future.

Long road ahead

Of course, Africa is still the poorest continent in the world and tragically it has slightly rising economic inequality. It is nice to hear that there are more and more African billionaires, but we cannot turn a blind eye to the most vulnerable of people. Nevertheless, I will call Africa a success, even though it has an abundance of problems. This seems like a contradiction, but the people of that region have definitely succeeded in one thing so many countries never do: they have learned from their and others' mistakes. We need to ditch this negative and frankly condescending outlook on the region, which gave rise to humanity. The situation is far from satisfactory, but when their history is taken into account, the accomplishments of African nations are rather impressive. It is no longer a hope that Africa will become a developed and successful region, it is a reasonable expectation. ■

THE SORT OF NOBEL PRIZE IN ECONOMICS 2013



text
Dovile Venskutonyte
Dovile Venskutonyte
is a Bachelor student
of Economics.

Every year since 1901 the Nobel Prize has been given to the most accomplished scientist, writers and peace activists. Virtually nobody would argue that it is a great honor to receive one; and that laureates gain tremendous admiration from their communities and the global society. However, the prize for Economics has been a rather controversial exception. Actually, there is no Nobel Prize in economics; it is called the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel. Established in 1968 by the Swedish Central Bank, it was criticized by various groups including the descendants of Ludwig Nobel. A probable reason for why such a prize was begun in the first place is that in the 1960's Sweden wanted to make its economy more liberal and loosen government strings on its central bank. Therefore it wanted to give more credibility to free market economics and make the discipline at large resemble hard science more. The details of how it was established are not particularly well known, but the prize for economics still lives. However, it is not considered amongst economists to be as prestigious as it is amongst other Nobel categories.

Despite the controversy surrounding the Nobel Prize for Economics, it is certain that its laureates are distinguished in their research. Quite recently the 2013 Nobel Prize in Economics was given to Eugene Fama, Lars Peter Hansen and Robert Shiller. The three economists were awarded for about 50 years of research on asset pricing. To put it in very simple terms, Fama discovered that it is impossible to predict market prices in the short run, Shillers research added that on the other hand it is quite possible to predict long-run prices and Hansen developed a statistical model for testing theories related to asset pricing. This is a surprising trio, or at least a surprising duo, mainly because Shiller is one of the most prominent critics of Fama's efficient market hypothesis. Mr. Fama's theory on rational and efficient markets has had enormous influence in the

global economy, basically giving rise to index funds and taking part in the decrease of regulation. Mr. Shiller, however, gathered convincing evidence of irrationality in markets and reached fame by predicting the 2000 bubble as well as the crash of the housing market. One of his most famous discoveries was that stock prices are much more volatile than if they were predicted by changes in dividends. Even though these scientists disagree on many things, they reach agreement on the predictability of asset prices.

Not only is this research and example of great academic work, it also has important real world implications. Fama's research has decreased the credibility of large mutual funds, which are paid high fees to predict short-term stock price changes, pick the right stocks and manage their customers' portfolios. However, if Fama is right, investors waste money in this case since their consultants' predictions are no better than guessing. As mentioned previously, this has led to relatively cheap index funds. One thing that is interesting about Shiller's work is that it seems to be heading in the direction of incorporating more behavioral economics into his discipline. He gathered huge amounts of evidence for irrationality of investors in markets and concluded that prices can be without real basis even in the long run due to human psychology. Finally, Hansen's statistical models are now widely used in many fields other than economics.

Today, we still do not have a good answer to the question of "how markets work?". The Nobel comity have said, when commenting on their decision: "Understanding how mispricing of assets emerges, and when and why financial markets do not efficiently reflect available information, is one of the most important tasks for future research. The answers may turn out to depend heavily on the particular contexts and institutional settings, but they will no doubt be extremely valuable for policymakers as well as practitioners." ■



Simas Jarašūnas is a student of Economics and Business, who spent a semester on exchange at the Stevens Institute of Technology in New York City.

EMPIRE STATE OF MIND

Last spring I had an amazing opportunity to spend a semester at the Stevens Institute of Technology. Stevens is not very well known in Europe, which I suppose is just because of its size; it is a little yet great school. At first I did not know much about the institution and I chose it just because of where it is located, The Big Apple - New York City.

The day I arrived to Stevens I was really astonished by the campus and the amazing view of the Manhattan skyline, it was breathtaking. The city is great, it always has a lot to offer, no matter what you like: nightlife, jazz concerts, becoming a hipster for a day in Brooklyn or just simply enjoying the atmosphere, which is full of energy. If you are looking for a job or an internship, you have all the chances and opportunities to find it here.

