

The 477th Convocation

Address: "Universities and Business Schools: The Right Fit?"

By Gary S. Becker

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You graduates have spent two or more years studying at the University of Chicago. I want to remind you and your friends and families why you came here and what you hopefully will take with you after graduation.

The world of business is changing constantly, with new business practices and models, new competitors from all over the globe, changing regulations, new technologies that have been utilized and mastered, and still other changes. The challenge to business schools is to prepare students for such a rapidly changing world so that they are well prepared to be business leaders not only this year, or even next year, but five, ten, or even twenty years down the line.

Increasingly, the model in much of the world, especially in Europe, is one of business schools as independent institutions. That may be fine for short-term goals, but I believe that the "Chicago" model, where business schools are fully integrated into universities, is the most effective one to prepare leaders for the long term.

In any field of study, the best way to prepare for an uncertain future is to stress basic principles that can be adapted to new, and sometimes radically different, circumstances. Liberal arts education for undergraduates is one example: it recognizes the importance of broad education based on principles of knowledge in very different disciplines that can be built on to adjust to a dynamic and uncertain future.

The same philosophy guides a Chicago-style business education that is fully integrated into a university. Such an education has several characteristics:

1. Faculty appointments at the Graduate School of Business have to meet both University-wide high standards: they are good teachers and they have made (or are likely to make) significant

contributions to knowledge. Students chosen for the business school also have to meet high standards of intellectual capacity and curiosity about the world.

2. Students and faculty of the business school can readily, and often do, draw on expertise from other parts of the University, be it economics, law, psychology, sociology, philosophy, statistics, or other areas. I spent most of my career in the Department of Economics and only recently joined the Graduate School of Business faculty. But even before this, I had close contact with many business school faculty and considerable numbers of business school students.

3. The interactions also occur in the opposite direction: other schools and departments of the University gain from access to business school students and faculty. Contributions to knowledge from the business school influence thinking elsewhere, such as business school advances in analyzing derivatives and options, in informational accounting, in understanding the effects of economic regulations, or in understanding decision making by boards and other committees.

4. Business practices and behavior, business regulations, new applied technologies, and often other aspects of business raise challenging questions that help stimulate the thinking of economists, psychologists, lawyers, and ethicists, and affect teaching in many courses.

5. One example of the broader approach to business education is the course at Chicago in economics and public policy taught by Dean Edward Snyder, Kevin Murphy, and myself. We emphasize how basic economic principles illuminate policy questions of interest to business executives as well as to the general public. To demonstrate this, students carry out quarter-long projects on different subjects. This past Winter Quarter, the projects included:

a. The potential and risk of nuclear power: How cost-competitive is it? How big are the risks involving waste and accidents?

b. How can we control spam? It is a nuisance to everyone, but very cheap to send, so hundreds of millions of messages are sent. How can we force senders to bear the costs to recipients?

c. Outsourcing: Who gains and who loses, and by how much? Americans as a whole gain, but there are workers who lose. India gains even more. The study quantifies the gains and losses to different groups.

d. Reimportation of drugs: the effects on drug companies, consumers, and prices. If drug reimports increase from Canada, this would reduce sales to Canadians and raise the prices charged per item. It would have little effect on U.S. prices. The project analyzes the social benefits and costs of these and other effects of greater drug reimports.

These projects are built around basic principles of economics that we present and discuss. These principles are so basic they are useful not only for such contemporary issues but also for those that will arise in the future.

So in conclusion, I believe that the Chicago model of basic knowledge-based education in a university is the right one to prepare business leaders for an economic, social, and political world that is likely to be very different in the future. I fully expect that as you enter again into the business world you will find the tools and knowledge you acquired here to be of enormous value not only immediately but also for many years to come.

I hope you let me know if this prediction turns out to be accurate. But in the meantime, congratulations on meeting the high standards set by this school and university, and good luck.

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