

THE ECONOMETRIC SOCIETY ANNUAL REPORTS
REPORT OF THE TREASURER

MÁLAGA, SPAIN
AUGUST 26–27, 2012

1. 2012 ACCOUNTS

THE 2011 ACCOUNTS of the Econometric Society show a deficit of \$145,047 (Table III, Line G). The deficit is higher than the estimate of \$115,000 at this time last year. Total revenues were \$1,010,169 (Table II, Line D) and total expenses were \$1,155,216 (Table III, Line F). The revenues were lower than last year's estimates by \$89,831, with significant positive deviations in membership and subscription revenues and significant negative deviations in investment income and in other revenues (Table II, Lines A–C). The expenses were also lower than last year's estimates by \$59,784, with significant negative deviations in publishing and administrative expenses (Table III, Lines A and C).

The net worth of the Society on 12/31/2011 went down to \$1,481,619 (Table I, Line C). Consequently, the ratio of net worth to total expenses on 12/31/2011 was 128 percent, a figure close to the lower end of the target range between 120 and 160 percent agreed by the Executive Committee in August 2007.

Table I shows the balance sheets of the Society for the years 2007–2011, distinguishing between unrestricted assets and liabilities, whose difference gives the Society's net worth, and five restricted accounts: The World Congress Fund, which is a purely bookkeeping entry that serves to smooth the expenses every five years on travel grants to the World Congress, the Jacob Marschak Fund, devoted to support the Marschak lectures at regional meetings outside Europe and North America, and the Far Eastern, Latin American, and European Funds, which are held in custody for the convenience of the corresponding Regional Standing Committees. Tables IV and V show the movements in the World Congress Fund and the other restricted accounts for the years 2007–2011.

Table II shows the actual revenues for 2010, the estimated and actual revenues for 2011, and the estimated revenues for 2012 and 2013. Total revenues for 2012 are expected to be 18.0 percent higher than those for 2011, because the reduction in membership and subscription revenues (Line A), caused by the continuing decline in the number of institutional subscribers, is expected to be more than compensated by a significant increase in investment income (Line C). The budget for 2013 estimates a 4.2 percent reduction in total revenues as a result of the additional fall in subscription revenues.

Table III shows the actual expenses for 2010, the estimated and actual expenses for 2011, and the estimated expenses for 2012 and 2013. Total expenses

TABLE I
ECONOMETRIC SOCIETY BALANCE SHEETS, 2007–2011

	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
	\$	\$	\$	\$	\$
<i>A. Unrestricted Assets</i>	2,203,312	1,896,510	2,575,424	2,447,871	2,457,256
1. Short Term Assets	117,574	96,245	357,540	240,352	329,053
2. Investments	1,753,807	1,428,604	1,882,888	1,926,829	1,803,009
3. Accounts Receivable	245,755	266,921	260,669	193,632	180,637
4. Back Issue Inventory	7,913	26,587	9,710	13,168	13,168
5. Furniture and Equipment	3,161	1,545	1,157	770	770
6. Other Assets	75,102	76,608	63,460	73,120	130,619
<i>B. Unrestricted Liabilities</i>	778,093	786,929	1,210,849	821,204	975,637
1. Accounts Payable	99,103	117,257	147,795	127,502	77,966
2. Deferred Revenue	438,990	349,672	663,054	613,702	737,671
3. World Congress Fund	240,000	320,000	400,000	80,000	160,000
<i>C. Unrestricted Fund Balance</i>	1,425,219	1,109,581	1,364,575	1,626,667	1,481,619
<i>D. World Congress Fund Balance</i>	240,000	320,000	400,000	80,000	160,000
<i>E. Jacob Marschak Fund Balance</i>	24,926	21,649	17,806	17,812	17,814
<i>F. Far Eastern Fund Balance</i>	70,016	68,047	88,784	88,812	78,820
<i>G. Latin American Fund Balance</i>	21,941	22,577	22,717	22,725	22,727
<i>H. European Fund Balance</i>	64,903	38,011	48,838	41,530	36,485