The academics at Stevens gave me completely new and very valuable experience. All the classes were based on discussions, real life case studies and examples, which made the

theoretical part much easier to understand and remember. One of my favorite classes was called Investment Portfolio Theory. Since my major is Economics, during this course I was really able to put all my previous knowledge into practice. It included reading the Wall Street Journal, tracing of daily news and stock market reactions to it. Besides that, Stevens has an advanced Financial Systems Lab with an access to the Bloomberg Terminal, which was a new and very useful experience. The knowledge and skills gained at Stevens gave me an inspiration for my Bachelor thesis and made writing it an exciting experience.

Stevens is a small and unique school. Not only is it strong in academics, but also has an active social life. There are plenty of different sports, student clubs and other activities offered. Here I was able to fulfill one of my dreams: join a college swimming team. I had a great experience, first our team won their Conference Championship and a month later we did better than ever before at the

NCAA National Championship. Overall the team finished sixth, which was the highest place in the history of Stevens. Personally, I did better than anyone could expect, I became a National Champion of the NCAA DIII in 100 yards breaststroke. This was the experience, which I have really missed at the University of Amsterdam. Also, it is one of those things that I will remember for the rest of my life. At Stevens there is a great balance between studies and sports, so that their students can reach for top quality academics without letting go their talents in other spheres. The people I have met at Stevens made this journey even more pleasant and delightful chapter of my life.

I would definitely recommend choosing Stevens to anyone. It is a top-level academic school, giving you all the opportunities at your fingertips. New York City is amazing and it has so much to offer that the semester spent at Stevens flew by like a week, though it is something that I will never forget. ■



text
Sophie Yang

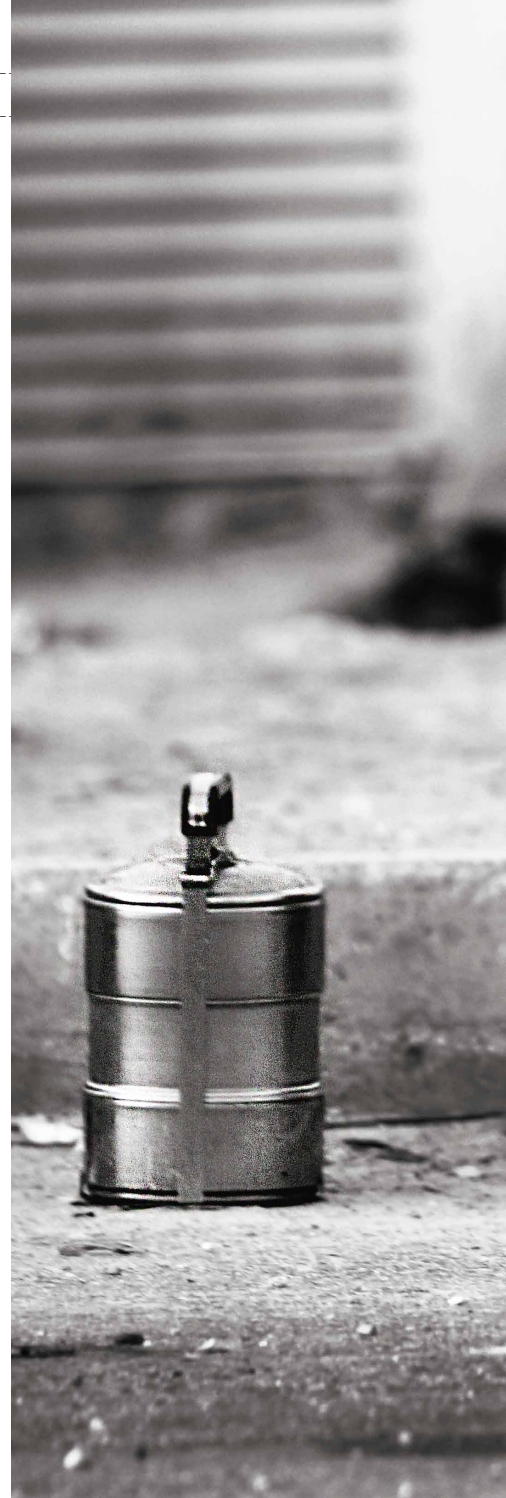
image
Armando Torrealba,
Sophie Young,
Glenn Euloth

Sophie Yang is a
Bachelor student in
Business studies

A BLE\$\$ING OR A CURSE?

THE STORY BEHIND THE
RESOURCE-RICH NATIONS

I am sure you are familiar with the fact that the United Arab Emirates is one of the richest countries in the world. You might answer: Well, because they have oil. What about Nigeria or Angola? They also have abundant resources and they export them. But do you see on the TV that many Nigerians are driving expensive sports cars and living in luxurious houses?





Migrant worker in Qatar

Recently a friend of mine from Qatar showed me a picture of his house. I was amazed because his living room was more like a hotel lobby. He told me that it could hold up to two hundred people. He then explained to me that it is quite common to have a house similar to his in Qatar. In complete opposite, another friend of mine, from Nigeria, told me that he had to move to Europe as result of a tragic labour market. I asked myself why was this the case. Resources should bring wealth to nations, but how come some countries have flourished while others maintain

large populations living below the poverty line? With this questions in mind, I visited Dr. Mehdi Parvizi Amineh who teaches Political Science and International Relations at the University of Amsterdam.

Why do some resource-rich countries fail to become more developed while others succeed? Why are some citizens of resource-rich countries still living in poverty? We can say that what made the difference between these resource-rich countries is whether or not they have ►

Nigeria Real GDP per capita (2012):
1640 (dollars) - 134th place in the
world. Unemployment rate 22%



Of the top ten corporations
in terms of revenue in 2013,
six out of the top 10 belongs
to the oil and gas industry.
(Source: Fortune)

1. Royal Dutch Shell
2. Walmart
3. Exxon Mobil
4. Sinopec Group
5. China National Petroleum
6. BP
7. State Grid
8. Toyota Motor
9. Volkswagen
10. Total

Therefore, authoritarian regimes and a lack of democracy persist, for example, in some of the oil-rich countries in the Middle East. A weak and fragmented civil society without a strong middle class and private sector cannot fight against an authoritarian regime and push for political participation. This is what is happening in Iran, where the oil and gas sector cannot provide enough jobs for its people and a great portion of Iranians are actually employed by the public sector and state-owned companies. This makes the Iranian middle class dependent on the state and prevents them from making demands for radical changes in the government. Also, state revenue from the oil sector makes the ruling political elites independent of the civil society. The revenue from these resources is used to buy political loyalty and obedience, to maintain the existing order and enable the regime to persist.

STATE REVENUES FROM THE OIL SECTORS MAKE THE RULING POLITICAL ELITES INDEPENDENT OF SOCIETY. THE REVENUES FROM THESE RESOURCES ARE USED TO BUY POLITICAL LOYALTY AND OBEDIENCE, TO MAINTAIN THE ORDER AND ENABLE THE REGIME TO PERSIST

successfully industrialized and modernized their economies and societies using their resources. Without a strong, modern and diversified economy, a strong modern independent middle class and an autonomous private sector will not exist. It is difficult to attain transparency if these two actors are not prominent in society.

There are some extremely wealthy countries in the Middle East and Central Eurasia, such as Qatar, Saudi-Arabia and Kazakhstan. How about those countries, why are they succeeding to manage their resources?

In the case of Qatar, although it is wealthy, only a small portion of the ruling elite is controlling the country and key economic sectors. There is certainly corruption at the top. Many countries with rich resources suffer from the resource curse. Oil producing countries of the Middle East and Central Eurasia have experienced economic growth based on surplus from the resources, but not from modern and diversified economic sectors. They become too dependent to their resources and so the need to industrialize and modernize the economy is diminished. Most of the consumer goods have to be imported from abroad. Qatar succeeded with its gas wealth, but they are being threatened by the resource curse and they know that their resources will not last forever. They are looking to diversify their economies by expanding their services, banking and manufacturing sectors to create a sustainable economy.

Qatar Real GDP per capita (2012):
104756 (dollars) - second in the
world only after Luxembourg.
Unemployment rate 0.5%



Dr. Amineh obtained his PhD in the University of Amsterdam, where he studied Political Science and International Relations.

Dr. Amineh's researches are focused on comparative studies on politics of development, politicised religion, authoritarianism and democratisation, geopolitics, energy security with focus on the Middle East, Central-, and East Asia and the European Union. He is currently involved in a new joint research project with China: "Transnationalization of Chinese Oil Industry" from 2013-2017.

Industrialization means the diversification of the economy; you need a variety of sectors such as an advanced agricultural sector, advanced service sector or manufacturing. Some resource-based countries have succeeded in doing this, one example is Malaysia. They now have a diversified economy. Mexico has also been successful; they used a part of the surplus from the resource revenues and invested in the economy. Indonesia is another country that used their oil and gas revenue to successfully create a relatively industrialized economy.

When we talk about oil and other resources, we cannot ignore the presence of the Chinese. They are aggressively pursuing oil worldwide. What are some of the implications of this?

One of the threats for the advanced industrialized economies such as the U.S., European Union and Japan is the rise of newly industrializing countries like China and India. Since 1992, China has started to import oil and it has become an oil dependent country since then. To secure its economy, Chinese companies in general and national oil companies, in particular, started a so-called going-out strategy to secure the market for the export of Chinese goods and capital outside its national boarder as well as to secure supply of mineral and natural resources. This move was made because China had two problems: one is that they produce more than the domestic market can consume. The other is that they want to keep the pace of development, which requires resources from outside their national borders. The result? All the major advanced economies and powers meet each other in the resource rich regions, such as the Middle East, the Caspian region and in Africa. Since resources are scarce tension is created.