TABLE II
ECONOMETRIC SOCIETY REVENUES, 2010–2013

	Actual 2010	Estimate 2011	Actual 2011	Estimate 2012	Budget 2013
	\$	\$	\$	\$	\$
<i>A. Membership and Subscriptions</i>	1,120,581	1,000,000	1,046,607	1,000,000	950,000
1. Total Revenue	1,071,229	975,000	1,170,576	1,050,000	950,000
2. Change in Deferred Revenue	49,352	25,000	(123,969)	(50,000)	0
<i>B. Other Revenues</i>	61,286	60,000	27,290	32,000	32,000
1. Back Issues	37,780	32,000	6,565	10,000	10,000
2. Reprints and Royalties	1,482	2,000	942	1,000	1,000
3. Advertising and List Rentals	7,334	7,000	0	5,000	5,000
4. Permissions	10,527	9,000	5,995	6,000	6,000
5. North American Meetings	4,163	10,000	13,788	10,000	10,000
<i>C. Investment Income</i>	184,229	40,000	(63,728)	160,000	160,000
1. Interest and Dividends	33,614	30,000	40,120	40,000	40,000
2. Capital Gains (Losses)	150,615	10,000	(103,849)	120,000	120,000
<i>D. Total Revenues</i>	1,366,096	1,100,000	1,010,169	1,192,000	1,142,000

TABLE III
ECONOMETRIC SOCIETY EXPENSES, 2010–2013

	Actual 2010 \$	Estimate 2011 \$	Actual 2011 \$	Estimate 2012 \$	Budget 2013 \$
<i>A. Publishing</i>	317,807	350,000	310,019	350,000	360,000
1. Composition	118,965	125,000	103,854	140,000	120,000
2. Printing	89,721	90,000	83,199	90,000	90,000
3. Inventory	(3,458)	0	0	0	0
4. Circulation	51,743	75,000	54,381	60,000	90,000
5. Postage	60,836	60,000	68,585	60,000	60,000
<i>B. Editorial</i>	471,807	470,000	472,521	476,500	474,000
1. Editors	342,500	347,500	349,167	350,000	357,500
2. Editorial Assistants	103,664	110,000	112,104	115,000	105,000
3. Software	20,945	6,500	6,500	6,500	6,500
4. Meetings	4,698	6,000	4,750	5,000	5,000
<i>C. Administrative</i>	179,888	207,000	191,086	202,500	215,000
1. Salaries and Honoraria	127,744	140,000	137,304	140,000	140,000
2. Administrative Support	11,000	10,000	10,000	10,000	10,000
3. Accounting and Auditing	27,445	41,000	34,650	40,000	40,000
4. Office	4,037	8,000	4,934	7,500	5,000
5. Website	7,361	6,000	4,198	5,000	20,000
6. IRS	2,301	2,000	0	0	0
<i>D. Executive Committee</i>	31,813	40,000	42,590	45,000	45,000
<i>E. Meetings</i>	102,690	148,000	139,000	148,000	148,000
1. World Congress Fund (net)	38,800	80,000	80,000	80,000	80,000
2. World Congress Expenses	42,263	0	0	0	0
3. Regional Meetings	21,627	68,000	59,000	68,000	68,000
<i>F. Total Expenses</i>	1,104,005	1,215,000	1,155,216	1,222,000	1,242,000
<i>G. Surplus</i>	262,091	(115,000)	(145,047)	(30,000)	(100,000)
<i>H. Unrestricted Fund Balance</i>	1,626,667	1,511,667	1,481,619	1,451,619	1,351,619
<i>I. Ratio of Unrestricted Fund Balance to Total Expenses</i>	1.47	1.24	1.28	1.19	1.09

for 2012 are expected to be 5.8 percent higher than those for 2011 as a result of the increase in publishing, administrative, and meetings expenses (Lines A, C, and E). The budget for 2013 incorporates a small increase of 1.6 percent in total expenses. These figures together with the estimates of total revenues in Table II imply an estimated deficit of \$30,000 for 2012 and of \$100,000 for 2013, after allocating \$80,000 each year to the World Congress Fund. Consequently, the ratio of net worth to total expenses is expected to go down to 119 percent in 2012 and to 109 percent in 2013, below the target range agreed by the Executive Committee in August 2007.