The emerging of the BRICS countries (Brazil, Russia, India, China, South-Africa) is a serious challenge to the leading industrialized economies. Regarding China, we have just started a joint research project supported by the Royal Netherlands Academy of Arts and Sciences (KANW)

and China Academy of Social Sciences. One of the tools China uses in the process of resource hunting is national companies with a transnational orientation. We are studying the impact of China's increasing involvement with governments, local institutions and local stakeholders in the energy sectors of a number of resource-rich countries in Africa, Asia and Latin America, notably Sudan, Ghana, Saudi-Arabia, Iraq, Iran, Venezuela, and Brazil.

Unlike the U.S. who intervenes militarily in resource-rich countries, China claims that they are only there to "do business" and do not intervene in domestic policies of their "business partners". Do you think that it is better or worse for resource-rich countries?

The question is if China is able to do that in the practical sense. It is very difficult to do so in reality. They may not intervene directly in local affairs, but they are indirectly intervening by making deals with the ruling elites and companies related to the key economic sectors, which is mainly natural resources. The Chinese are consciously or unconsciously, trying to develop a network of capital, information and technology outside the Atlantic economy.



So in theory, but until now they have not intervened militarily. Some scholars call it “soft security”, for now, they do not need to use military to attain their goals.

It seems that when we talk about oil and gas companies, we would most likely associate it with corporations such as Shell or Exxon Mobil. The presence of Shell in Nigeria, for example, is getting a lot of attention. What about the oil companies from China?

The reason companies like Shell get a lot of attention is because of their long presence in the industry, say, 50 or 60 years. Also, the size of the company is great. On the other hand, the Chinese companies such as Sinopec and China National Petroleum are new, active globally for only about 10 years. There is also a difference of the nature between the private oil companies such as Shell and the national or partly national oil companies from China. Shell’s board of directors are independent from any government while the Chinese national companies have freedom to some extent, but in general they follow the national interests or policies of the

Chinese government. It also means that the Chinese companies will have a strong backing from their own government, which will help them to negotiate with the local government of the country where resources are located. Although, Chinese companies are new and therefore do not have as much knowledge, technology, management skills and experience, we can say that they have great potential. They are certainly capable for more developments.

In the U.S., the recent discovery of shale oil and gas has enabled the U.S. to supply its domestic demand and even export. Does that mean that the U.S. will intervene less in the politics of resource-rich regions in the future?

The U.S. has no other choice than to keep its power in these regions. The U.S. is a hegemony and hegemonies are not able to exercise their power without allies. They need the support from alliances such as the European Union and Japan. They are not only there for themselves, but to help its allies secure the resources they need. For example, Japan imports almost 100% of oil from outside.



Another reason is that the shale gas and oil itself is also not sustainable. The size of its resource in the U.S. is actually less than that of China. For China, the problem is that they still do not have advanced technology to extract shale oil and gas. The U.S. has to stay in the Middle East and elsewhere because otherwise the other growing powers will take over its position as a world leader.

Is the civil war in Syria related to the resource-war as well?

Syria produces oil, but it is very limited in amount. The position of Syrian government is more important in the conflict that is happening right now. Syria is in a location where all the great powers meet. It is all about the competition and rivalry between the great powers to establish their influence in this region. Iran, China, Russia, the U.S., Saudi Arabia and the European Union are all seeking to influence this region and create a geopolitical order in a region where about 60% of global oil and gas reserves are located. ■

TOP 10 RESOURCE RICH COUNTRIES

This Top 10 is based on the 10 most valuable resources in the world. The researchers analyzed the market value and volume owned by countries of materials such as oil, coal, natural gas and timber.

10. Venezuela

Total resource value: 14.3 trillion

9. Iraq

Total resource value: 15.9 trillion

8. Australia

Total resource value: 19.9 trillion

7. Brazil

Total resource value: 21.8 trillion

6. China

Total resource value: 23 trillion

5. Iran

Total resource value: 27.3 trillion

4. Canada

Total resource value: 33.2 trillion

3. Saudi Arabia

Total resource value: 34.4 trillion

2. USA

Total resource value: 45 trillion

1. Russia

Total resource value: 75.7 trillion

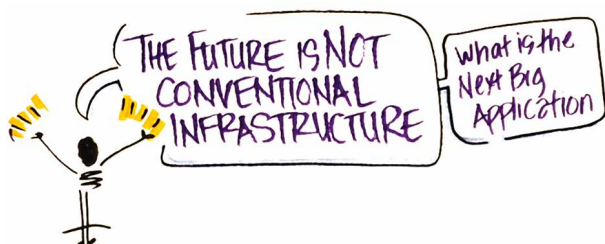
Information: 24/7 Wall St. April 18, 2012



text
Milian Bachem

Milian Bachem is a Bachelor student in economics.

image
Dell Inc.
www.flickr.com/photos/dellphotos/



A COMPANY THAT FAILED TO INNOVATE

There are numerous factors that determine a company's success or failure. They are often complex and sometimes surprising. A couple of students in a garage can become tech giants and old establishes companies can turn to dust. Dell started small and achieved huge success, but will we see it fall in the not too distant future?

Humble but bright beginnings

As many tech companies do, Dell was started, when its creator was still in college. Michael Dell, who had a strong affiliation with computers from an early age, started building computers from their individual components and selling them to students on campus. At the time, it was a quantum leap for the PC industry because most computers were sold through at least two middlemen. Sales started to increase rapidly and in 1985 Michael dropped out of college in order to fully commit to his company. With a capital injection of about \$300,000 from his family, he was able to start mass-producing a standard model computer called the "Turbo PC". This mass production should be taken with a pinch of salt since Dell described his



“DELL CONSISTED OF THREE GUYS WITH SCREWDRIVERS SITTING AT SIX-FOOT TABLES.”

manufacturing staff as “*consisting of three guys with screwdrivers sitting at six-foot tables*”. The company had its IPO in June of 1988 with market capitalization of more than 2500 times the value it started at in 1985. The company really began to boom in 1995, because Windows 95 was introduced and it became more and more common for a family to own a computer and have internet connection. Also Dell set up with a web-store where customers could buy a computer without having to go to a physical store where computers were likely to be a lot more expensive.

Execution over innovation

Dell’s business model worked for one simple reason: everybody wanted a computer. Most people even wanted more than one computer. Market demand exploded as the PC became part of everything companies and people do. As the market grew, Dell grew with it. Due to its clever strategy, primarily focused on speed - sell, build and deliver, Dell made its creator one of the richest men alive with an estimated net worth of 15.3 billion dollars. Around 2010 the stock price of Dell started to plummet, dropping by around \$10 in little over a year. Two things might have influenced this. The first is not a surprise; at least part of the drop was caused by the global credit crisis. However, the drop in 2010 is much higher than the drop it had in 2007, the time when the crisis started and the majority of companies experienced the largest losses.

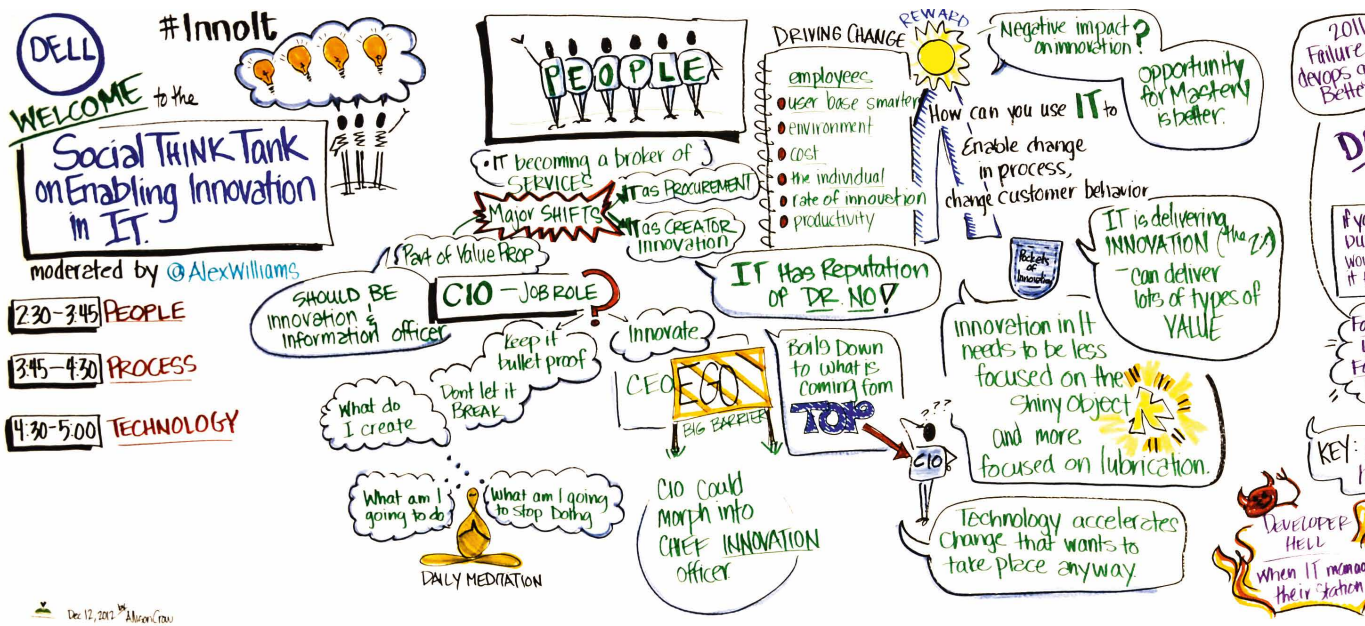
The second reason for the share price to drop was the failure of Dell to innovate. Dell was so focused on cutting prices that it failed to think of what its customers actually wanted. An example of this can be found in 2010 when Apple brought to market its first iPad. Initially a controversial and misunderstood product, the iPad was certainly the reason for the downfall of the netbook. The netbook was one of the most important products for Dell. For years Dell seemed incapable of innovation, as it had to