TABLE IV
WORLD CONGRESS FUND, 2007–2011

	2007	2008	2009	2010	2011
	\$	\$	\$	\$	\$
<i>A. Income</i>	80,000	80,000	80,000	115,000	80,000
1. Transfer from General Fund	80,000	80,000	80,000	115,000	80,000
<i>B. Expenses</i>	0	0	0	435,000	0
1. Travel Grants	0	0	0	323,800	0
2. Transfer to Local Organizer	—	—	—	35,000	—
3. Transfer to General Fund	0	0	0	76,200	0
<i>C. Fund Balance</i>	240,000	320,000	400,000	80,000	160,000

TABLE V
RESTRICTED ACCOUNTS, 2007–2011

	2007	2008	2009	2010	2011
	\$	\$	\$	\$	\$
<i>A. Jacob Marschak Fund</i>					
1. Investment Income	1,393	723	157	6	2
2. Expenses	3,029	4,000	4,000	0	0
3. Fund Balance	24,926	21,649	17,806	17,812	17,814
<i>B. Far Eastern Fund</i>					
1. Transfer from Region	0	0	20,314	0	0
2. Investment Income	3,392	2,031	423	28	8
3. Expenses	0	4,000	0	0	10,000
4. Fund Balance	70,016	68,047	88,784	88,812	78,820
<i>C. Latin American Fund</i>					
1. Investment Income	1,162	636	140	8	2
2. Expenses (net)	2,324	0	0	0	0
3. Fund Balance	21,941	22,577	22,717	22,725	22,727
<i>D. European Fund</i>					
1. Transfer from Region	62,612	0	0	0	0
2. Investment Income	2,291	–26,892	10,827	3,692	–5,045
3. Transfer to Region	0	0	0	11,000	0
4. Fund Balance	64,903	38,011	48,838	41,530	36,485

The 2011 financial statements have been compiled by David Ciciyasvili, 42 Vista Drive, Morganville, NJ 07751 and will be audited by Rothstein, Kass & Company, 1350 Avenue of the Americas, New York, NY 10019.

2. MEMBERSHIP AND INSTITUTIONAL SUBSCRIPTION RATES

The Executive Committee decided in 2009 to introduce a three-tier pricing scheme for institutional subscriptions. The tiers are based on the World Bank

classification of countries, with a high income tier, a middle income tier, and a low income tier comprising those economies classified as low income by the World Bank plus the International Development Association (IDA) countries. Income classifications are set by the World Bank each year on July 1. In the latest classification, high (low) income economies are those with 2011 gross national income per capita (calculated using the World Bank Atlas method) higher (lower) than \$12,476 (\$1,025). IDA countries are those that had a per capita income in 2011 of less than \$1,195 and lack the financial ability to borrow from the International Bank for Reconstruction and Development (IBRD).

The Executive Committee agreed by e-mail in June 2012 to revise institutional subscription rates for 2013 in the following manner:

	<u>2012</u>	<u>2013</u>
High income		
Print + Online	\$675	\$700
Online only	\$525	\$550
Middle income		
Print + Online	\$190	\$200
Online only	\$140	\$150
Low income		
Print + Online	\$75	\$75
Online only	\$10	\$10

Print + Online subscribers receive hard copies of the three Econometric Society journals (*Econometrica*, *Quantitative Economics*, and *Theoretical Economics*) for the corresponding year and have free online access to volumes of *Econometrica* back to 1999 (*Quantitative Economics* and *Theoretical Economics* are open access). Online only subscribers do not get the hard copies of the journals. Since 2006, institutional subscribers to *Econometrica* have perpetual online access to the volumes to which they subscribed.

The Executive Committee agreed in August 2012 to revise individual membership rates for 2013 in the following manner:

	<u>2012</u>	<u>2013</u>
Ordinary member (High income)		
Print + Online	\$120	\$150
Online only	\$80	\$100
Ordinary member (Middle and low income)		
Print + Online	\$65	\$75
Online only	\$25	\$25
Student member		
Print + Online	\$60	\$75
Online only	\$20	\$25

Members who choose the Print + Online option receive hard copies of the three Econometric Society journals for the corresponding year and have free online access to volumes of *Econometrica* back to 1933 (*Quantitative Economics* and *Theoretical Economics* are open access).

3. INVESTMENTS

The Society's Investments Committee consists of the Executive Vice-President and two Fellows appointed by the Executive Committee for a term of three years that can be renewed once. During 2011, the appointed Fellows were Darrell Duffie and Hyun Song Shin. The Executive Committee agreed in January 2012 that when Hyun Song Shin becomes Executive Vice-President on July 1, 2012, Rafael Repullo will replace him in the Investments Committee until December 31, 2012.