follow the innovations of the people who made their parts. These two companies were Microsoft and Intel, which are not the first companies that come to mind when thinking about user friendliness and style. Although, credit should be given where credit is due: these two companies were two of the best suppliers of PC parts. Alas, as people moved more and more to mobile devices like smartphones and tablets, this no longer mattered. The missteps and mistakes continued when in 2010 Dell decides to focus more on mobile devices. As Dell VP Brad Anderson said “We are no longer a PC company”. Dell again used Microsoft and Intel to gain prominence in the tech industry. Because of this, Dell had to entirely rely on these two companies to bring innovation. However, as these two companies were losing market share and losing it rapidly, they were not going to be the ones to save Dell in this endeavor. “At the scale of Dell, the only way you were going to move the needle quicker was acquisitions” the VP says now. That is exactly what Dell did in 2010 when they acquired 20 firms with a joint value of \$13 billion. It turned out to be not enough to steer the ship in the right direction. Market watchers quickly realized this and Dell stock continued to drop. Today, being the world’s best PC maker is no better than being the world’s best maker of photographic film as Kodak used to be. Being able to execute – even execute really, really well – is not a viable strategy in the long-term.

Privatization by Michael Dell

Something had to be done with Dell to reestablish its place as market leader. The way in which this had been done created some stir. In what Forbes has called “The nastiest tech buyout ever”, there were two main parties: Carl Icahn and Michael Dell.

This was Michael Dell’s view on how the company had to be saved. In June of 2012 he devised a plan to buy back all of the shares and privatize the company once again. Later that month he found an investment partner called Silver ▶

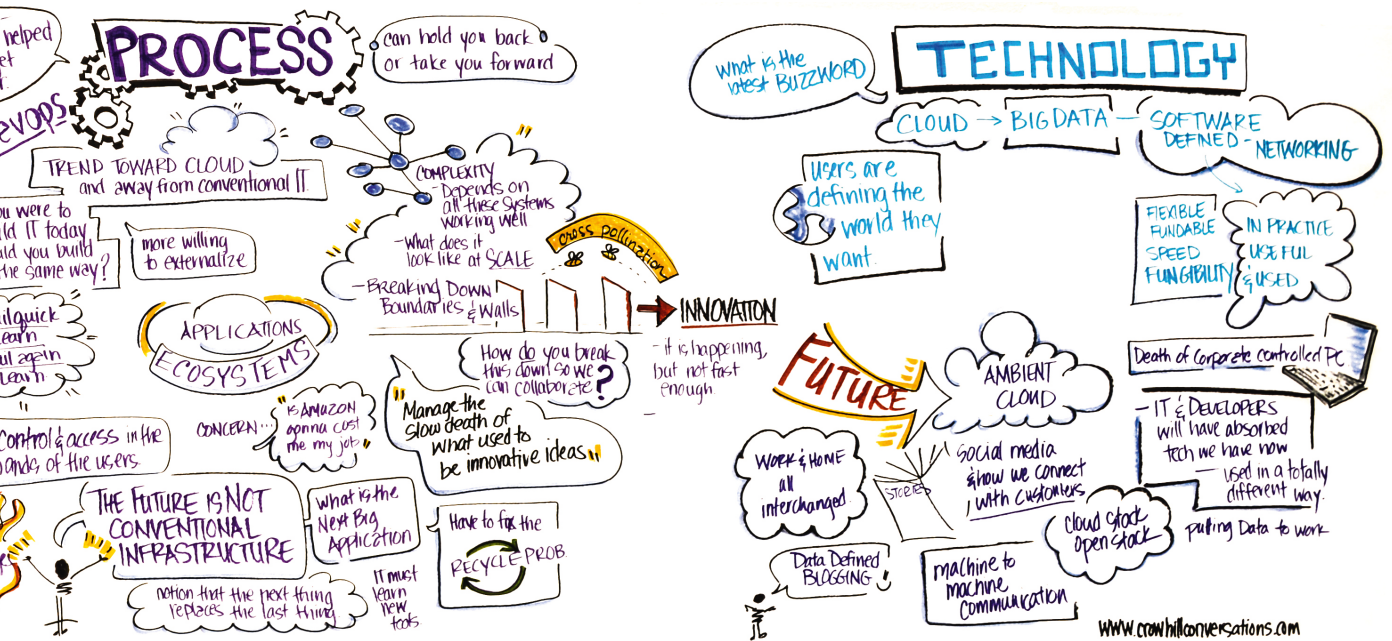


Lake Capital. And by October they submitted bids hovering around \$12 per share. This seemed a fair deal, as the November earnings report turned out to be dismal at around \$9 a share. By February, press reports were already hinting at the buyout and a special committee convinced the public that there would be no other bidders. Dell and Silver Lake got the go-ahead. In addition to Dell's investment, Silver Lake put up \$1.4 billion; banks, including Bank of America, Barclays, Credit Suisse and RBC, provided about \$16 billion and finally Microsoft gave a 2 billion dollar loan to one of its biggest partners. Dell claimed that the cost to service its debt would be less than what it spent on dividends and stock buy-backs over the last five years. The proposal also included a provision for a 45-day "go-shop" process in which other parties were invited to offer other solutions. Here is where Icahn stepped in.

Carl Icahn one of the richest men on Wall Street is known for his hostile takeovers. Allow me to paint a mental picture of Mr. Icahn: He sold his 177-foot yacht because he got bored spending time on it, his twitter profile states "Some people get rich studying artificial intelligence. Me, I make money studying natural stupidity" and he sips Cokes from a crystal cup. He is the kind of person that is worth a good Google. What exactly Mr. Icahn wanted to do with Dell wasn't completely clear, but people assumed he would give the company something he calls "The Icahn Lift". This, in theory, is a relatively simple strategy, which only

entails two steps. Step one is to sack the CEO, and step two is to sell off the parts of the company that still contain value and obtain a profit. This asset stripping strategy is not unique to him, but has certainly made him very wealthy. When Icahn made public that he wanted to buy Dell and implement his strategy its stock started to rise. Icahn says he got interested after some big Dell shareholders (he won't say who) called him for help. In a March 5th letter in 2012 to Dell's board he let them know he now owned \$1 billion in shares and thought the Dell-Silver Lake bid was too low.

By June it was just Dell and Icahn who were fighting for ownership of Dell Inc. Carl Icahn started using tweets, open letters, headlining one: "Let the Desperate Dell Debacle Die"—and media interviews to get his point across that Dell stock was undervalued, and that Michael Dell should be fired and the board replaced. He pushed for a leveraged recapitalization, in other words; he pushed Dell to buy back stocks with debt. To help with his case, Icahn and partners say they recruited a big-name tech executive (whom the magazine Forbes discovered to be the former Compaq CEO Michael Capellas) as a potential replacement for Dell and flew him out to Icahn's house in New York's Hamptons. "He came for lunch and stayed until midnight," says Icahn. "We were so serious about getting him that we agreed to pay him a fee of \$10 million just to sign on to our team, whether we won or lost." The candidate soon after got cold feet.



By September, it became clear that Icahn wasn't going to be a threat to Michael Dell and Silver Lake Capital. It all ended in bitterness from both sides. Icahn sent this tweet: "I withdrew my demand for appraisal of my Dell shares. Based on our returns on capital, we believe we have better uses for \$2 billion." Arguably Michael Dell's reactions to the recent events were even bitterer. He was quoted as saying, "It's a big poker game to him" and "It's not about the customers. It's not about the people. It's not about changing the world. He doesn't give a crap about any of that. He didn't know whether we made nuclear power plants or French fries. He didn't care".

The road ahead

A lot of big CEOs have said they trust Michael Dell to turn around the current fortune of Dell and make it prosper.

"YOU HAVE SOMEONE WHO KNOWS THE BUSINESS WELL AND IS NOT DEWY-EYED WITH A ROMANTICIZED VIEW OF THE PAST,"

says Jeffrey Sonnenfeld, a professor at the Yale School of Management.

"I'M THINKING OF THE GUTS HE HAS TO DO IT,"

adds Anel Bhusri, co-CEO of software maker Workday, which counts Michael Dell among its early investors.

"HE COULD HAVE WALKED OFF INTO THE SUNSET AND SAID 'I CAN MOVE ON.' I THINK HE'S MAKING THE HARDER CHOICE."

Adds Silver Lake's Durban:

"WE WOULD NOT WANT ANYONE ELSE OTHER THAN MICHAEL TO RUN DELL."

The "new" Dell starts with some promising metrics. The company that made its name selling direct has more than 140,000 channel partners today, with about \$16 billion of Dell's nearly \$60 billion in annual revenue coming that way, up from zero in 2008. It also doubled the number of sales specialists with technical training to 7,000 in the past four years. Two out of three business customers' first experience with Dell is buying a PC, and about 90% of those customers go on to buy other products and services. The question of who should save Dell is certainly answered, but if he will be able to do it is an entirely different one. ■

KNOW YOUR RIGHTS!