During most of 2011, the Committee maintained, with only marginal deviations, the reference asset allocation of 20 percent cash and short-term U.S. government bonds, 10 percent other bonds, 31.5 percent U.S. equities, 31.5 percent international equities, and 7 percent emerging market equities. In October 2011, the Committee decided to make a small adjustment in the reference asset allocation, which became 20 percent cash and short-term U.S. government bonds, 15 percent other bonds, 30 percent U.S. equities, 30 percent international equities, and 5 percent emerging market equities. All investments are in no-load Fidelity mutual funds. A separate account fully invested in the Fidelity Cash Reserves Fund is used to manage the liquidity of the Society without interfering with the allocation of its investments.

On 7/31/2012, the total value of the unrestricted investment portfolio was \$2,064,295. The breakdown by type of asset was 19.9 percent cash and short-term U.S. government bonds, 15.7 percent other bonds, 31.1 percent U.S. equities, 28.5 percent international equities, and 4.9 percent emerging market equities (Table VI, Column 3). It should be noticed that the overall cash position was higher than the reference value of 20 percent, since \$271,429 were kept as working capital in either the Fidelity Cash Reserves Fund or in our bank accounts at Northern Trust. The return on the unrestricted investment portfolio in the year ending July 31, 2012 was -1.1 percent, as compared to the return of the S&P 500 stock market index of 6.7 percent. The reason for this underperformance has been the double digit negative returns of the funds held in the Society's portfolio that invest in international and emerging market equities. The current year should be better, with a return of 5.7 percent on the unrestricted portfolio in the first seven months of 2012.

4. A FINAL NOTE

This is my last Report of the Treasurer. On July 1, 2012, I was replaced by Hyun Song Shin, who was nominated by the Executive Committee for the

TABLE VI
ECONOMETRIC SOCIETY INVESTMENT PORTFOLIO

Name of Fund	Market Value 7/31/2011		Market Value 12/31/2011		Market Value 7/31/2012	
	\$	%	\$	%	\$	%
<i>Unrestricted Investment Portfolio</i>	1,992,257	100.0	1,803,009	100.0	2,064,295	100.0
Fidelity Money Market	190,012	9.5	190,020	10.5	205,032	9.9
Spartan S/T Treasury Bond	178,601	9.0	180,346	10.0	206,952	10.0
Fidelity Total Bond	114,221	5.7	117,022	6.5	154,213	7.5
Fidelity Inflation Protected Bond	115,560	5.8	119,330	6.6	168,322	8.2
Spartan 500 Index	634,124	31.8	570,558	31.6	641,304	31.1
Spartan International Index	622,909	31.3	528,592	29.3	588,301	28.5
Fidelity Emerging Markets	136,830	6.9	97,141	5.4	100,171	4.9
<i>Restricted Investment Portfolio</i>	162,360	100.0	155,846	100.0	161,127	100.0
Fidelity Money Market	119,356	73.5	119,361	76.6	119,369	74.1
Spartan International Index	43,004	26.5	36,485	23.4	41,759	25.9
<i>Working Capital</i>	484,871	100.0	402,608	100.0	271,429	100.0
Fidelity Cash Reserves	286,841	59.2	4,681	1.2	164,710	60.7
Northern Trust Accounts	198,030	40.8	397,927	98.8	106,719	39.3
<i>Total Financial Assets</i>	2,639,488		2,361,463		2,496,851	

post of Executive Vice-President and elected by the Fellows in November 2011.

I would like to thank my predecessor, Bob Gordon, for helping me with the transition to the new administrative arrangements, our accountants E. C. Ortiz & Co., LLP and David Ciciyasvili, and our auditors Rothstein, Kass & Company, as well as Claire Sashi, the Society's General Manager, who has done all the hard work behind the accounts.

I am also very grateful to the members of the Investments Committee, John Campbell, Darrell Duffie, and Hyun Song Shin, for their valuable contribution to the management of the Society's portfolio. It has been a real pleasure, as well as a learning experience, to interact with them.

The Society's financial situation has changed significantly since during my mandate. In 2006 and 2007, the issue was how to spend the considerable surpluses that we were expected to accumulate. The situation changed dramatically in 2008, a year in which we had a deficit of \$315,638. We recovered the losses in 2009 and 2010, but at this point, the trend decline in the number of institutional subscribers, which provide most of our revenues, accelerated. As noted above, we had a deficit of \$145,047 in 2011, and further losses are expected for 2012 and 2013, with the net worth of the Society getting close to the level of annual expenses. In the near future, the Society will have to rethink its business model and review current expenditures as well as possible sources of

new revenues. Most likely, the Society will have to increasingly rely on the support of its members and, therefore, think creatively about additional services that could be provided to them.

RAFAEL REPULLO