The rules and regulations regarding teaching and examination can be found in the 'Onderwijs- en Examenregelingen', better known as the OER. The OER is updated and changed every year. On some parts the Faculty Student Council has a right of say in these changes, on other parts we advise. In this article we would like to inform you on the most important rules for most students. One of the most recent changes, that you probably heard of, is the fine for late registration. For every course you need to register in SIS and every year some of us forget, but starting this academic year the fine went up to 95€ per course. The board of the UvA wanted to make late subscriptions impossible all together. After some negotiations we got them back but the compromise included a high price. Luckily the first time the fine is waved.

ACCORDING TO THE OER TEACHERS ARE OBLIGED TO PROVIDE AN EXAMPLE EXAM ALONG WITH THE ANSWERS TO THE QUESTIONS

Most students get irritated or even frustrated by the lack of practice materials or practice exams. However according to the OER, teachers are obliged to provide an example exam along with the answers to the questions. This example exam should be of the same length as the actual exam and with the same type of questions. This rule goes for every written exam, so that includes midterms. The type of examination, exam, essay, presentation etc. should be stated in advance in the study guide and the date and time of the exam should be posted on the scheduling website (rooster.uva.nl) at least 30 days in advance. Regarding the exams itself the most important thing is that you may be allowed to enter and take the exam if you are not more than 30 minutes late. After 30 minutes it is up to the teachers to let you in or not, but you can't enter after the first person left. After the exam you are allowed to take the exam home with you, except if the exam was bought from an external party (for example a test bank or a publisher) and has copyright on it. The teachers have thirteen working days to complete correcting the exams. The student administration has two days to register the grades in SIS if it is a final exam. If it is a midterm the teacher should post the results on blackboard or make them known in some

other way. If the resit is within six weeks of the exam date then the term for the teachers changes to ten working days. You should be allowed to review your exam answer sheet no more than 30 days after the exam, if it was a midterm this doesn't have to be before the final exam. During the review you should be able to see concept answers and you may copy your exam and take it home.

YOU CAN ALWAYS RETAKE THE EXAM FOR A HIGHER GRADE, BUT NOTE THAT THE LAST GRADE COUNTS

Everyone who registered for the course can take the resit. So you can always retake the exam for a higher grade, but note that the last grade counts. So if you fail the second time, your pass could be changed into a failing grade. Most of the exam rules also apply to the resit. For the final grade of the resit, the results from all midterms do not count; only presentations and essays may count for the resit. These are just some of the rules regarding teaching and examinations. Every rule regarding the examinations and contents of your programme should be in the OER. Please note that there are two separate versions of the OER, one for bachelor students and one for master students. If you ever have questions regarding the OER or if a teacher doesn't follow the rules and asking nicely doesn't help, please come to us!

The OER can be found on <http://student.uva.nl/ecb/az/content/oer>

Some of the projects the FSR is working on right now:

- MS Excel courses
- Renewing course evaluations
- Roeterseiland Renovation
- Coaching and didactic skills for teachers

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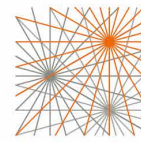
ONTOHR KNOWLEDGE TEST WINS AWARD

Stefan Mol and Gábor Kismihók of the Amsterdam Business School's (ABS) Human Resource Management & Organization Behavior group recently won third prize at 'Theta, the cut-e Innovation Award'.

OntoHR is an adaptive knowledge test that can be used when selecting personnel and identifying their specific training needs. It allows companies to test candidates on their accumulated expertise and knowledge considered relevant for the position. Mol en Kismihók developed the original test between 2009 and 2011 and are currently involved in various (European) projects to assess the possibilities of using this approach. (www.ontohr.eu)

83 UVA MAINTAINS RANKING OF 83RD IN THE WORLD UNIVERSITY RANKINGS

The UvA has maintained last years ranking of 83rd place in the Times Higher Education World University Rankings 2013-2014. Within the sub-rankings for each discipline, the UvA's Social Sciences department is ranked 34th, making it the best in the Netherlands. The rankings were published on the evening of Wednesday, 3 October 2013.



Wil jij een carrière in Corporate Finance?

Duisenberg school of finance onderscheidt zich van andere universiteiten door de inzet van vooraanstaande academici uit binnen- en buitenland, kleinschaligheid en veel aandacht voor sustainable finance.

Alleen de beste studenten worden toegelaten tot één van de vier Master programma's. Door de nauwe samenwerking met de sector wordt in de programma's een brug geslagen tussen theorie en praktijk. Kies voor het Corporate Finance and Banking - of Financial Markets and Regulation programma en wordt een gewilde kandidaat voor functies in Mergers and Acquisition, Private Equity, Structured Finance, Asset Management, Equity Research en Consulting.

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www.dsf.nl